

Special Study

2003 Environmental Policy Review: Achieving the Bank's environmental mandate through direct investments

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**Evaluation Department
(EvD)**



**European Bank
for Reconstruction and Development**

SPECIAL STUDY

PREFACE

The subject of this special study is the Bank's achievement of its environmental mandate, through implementation of direct investments, under the 2003 Environmental Policy (2003-06). It is based on data obtained from a web-based survey of selected clients and site visits of selected projects. A separate parallel study looked at Financial Intermediary investments. Dr. Arthur Dennis Long, (Senior Environmental Evaluation Manager) served as Operations Leader (OL) for this special study. To implement the study, the Evaluation Department (EvD) hired Integrated Skills Ltd. – a UK based consulting firm – to carry out the data collection, analyse the results and prepare background reports. Integrated Skills Ltd. provided a team consisting of: Michael Wenborn, Michael Betts, Elizabeth Wickett, Peter Pauckner, Juraj Farkas (Slovakian), and Anatoly Pichugin (Russian – hired separately to help with the Russian projects). The conceptual design of the study was conceived by Dennis Long; the bulk of the field work was carried out by the team, who also prepared the initial background and summary reports, while EvD prepared this final report. Kate Guscott, Martin McKee, and Denes Bulkai of the EBRD Environmental and Sustainability Department (ESD) also participated in five site visits

The team wishes to express our thanks to the Banking Department's operation leaders and portfolio managers who played a critical role in providing information, organizing portfolio and project data, arranging contacts for the web-based survey, and facilitating field visits with clients. We also wish to express our thanks and appreciation to staff within the Environment and Sustainability Department (ESD), who also played a key role in carrying out this study; whom we inundated with too many questions; and who have read and commented on various drafts.

This report represents a shared effort by the consultants (Integrated Skills Ltd.) and EvD staff.

SPECIAL STUDY

2003 ENVIRONMENTAL POLICY REVIEW: ACHIEVING THE BANK'S ENVIRONMENTAL MANDATE THROUGH DIRECT INVESTMENTS

ABBREVIATIONS

ADB	Asian Development Bank
AEOR	Annual Evaluation Overview Report
AER	Annual Environmental Reports
AGM	Annual General Meeting of EBRD
CEE	Central and Eastern Europe
DIF	Direct Investment Facility
DLF	Direct Lending Facility
EAP	Environmental Action Plan
EBRD	European Bank for Reconstruction and Development
EC	Environmental Change
EIA	Environmental Impact Assessment
EP	Environmental Performance
ESD	Environment and Sustainability Department
ESI	Environmental/Social Impact
ETC	Emerging Transition Countries
EU	European Union
EvD	Evaluation Department (formerly PED)
FI	Financial Intermediaries
HSE	Health, Safety and Environment
IFC	International Finance Corporation
ISL	Integrated Skills Limited
MCFF	Medium-Sized Co-Financing Facility
NIS	Newly Independent States
OGC	Office of the General Counsel (EBRD)
OL	Operation Leader
P	Environmental/Social Impact Change Potential
PPE	Personal Protective Equipment
SA8000	Social Accountability 8000
TI	Transition Impact
TIMS	Transition Impact Monitoring System
ToR	Terms of Reference
TQM	Total Quality Management
WB	World Bank

**2003 ENVIRONMENTAL POLICY REVIEW:
ACHIEVING THE BANK'S ENVIRONMENTAL MANDATE
THROUGH DIRECT INVESTMENTS**

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Executive summary

This review of the 2003 environmental policy assesses the European Bank for Reconstruction and Development's (EBRD) effectiveness of achieving its environmental mandate through direct investments. It forms part of the Evaluation Department's (EvD) contribution to the Bank's review of implementation of its existing *Environmental Policy* and contributes to the development of a new policy. EvD has also contributed a companion special study (PE05-326S) which focused on implementation of the Bank's environmental mandate through financial intermediaries (FI).

EvD has not evaluated the nuclear safety account or the environmental special funds which separately contribute to the Bank's implementation of its *Environmental Policy*, nor has EvD undertaken a special study on environmentally related technical cooperation (TC) activities, except via EvD's normal annual review of TC activities. Thus, taken together, these two studies, the previous FI study and this direct investments study, form EvD's contribution to the *Environmental Policy* review, by (1) learning from past experience, including an analysis of the lessons-learned database and (2) assessing past performance against the policy objectives.

The methodology used to carry out this evaluation follows Organisation for Economic Co-operation and Development (OECD) and Development Assistance Committee (DAC) good practice, which defines five separate evaluation criteria: relevance, effectiveness, efficiency, impact and sustainability. Clearly the Bank's *Environmental Policy* is relevant. This study and the companion study focus to a great extent on effectiveness and efficiency in respect of the implementation of the 2003 *Environmental Policy*. The Bank has not attempted so far to collect environmental impact data in parallel with transition impact data.

This is unfortunate as published data suggests that environmental quality has improved in many countries of operations. However, at the project level the Bank's evaluation matrix does track *environmental change*, usually rated "some" to "substantial". Finally, the name of the environmental department within the Bank has just changed to "Environment and Sustainability Department" (ESD). Consequently, it is assumed that the Bank will put greater emphasis on measuring sustainability.

This study covers the environmental performance of randomly selected direct investment projects approved under the 2003 policy. The conclusions and recommendations in this special study are based mainly on the evaluation of 31 projects. This included visits to 26 projects in 11 countries and the detailed review of the available project documents for the 31 projects. In addition, a web-based survey of 35 additional clients was carried out as well as detailed interviews and discussions with selected EBRD management, staff and Board directors.

Thus all comments contained in this report refer to direct investments only, are based on the random sample of projects selected, and therefore can only be considered to be as representative as the underlying set of projects reviewed. Unless otherwise stated, the term "environment" is used in its broadest sense to imply biodiversity, pollution prevention, occupational health and safety, and social impacts.

Overall effectiveness and efficiency of the implementation of the environmental policy

The EBRD last revised its *Environmental Policy* in 2003, with the main change being the addition of provisions related to social aspects. The Policy maintained the core provision that EBRD projects will be structured to meet applicable national laws and European Union (EU) standards.

The study found several examples of positive environmental performance, in particular, the planning of projects to reduce risks in terms of environmental protection. In addition, there are several very positive examples of environmental change that have been or will result from these projects. There were also several positive examples of environmentally orientated investments.

Areas where further improvements are needed include the (a) health and safety and (b) social aspects of projects during planning. Thus, although there are many positive examples of improvements in the environmental and social performance of clients in the EBRD's countries of operations, shortfalls in the implementation of EBRD's 2003 environmental policy were also noted.

Based on visits to 26 projects it was considered that at that point in time 75 per cent of these projects were in compliance with national health, safety and environmental (HSE) and social standards.¹ 40 per cent of the projects, excluding direct lending facility (DLF) and medium-sized loan co-financing facility (MCF) projects, were in compliance with EU standards. Most of the clients that were not in compliance have agreed environmental action plans (EAP) with the EBRD to bring their activities, related to the investment projects, in line with both national regulations and EU standards on HSE/Social aspects. The Evaluation Team however considered 40 per cent of the projects unlikely to achieve full EU compliance by the end of the project.

The EBRD fully expects to be repaid when it "structures" a deal. This is the core "sound banking" principle under which the Bank operates. It is in this context that EvD has attempted to judge whether a project has been "structured" to meet EU standards. Not all projects will be fully compliant with national and EU standards, but the team should have taken all reasonable steps to ensure compliance. However, a project that continues to pay significant pollution fines to operate is not considered as being in compliance.

EBRD has adopted an approach that is mainly focused on management of risks – the risk-based mitigation approach. It has put less focus on the realisation of additional environmental benefits and the promotion of environmentally-orientated investments – making the business case for environmental investments which are important components of the policy. This special study argues that Operation Leaders (OLs) and specialists in the ESD should pay much more attention to explaining the commercial benefits of improving HSE/Social aspects to clients and therefore gain the commitment of the client's senior management.

There is increasing national environmental agency capacity to address regulatory issues and it is understandable that the EBRD lacks the capacity to police the environmental performance of all its clients. The EBRD may need to work with selected governments on environmental regulatory and enforcement capacity, but EBRD is a bank, and as such, needs to promote the

¹ The site visit sample included 31 projects, 26 of which were visited and five of which involved desk studies, two of which were followed up with phone interviews.

business case for environmental investments. As the Bank moves further east, many of the countries of the former Soviet Union have yet to or are still in the process of transition relative to environmental policy reform. They continue to operate command-control approaches to environmental management, and paying pollution fines remains a common practice. Market based approaches to environmental management remain underdeveloped. Thus, there is a potential role for the Bank's Legal Transition Team, working with the ESD, to more actively promote environmental regulatory transition by helping to introduce market based principles, such as polluter-pays taxes, pollution trading, promoting tax incentives for energy efficiency and so on.

The Bank's approach has been largely successful in managing the risks of EBRD interventions related to environmental protection, although some shortfalls in environmental protection have been identified, particularly for some category B projects. There are many cases where the EBRD has managed high quality due diligence and auditing work, and the agreement of appropriate EAPs for projects. More proactive monitoring and support by the EBRD and a stronger commitment from the clients would lead to improved results.

Since 2006 the ESD has begun to address the shortfalls in monitoring, but further increases in the number of monitoring visits (either via staff or contractors) are needed. A shift in approach is essential from the current dependence upon checking annual environmental reports (AERs) from clients, to a more proactive approach of contacting and supporting clients at the times when deadlines are approaching for important actions in the EAP.

The most significant shortfalls and risks in terms of implementing the environmental policy relate to (a) health and safety and (b) social aspects. Health and safety risks were identified at about 40 per cent of the projects. In many cases, the health and safety risks related to construction activities. Only one of the nine projects that involved construction had adequate health and safety practices for construction workers in place.

Many of the health and safety problems at client facilities will take a long time to resolve because of the working practices in the EBRD's countries of operations and the lack of understanding of health and safety management. A step-by-step approach is needed including development of procedures and a focus on training and raising awareness. The ESD would benefit from additional specialist skills on health and safety which would improve the quality and coverage of health and safety in many EAPs.

However, the identification of health and safety problems and the recommendation of the necessary basic actions is something that most ESD environmental specialists, and many OLS, should have the capacity of doing. The change must begin with the EBRD's own staff. The EBRD staff (OLS, lawyers, environmental specialists, drivers and so on) must practice what they preach if the EBRD hopes to contribute the necessary change required. During the evaluation of one large natural resources project in an early transition country, a senior manager stated that "there is a myth that investment in environmental services costs money. Our experience is that every penny invested in HSE saves money."

In addition, since the 2003 *Environmental Policy* was adopted, there has been insufficient attention to social and labour aspects. The EBRD/ESD did not recruit a social specialist until 2005, and more such specialists are required for the effective implementation of the policy. Shortfalls related to social and labour aspects were identified in 20 per cent of the projects visited.

Many of these problems related to working conditions, linked to occupational health and safety. There were two cases where the projects may lead to involuntary resettlement but the project planning had not addressed this adequately, and resettlement action plans have not yet been produced. One of the two projects has since developed a resettlement plan. The study did not specifically look at gender as this is not currently a policy objective. However, promoting gender equality, working with women-owned firms is simply good business.

The Evaluation Team noted many cases of positive environmental change, in particular improvements in environmental performance of clients and positive social impacts of projects. Over 70 per cent of the projects that were evaluated in detail had already shown some positive change in performance and it is predicted that 90 per cent of the projects will show significant positive change by the end of the project. These particularly included process improvements that are leading to reduced environmental pollution and better working conditions. Overall the *Environmental Change* in performance is more positive than expected.

There were some cases where EBRD projects are leading to increased local employment in areas of poverty, and also having a positive impact on local suppliers, for example in the agribusiness sector. These are positive social indicators but are also tracked by the Office of the Chief Economist (OCE), via the Bank's transition impact monitoring system (TIMS). Going forward, there needs to be greater clarity as to what is tracked by the OCE through *transition impact*, and what may be tracked by the ESD through *environmental/social impact*.

Since 2003 the Bank has used two environmental evaluation indicators – *environmental performance* and *environmental change*. EvD argues for the creation of an environmental/social impact indicator, combining the two concepts of performance and change which would be monitored in parallel with the Bank's transition impact indicator and could be tracked every six months alongside TIMS.

Previously, there was a clear distinction between transition impact and environmental indicators. Increasingly however, environmental objectives are included in the Bank's measures of transition impact at the project level. This creates a problem of double counting. As the Bank moves east and south it may indeed make sense to combine the indicators. EvD would argue for either maintaining separate indicators or combining them, but not accounting for environmental performance both under transition impact and environmental/social impact.

Although the best performing projects and many of the positive examples are for clients that have an international parent company that is committed to good HSE/Social performance, there is no doubt that most EBRD projects have a positive impact and generate positive change. It is clear that the EBRD is most effective when the core components of the loans are for specific technical/environmental improvements, and/or when the costs of the EAP are included in the loan, but these may also be the projects that have the furthest to go in achieving EU performance standards.

A combined environmental/social impact indicator would allow for tradeoffs between, on the one hand greenfield projects which are designed to meet EU standards and on the other hand projects involving existing facilities which may achieve significant positive change but do not fully meet EU standards.

The EBRD has no clear quantifiable environmental policy objectives or targets related to the components of the *Environmental Policy*. Therefore it is difficult to measure whether the policy statements on additional environmental benefits and environmentally oriented

investments are being successfully implemented. The Bank's 2006 *Energy Operations Policy* did establish a financial target for investments in energy efficiency, demonstrating that it is possible to include targets in EBRD policies.

Further, as part of its *Power Sector Review*, EvD argued for establishing a target of carbon neutrality. While Management did not feel that this was realistic, the Bank, according to the 2006 Sustainability Report, has already achieved carbon neutrality via its projects. This is a good example for the type of "target" that could be incorporated into the Bank's updated *Environmental Policy*.

The founding agreement of the Bank advocates environmentally sustainable development. The EBRD is the only multilateral development bank (MDB) with an environmental mandate, which was specifically included because of the environmental legacy left by the socialist economies. It was expected that environmental quality would improve as part of the EBRD's work on transition to market-based economies.

Indeed there are many countries in the region which can demonstrate very marked improvements in environmental quality, while there are others where environmental quality, at a national level, has deteriorated. Unfortunately, the EBRD does not monitor such data – equivalent to transition impact data at the national level. EvD believes that overall the region and the EBRD have a good story to tell.

The overall approach of the EBRD's ESD focuses on managing risks rather than on promoting additional benefits/investments. It is clear that there is much more scope for positive change.

The core business of the EBRD teams on municipal and environmental infrastructure (MEI) and energy efficiency and climate change relates to positive environmental improvements. These teams play a major role in the planning and implementation of environmentally-oriented investments.

Detailed involvement of ESD specialists in these and other sectors during project planning is an opportunity for additional investments to be identified. In at least 30 per cent of the projects that were evaluated in detail, it is considered that potential environmentally-oriented investment opportunities were not identified during project planning.

ESD staff are very well qualified, highly experienced and very dedicated. The companion financial intermediary (FI) study argued that the team was under resourced to effectively manage the FI portfolio and management agreed to provide additional resources. Currently the ESD team only visits approximately 40 per cent of all projects, combining both the due diligence and project monitoring phase, and much of staff time is consumed by category A and larger category B projects.²

Under-investment in staff and budgetary resources (both for consultants and staff travel) is leading to the short-falls in performance. According to client feedback ESD staff provide a

² 40 per cent is an EvD rough estimate, covering both FI and non-FI projects, and is based on this study and past EvD experience. In the last two years ESD has begun to track monitoring numbers. Based on the data in the 2006 *Sustainability Report* and as updated by the ESD, in 2006 the ESD (staff and consultants) completed 47 monitoring visits and 37 due diligence visits. Also in 2006, 97 non-FI projects were approved. Assuming that almost all the due diligence visits were for direct investments, this implies that only 39 per cent of the new direct investments were visited. As the portfolio is much larger, the percentage of annual monitoring coverage via site visits is much lower.

positive contribution when visiting projects. The ESD's involvement is one of the important ways the Bank can be "additional".

A shift in the ESD's approach towards additional environmental benefits and environmentally-oriented investments is the most important change needed to address the shortfalls in policy implementation. At present some OLs in the banking teams seek to get quick approval by the ESD in relation to HSE/Social aspects rather than conceive of wider potential environmental investments. This is driving the risk management approach of the ESD. It should be noted that some teams, for example the Natural Resources Team, due to the nature of the projects, engage the ESD early in the process and HSE/Social issues are an important part of their project designs. The perception by OLs who do not see the advantages of early engagement of the ESD will change if the ESD increases its focus on building the "business case" for potential environmental investments.

Finally, many other MDBs have separated the safeguards-compliance function from the project-support functions. It is recommended that, as a minimum, a separate unit be formed within ESD that would (a) carry out a compliance review of projects going forward, and (b) take leadership on project monitoring. The project-design/due-diligence function and the project-monitoring function are different, even if carried out by the same person.

Currently, ESD staff are not considered part of the "project team" partly because of their dual role of compliance and support. The ESD has developed a risk-based approach to project monitoring but because of staff limitations, they have tended to triage their monitoring based on both perceived risks and staff resources. High profile category A projects have consumed excessive amounts of staff resources relative to their total investment amount.

It is not clear that this triage approach has successfully targeted the medium risk investments. This is argued by the ESD's own monitoring contractor. Perhaps it would be more efficient to sub-contract out larger pieces of due diligence work on high-risk category A projects, while utilising internal staff resources on category B and C projects.

Although there are shortfalls in the implementation of the environmental policy, the EBRD is correct to set high standards because this is driving positive environmental change. Many clients in the EBRD's countries of operations simply cannot afford to achieve EU standards within the lifetime of the projects, and are therefore not meeting the requirements implied by the EBRD policy. However, the policy standards are driving significant improvements in environmental and social performance.

Finally, the EBRD policy review is being conducted at a time when other international financial institutions (IFIs) have and are reviewing their environmental policies, notably the International Finance Corporation (IFC) and the Asian Development Bank (ADB). While this evaluation takes a different approach, the macro-findings are not dissimilar to those recently published by the ADB's evaluation team.

1. INTRODUCTION

1.1 Study objectives

The overall objective of this special study is to determine whether the EBRD is achieving its environmental mandate via direct investments. The three sub-objectives are to assess:

- if the 2003 *Environmental Policy* as established by the Bank is being effectively implemented at the levels of (1) the EBRD and (2) the project clients (assessing *effectiveness*)
- if effective implementation of the policy and procedures has or will result in positive environmental outcomes (assessing *relevance*)
- if sufficient resources are available to implement the policy objectives (assessing *efficiency*).

Thus, this evaluation follows OECD-DAC evaluation criteria. Measuring *impact* requires an assessment of national and regional environmental quality. The EBRD does not currently collect or monitor impact data. The general perception overall is that environmental quality has improved in most countries of operations. The new name of the environmental department – “Environment and Sustainability Department” –and the proposals for the new policy suggest a much greater focus on *sustainability*. As part of this shift, the Bank will need to determine how it will measure *sustainability*.

1.2 Scope of the study

The current *Environmental Policy* was adopted on 29 April 2003. This evaluation study covers the environmental performance of direct investment projects that were approved by the EBRD Board starting four months after approval (that is from September 2003 as projects already in the pipeline were designed under the previous policy) through to the end of 2006. This study does not cover the environmental performance of investments through financial intermediaries, as this was separately evaluated in an earlier study in 2005/2006.

In addition, this study does not cover the performance of TC funds or special funds. EvD annually produces a report on TC evaluations, which covers environmental TCs if selected for evaluation. Special programmes and funds (such as the nuclear safety account) are also treated separately via EvD’s normal work programme.

The function of evaluation is to retrospectively draw lessons from past experience so as to inform decision makers going forward. This report seeks to achieve a balance between noting successful performance and noting areas for improvement. Successful outcomes lead to positive lessons learned (see annex 3), while areas for improvement provide not only lessons but also lead to recommendations (chapter 4).

Thus, it is important to read chapter 4 in the context of the overall study findings, lessons learned, and past performance outcomes. Based on EvD’s past findings, as reported in EvD’s 2007 *Annual Evaluation Operations Report* (AEOR), 83 per cent of the Bank’s previously evaluated operations (direct investments and FIs combined) achieved a satisfactory or better environmental performance outcome.

1.3 Report structure

The methodology for the study is described in chapter 2. Chapter 3 covers the results and analysis of the evaluation. A summary of the main recommendations is provided in chapter 4. Appendices 1 and 2 of this document provide the survey questions and survey results respectively. Appendix 3 provides a consolidated summary of the lessons that are relevant to environmental activities in the EBRD Evaluation Department's lessons-learned database.

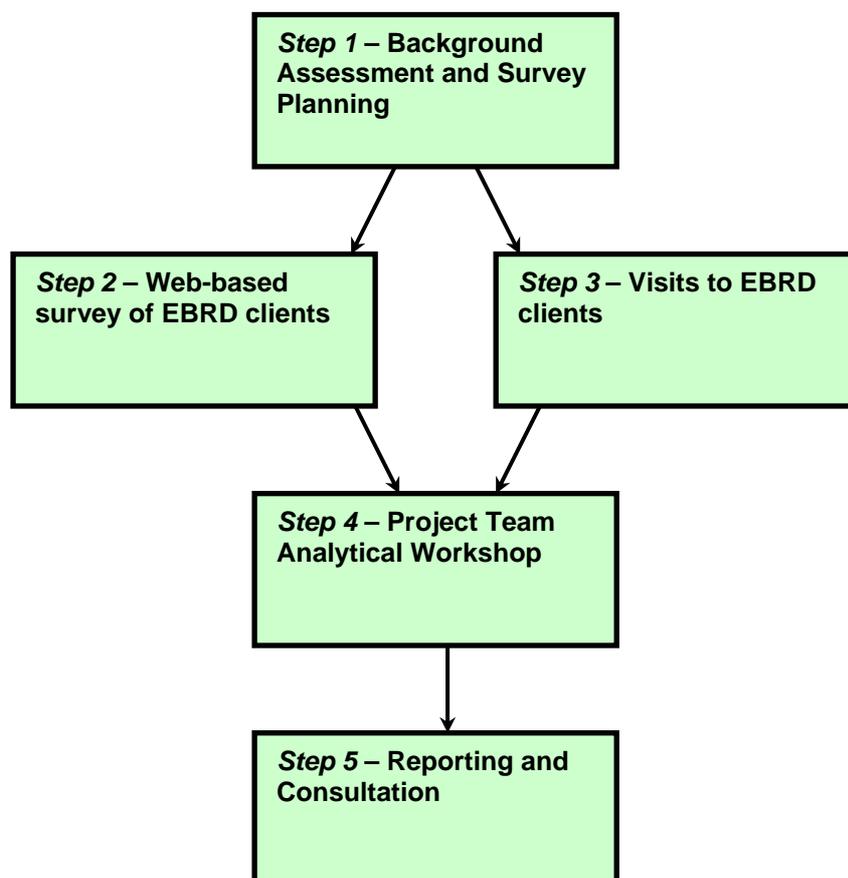
2. METHODOLOGY FOR THE STUDY

The study's methodology was designed to achieve the above objectives (chapter 1). The steps to implement the study are provided in Figure 2.1 and described below. This special study was carried out through a mix of web-based surveys, client visits, interviews and consultation with relevant EBRD staff, and document review.

The methodology parallels the methodology used in the companion EvD study on FIs. The study was carried out in close cooperation with the ESD who reviewed the terms of reference (TOR), participated in the selection of the contractor and joined five of the site visits. EvD also undertook extensive consultation with the ESD in preparing this report. The findings remain the sole responsibility of EvD.

This special study was carried out under the direction of EvD who in turn hired Integrated Skills Ltd. (ISL) to help carry out the study. ISL provided a team of five, including one UK-based social scientist and four environmental specialists, two from countries of operations (Russia and Slovakia). EvD's Senior Environmental Evaluation Manager designed the study, participated in three of the project site visits and drafted the final report based on the contributions from the consultants.

Figure 2.1: Steps in carrying out this special study



Step 1 – Background assessment and survey planning

A number of background activities were carried out for the development of the survey instruments and visit protocol. These activities included:

- detailed review of the EBRD *Environmental Policy and Procedures*.
- discussions on types of projects, the project cycle, current priorities, issues related to the 2003 *Environmental Policy*
- review of the environmental aspects in the EBRD lessons-learned database (appendix 3)
- review of other relevant documents, including the paper *Issues under Consideration for Revision of the EBRD's Environmental Policy*, prepared by the ESD, selected EvD reports, example country strategies, the EBRD's *Public Information Policy*
- selection of projects to be included in the study.

The population of direct investment projects that met the selection criteria consisted of 347 projects. An initial random sample of 150 projects was selected for the study. The team then developed a project database with the required information to carry out the study (such as checking the OL name, obtaining the client contact and email address). 49 projects were dropped from the 150 at the request of the OLs because of sensitivities with the client relationship at that time.

This may have introduced a selection bias but is the reality of working with mainly private sector clients. 10 projects were replaced with similar projects as suggested by the banking teams. Thus, the sample of 111 is not strictly random but aims to be representative of the EBRD project portfolio of direct investment projects only and as approved during the study period (2003-06).

It is recognised that this sample is not representative of the ESD workload, which tends to be dominated by larger category A projects and high-risk category B projects. Large category A clients are also most adept at meeting the Bank's environmental performance criteria.

Once the study population had been defined, a purposive sample (with a view to be representative of the sectors) of 33 projects was selected for the site visits. This decreased to 31 (see below) and the remaining 78 became the target population for the web-based instrument (see Figure 2.2).

Finally, the survey instrument and visit/interview protocol were developed for internal consultation at EBRD. Comments were received from the Banking Department and the ESD and were taken into account in the final versions.

Step 2 – Web-based survey of EBRD clients

Web-based surveys are a useful and cost-effective way of generating feedback from a large and therefore representative sample. A copy of the final survey questions is included in appendix 1, and the statistical results are presented in appendix 2.

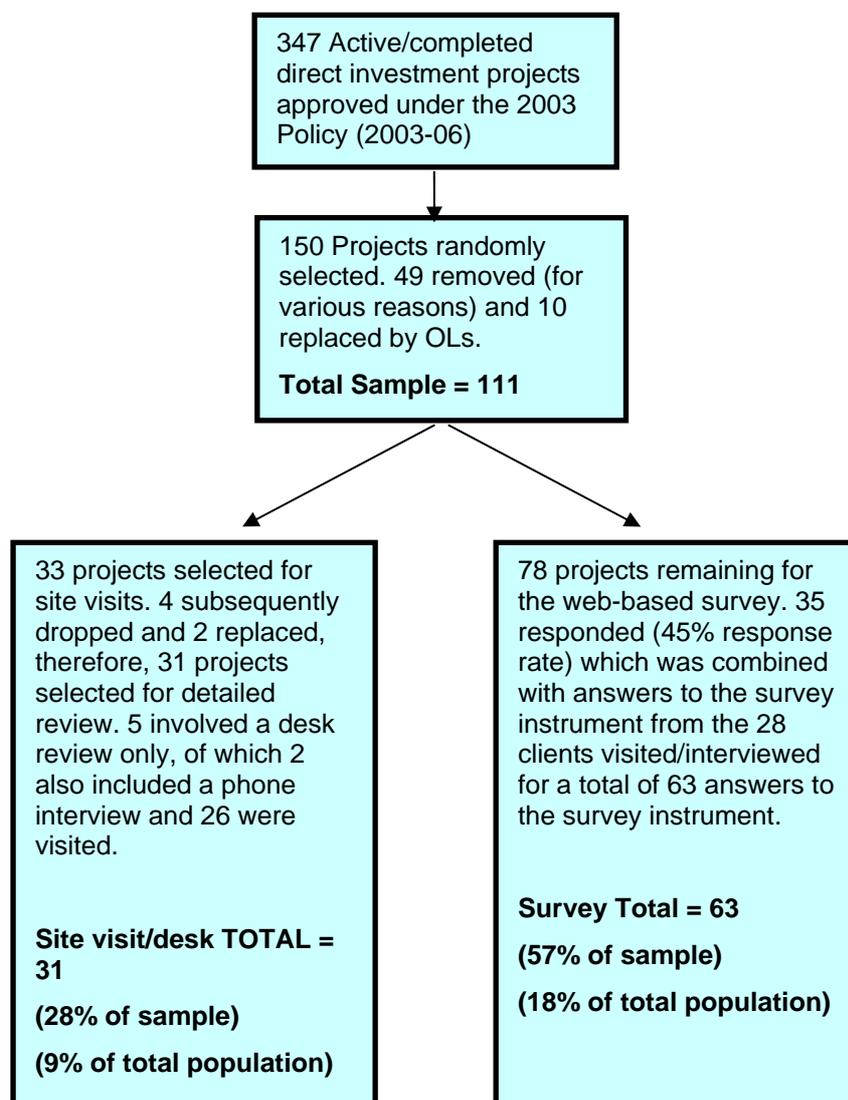
It was important for the survey to be completed by the most appropriate people at the client. In addition, there was a need to respect the sensitivity of the relationships between the

banking teams and their clients. Therefore, the OLs were encouraged to make the first contact with the clients about the web-based survey.

The survey was sent to the client's main contact for the project with the EBRD. This person was encouraged to refer some of the questions to different colleagues, such as the environment manager, health and safety manager and human resource manager. After two weeks and four weeks, clients that had not completed the survey were re-contacted.

Relative to EvD's experience with the FI web-based survey, the response rate from direct investment clients was disappointing (45 per cent). For the FI study, the EvD team was able to work with one portfolio manager and a much more homogeneous pool of clients. Nevertheless, the results, when combined with the site visit data, are informative and represent 57 per cent of the sample and 18 per cent of the total population.

Figure 2.2: Project population sample framework



Step 3 – Client visits

33 projects of different sizes were selected for site visits from a range of sectors in a number of countries. Due to specific project sensitivities, four were dropped from the list and two of these were replaced with similar projects. Thus, the site visit/desk study population consists of 31 projects which represent 28 per cent of the sample and 9 per cent of the total population.

For five of the remaining 31 projects only a desk study was carried out partly because the client had recently been visited by the ESD's own monitoring contractor and those results were made available to the team (for two of these a telephone interview with the client was included in the desk study). The selection criteria for visits are provided in Box 2.1 below.

Box 2.1: Criteria for sampling projects for site visits

The following criteria were taken into account in the sampling and selection of the projects for site visits:

- The list of projects for visits included a mix of project investments in terms of different sectors as well as a mix of debt and equity projects.
- A mix of different investment sizes, some smaller projects funded through relatively new financing mechanisms (such as the DLF and the MCFF), were included.
- A mix of projects was needed with different categorisation (A, B, C) from the environmental screening at project design. As well as different project categories, several projects were included for which an environmental/social audit was needed for an existing facility.
- It was important to have a spread of projects across the different types of countries of operations, including EU countries (2004 joiners), Romania/Bulgaria (EU 2007 joiners), other central and eastern European countries (CEE), Russia and other newly independent states (NIS) and ETCs.
- It was useful to include some project investments that have been planned primarily with specific environmental objectives (such as investments in environmental infrastructure).

Although the detailed review of 31 projects does have some limitations in terms of representation of the EBRD portfolio, it has provided many common findings, as presented in this report. The 31 projects were selected to cover a balance of project types, sizes, sectors, countries and categorisations:

- sectors comprised agribusiness (7 projects), general industry (7), MEI (6), property and tourism (5), transport (3), power and energy (2), and natural resources (1)
- countries included EU (5 projects), central/south-eastern Europe (7), Russia/NIS (9), ETC (10)
- project types comprised direct investment loans (21), equity (1), debt and equity (2), bond (1), DLF (5), MCFF (1)
- categorisation included category A (2 projects), category B (22), category C (4),

3 of the DLF projects were not categorised and audits have been carried out for 18 of the 31 projects (audit category 1).

Natural resource projects appear to be slightly underrepresented, particularly given their environmental importance and the impact such projects have on the staff resources of the ESD. However, out of the 347 projects, there were 21 natural resource projects (6 per cent). This would imply that the sample should contain 1.8 natural resource projects. Partly because the banking team advised that the consultants should not visit selected projects, only one such project was included in the sample. However, one of the selected DLF projects is also a natural resource project. The sample therefore adequately represents this sector.

The following project documents, when available, were reviewed before each visit:

- environmental summary
- report on the environmental audit or EIA
- environmental action plan
- project summary document
- board paper
- legal agreement with the client
- annual environmental reports
- monitoring reports.

One of the important findings of the study was the lack of good document control. It proved difficult to easily locate all documents for all projects selected. The Bank is working to upgrade its *ProjectLink* database, and is encouraging a stronger discipline with respect to document filing.

Further, under the *Public Information Policy* (PIP), EIAs are meant to be available to the public in both hard and electronic copy (although an electronic copy is not mandatory). The EIA for one of the two category A projects was not available in the Bank's business information center at the time of the study but was made available by ESD staff.

The format of the visits, as far as possible, entailed:

- introductory meeting, if appropriate, with the managing director/site director explaining the purpose of the visit
- interview, using the questions in the visit protocol, generally conducted with the EBRD's main contact and the person responsible for HSE risk management
- site walk-through to observe and assess performance in environmental, social and occupational health and safety activities
- review (where relevant and possible) of any other documents provided by the client, such as an updated EAP.

Where possible, the study team spoke to or met the relevant OLS for these projects at the resident offices or in London, before and after the visits, to discuss the project background and provide feedback from the visit, as well as to discuss the OLS' perception of the implementation of the *Environmental Policy*. In addition, where possible, the study team met

the relevant specialist from the ESD to provide feedback and discuss their perception of the implementation of the *Environmental Policy*.

ESD staff were also invited to join the site visits, and they participated in five of the visits. These pre- and post- meetings provided a chance to ensure that the team had the relevant information. During the surveys, visits, and reporting, the necessary level of confidentiality has been respected.

Step 4 – Project team analytical workshop

The study field team included five contracted specialists, one person from EvD and two staff from the ESD. Following the field visits, a project team workshop was held over two days to present, compare and analyse the results, with ESD staff participating in the final session. The aim of the workshop was to identify and agree common findings of the site visits, comparing them to the findings of the surveys, and to develop consistent conclusions and recommendations.

Step 5 – Reporting and consultation

Consultation, both on interim consultant reports and the final report, has been carried out throughout the project with the ESD, banking teams and other important stakeholders within the EBRD (for example the Energy Efficiency and Climate Change Team, the OGC, Board members and so on).

3. ANALYSIS AND RESULTS

This chapter provides the analysis and results of this evaluation. The chapter is divided into sections covering the important aspects related to the 2003 EBRD *Environmental Policy* as follows:

- high-level findings in relation to the EBRD *Environmental Policy* (section 3.1)
- overview of results of the performance evaluation (section 3.2)
- the EBRD project cycle (section 3.3)
- technical aspects of EBRD projects (environment, health and safety, social) (section 3.4)
- EBRD resources for implementation of the *Environmental Policy* (section 3.5)
- applicability and affordability of the requirements in the EBRD *Environmental Policy* (section 3.6).

Based on the analysis, for each of the topics within the sub-sections of chapter 3, conclusions and recommendations are provided so that each topic can be read as a stand-alone sub-section. There are significant overlaps between many of the sub-sections and the intention of this approach is to make the report as clear and comprehensible as possible. A summary of the main recommendations is then provided in chapter 4.

3.1 High-level findings in relation to the *Environmental Policy*

This section provides a general analysis of the main aspects of and findings on the 2003 *Environmental Policy*. Subsequent sections provide analysis related to other more detailed aspects of the policy. This section includes analysis of the overall policy framework, the use of the term “environment” and the issue of boundaries concerning EBRD requirements.

3.1.1 The policy document

An approach to the development and implementation of an environmental policy is to develop a structured policy framework with an integrated set of policy principles, objectives, targets, and an operational plan. This is also the broad approach of total quality management systems (TQM) and certification programmes used in the sector, such as ISO14000 (environmental), OHSAS 18001 (occupational health and safety) and SA 8000 (social/labour).

Overview of the EBRD policy framework

The EBRD 2003 *Environmental Policy* is a mix of policy statements, supporting explanations and procedural approaches. It has evolved and expanded through three revisions since the EBRD was formed; however, all three iterations stem from the environmental mandate contained in Article II of the Bank’s founding agreement. There is also a separate set of Environmental Procedures.

The 2003 *Environmental Policy*, as structured, is not backed up by separate specific objectives and targets. The financial and resource requirements to implement the operational

plan are included in the annual bank-wide budgeting process. The lack of a comprehensive framework could be questioned.

Talking to clients and other stakeholders during the evaluation study it appears that the policy is often not read and, if it is read, it is not well understood. The findings concerning specific aspects of the policy are covered in other sections of this study report. These include the privileging of environmental over health and safety and social aspects (due to the use of the general term “environment”) and the failure of stakeholders to comprehend the aims and practical requirements of achieving EU standards.

In addition, since the adoption of the policy in 2003 new financial instruments have been introduced, such as the direct lending facility that have a different approach to environmental management, requiring compliance with national laws only.

The EBRD annual sustainability reports are high-quality documents containing good case studies of the EBRD’s exemplary projects. However, there is minimal reporting of performance against pre-defined objectives, targets and performance indicators, issues normally covered in such a report.

Further, while the EBRD is the only MDB with an environmental mandate (partly because of the recognised environmental legacy left by the socialist economies), no one in the EBRD tracks environmental quality in countries of operations despite the country strategies including a brief environmental section. This is an omission as environmental quality has improved since 1992 in many countries in the region therefore providing a good story.

Box 3.1: EBRD mandate strengthens the importance of objectives and targets

The EBRD has been set up to act as a catalyst for positive change, including environmental change, in its countries of operations. Other large organisations commit themselves to applying certain policy principles (for example compliance with applicable legislation, equal opportunities, etc.) that, once achieved, simply need to be maintained. The EBRD’s mandate goes much further than this and requires a continuous effort to deliver positive environmental change. Therefore, the Bank needs to adopt objectives and apply measures, targets, etc. in order to achieve specific (and measurable) positive environmental changes through a more proactive approach within stated time periods. The approach should parallel the Bank’s approach to transition impact.

Conclusions and recommendations on the EBRD policy framework

It is recommended that the EBRD adopts the overall approach to the policy framework with a clear set of guiding principles. The new policy should be broad enough to cover the existing and future financial instruments and activities of the Bank.

It should be backed up by a separate set of specific objectives, targets, and a separate operational plan (made up of the environmental procedures plus the implementation plan (resource plans, budgets, etc.). It would also be helpful if the document defined a set of key environmental challenges (similar to transition challenges) for the Bank to focus on. It seems that the draft new policy reflects this recommendation.

*The EBRD cannot predict the exact type of projects that will be signed each year, making it difficult to set some objectives and targets. However, this unpredictability is not a unique situation, and it is definitely possible for EBRD to develop a set of applicable **objectives and targets** within its policy framework.*

Furthermore, EBRD has set targets for energy efficiency investments. As an example, as part of the power sector review, EvD proposed that the Bank become carbon neutral in its projects. According to the most recent EBRD Sustainability Report, this target has been reached.

Other high-level findings on the Environmental Policy document

Links to other EBRD policies

The EBRD has a number of governance policies, sector strategies, and country strategies. The *Public Information Policy*, MEI sector strategy, and *Energy Policy* are particularly relevant to the *Environmental Policy*. It is difficult for the *Environmental Policy* to properly link with all of these policies and strategies, especially as the various policies and strategies are updated at different time intervals.

The recommendations for a shift in approach to over-arching, simple and general policy provisions will make it much simpler to properly link the *Environmental Policy* framework to other EBRD policies and strategies. The framework would involve objectives and targets that would be reviewed on an annual basis and updated as necessary, and could therefore be amended to tie in with developments of other Bank policies and strategies. Thus the framework would feed into the Bank's short and medium-term planning instruments.

Translation and interpretation of the EBRD policy

It is very positive that the EBRD has translated its *Environmental Policy* into 13 languages. This, in itself, is a major undertaking and an important step in environmental policy dialogue across the region. However, there are cultural differences across the region which may result in different readings of the same text.

For example, in selected countries the term "policy" may be understood differently. The word is often associated with former centrally determined policies that were communicated but not implemented.

Further, the words "policy" and "environment" are difficult to translate. For example, the word "environment" is translated into Russian as "ecology," and the term "environmental performance" is not translated uniformly into Russian and may not fully capture issues such as health and safety and social impacts.

3.1.2 The term "environment"

Early in the EBRD 2003 *Environmental Policy* document, the term "environment" is defined as:

"In line with its mandate to promote environmentally sound and sustainable development, the term "environment" is used in this Policy in a broad sense to incorporate not only ecological aspects but also worker protection issues³ and

³ These include occupational health and safety, harmful child labour, forced labour and discriminatory practices.

community issues, such as cultural property, involuntary resettlement, and impacts on indigenous peoples⁴.

In relation to EBRD's requirements on clients, the term "environment" therefore covers much wider aspects than biodiversity and pollution control, and includes health and safety, working conditions, labour aspects, involuntary resettlement, cultural property and so on. However, these were incorporated into the policy through a footnote.

Many clients may not have read the policy and will get their knowledge from the terms of reference or requirements provided by the ESD in loan documents, EAPs and so on. Therefore, it may not be clear to them that the term "environment" should be broadly interpreted.

Findings related to the term "environment"

Provisions on social aspects were added to the EBRD *Environmental Policy* in 2003. Although it would be expected to take time for the implementation of these aspects to be effectively included in the structure of projects, the study has found an ongoing emphasis on environmental protection ahead of social aspects and health and safety aspects. This is demonstrated by the following:

- Although the environmental summary documents prepared by the ESD are generally high quality documents in relation to environmental protection, the majority of the environmental summary documents for the projects that were visited do not include a review of social aspects at the client, and many do not have sufficient coverage of health and safety aspects.
- Out of the 63 clients that were consulted through visits, interviews or the web-based survey, 58 clients (92 per cent) stated that the agreement with the EBRD contains legal covenants/provisions related to environmental requirements. However, 41 of the clients (65 per cent) stated that the agreement also covered health and safety aspects, and only 27 clients (43 per cent) stated that they covered social aspects.
- Out of the 31 projects, it is considered that the project due diligence/planning work had a much stronger emphasis on environment ahead of health and safety and social aspects for 14 of the projects (45 per cent).
- More specifically, out of the 31 projects, 12 projects (39 per cent) were observed to be examples of projects where health and safety issues were not addressed in the due diligence/project design.
- Similarly, seven out of the 31 projects (23 per cent) were observed to be examples of projects where social/labour issues were not fully addressed in the due diligence/project design.
- At several of the visited projects the lack of focus on health and safety in planning and the resulting inadequate practices at clients are impacting on working conditions of staff in the factories and workshops. Examples included an aggregates business in

⁴ For the definition of the terms cultural property, involuntary resettlement and indigenous peoples, the EBRD refers to IFC OPN 11.03 on cultural property (August 1986), IFC OD 4.30 on involuntary resettlement (June 1990) and IFC OD 4.20 on indigenous peoples (September 1991).

south-eastern Europe, workshops of a bus company in an early transition country and agribusiness factories in Central Asia.

- There were two examples in the projects visited related to involuntary resettlement, both of which could have better addressed the issue in the project planning.

It should be noted that performance on occupational health and safety is a cultural issue across the region. It is not easily fixed through safeguards or a regulatory approach; rather it requires the transformation of long standing practices. The EBRD makes PPE (personal protective equipment) available to all staff but it is not always used. EBRD staff itself should adhere to the practices it promotes – i.e. “walk-the-talk”.

The balance of resources and specialist skills in the ESD does not alleviate the problem in relation to the major emphasis on environmental protection. The department only has one and a half full-time social specialist, the first recruited in 2005, and no dedicated specialist on health and safety of projects despite two staff having been trained/certified in occupation health and safety issues. The fact that the majority of the skills and experience in the ESD relate to environmental protection might be one of the reasons that the project documents and preparation focus less on health and safety and social aspects.

However, the ESD has recognised this problem and has started to address these issues. A training course on labour issues was provided to all ESD professionals in 2005 and another more detailed course in 2007. The department name has been changed in 2007 from “Environment Department” to “Environment and Sustainability Department”, and there are plans for recruitment of more social specialists. Consultants were hired in 2007 to review occupational health and safety requirements and to provide guidance to the ESD.

Conclusions and recommendations in relation to the use of the term “environment”

Based on the site visits, desk studies, web-based survey and interviews with EBRD staff it is clear that there is a major emphasis on environmental protection aspects and not enough resources devoted to health and safety and social aspects, and that a more appropriate balance is needed. The use of the term “environment” to encompass environmental protection, health and safety, and social aspects needs to be revisited as it might limit clients’ attention to health and safety and social aspects.

One approach, taken in this report, is to refer to HSE/S (health, safety, environment and social). The ESD has already adopted terminology such as environmental and social impact assessments (ESIA).

3.1.3 Project boundaries and timeframes

For most projects the EBRD discusses and agrees on a set of requirements in relation to HSE/Social aspects that the clients should implement. These requirements are included in most legal documents, and they usually include compliance with regulations and standards, implementation of an environmental action plan (EAP) and so on. More specifically, early in the *Environmental Policy*, it is stated that:

“The EBRD will seek to ensure through its environmental appraisal process that the projects it finances are environmentally sound, designed to operate in compliance with applicable regulatory requirements, and that their environmental performance is also monitored.”

In addition, in relation to the achievement of standards, the *Environmental Policy* states that:

“EBRD will require that projects be structured so as to meet: (i) applicable national environmental law; and (ii) EU environmental standards, insofar as these can be applied to a specific project.”

These policy statements clearly specify that the requirements on clients relate to the “projects” that the EBRD finances. The clear implication is that, unless otherwise stated, the time frame is over the life of the EBRD project. However, there are uncertainties in relation to the boundary of the projects.

In addition, recognising that many clients in the EBRD’s countries of operations are not in compliance with national laws or particularly EU standards at the time approval, the EBRD requires that the projects are “structured so as to meet” the applicable laws and standards through the development and implementation of an environmental action plan (EAP). EvD understands the term “structured” as it is used by banking, namely indicating that ESD staff have incorporated appropriate “guarantees” to ensure effective delivery.

A reasonable test of whether a project has been “structured” correctly is whether the implementation of the EAP is on track at the time of evaluation while recognising market realities and client commitment.

Types of project boundary issues

Even for a typical loan project that appears to be well-defined, such as a loan to finance the implementation of an extra process line within a larger factory, the project boundary is difficult to define. The following examples illustrate the uncertainties related to project boundaries and whether the EBRD requirements cover aspects such as:

- treatment of the effluent wastewater produced by the financed project
- treatment of sludge from wastewater treatment plants
- management of the types of waste produced by the project activities
- requirements on the HSE/Social performance of sub-contractors, such as construction companies
- requirements on the HSE/Social performance of suppliers
- raw material sources for an EBRD financed project, such as issues related to pig farming associated with a meat factory (conversely, the EBRD has put significant emphasis on supply chain issues in the pulp and paper/forest sector)
- requirements on the next production stage if the products of the financed project pass to another process stage at the same facility
- captive mines for heavy industry or coal-fired power plants (raised in EvD’s 2004 *Extractive Industry Review*).

The EBRD *Environmental Policy* does state that:

“EBRD will make recommendations and encourage project sponsors to bring their activities that are outside the scope of the EBRD-financed project into compliance with good international practice within a reasonable timeframe.”

However, the policy does not specifically provide a definition of project boundaries or reasonable timeframes. In addition, there are boundary issues that are specifically related to the type of project. The majority of the EBRD direct investment projects are loan projects (about 85 per cent of the projects in the part of the portfolio covered by this study).

It is not always the case that the loan is as clearly defined as the above examples on a specific part of a production process. For example, loan investments are regularly split to finance different parts of a process or different client activities, and in many cases parts of or all of a loan is meant for “working capital” and therefore the requirements could apply to any client activities.

The ESD generally categorises working capital projects as category C/1, while the nature of working capital is such that the Bank’s exposure is actually larger than specifically defined project financing. The EBRD also has several debt restructuring deals. Again, these are often categorised as category C/1, while the EBRD effectively becomes the primary lender for a host prior investments.

The EBRD also has revenue bond deals in which, as with working capital loans, the client uses the money for any/many priority activities. Finally, the EBRD takes equity that exposes the EBRD to the full range of activities of the company. Sometimes, the EBRD may take shares in a company at Initial Public Offerings (IPOs) when our percentage is small (less than 10 per cent) and because it is a public offering, no single investor can impose conditions (even a simple one such as requesting an annual environmental report).

While the ESD takes a view that the project should be classified based on “use of proceeds”, often the “project” as defined earlier in the Board Paper by operational staff, is more expansive than simply the use of proceeds (for example, “improvements to the wastewater system” when the actual use of proceeds is limited to “main line pipe replacements”).

The section of the board paper on transition impact even goes further in defining the project since it looks not only at direct project impacts but also at indirect impacts on the wider economy. In one project covered by the study, the project description section clearly allocated resources towards the opening of a new mine (a category A level activity), while the environmental section focused on processing plant upgrades and the project was rated category B.

Timeframe issues

Many clients are unable to comply with national regulations and particularly EU standards at the time of signing the deal with the EBRD. Therefore an environmental action plan (EAP) is agreed that, if funded and properly implemented, will bring them into compliance. The policy statement that “projects are structured to meet” the requirements implies that compliance is required within the lifetime of the project.

However, there are uncertainties in relation to the time frames of the requirements and there are different opinions within the EBRD on the timeframes. As the funding for the EAP is

often outside the project financing, and therefore outside of the EBRD's own banking analysis, the company may not have the necessary financing.

Therefore it is unclear how the investments will be paid for. Such projects fail the "structuring" test. It is appropriate to tie down the performance of the EAP in the loan covenants, but the team must ensure that the company is able to pay for the EAP. Thus, it is best if the EAP is built into the project financing.

Findings on project boundary issues

Out of the 31 projects for which a visit or desk study was carried out, uncertainties in relation to the boundary of the project were identified for 14 of them (45 per cent), for example:

- For several projects, the municipal wastewater (for example, property projects in Central Asia and south-eastern Europe) or industrial wastewater (for example, aggregates business in south-eastern Europe, agribusiness factory in NIS) is discharged to the local municipal sewer, and the client has a permit that allows this.

However, the municipal wastewater treatment is often inadequate in EBRD's countries of operations and in most cases does not comply with EU standards. Also, MEI upgrades to some municipal wastewater treatment plants (both in the sample and otherwise) have not addressed sludge disposal, arguing that this would require a separate investment despite sludge being a direct by-product of wastewater treatment.

- For two clients, significant pollutant emissions to atmosphere were observed from a facility related to their activities that was not directly part of the project. For example, a power station next to a manufacturing plant in south-eastern Europe is operating with inadequate abatement technology and was observed to be releasing high levels of particulates and potentially other pollutants. The EBRD project is concerned with the upgrade of much of the processing plant, which remains the largest single purchaser of the energy produced from the power station. This used to be operated by the client but has now been sold to a separate company. At a district heating project which focused on the rehabilitation of the distribution system, the client operates a boiler that was observed to be emitting significant pollution to the atmosphere. Although the boiler is not part of the upgrading activities of the project, it is directly related to the distribution system.
- There were several clients visited where operations at the sites in relation to the separation and proper storage of different types of hazardous and non-hazardous waste were observed to be at an adequate standard. However, this waste is generally collected and disposed by a licensed waste management company, which in many countries of operations will be operating to inadequate standards, particularly with regard to waste disposal. For example, at a tourism project in Central Asia and an airport in an early transition country, waste is adequately stored but clients admitted that the waste is taken to the local municipal site, which is actually an open dump site with minimal environmental protection. In some cases it is likely that hazardous waste will be taken to the same municipal dump site. These are good examples where the Bank's client is constrained, as the enabling environment is simply not at a level to support EU compliance.

- There were two projects visited where activities beyond the EBRD financed project but nevertheless an integral part of the overall wider developments, potentially involved involuntary resettlement. One example concerned a major road infrastructure project, where the EBRD is financing part of the new road through a loan. However, an adjacent and critical part of the road is financed by other means.
- Two positive MEI water supply projects were included in the visits. The projects will result in major benefits by increasing the coverage of water supply. However, although the EBRD project investments only cover water supply, the wastewater generated by many of these households is not being treated and is discharged directly to the sewers and into the nearby water course or sea.
- Several of the projects visited involve working capital loans for which the requirements should essentially cover all of the client activities because the loan money could be spent on a variety of investments. For example, at one large agribusiness with several factories in Central Asia, the EAP is a high standard document and the client is implementing the actions on a step-by-step basis but the EAP does not address HSE problems at the three factory sites.
- One of the projects visited was a major client in the agribusiness sector in Russia. The project was debt restructuring and categorised C/1. The ESD has been less involved than would be expected for this type of client with the potential HSE/Social impacts. It is unclear for debt restructuring projects whether the EBRD takes on the potential environmental liabilities for the items associated with the loan.

The above examples demonstrate the complications of the boundary issue for EBRD-financed projects. In addition, for many projects the investment plans change during the implementation phase which can add further complications. The only document that is released to the public is the project summary document.

This is usually produced well in advance of the board decision and subsequent negotiations and signing. During this process, which can take weeks to months, the scope of projects legitimately changes. If the PSD is not updated once the project is signed, the public impression of the project may differ significantly from reality.

Box 3.2: Case study

Revenue bond MEI project in an EU country

The EBRD has had significant project exposure with a municipal water and wastewater utility in an EU country. The client has made substantial improvements in water supply and wastewater treatment through its investment programmes with the EBRD and the EU Phare programme and is continuing with investments to bring the remainder of its facilities and activities in line with EU standards.

Having had several successful debt projects with the client, the EBRD participated in a revenue bond. In effect, the bond is a debt instrument with an interest charged to the borrower. Funds are provided to the client and can be used for any of the priority investments as defined in the Bond document.

One of the investments that the company is making concerns a sewage sludge incinerator. The EBRD entered into a separate agreement with the utility so that the EBRD contribution would be used only for water distribution upgrades and not for the incinerator. In fact, the incinerator has been well planned with a proper EIA carried out to EU standards, and it is a beneficial investment for the client. However, including it under the EBRD project would have required that the project be classified as category A.

Conclusions and recommendations on project boundaries

The EBRD Environmental Policy is not clear in relation to project boundaries. There were many uncertainties identified on project boundaries in the projects that were reviewed in detail in this study. These boundary problems have been identified in the ESD discussion paper on issues for consideration in revision of the policy as well as in the EBRD lessons learned-database on several occasions (appendix 3). It is understood that ESD is working on reducing the uncertainties on project boundaries in the revised policy.

Given the large range in types and sizes of EBRD projects in the different sectors, it is not surprising that there are uncertainties and it would not be easy for a high-level policy document to define the exact detail of project boundaries. However, larger issues such as “captive mines” can be addressed. It is important that project boundaries are transparently defined on a case-by-case basis in individual project documents.

3.2 Overview of results of the performance evaluation

This section presents an overview of results of the performance evaluation of the effectiveness of the implementation of the EBRD 2003 *Environmental Policy*. The section has the following structure:

- First, the overall results are presented through a comparative analysis of whether the EBRD is adopting an approach that focuses on risk management and/or an approach that focuses on additional environmental benefits (section 3.2.1).
- Then, overall results of the evaluation are linked to whether the EBRD is promoting environmentally-oriented investments, followed by an analysis of the implementation of this policy statement in section 3.2.2.
- Finally, a short review of the EBRD’s own performance is provided in relation to environmental, health and safety and social aspects (section 3.2.3).

3.2.1 Risk management and/or additional benefits?

Background

One of the more important questions in the evaluation of the effectiveness of the implementation of the EBRD 2003 *Environmental Policy* relates to whether the approach is one that focuses on risk management and/or one that focuses on adding value.

The EBRD 2003 *Environmental Policy* states that:

“The EBRD will seek to ensure through its environmental appraisal process that the projects it finances are environmentally sound, designed to operate in compliance with applicable regulatory requirements, and that their environmental performance is also monitored. It will pay particular attention to requiring appropriate and efficient mitigation measures and management of environmental issues, which may have legal, financial and reputational implications, as well as environmental implications.”

The above statement in the policy mainly relates to risk management and compliance with regulation. The same paragraph of the policy then goes on to state:

The EBRD “will seek to realise additional environmental benefits through the projects it finances, in particular if the projects also provide economic benefits.”

There are many other such positive statements in the policy that confirm that the EBRD is aiming not at just managing the risks related to HSE/Social aspects of its project portfolio but also at generating more positive additional benefits and change.

Findings of the study in relation to risk management and/or additional benefits

Project compliance with national regulations

23 out of the 31 projects (74 per cent) were judged to be in compliance with national regulations on HSE/Social aspects at the time of the visit/desk study. Based on a review of clients’ management commitment to improving in HSE/Social performance and on an assessment of the progress in implementation of the EAP, it is predicted that 29 out of 31 of these projects (94 per cent) will comply with national regulations by the end of the project. This demonstrates that most of the clients that are currently non-compliant are taking steps to improve project performance in order to comply with national regulations.

Further, this demonstrates the strong proactive role the ESD has played in helping clients move towards achieving full compliance. This in itself is a very positive step. These findings are summarised in Table 3.1.

Project compliance with EU standards, relevant IFC safeguard policies and relevant ILO standards

A similar analysis to the one above was carried out for compliance with EU standards, relevant IFC Safeguard Policies and relevant ILO standards. Out of the 25 projects (excluding DLF/MCFF projects), a judgement on whether the projects are in compliance with these international standards on HSE/Social issues was made.

These represent the best professional judgement of the Evaluation Team. 10 out of the 25 projects (40 per cent) were judged to be in compliance with EU standards, relevant IFC safeguard policies and relevant ILO standards at the time of the visit. Further, it is predicted that 15 out of 25 of these projects (60 per cent) will comply with EU standards, relevant IFC safeguard policies and relevant ILO standards by the end of the project.

There is some uncertainty in the assessment of current and forecast compliance with EU standards. While these findings show shortfalls in current environmental performance, environmental change was judged to be more positive.

Company compliance with national regulations and EU standards, relevant IFC safeguard policies and relevant ILO standards

Typically, EBRD requirements will mainly focus on the HSE/Social aspects related to the project but the policy also indicates that the EBRD should be encouraging clients to improve activities outside the scope of the specific project. Table 3.1 also shows the perception of the compliance of the companies with national regulations and EU standards, relevant IFC safeguard policies and relevant ILO standards. This demonstrates that some clients are taking steps to improve overall performance in order to comply with national regulations and EU standards.

Table 3.1 – Compliance with national regulations and EU standards, relevant IFC safeguard policies and relevant ILO standards

	National Regulations (at the time of visit) (out of 31)	National Regulations (predicted at the end of the project) (out of 31)	EU standards, relevant IFC safeguard policies and relevant ILO standards (at the time of visit) (out of 25)	EU standards, relevant IFC safeguard policies and relevant ILO standards (predicted at the end of the project) (out of 25)
	Project compliance			
Number of projects compliant	23	29	10	15
	Company compliance			
Number of companies compliant	21	26	7	13

However, for certain projects, such as equity projects or working capital loans, the provisions of the agreement with the company require all company operations to comply and not just the investment project. The analysis shows that 21 of the 31 projects were loans for specific investment projects (rather than working capital loans, equity deals and so on), and that only six of these (29 per cent) are taking steps to comply with national regulations and with EU standards, including activities outside the scope of the EBRD-financed project.

Environmental performance and environmental change (Evaluation Department ratings)

As mentioned, there are some uncertainties to the above analysis on compliance. However, the analysis can be compared and backed up by an assessment of environmental performance and environmental change.

The projects for which a visit or desk study was carried out were given a rating on environmental performance and environmental change as defined by the rating system used by the EBRD's Evaluation Department. Table 3.2 provides a summary of the ratings of the projects. The definitions of EvD ratings are provided in Table 3.3.

It should be noted that the projects that have been given ratings for performance and change at the time of the visit were at different stages in implementation. In addition, the projects started at significantly varying levels of environmental performance. Therefore, the rating of environmental change is more useful when assessing the effectiveness of the implementation of the EBRD *Environmental Policy*.

Also, environmental performance is mainly rated against the implementation of the EAP, and the EAPs have been found to vary significantly between projects in terms of their coverage and ambition. Some EAPs are far more challenging than others. It is therefore inappropriate to place much emphasis on the comparison of current environmental performance rating, and this also demonstrates that the environmental change rating is perhaps more important.

Table 3.2 – Summary of the environmental performance and environmental change ratings of the 31 projects for which a visit/desk study was carried out

Environmental performance			Environmental change		
	Environmental performance at the time of visit (number of projects)	Predicted environmental performance at the end of the project (number of projects)		Environmental change at the time of visit (number of projects)	Predicted environmental change at the end of the project (number of projects)
Excellent	1	1	Outstanding	0	3
Good	5	6	Substantial	8	10
Satisfactory	16	19	Some	14	14
Marginal	5	3	None	9	3
Unsatisfactory	4	2	Negative	0	0
Highly Unsatisfactory	0	0	Uncertain	0	1

The following points can be noted from the above ratings:

- 22 out of 31 projects (71 per cent) were judged to have an environmental performance rating of satisfactory or better at the time of the visit.
- Although the below-satisfactory projects are generally improving in performance, it is predicted that five out of 31 (16 per cent) will still have environmental performance below satisfactory at the end of the project.
- The environmental change ratings are more positive because, at the time of the visit, 22 out of 31 projects had already shown some environmental change and it is predicted by the end of the projects that 28 out of 31 projects (90 per cent) will show at least some environmental change, of which the change will be substantial for 10 and outstanding for three projects.

The Bank's evaluation system has tended to put greater emphasis on environmental indicators than on social indicators and on *environmental performance* than on *environmental change*.⁵ This perhaps could be perceived as providing the wrong incentive to OLS and ESD staff as this encourages a focus on compliance with the EAP and relevant safeguards standards.

Environmental change has characteristics similar to *transition impact*. The Bank might be advised to develop an environmental impact indicator (Box 3.3) that parallels and would be monitored similar to *transition impact*. This, in turn, would change the incentives and put

⁵ The Bank, via both its self-assessment project evaluations and EvD's independent project evaluations, has very limited experience in evaluating social impacts. This is an area that needs further consideration and development which will be enhanced as experience is gained.

greater emphasis on where the largest *environmental change* (environmental improvements) can be achieved.

It is often stated that the Bank does not select projects based on environmental criteria. Rather, the three pillars are *transition impact*, *sounding banking* and *additionality*. However, promoting *environmental change* makes good business sense (*sound banking*) and will contribute to *transition impact*. Therefore it may be in the Bank's interest to also consider environmental/social impact when selecting projects.

Table 3.3 – Definitions of environmental performance and environmental change ratings

RATING ENVIRONMENTAL PERFORMANCE OF THE PROJECT AND THE SPONSOR	
RATINGS	BENCHMARKS
Excellent	All appropriate environmental and social measures are secured and environmental conditionality implemented. No significant outstanding issues. The Sponsor has gone beyond the expectations of the environmental action plan (EAP) and serves as a best practice example.
Good	Appropriate environmental and social measures are secured and environmental conditionality implemented. The EAP is on or ahead of schedule.
Satisfactory	The appropriate environmental risk factors were properly identified and the sponsor is implementing the EAP as prescribed.
Marginal	Some environmental and social measures are secured and only part of environmental and social conditionality was implemented. Several outstanding issues remain. Performance of the sponsor was partly unsatisfactory.
Unsatisfactory	Few if any environmental and social measures were implemented. Significant outstanding issues are experienced. Performance of the sponsor was less than satisfactory.
Highly Unsatisfactory	The project is out of compliance with the objectives as established in the EAP and/or host country or World Bank environmental standards for this type of project; has experienced significant adverse events (spills, deaths etc.); is an on going risk to the environment and presents a vulnerability risk to the EBRD.
RATING EXTENT OF ENVIRONMENTAL CHANGE	
RATING	BENCHMARKS
Outstanding	This project will result in significant environmental and social benefits and/or additionality. The extent of the change is extensive, either because environmental legacies were extensive, or because the project achieves a high level of performance and has excellent potential long-term improvements. Projects which have positive impacts beyond the immediate project (for example, by positive example leading to new environmental standards) should also be considered "outstanding".
Substantial	Environmental and social benefits and/or additionality resulting from the project are significant and have good potential for the future. Beyond the project benefits may also be positive.
Some	Some environmental and social benefits and/or additionality resulting from the project. No measurable benefits beyond the immediate project.
None/Negative	No significant environmental and social benefits associated with the project; or significant adverse (negative) environmental impacts associated with the project. Also under this category would be projects that have a negative demonstration effect.

In relation to the above ratings on environmental change it may be more useful to separate "none" and "negative" into two separate categories.

Box 3.3: Measuring environmental/social impact

The Bank is interested in measuring its *impact*. What impact, if any has resulted on the environmental/social dimension as a result of the Bank's participation in a given project?

The Bank currently has two measures of environmental/social impact: *environmental performance* and *environmental change*.

- *Environmental performance* (EP) is a measure of compliance against EAPs and national, EU and World Bank (WB) regulations and guidelines, made at the time of evaluation. Call this E_2 . Projects that score well have achieved the Bank's environmental performance expectations as stated in EAPs and are in compliance with appropriate laws and regulations.
- *Environmental change* (EC) is a measure of a change in performance between two points in time – when the project was approved (E_1) and at the time of evaluation (E_2). On entry, projects may have significant environmental deficiencies and the Bank establishes its expectations for improvement via the EAP, thus seeking positive change.

Thus: $EP = E_2$ and $EC = E_2 - E_1$

What is missing from the environmental change dimension is an assessment of the *risk* of achieving the desired change (R). Or, alternatively, one could refer to the potential to achieve the change (P, $R=1-P$). If a project is already in full compliance or is perceived to have no environmental/social impact then the potential for change is zero, and measuring EC is not very meaningful.

On the other hand, if there are significant environmental legacies or social issues, then the potential for *environmental change* is large, even if the project does not achieve full compliance. The project deserves credit for achieving positive change and, in such cases, EC may be a more important measure of the Bank's impact than EP.

One can define environmental/social impact (ESI) as:

$$ESI = P * EC + (1-P) * EP$$

This simply states that the Bank's environmental/social impact is a function of its ability to achieve positive *environmental change* plus the level of *environmental performance* achieved at the time of evaluation adjusted for the potential to achieve positive *environmental change*.

Applying the equations above

$$ESI = P * (E_2 - E_1) + (1-P) * E_2$$

$$ESI = E_2 - P * E_1$$

To simplify, assume three states for P – (high, medium and low) or (1, 0.5, and 0). The resulting options would be:

Change potential	Environmental/social Impact
High 1	$E_2 - E_1$
Medium 0.5	$E_2 - 0.5E_1$
Low 0	E_2

A greenfield project or a project that is already in full compliance would have a P-value of $P=0$, thus ESI would be a function of performance at evaluation only. A large existing facility with significant environmental corrective actions required to achieve compliance would have a P-value of 1. As E_1 would be negative (less than satisfactory), ESI would be a function of both the starting point and the level achieved. Such a measure of environmental/social impact would constitute an incentive to encourage the Bank to undertake more projects where the Bank can achieve greater *environmental change*, while equally supporting greenfield projects that perform well. Similarly, when there are potentially significant social impacts. To implement this, the ESD would need to better define the starting point (E_1) and the change potential (P). ESI should be tracked every six months in parallel to TIMS.

Further analysis of the findings of the study in relation to risk management and/or additional benefits

Environmental change

Despite some uncertainties in the assessment of compliance with national regulations and EU standards, and in the assignment of ratings, the above analyses can be used to show basic trends. Based on the 31 visits/desk studies the current environmental performance of projects is lower than expected given the wording in the EBRD *Environmental Policy*. Eight projects (26 per cent) are currently non-compliant with national regulations in relation to the project activities. Nine projects (29 per cent) are rated as below satisfactory in terms of current *environmental performance*.

However, the current or predicted *environmental change* at the companies is far more positive. It is predicted that, for at least six of the eight projects that are not compliant with national regulations, the companies are taking actions to ensure compliance by the end of the project.

In relation to EU standards, relevant IFC safeguard policies and relevant ILO standards, a significant proportion of the projects, 15 out of 25 are currently not compliant with these standards/safeguards. Most of the 10 other projects have an EAP that will bring their project activities in line with EU standards, although three of these projects do not have an EAP. However, there are examples of positive environmental change in many projects (Box 3.4).

Box 3.4: Examples of positive environmental change observed in the visits to EBRD clients

- High standards of HSE performance at a new pharmaceutical factory are providing a good example of compliance with EU standards in Russia.
- Major improvements in environmental pollution management, including reduction in emissions to air are expected at a pulp mill in south-eastern Europe.
- There are major improvements in overall HSE management at a mining company in the Caucasus.
- There are improvements to wastewater treatment at tourism complexes at a lake and biosphere reserve in Central Asia.
- A metallurgical plant in Russia shows substantial improvement in HSE performance.
- An EBRD investment in a central heating plant in eastern Europe will result in a much more reliable hot water and heating supply, therefore improving living conditions in the town.
- There is increased local employment and a strengthening of local SME suppliers in areas of poverty (positive local social impact) through two agribusiness investment projects in the Caucasus and Central Asia.
- An upgraded and expanded paper factory in Ukraine will have a significant positive impact on employment in an area of high unemployment because of the recent closure of local coal mines.

Out of 78 clients, a total of 35 clients responded to the web-based survey.⁶ Together with the 28 clients that were visited or interviewed (for two of the five desk studies an interview was carried out) we collected up to 63 responses for most of the survey questions.

Out of the total 63 responses to the survey questions, 37 (59 per cent) have agreed an environmental action plan (EAP) with the EBRD. 25 of these said that it includes commitments to enhance environmental, social, health and safety benefits beyond compliance with legislation. This result is positive as it demonstrates the positive and proactive approach of the ESD.

It is apparent from the visits to clients that the EBRD generates the most environmental change when the project includes development of a brownfield site or improvements to an existing facility. The required EU HSE/Social standards are generally harder to achieve for existing facilities than for greenfield sites but there were examples of substantial positive change at such sites.

Findings on risk management approach

Based on the overall impression from the site visits, the review of project documents, such as the environmental summary, audit report, board paper and on interviews with EBRD staff, it is clear that there is an overall emphasis on risk management. For 18 out of 31 projects (58 per cent) for which a visit/desk study was carried out, the planned approach of the EBRD in relation to HSE/Social aspects was judged to have been focused on risk management and not additional benefits. In addition, there are few examples from the specific investment projects where the EBRD has influenced the client to take HSE/Social actions outside the scope of EBRD-financed project.

Out of the 63 responses to the survey questions, 46 clients (73 per cent) have roles for a senior person or persons in the company to have responsibility for environmental, social, health and safety management. Out of the 46 with such a role, only three created the role as a result of EBRD requirements. In addition, 48 out of 63 clients (76 per cent) have adopted environmental and/or health and safety management procedures, but only 15 of these adopted them as a result of EBRD influence.

Similarly, 37 out of 63 clients (59 per cent) have environmental and/or health and safety management systems but only four of these adopted them as a result of EBRD influence. As defined in the EBRD *Environmental Policy and Procedures* (see recommendations) the appointment of responsibility for HSE/Social management, adoption of HSE/Social procedures and implementation of HSE/Social management systems are not yet a specific requirement for clients. This is an EBRD requirement for FI clients and extending it to direct investments, where relevant, would (i) enhance corporate governance, (ii) provide a direct contact to monitor performance and (iii) help to further the Bank's objectives.

Based on interviews with EBRD staff in the ESD and banking teams, there is a perception that the EBRD approach to the management of HSE/Social aspects is based on risk management rather than on the search for "additional environmental benefits" as stated in the policy. The approach of some OLs appears to be to "get the projects through the Environment Department", rather than working with the ESD aiming to identify additional environmental

⁶ This is a lower response rate than was obtained for the FI study and reflects that diversity of bankers, portfolio managers, investment instruments and companies involved in this study.

benefits. Although, there are also examples where OLs have been very proactive in promoting environmental opportunities.

This attitude of some OLs/banking teams is determining the approach of the ESD. Examples from the visits where potential additional environmental benefits were observed but not included in the requirements on clients include:

- many examples where HSE/Social management systems would have added additional benefits, particularly related to health and safety improvements
- potential solid waste management improvements at several projects, for example at two large manufacturing clients and a major agribusiness in south-eastern Europe, property and tourism projects in Central Asia, and an electricity company in Russia
- housekeeping/clean-up of potentially contaminated land at two clients with major factories in south-eastern Europe and Central Asia.

For some of the above examples, the ESD did identify potential HSE/Social improvement actions beyond compliance with legislation and EU standards at the concept review stage but these additional benefits were not taken through into the project agreements. In addition, the ESD is often under pressure from banking teams to provide last-minute approval for projects in tight timescales with respect to HSE/Social aspects. Therefore it is too late at this late stage to press for the inclusion of actions that would bring the additional benefits that the ESD had identified at an earlier stage.

67 per cent of the projects included in the study report that they have been visited by ESD staff, or Bank consultants, during due diligence. Combining all projects (FI and direct investments) and combining due diligence and project monitoring, the ESD visits less than 40 per cent of the projects. This is partly because of staff resource limitations in the ESD and partly because banking controls travel costs. Where the ESD has been able to directly engage they have added far more value.

Conclusions and recommendations in relation to risk management and/or additional benefits

Based on the project visits, it is predicted that the environmental performance will be less than 100 per cent satisfactory. However, there are many examples of positive environmental change within the sample. This backs up the findings of the site visits that many projects are starting at low levels of performance, but are making significant improvements through the lifetime of the project.

By the end of the project, some projects may still not meet EU requirements, but, as mentioned, improvements will have been positive. This also indicates that the requirement to achieve EU standards within the life time of the project may be not be affordable for some types of projects (such as MEI), particularly in certain countries of operations such as early transition countries (ETCs). The new policy needs to be clearer on the timeframe to meet EU standards and needs to reflect the reality of sectors (such as MEI) or countries (such as ETC) where EU compliance will be a challenge.

Positive environmental change has been achieved mainly through the risk management approach and encouraging clients to comply with national regulations and work towards EU standards. It is recommended that the Bank develop a new monitoring instrument –

Environmental/Social Impact – that would be in parallel with Transition Impact. This requires a better assessment of initial conditions and expectations and regular monitoring, similar to the Bank’s TIMS system.

3.2.2 Environmentally-oriented investments

The EBRD 2003 *Environmental Policy* states the following:

The EBRD will promote “environmentally oriented investments across all sectors.”

The overall results presented in section 3.2.1 are linked to the above Policy statement, particularly in relation to whether EBRD is working with an approach that focuses on additional environmental benefits. This section of the study report provides results and analysis in relation to whether the EBRD is promoting environmentally oriented investments across all sectors.

Potential types of environmentally-oriented investments

The main types of environmentally-oriented investments at the EBRD are:

- investments in environmental process improvements that are a core part of the project structure (e.g. a specific aim of a loan): these could include several types of investments across all sectors and involving many banking teams at the EBRD, such as process improvements at manufacturing plants. These are technology or engineer-lead outcomes. Increasing the role and number of technical engineers at the EBRD may enhance such outcomes.
- potential types of investments listed in an environmental action plan (EAP) that is agreed between the client and the EBRD to bring the company’s activities into compliance with national and EU standards

There are also two teams that specifically cover environmentally-oriented investments:

- investment in municipal and environmental infrastructure (MEI); These projects are prepared and management by the MEI banking team. Table 3.4 illustrates a steady increase in MEI projects within the EBRD direct investment portfolio.
- investments related to energy efficiency which are managed by the team on energy efficiency and climate change.

Table 3.4 – EBRD portfolio in direct investment projects

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Agribusiness	5	1	8	5	13	11	23	5	8	11	16	9	18	20	23	22	198
General Industry	3	10	14	11	18	19	23	23	10	11	14	19	19	18	20	24	256
MEI			1	2	5	7	7	8	5	10	16	14	11	14	15	19	134
Natural Resources		4	5	4	5	4	2	6	3	5	4	2	11	7	6	1	69
Power and Energy		4	4	5	6	1	6	3	3	5	4	5	4	7	11	6	74
Property and Tourism		4	3	4	3	3	3	3	5	5	1	2	6	4	9	10	65
Telecoms and Media	4	14	4	6	2	4	4	4	6	9	6	5	8	6	4	3	89
Transport		3	9	14	9	11	6	4	10	6	10	10	9	12	13	12	138
Total	12	40	48	51	61	60	74	56	50	62	71	66	86	88	101	97	1,023

Note: These figures include DLF, DIF and MCFE projects.

Findings on environmentally-oriented investments

Out of the 31 projects, 11 projects (35 per cent) were identified for which environmentally-oriented investments were a core part of the project structure. For four of these the investment was through the MEI team.

Box 3.5 – Examples of environmentally-oriented investments from the EBRD projects that were visited

- projects to enhance water supply projects in coastal towns of Bulgaria and Georgia
- a project to improve wastewater treatment in a town in Poland
- waste paper reprocessing at an upgraded paper/pulp facility in an NIS country
- district heating improvements in a town in Romania that has relatively high levels of poverty
- conversion of a cement plant in south-eastern Europe from wet to dry processing, resulting in significant reductions in air emissions
- investments in major improvements in tailings management at a mine in the Caucasus, which will significantly reduce the pollution of water sources
- substantial energy efficiency and process improvements through investments at a pulp mill in south-eastern Europe which will improve HSE performance and working conditions
- energy efficiency improvements at a metallurgical facility in Russia.

For the 63 clients that were consulted, 37 have an agreed EAP (59 per cent) and for 20 of these the environmental action plan is at least partly funded by the loan. An EAP was agreed for 15 out of the 31 projects that were visited, and for six of these at least some of the actions in the EAP are to be paid for out of a loan. Examples include:

- inclusion of improvements in wastewater treatment into two loans in the tourism sector in Central Asia, for which the core objectives of the loans were to expand tourism complexes/hotels
- rehabilitation works and other HSE improvements at a municipal bus company, for which the core objective of the loan was the purchase of buses (note that in this case the client has not implemented any of the EAP)
- improvements in waste management at an electricity company for which the core objective of the loan was the purchase and installation of modern power transmission equipment
- several HSE improvements, including lower-cost actions and technical improvements (for example, soil remediation) included in the loan for a capital expenditure programme at an aggregates business in south-eastern Europe.

Out of the 31 projects that had a visit/desk study, nine projects (29 per cent) were identified for which environmentally-oriented investments for the project or company had not been identified by EBRD and not included in the project investments. Examples include:

- waste minimisation and energy efficiency improvements at the aggregates business in south-eastern Europe

- investments in solutions to a major solid organic waste problem at a dairy factory enhancement project in an EU country
- a carbon reduction agreement for a cement plant in south-eastern Europe: the Bank's initial project with the client was focused on an older wet-process plant that would have been a good candidate for carbon trading. During planning for the second project (the project in the sample) the client switched focus to the new site, and the conversion of the older wet-process plant was abandoned. The new project also involved conversion from wet process to dry process but this plant had been idle for several years therefore would not qualify for carbon trading. A third project is under development with this client and a carbon reduction option focusing on the first plant still exists.

10 of the 15 clients with an EAP are behind schedule on implementation of the EAP. The exclusion of the costs of EAPs from loans is a missed opportunity for environmentally-orientated investments, and clients are more likely to implement the EAP properly if the required actions are paid for out of the loan.

There are several cases in the visits/desk studies where the EAP was produced and agreed too late for inclusion in the loan and some cases where the EAP is produced after the loan agreement. Wherever possible, the ESD and the banking teams should develop EAPs at an earlier stage so that the costs can be included in the loan agreements.

Analysis of findings on environmentally-oriented investments

From the 31 projects, there are several positive examples of environmentally-oriented investments. These are not just from the MEI and energy efficiency banking teams, but also other sectors. However, it was expected that many more examples would have been identified. Based on the interviews with the ESD and the banking teams, a much more co-ordinated approach to environmentally-oriented investments is needed, particularly for the sectors outside MEI and energy efficiency.

For many projects the ESD specialists, or auditing consultants on their behalf, are visiting the clients to assess HSE/Social aspects during the project preparation. This is the time when opportunities for environmentally-oriented investments should be identified by the specialists and communicated to the banking teams for potential inclusion into the loans. However, the findings from the visits demonstrate that this is happening less frequently than would be expected.

It is likely that there is a combination of reasons for the problems with the approach to environmentally-oriented investments, including:

- a lack of resources in the ESD to first visit most projects during due diligence, then to develop and make the financial/sounding banking arguments to support such investments
- a focus within the ESD of visiting projects in order to identify environmental risks rather than identify environmental investment opportunities and promote additional environmental benefits
- a perception within banking teams that the role of the ESD comprises support in risk management rather than the promotion of additional environmentally-oriented investment opportunities

- Environmentally-orientated investments will often make a loan more complex, and in many cases operation leaders and clients are likely to prefer simpler deals that can be signed as quickly as possible.
- a lack of promotion and reporting of positive examples of environmental investments and improvements within the EBRD to raise the profile of the ESD and the potential benefits that the ESD can provide to projects.

A comparison between the perception of the ESD and the Energy Efficiency team demonstrates the need for a change in approach of the ESD. The Energy Efficiency Team has as its main objective identification of additional environmentally-oriented investments as add-on or stand-alone energy efficiency projects. Their growth has been a result of the market-driven approach to identifying investment opportunities, and OLs in several other banking teams work closely with the energy efficiency team on investment deals. Further, the energy efficiency team offers free energy audits (paid for using TC funds) while the ESD charges clients for environmental audits.

Box 3.6: Benefits of environmentally-oriented investments

- Adding value to clients within the EBRD investment deals
- Increasing the volume of EBRD investment deals
- Raising the interest of OLs in ESD activities and in identifying additional environmental benefits in line with EBRD policy.
- shifting the focus of ESD activities, and the perception of the ESD, away from risk management and towards promoting additional benefits
- motivating members of the ESD to look for investment opportunities during the preparation/due diligence work for projects
- improving the effectiveness of implementation of some of the key statements in the EBRD *Environmental Policy*.

Conclusions and recommendations on environmentally-oriented investments

There are strong links between the EBRD Environmental Policy statements in that the EBRD “will seek to realise additional environmental benefits” and promote “environmentally-oriented investments across all sectors”.

MEI and energy efficiency projects provide several positive examples of environmentally-oriented investments, and similar investments in other sectors were noted. However, it would be expected that the EBRD would proactively seek far more potential environmental investments.

The EBRD Environment and Sustainability Department, and most banking teams adopt mainly a risk management approach to HSE/Social aspects. It is recommended that greater focus be given to identifying environmentally-oriented investments. The aim would be to identify at an early stage investment opportunities to add on to deals. Examples would include extending a loan to cover process technology improvements that enhance HSE management, pollution control technology, monitoring equipment, etc. EvD’s understanding is that the ESD is adopting this approach.

Such an approach would play a major part in developing a step-by-step change away from the mainly risk management approach on HSE/Social issues. Actions could also be taken to help to change this approach include:

- *senior management level support to strengthen the links between the Energy Efficiency Team and the ESD*
- *strengthening links between the MEI banking team and the ESD*
- *taking actions to ensure the directors of banking teams are committed to increasing environmentally-oriented investments, which will make sure that this commitment is passed down to the OLS*
- *increase consultations with credit team to clarify what criteria each investment needs in order to comply with sound banking principles*
- *carrying out training workshops and brainstorming meetings within the ESD on potential opportunities for environmentally-oriented investments to promote the shift in approach from risk management to additional benefits.*
- *EBRD policy objectives and targets in the policy framework to cover environmentally-oriented investments.*

In summary, the EBRD's general approach to implement the Environmental Policy is mainly based on risk management with a dependence on compliance with safeguards standards. The promotion of additional environmental benefits is strongly linked to seeking environmentally-oriented investments, and both aspects are included in the policy. Further, this enhances the market-based approach of the Bank.

3.2.3 EBRD's own environmental performance

Although the main overall environmental impact that the EBRD can have is its potentially positive influence on client performance, it is important to look at EBRD's own HSE/Social performance. The EBRD *Environmental Policy* states that:

"In its internal operations, the EBRD will pursue the best practices in environmental management, including energy and resource efficiency, waste reduction and recycling. The EBRD will seek to work with suppliers and sub-contractors who follow similarly high environmental standards. These issues will be taken into account in the EBRD's headquarters and Resident Offices."

During the study, which involved visits to 11 countries of operations and visits to most of the resident offices in the countries, several observations were made on EBRD's own performance. In addition, this was discussed in meetings with various EBRD staff, including the EBRD internal team on health and safety, and the performance reporting in the EBRD Sustainability Reports was reviewed. The main focus of the study concerned EBRD projects and not internal performance. Consequently, the points in this section should be treated as observations only. Nevertheless, good environmental practices, particularly with respect to health and safety start at home. It is important to "walk-the-talk". Bankers inspecting a major industrial plant without appropriate PPE (personal protective equipment) may send the wrong message with respect to implementation of the EAP.

Observations on EBRD's own environmental, health and safety performance

Observations on EBRD's own performance on HSE/Social aspects are presented in Box 3.7.

Box 3.7: Observations on internal HSE/Social performance

- The policy statement is unclear on the point that best practice includes health and safety and social (labour) aspects as well as environmental protection. Nevertheless, the Bank puts a major emphasis on staff safety.
- Health and safety aspects of EBRD staff activities are the main internal risk identified, particularly relating to travel safety (air and road). The EBRD does carry out travel risk assessments for its staff.
- In many of the countries of operations the general standard of driving is very poor and there are significant risks to EBRD staff. EBRD official drivers were used for this study in some countries to visit clients, and in other cases arranging a car with a driver (that was not an official EBRD driver) as is a common practice for visitors. Although the standard of driving of most drivers was good, some clearly require training or refresher training. In particular, although seat belts were fitted in all cars and their use is required by the EBRD, some drivers were not wearing seat belts. Also, there seems to be limited awareness of the dangers of using mobile phones when driving.
- Some car journeys to clients are a long distance from the resident office (the longest in this study was 10 hours one way). There is no formal system at the EBRD for staff driven from resident offices to client facilities to contact the resident office to report safe arrival. This is good practice because in case of an accident, the car could be a long way from a major town on a road with little traffic passing.
- Specialists from the ESD and independent auditing consultants should be aware of potential safety problems at factories when making a site walk-through but this might not be the case for other EBRD staff. Generally, it appears likely that many EBRD staff do not take PPE with them to client visits, even though such equipment is available for free to all staff. As with road safety, it takes time to change practices.
- There are current uncertainties in relation to health and safety requirements on contractors, including requirements on training, activities and travel safety. Any such requirements need to be properly communicated to contractors, and provisions included in the contracts as appropriate. The EBRD is currently addressing these issues.
- From an environmental perspective, the main potential impact of the EBRD is its carbon footprint, particularly from the flights taken by staff and energy used in offices. The EBRD has started to measure its own carbon footprint, and identified and implemented methods to reduce energy use in 2006.
- However, more detailed measurement of carbon footprint would be beneficial in order to identify further opportunities for reduction and to enhance reporting to stakeholders. Although the energy saved through relevant EBRD investment projects far outweighs the energy usage of the EBRD, the Bank should continue to look for ways to improve its own efficiency of energy use.
- The EBRD *Sustainability Report* provides good summaries of the EBRD's own internal performance, and reports on a number of performance indicators, some of more importance than others. Some of the performance indicators would benefit from a rethink on their presentation, for example energy use or paper use per employee is a more useful indicator than total figures.
- In relation to waste management the EBRD head office in London takes steps to recycle paper, toner cartridges and glass. Further, the *Sustainability Report* states that the catering contractor has an environmental policy that includes waste minimisation.

3.3 The EBRD project cycle

One of the main requirements for the EBRD to effectively implement its *2003 Environmental Policy* is to ensure that HSE/Social aspects are included as a high priority within all stages of the project cycle, in particular the planning/due diligence, negotiations and agreement, and monitoring and reporting. The EBRD project cycle is illustrated in Figure 3.2.

In assessing the performance of the EBRD in implementing its *Environmental Policy*, it is important to assess the performance at individual stages in the project cycle, including the involvement and influence of the Environment and Sustainability Department in the project cycle. The assessment of the stages of the project cycle can identify positive lessons and areas that can be improved in relation to the planning and implementation of HSE/Social aspects.

This section of the report covers the following aspects of the project cycle:

- categorisation of projects (section 3.3.1)
- project planning and due diligence/audits (section 3.3.2)
- working with other IFIs and technical cooperation (section 3.3.3)
- consultation on EBRD projects (section 3.3.4)
- environmental action plans (section 3.3.5)
- project monitoring and reporting (section 3.3.6)
- EBRD project documents (section 3.3.7)
- overview of ESD involvement in the project cycle – Figure 3.2 (section 3.3.8).

3.3.1 Categorisation of projects

The first main stage in the project cycle is the categorisation of the potential projects. This is important as this stage defines the priority of the project in relation to attention on HSE/Social aspects and also sets up the approach in planning, due diligence, consultation, etc.

Overview of EBRD approach on categorisation

The early stages of project planning involve meetings and discussion between the relevant OLs and the clients. The involvement of the ESD at an early stage depends on budgets. The ESD is rarely involved until the client and OLs have agreed that there is potential for a project, and the client has signed a mandate letter. At this stage some budget from the clients usually becomes available for ESD visits and due diligence work, if needed.

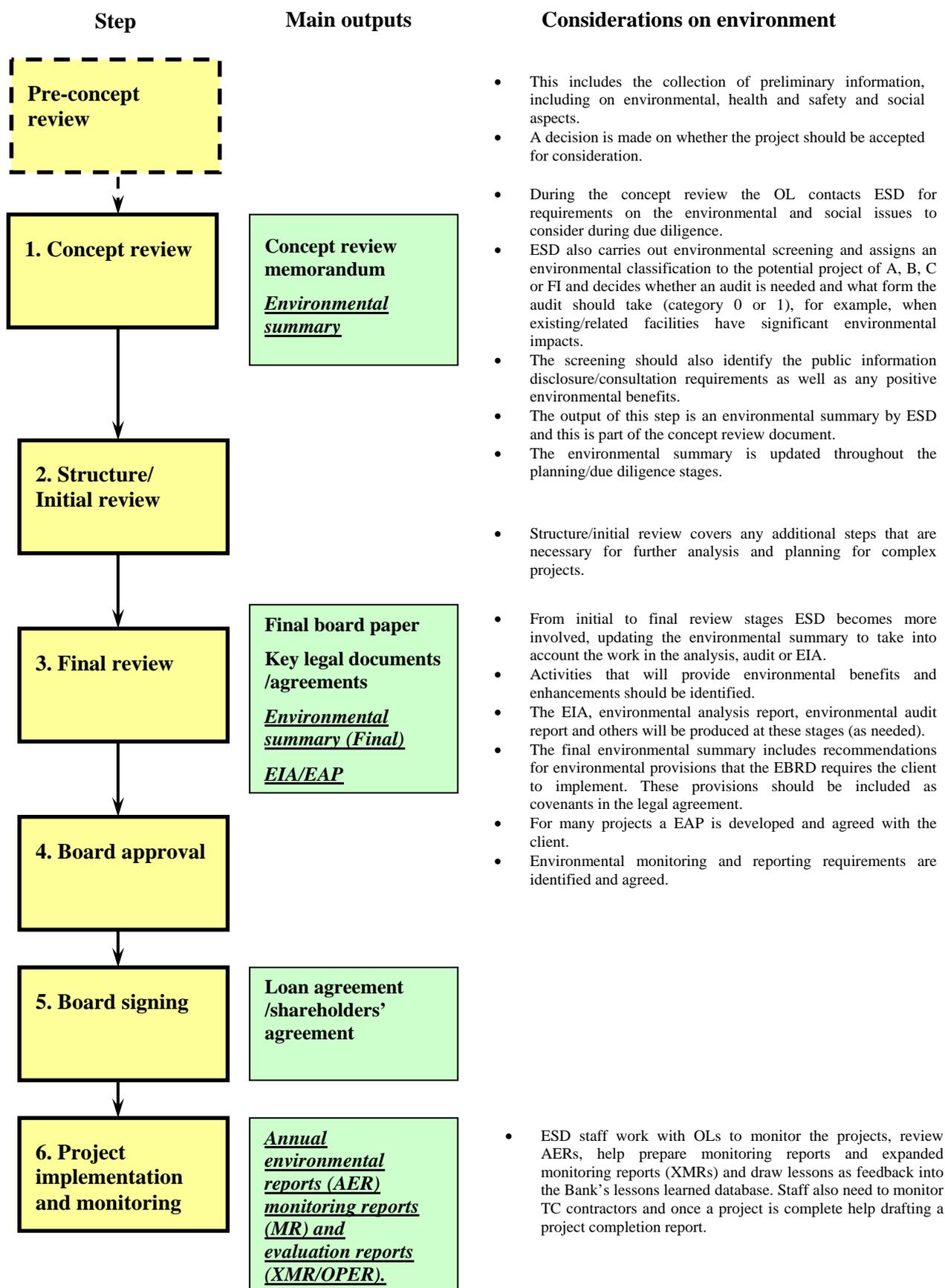
During the appraisal and categorisation the ESD will consider due diligence requirements and carry out environmental screening. The ESD assigns an environmental classification to the potential project of A, B, C or FI. In addition, the ESD decides whether an audit is needed (category 0 or 1) and what form the audit should take.

Audits are carried out when there are existing/related facilities that might have present or historic environmental impacts. The ESD is likely to visit a client in the early stages to discuss HSE/Social aspects for both major new projects when an EIA will be required and/or “big-B” projects. The screening and categorisation process should also identify the public

information disclosure/consultation requirements as well as any positive environmental benefits.

The output of this stage is a draft environmental summary by the ESD that becomes part of the concept review process. The environmental summary is updated throughout the planning/due diligence stages. Effectively, this document summarises how the project is to be “structured” from an environmental perspective. It is also integrated into the Project Summary Document (PSD), which informs the public about the proposed project.

Figure 3.2 – EBRD project cycle



Findings on categorisation

The ESD has both a regulatory function in reviewing the projects and assigning the categorisation and a support function in helping bankers during due diligence and evaluating the information required to assess the environmental and social issues. These two tasks can be in conflict – The ESD imposes performance standards but does not have a veto power, while at the same time needs to work closely with the OL to obtain project approval in a timely manner.

EvD notes that categorisation is not a decision made by individual ESD specialists. Rather, ESD management reviews all projects at the credit review screening stage. This is an effective quality assurance and quality control (QA/QC) function designed to ensure that categorisation complies with the policy. Other MDBs have separated these two functions or have a safeguards compliance monitoring unit. The EBRD should consider how to better separate these two functions.

During this study, the following findings were identified in relation to categorisation.

Involvement of the ESD in the early stages of planning

There are major benefits in involving specialists from the ESD early on in the planning of projects that can increase the Bank's additionality:

- identification of any potential impacts and risks related to environmental, health and safety and social issues
- identification of any opportunities for additional environmental benefits and potential environmentally-oriented investments that could be added into the deal
- explaining the requirements of the EBRD's *Environmental Policy*, the implications for the client, the process of environmental planning and due diligence and, importantly, the benefits of improving performance in environmental, health and safety and social aspects to the client
- avoiding environmentally unsafe projects.

Out of the total 63 clients for which a web-survey, visit or desk study was carried out, 44 (70 per cent) stated that the EBRD's *Environmental Policy* and procedures were clearly explained at the early stages of the project planning.

In addition, 42 of the 63 clients (67 per cent) stated that they had at least one visit from the EBRD's ESD specialist staff or consultants during project planning. The more complex and larger projects are often visited more than once in planning.

Out of the 31 projects that were reviewed in more detail through a visit or desk study, the ESD was involved sufficiently in the project design of 22 of these projects (71 per cent). In addition, for 17 of these 31 projects (55 per cent), potential HSE/Social improvements were identified by the ESD at an early stage in the project planning. These numbers demonstrate that the ESD is very active during project structuring. Examples of positive identification of issues by the ESD early on in the project planning include:

- major opportunities for additional HSE benefits were identified at a mining project in the Caucasus

- significant potential improvements were identified beyond the direct scope of the main project at the workshops of a municipal transport company
- identification of several environmental improvements at a major electricity supply company, including hazardous waste management (Polychlorinated biphenyl – PCBs) and oil/chemical spill control.

The Evaluation Team noted that while an environmental exclusion list is specified for FI projects, it was surprising that the *Environmental Policy* does not require such a list for direct investments. Expanding the exclusion list to all type of projects would be a constructive step in the new policy.

Categorisation of projects

During screening the ESD assigns an environmental classification (of A, B or C) to the potential project for direct investment projects or FI projects. Table 3.5 indicates the number of direct investment projects approved each year in each category. Category A indicates projects that could result in potentially significant adverse future environmental impacts, and typically, there are less than 10 such projects signed per year.

Category B is assigned to projects with less adverse potential impacts than category A projects but still requires environmental analysis to assess impacts and identify measures to minimise them. Category C is assigned to projects that are likely to result in “minimal or no adverse future environmental impacts”. In addition, at this stage the ESD decides whether an audit is needed, typically for existing facilities and what form the audit should take (category 0 or 1).

Table 3.5 – Direct investment projects by environmental category
(excludes DLF, DIF, MCFE and FI projects)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Tot.	%
A	0	5	11	11	9	4	9	12	3	5	4	6	10	10	8	3	110	11%
B	12	20	37	36	43	41	56	31	42	38	52	46	53	48	65	48	668	68%
C	0	15	0	4	9	15	9	6	5	18	15	14	23	29	17	30	209	21%
Total	12	40	48	51	61	60	74	49	50	61	71	66	86	87	90	81	987	

For the 31 projects, two were category A projects (8 per cent), 19 category B (76 per cent), four category C (16 per cent) and six were DLF or MCFE projects (see below). There were 12 projects (39 per cent) out of 31 visits and desk studies with questionable categorisation ratings. Three of these related to mistakes in categorisation for DLF/MCFE projects. The remaining nine out of 31 projects for which the categorisation can be questioned include the following:

- A small mining project that was given category B would have been expected to be category A in terms of the definition of category A projects in the policy. This could potentially result in significant adverse future environmental impacts that cannot be easily mitigated.
- A debt project involving a new facility for plastic packaging producer on a greenfield site was categorised as C, probably because the investment falls under a regional debt facility. It probably should have been categorised as B.

- Two pulp/paper plants were categorised as B but should probably have been categorised as A although the *Environmental Policy* is ambiguous on the requirements for categorisation of pulp and paper manufacturing projects. For one of these projects there has been a subsequent equity investment, classified as C/1, based on “use of proceeds”. In the context of equity investments it may be more appropriate to look at what is “being acquired” (that is, partial ownership in an operating company) than on the “use of proceeds”.
- A debt restructuring project at a facility with significant potential impacts was categorised as C/1.
- A large cement project was listed as category A when in fact the PSD document states that it should be a category B project although this is reportedly a process error in EBRD’s systems.

Further, one of the projects included in the web-based sample was categorised as B, while the project including the opening up of a major new iron mine in virgin forest, which according to the Policy should have been a category A project.

The above analysis does not show the 0 or 1 rating for whether an audit is required. When these are added it becomes apparent that a detailed independent audit was carried out for most of the projects for which the categorisation ratings are questioned by EvD.

For the mining and paper/pulp projects mentioned above it should be noted that an EIA and detailed consultation, as needed for category A projects, were not necessarily a high priority. In the new policy there could be some flexibility in the system to assign a project category A because of the potential impacts. But this should include a mechanism for reducing the necessary due diligence and consultation if appropriate.

At one of the pulp mills the majority of the investments go toward cleaning up the existing environmental problems. Therefore detailed consultation, which would have delayed the improvements, would not have been essential although some consultation and provision of information would have been useful.

The understanding of the categorisation system and the distinction between A, B, C and 0 and 1, varies across the Bank. The current 2003 *Environmental Policy* clearly states that the A, B, C categories relate to potential impact, and this is likely to be the perception of stakeholders outside the EBRD who regard the A, B, C category as far more important than the audit category (0,1). The new policy needs to be clearer on categorisation and ensure the categorisation process is consistently applied. EvD understands that in the new policy, the ESD is proposing to drop the 0/1 rating.

Other findings on the categorisation process are:

- The problems with categorisation of DLF/DIF projects involve errors in the EBRD internal project data system and the lack of field staff that understand the policy. These problems easily could be resolved if the ESD carries out a classification based on the questionnaire that they should be using in due diligence. In addition, MCFE projects could be classified as FI as they involve lending through a local bank.
- Projects that involve debt restructuring should not be automatically classified as C/1. Rather, the risks and benefits of the process that has been funded should be reviewed and the categorisation then carried out based on that review. In addition,

projects that come under a regional facility should be examined and properly categorised on a case-by-case basis.

- Two projects were visited in an environmentally-sensitive area that is a national biosphere reserve as well as a designated site under the Ramsar Convention on Wetlands. Although both projects were managed effectively in terms of mitigation of potential environmental impacts, and their categorisation rating was not lower than expected according to the *Environmental Policy*, the EBRD should consider whether projects in such sensitive areas should be assigned a higher category.
- There are several cases of ambiguous wording in the annex to the EBRD *Environmental Policy* on category A projects, such as the use of the word “large”. It would be better practice to specify the size of the plant. It is noted that the annex to the EBRD *Environmental Policy* on category A projects is almost identical to lists annexed to the EU EIA Directive and the UN Aarhus Convention.

In terms of audit categorisation (0, 1) many stakeholders believe that an “audit” entails a full independent audit, involving site visits by professionally qualified auditors with appropriate monitoring of the baseline conditions. The term “audit” is taken to correspond with financial auditors who are always certified, independent and use standardised auditing procedures.

However, for many projects this level of due diligence is not necessary and instead may involve a short visit to the site by an ESD specialist or a desk study including the completion of a questionnaire on HSE/Social issues by the client. The key point is that, although the short visit or questionnaire approach is often appropriate, it is still being referred to as an “audit” by the ESD which gives the board and other stakeholders the impression that a full independent audit has been carried out.

Conclusions and recommendations on categorisation

There are significant benefits of involving the ESD at an early stage in the planning of projects in order to explain to the client the implications and particularly the benefits of the EBRD requirements and to identify any risks or positive opportunities related to HSE/Social aspects at the client. It is evident that the ESD is generally getting involved to an appropriate level at an early stage in project planning, and there are several examples where HSE/Social aspects have been identified at an early stage by the ESD. However, most of these examples relate to risk management rather than identifying additional environmental benefits or environmentally-oriented investments.

There was ambiguity about the categorisation of some projects visited. The key point on categorisation relates to the inconsistent perception on the meaning of categorisation among stakeholders. Although the policy is fairly clear that the A, B, C categorisation relates to potential future impact, this is not necessarily being consistently applied, and the EBRD should take steps to ensure more consistency. EvD understands that the ESD is working on reducing the uncertainties in the categorisation process in the revised policy.

3.3.2 Project planning and due diligence/audits

The aim of “environmental” project planning and due diligence process – or structuring process – is to identify how environmental, health and safety, and social aspects should be

incorporated into project financing, planning, and implementation in line with the *Environmental Policy*. The environmental analysis carried out during project planning can take a number of forms and is carried out to varying degrees of detail, depending on the sector, size and location of the project and the potential positive and negative impacts. It may include:

- EIAs for major projects, particularly for major greenfield projects
- independent environmental audits of existing facilities
- environmental analyses through short visits and desk studies by an ESD specialist or consultant
- environmental analyses by the ESD involving desk-based studies and sometimes questionnaires.

Part of the structuring process is to ensure “buy-in” by the client. This is best accomplished via direct negotiations. A detailed review has been carried out in this study of the project documents that were available for the 31 projects. Based on the document review, the subsequent visits to 26 clients and the interviews with OLs and ESD specialists together with the findings on project planning and due diligence are presented in this section.

Findings on project planning and due diligence/audits

Overview of findings on project planning and due diligence/audits

Overall, based on the 31 visits/desk studies, there are many examples of good planning of projects in order to identify and manage the risks related to environmental pollution. However, there were a few cases where there are major shortfalls in planning of environmental mitigation, a few cases where there are shortfalls of planning on social aspects and many cases where there were shortfalls in planning on health and safety aspects.

Examples of good project planning within the 31 site visits/desk studies include:

- A basic environmental analysis was carried out at an agribusiness facility for an expansion project in Russia. The facility has minimal impacts, and an EAP was not required, but the visit and support that an ESD specialist gave to the company has resulted in the company taking a different approach to HSE and social aspects. Some basic management improvements are being implemented to improve HSE/Social performance including working conditions.
- In the course of visiting and carrying out an environmental analysis at a tourism project in Central Asia ESD specialist identified environmental issues and brought them to the attention of the client at an early stage.
- At an existing pulp factory in south-eastern Europe there was a strong commitment by both the client and the Bank to address outstanding environmental issues.

Out of the 31 projects it is considered that the due diligence process, or project structure, for 14 of them (45 per cent) has been designed with an over-emphasis on environmental ahead of health and safety or social aspects.

There are 12 of the 31 projects (39 per cent) where important health and safety issues were not adequately covered during planning (for eight projects this mainly covered construction safety) and seven projects (23 per cent) where social aspects were not adequately covered. In

most of these projects, as discussed later in this report, the ESD lacked a social specialist at the time these projects were being structured and the ESD has had very limited capacity for health and safety issues.

Examples where expanded efforts on health and safety/social aspects could have been included:

- A high quality independent audit was carried out for a project at an airport in the Caucasus, and several environmental improvements were included in the EAP and agreed with the client. However, the audit did not cover health and safety aspects, and the audit team was not required to look into social aspects.
- High quality environmental audit work was carried out by independent environmental consultants at a series of client workshop facilities in south-eastern Europe. However, although there are serious health and safety risks at the workshops and generally poor working conditions, these aspects had only minimal coverage in the audit despite the audit report identifying that in the last two years there had been “ten light injuries and four serious injuries” at the company.
- There have been particular shortfalls in the planning of environmental and social aspects of a highway bridge project. The EBRD loan is reportedly paying for the bridge, and the client is paying for the approach roads. The social impacts section of the EIA is inadequate. The EIA states that several residential buildings will be demolished but did not address the possible social impacts this may have. Further, the project will result in the displacement of industrial facilities with no analysis of possible implication on workers. Finally, the loan agreement does not include any reference to IFC Operational Directive on Involuntary Resettlement (OD 4.30) as stated in the EBRD *Environmental Policy*.

In addition, two MEI water supply projects were assessed in detail and clients and project implementation units (PIUs) were interviewed during the visits. There are no major shortfalls in planning the HSE/Social aspects of these projects, and both will have a positive environmental and social impact when they completed.

However, there have been major differences in the planning approach for the two similar projects. For one project the EAP includes only HSE mitigation actions during construction of the water supply pipe, whereas for the other project the EAP includes a programme of wider actions to improve the water treatment, water supply, sewer network and wastewater treatment across the company.

Other overall findings in relation to project structuring (planning and due diligence):

- The project documents for a manufacturing company in an EU country correctly put much focus on the treatment of wastewater because this issue was not being addressed under the approved investment programme and the plant has been discharging the untreated waste water directly into the River Danube.
- At a project concerned with the purchase vehicles for a transport company in an early transition country extensive due diligence was undertaken. This included detailed discussions with the client and coverage in the project documents of the types of engines (Euro I or Euro II) and the potential exhaust emissions. However, major problems with health and safety and working conditions and environmental problems at the company’s maintenance workshops were given a lower priority.

- For some projects construction had begun by the time that the EBRD started to be involved, for example, at an airport project in the Caucasus and a highway project in an EU country. For these types of projects it is harder for the EBRD to influence the HSE/Social aspects of the project planning because the majority of the planning has already been carried out.
- The EBRD is not proactive in reporting HSE/Social performance of individual projects. This includes performance in implementation of the EAP but also other reporting of environmental data. This is a missed opportunity in relation to positive projects. The reporting would be easier if more attention was paid to the specification of audit work for obtaining appropriate baseline data against which future measurement and reporting could be made.
- The development of environmental action plans is usually included within an audit and they vary in quality. A standard format for EAPs should be provided by the EBRD to the clients and consultants for development during the audit. EAPs need to be supported by management plans which identify resource needs, funding and project monitoring.
- Continuously improving HSE/Social aspects within client activities depends on the management commitment and capacity at the client company to realise the improvements. Successful structuring must not only include action items but also an assessment of commitment by the company on implementation. Additionally, it has to include appropriate covenants to ensure full and effective implementation.
- In general, the visits have shown that the benefits are not properly explained to clients, particularly because many of the clients are behind in implementation of their EAPs. For two visits interviewees at clients did not know if an EAP had been developed and agreed (the people interviewed included senior management who would have been expected to be aware of this).
- Although it is the client that usually pays for the audit work, EBRD staff often guide the process. The fact that the client pays for the audit is a potential conflict-of-interest in relation to the level of independence of the audit although it is understood that the ESD pays attention to checking these aspects.
- It is important that the EBRD ensures that quality audits are carried out for equity projects as well as debt projects. For equity deals the clients often do not pay for the due diligence work, which can cause problems (particularly as the audit might cover more facilities for an equity project than for a loan project). At one of the agribusiness equity clients visited no audit was carried out. However, the client has had major problems with solid organic waste and also with health and safety during construction. There would have been significant benefits from an independent audit during project planning. For equity projects, the EBRD will need to budget environmental due diligence from internal resources.

Environmental impact assessments (EIAs)

Out of the 31 projects, two (highway projects) were category A projects for which an EIA was developed. In addition, EIAs were prepared for four other projects as part of national requirements.

Box 3.8: Case study – EIA for a highway project

A detailed review of the EIA for an important highway project affords a number of lessons. The EBRD is funding one part of the highway project but the EIA applies quite rightly to the whole scheme. However, the quality of the EIA is inadequate and lacks several crucial features that would be an essential and fundamental part of an international standard EIA for these types of major infrastructure projects. These shortfalls include:

- There is no environmental management plan (EMP). The basic structure of an EIA is to identify the potential impacts and recommend plans for mitigation of those impacts. The EBRD did identify that the EMP was missing and included the production of the EMP in the loan agreement.
- Even though comparative analysis and assessment of scheme alternatives was carried out in an earlier feasibility study, this would normally be expected to be part of the EIA documents based on preliminary engineering designs.
- There is no “do-nothing” scenario. Again, this would normally be expected in an EIA for comparative purposes.
- There is no coverage of the resettlement that may be required for construction of the approach roads. The EIA speaks of residential building demolitions but not resettlement.
- The EIA focuses mainly on environmental aspects and pays minimal attention neither to social or cultural aspects, nor on health and safety during construction.

Based on the small number of EIAs that were reviewed in the study, it is not appropriate to provide overall conclusions on the standard of EIAs produced for EBRD projects. However, based on the extensive experience of the consultant’s used by EvD in EBRD’s countries of operations, it is evident that the standard of EIAs does vary greatly in the region. It is therefore important that the EBRD pays particular attention to ensuring that EIA studies and documents are a high quality and applicable to the project.

The EBRD often enters projects when an EIA has already been prepared and may have been submitted to and signed off by national authorities in which case the ESD carries out a gap analysis to identify shortfalls in the EIA. There would be greater benefits if the ESD were more involved in the planning of an EIA study, for example in the development of the ToRs and evaluation of the tenders for the work. The World Bank environment strategy requires that EIAs be undertaken by independent contractors separate from design and construction contractors. This is good practice.

There are several cases in the EBRD project portfolio where the EBRD will be funding only a part of an infrastructure project (such as a section of a road) while other parts are funded by other IFIs. Normally, no overall strategic environmental assessment (SEA) has been prepared although there will usually be an overall feasibility study. The EBRD Policy states that:

“In addition to EIAs on specific projects, the EBRD may also carry out Strategic Environmental Assessments (SEAs) on the likely environmental consequences of proposed sector or country/regional plans or programmes which have the potential to significantly affect the environment.”

EvD’s view is that SEAs remain a valuable tool. However, to undertake SEAs requires early engagement prior to project identification. SEAs should remain part of the Bank’s *Environmental Policy* approach.

While the ESD undertakes much good work during the due diligence process, the section on environment is very restricted in scope, size and content when it comes to the board paper. Often formalised language is used, indeed very similar text can be found in quite different project documents. As a result, the document may not fully reflect (i) the hard work done by the ESD and (ii) could lead to misunderstandings.

Further, the description of the “operation” as defined in different sections (transition impacts, banking and environment) may differ. For example, a project description may say “improvements to the wastewater system” which is understood by the ESD to mean repairs to specific sections of the sewer lines. The section on transition impact however may refer to broad poverty and public health benefits accruing.

Given the increased focus in the Bank, and in the interest of transparency and understanding the “project boundaries”, EvD argues that the environmental sections of board papers be considerably expanded, when appropriate, to fully reflect the environmental due diligence process and the nature of the project for approval.

Conclusions and recommendations on project planning and due diligence/audits

There are strong benefits to be gained from an ESD specialist visiting as early as possible in the project planning for the identification of potential HSE/Social issues. The ESD may need additional budget allocated to increase its early involvement. The EBRD should be doing more to explain the commercial benefits of HSE/Social improvements to clients at an early stage in the project planning.

This will strengthen the client commitment to improvements and is more likely to lead to successful implementation of the EAP. The ESD should clarify what is involved in an “audit” and work towards standardised audit and EIA formats. Finally, EvD argues that the environment sections of the board documents be expanded to adequately describe the outcome of ESD structuring during the due diligence process.

3.3.3 Working with other IFIs and technical cooperation

There are several strategic statements in the EBRD 2003 *Environmental Policy* relating to working with other IFIs and donor agencies to ensure a coordinated approach to environmental aspects. These include the use of TC programmes to streamline environmental considerations into EBRD projects and to carry out other strategic environmental studies. The ESD participates in an inter-agency MDB harmonisation process for environmental indicators and similarly participates in regular meetings of the MDB group on social issues. The ESD also participates in various high-level inter-IFI meetings.

This section of the study report provides the findings from an examination of the EBRD’s collaboration with other IFIs and of the planning and use of TC funds in relation to environmental aspects in the context of the projects visited.

Joint projects with other IFIs

Specifically, the EBRD 2003 *Environmental Policy* states that:

“The EBRD will work with other international financial institutions, the European Union, bilateral donors, UN agencies and other organisations in promoting a coordinated approach to effective environmental interventions in the region including the alleviation of severe environmental problems.”

In relation to this aspect of the policy, nine of the 31 (29 per cent) projects had joint funding from another IFI. Four of these are projects with the private sector and five are projects with the public sector for municipal environmental infrastructure. EvD, as part of the MDB harmonisation exercise on evaluation indicators, has begun to undertake joint evaluations with other IFIs.

For the four private sector projects that involved joint funding with other IFIs it was reported that there was generally good co-operation between the IFIs. The clients stated that there had been coordination between the IFIs to ensure consistent requirements in relation to HSE/Social aspects.

For three of the five public sector MEI projects that involved joint funding with other IFIs the clients indicated good cooperation between the EBRD and the other IFIs. However, for two of the projects the clients were frustrated by the inconsistency between the environmental reporting requirements.

Technical cooperation

The EBRD 2003 *Environmental Policy* states that:

“The EBRD, through its technical cooperation programme, will provide training programmes and other mechanisms for enhancing the projects it finances, and as a means of building the necessary capacity for environmental management in its countries of operations.”

Out of the 31 projects, six (19 per cent) had related TC components. Two of these projects involving TC were with the private sector. The other four projects that included TC in the project design are MEI projects with public sector clients.

The main example of TC for a private sector project involved TC used for funding monitoring consultants to visit the high-risk project every three months. The project is in an early transition country and HSE performance at the client had been very inadequate. The project has been well structured so that improvements are being implemented by the client, and much of the loan is being used for environmental improvements.

The monitoring consultants are not specifically required to provide training but they work closely alongside the environmental manager, a practice reported to be useful in terms of on-the-job training. This is a positive example of good use of TC. However, only one of the other 22 private sector projects (out of the 31 visits/ desk studies) involved TC (for training in energy efficiency).

It appears from discussions with EBRD staff that the Bank does not have an approach to include TC in the design of environmental components of projects for private sector clients except for energy efficiency training. There is no doubt that the public sector MEI projects generally have a greater need for TC. However, some private sector projects would benefit from TC, and the policy is clear that TC can be used for private sector as well as public sector projects:

“The EBRD will utilise its TC programme to mainstream environmental considerations in its projects. Specifically, the EBRD will develop, in close cooperation with other donors, assistance programmes and TC initiatives related to enhancing the sustainability of projects, public consultation as well as the environmental management capability of its private and public sector project sponsors. TC funds can also be used to finance strategic environmental studies. Stand-alone TC projects (e.g. those related to capacity building and institutional strengthening) will be undertaken, as appropriate.”

For the MEI projects the TC typically involves the appointment of consultants for activities such as institutional strengthening and capacity development of the municipal company and/or authority, set up and capacity development of the PIU and sometimes for project activities such as preliminary design and development of the EIA. Although most of these activities are not directly linked to HSE/Social aspects, the overall environmental and social impact of many of these projects, for example in the water sector, is positive.

The TC activities are designed to enhance the implementation of the projects and therefore do indirectly impact the environmental and social improvements. However, several clients reported that the TC projects started too late and the clients would have liked more support during planning at an earlier stage. As a result, several of these projects are experiencing delays in implementation.

In addition, it is apparent that there would be benefits of TC that specifically focuses on assistance in planning and managing better programmes of public consultation (in line with the above statement in the policy). There have also been suggestions that TC programmes are needed in relation to wider environmental monitoring (such as water quality monitoring in major rivers in EBRD’s countries of operations).

The need for TC support to be provided to the client for improvements in HSE/Social aspects during implementation was identified at 14 of the 23 private sector projects (61 per cent) for which a visit or desk study has been carried out. Most of the needs of the projects simply relate to the provision of training and setting up the project structure to manage HSE/Social risks more effectively, particularly health and safety risks. As a priority, the EBRD should consider a call-off contract with health and safety specialist consultants for the provision of training and support to clients.

There were two private sector examples in agribusiness identified during the visits where a wider TC programme would have been particularly beneficial, focusing on strengthening of the client activities and supplier activities, with the specific objective of providing social improvement in the regions that have relatively high levels of poverty. As they stand, these projects are good examples of positive social impacts in the local area but a wider TC programme would have greatly increased these positive impacts. These examples are elaborated below as cases studies, and it is likely that other similar examples exist in EBRD’s countries of operations.

Although it is understandable that the EBRD is cautious about providing TC to private sector clients in terms of impacts on the balance of competition in the region, the EBRD should consider selective use of TC for HSE/Social improvements in the private sector and for enhancing projects that will have a wider social benefit in areas of poverty. Both potentially have significant positive “demonstrative effects”.

Box 3.9: Case study – Opportunities for wider TC to the private sector

The EBRD has a project with a dairy company in a rural area that is in an EU country but the area still has significant levels of poverty in the local farming community. The international company is aiming to improve the quality of the milk from suppliers by operating a dairy farm as a demonstration project.

When other suppliers have learned from good practices and improved their supply quality, the client intends to sell the farm and focus on its core activities at the dairy factory. This is a positive project in terms of enhancement of the local suppliers. However, a TC programme to support the client and the suppliers would have been beneficial in terms of bringing more rapid local socio-economic improvements.

The EBRD has a small project with an agribusiness company that is operating three large factories in a particularly poor region in Central Asia. The client buys its raw material (cotton) from a large number of small farms and family businesses in the region, and the business performance and capacity of the client has a major impact on the many suppliers in the region. It therefore has a significant social impact in the local area.

This client has senior management that is committed to HSE/Social improvements but is clearly struggling in business terms and requires loans for its investment programme as well as technical assistance to enhance its business and HSE performance. Although such TC would need to be planned carefully in terms of maintaining competition, strengthening this business would have a major social impact in the local area.

The EBRD has a project in south-eastern Europe to develop a production facility but one of the key problems identified by the facility management is the unavailability of a responsible and skilled workforce despite the facility being located in an area of high unemployment and poverty. More companies could be attracted to that area and this would significantly improve the local social situation if the quality of local workforce is increased by training through a TC programme.

More opportunities for technical cooperation

The EBRD 2003 *Environmental Policy* has several statements that it will provide wider support to governments and local regulatory authorities, for example:

“The EBRD believes that to achieve environmentally sound and sustainable development, structural change needs to be implemented by individual countries.”

“The EBRD believes that progress towards sustainable development can best be achieved by working within a sound regulatory and policy framework that uses market mechanisms to promote environmental protection and provides suitable social safety nets for vulnerable members of the community.”

“In recognition of the strong links between good environmental performance, commercial efficiency and competitive advantage, the EBRD encourages and supports governments to provide the right signals to individuals and businesses, particularly through Bank-financed projects and selected technical cooperation initiatives.”

During the visits and desk studies of the 31 projects, three positive cases were noted where the EBRD has directly discussed the projects and related initiatives with local authorities or facilitated communication between the client and the local/national authorities. For example:

- At a tourism project within a national biosphere reserve the ESD specialist met with the local authorities during the project design to discuss the potential environmental impacts and mitigation options.

- The EBRD has persuaded a large client in the paper/pulp sector to discuss sustainable forestry practices with the national authorities and raised the need for a national sustainable forestry policy to be part of the government's agenda.

However, given the policy statements, several more examples of communication with the local and national authorities would have been expected in relation to projects as well as examples of wider TC initiatives to support government and local authorities. For example, the biosphere reserve (in the example project mentioned above) would benefit from a wider TC programme to carry out a strategic environmental impact assessment and develop mitigation plans in relation to the significant amounts of development that are taking place in the area.

In particular, given the shortfalls in monitoring and enforcement of regulations by local regulatory authorities in EBRD's countries of operations, it would be expected that the EBRD would have implemented TC programmes to enhance the capacity of these local authorities. These types of TC programmes would help the EBRD monitoring activities because there would be more confidence in relying on local authorities to ensure good performance of the companies.

This suggestion has also been included in several parts of the EBRD's lessons-learned database (appendix 3). More discussion is provided in section 3.6.1 on communication and support to local authorities. The Bank may wish to consider expanding the function of the Legal Transition Team to also include a focus on environmental regulatory capacity.

It would be very beneficial if the EBRD worked with donor organisations to provide TC for the development of national and regional environmental strategies and for "building partnerships to address regional and global environmental issues", as stated in the *Environmental Policy*. The EBRD could then seek environmentally-oriented investments within these national strategies, as appropriate, to ensure a more coordinated approach.

Overall strategy for TC

The EBRD does not have a clear overall strategy for TC related to HSE/Social aspects. Although it is difficult to predict specific TC requirements for the future project portfolio, an overall strategy for TC would be beneficial, and, in relation to HSE/Social aspects, this strategy for TC should be included under the policy framework and updated each year.

Conclusions and recommendations on working with other IFIs and technical cooperation

Although there are many examples of TC for public sector projects, there are few examples for private sector projects and the approach is unclear about the use of TC. Overall, it is considered that there are not enough opportunities for TC being taken forward in relation to HSE/Social aspects, both in the private sector and for the strengthening of the capacity of local authorities (for example, monitoring and enforcement). It is recommended that the ESD defines and develops a clearer strategy for TC. Specifically, there is a particularly strong case for a wider TC programme to support private sector clients in relation to training in health and safety.

3.3.4 Consultation on EBRD projects

Public consultation is an important component of the EBRD's 2003 *Environmental Policy*. The policy says the following:

"The EBRD believes that meaningful public consultation is a way of improving the quality of projects. The EBRD will foster the principles of public consultation within its region of operations. In the case of projects which have been classified as Category A and thus require an Environmental Impact Assessment, those people potentially affected will have the opportunity to express their concerns and views about issues such as project design, including location, technological choice and timing, before a financing decision is made by the EBRD."

"At a minimum, sponsors must ensure that national requirements for public consultation are met. In addition, sponsors will have to follow the EBRD's own public consultation requirements, which are set out in Annex 2" (of the Environmental Policy).

"The EBRD's Board of Directors will take into account the comments and opinions expressed by consultees, and the way these issues are being addressed by sponsors, when considering whether to approve investment by the EBRD in a project."

The policy requires category A projects to have detailed consultation built into each stage of the EIA. The policy states that the "Bank will evaluate the sponsor's public consultation programmes for adequacy and advise the sponsor accordingly". For category B projects the clients are required to publish a summary of the relevant environmental issues associated with the project and comply with the country's national public consultation requirements as a minimum. Requirements for public consultation for category C projects are set on a case-by-case basis.

Findings from the study in relation to consultation

A total of 35 clients completed the web-based survey and 28 clients were interviewed in the visits or desk-based studies, and there were some questions specifically on public consultation and communication. 43 of these 63 clients (68 per cent) carried out some form of public consultation. 29 of the clients (46 per cent) had facilitated meetings with the local community, and 27 of the clients (43 per cent) made some documents available to the local community and interested organisations.

Thus the level of public consultation being undertaken is beyond that required by the policy (which mainly focuses on category A projects), with local requirements being the likely driver. Only 12 of the 43 clients (28 per cent) that carried out consultation stated that they did this as a result of EBRD requirements/advice.

16 of 43 clients (37 per cent) stated that the information disclosure and public consultation process was useful to improve the quality of the projects and to manage the potential impacts on the local community. 20 of the clients stated that some of the feedback was useful and seven of the clients stated that the process did not improve the quality of the project.

These findings demonstrate that clients are generally carrying out public consultation as required and many are finding the process useful to improve projects. For four of the 18 projects involving consultation, out of those that had a visit/desk study, shortfalls in the public consultation process were identified. However, consultation in some MEI projects has

clearly been useful to provide information to the public on the plans and to manage expectations on affordability.

Box 3.9: Case study – Public consultation

- At a highway infrastructure project in south-eastern Europe, two scoping meetings had been carried out with the public before the EBRD deal was signed. These scoping meetings had been initiated by the EBRD and were positive in that they aimed to identify issues to be addressed in the EIA, and the alignment of the preliminary design of the road was changed as a result of public comments.
- The EBRD is developing several MEI projects in relation to water supply in Georgia. At one of these projects, in a particular area of poverty, the PIU and client have carried out a useful public consultation process in line with national and international requirements. At least three meetings were held with representatives of the local community and there is ongoing communication via the press. Although only some feedback has been useful for the project plans, the process itself has been useful to provide information and to gain public understanding and manage expectations about necessary tariff increases. The project will significantly expand the coverage of water supply to households, most of which currently only receive water supply for an average of two to three hours per day.
- The EBRD is financing a private sector project in Ukraine for which the company management carried out public consultation with the local community. This resulted in the identification of a “community speaker”, thus any following discussion will be more effective. Also, following the consultation, the design of the facility was changed to minimise impact from operation (traffic, noise) by changing the route of the access road and relocating some major equipment to be shielded behind the main building, further away from the main settlement.

Other findings in relation to public consultation include:

- Several clients do not see the benefit of the EBRD consultation requirements and more needs to be done by the EBRD to demonstrate the benefits, including supplying more resources from the ESD to support the consultation process at clients.
- The use of more TC for public consultation programmes related to large projects should be considered because the planning and implementation of useful and successful public consultation requires professional and trained specialists to manage the process. Generally, the people that are planning and facilitating the process at public sector clients have had limited experience in public consultation.
- In Russia the feedback from clients on the consultation requirements for category B projects, for which consultation should be carried out in line with national requirements suggests that national consultation requirements are largely ignored and not enforced in Russia.

The EBRD lessons-learned database contains several common points that more time and resources need to be allocated by the ESD to public consultation and public information activities, and that these activities should be planned from an earlier stage in the project design (appendix 3).

The issue of consultation is directly related to the EBRD *Public Information Policy*, which is being updated in parallel with the update to the *Environmental Policy*.

Conclusions and recommendations in relation to consultation

Several of the projects assessed in detail represented positive cases in relation to public consultation where clients have found the process useful. However, but there are some cases where it was not perceived as useful and a few cases where there were significant shortfalls in consultation. The Bank is also updating the Public Information Policy (PIP). The Bank needs to remain a strong supporter of transparency of projects' environmental and social information, during both the due diligence decision making process and project implementation.

3.3.5 Environmental action plans (EAPs)

One of the key components of the planning of the HSE/Social aspects of EBRD projects is the development and agreement of EAPs with the clients in order to improve the client performance. The policy states that:

“For many projects, it is necessary to develop an Environmental Action Plan (EAP), sometimes also referred to as an Environmental Management Plan, monitoring plan, or similar term. The EAP will document key environmental issues, the actions to be taken to address them adequately, the implementation schedule and an estimate of the associated costs.

Some actions may be needed urgently, particularly when there is significant health and safety risk, or non-compliance with regulatory requirements and permits. The EAP typically addresses issues requiring a long-term or phased approach, such as compliance with expected future regulatory requirements, including compatibility with EU or other international legal requirements, standards and practices. The EAP may also address opportunities to further improve the environmental performance of the project and the costs of doing so.”

In many legal agreements with clients it is stated that the borrower will comply with relevant national legislation and EU standards unless it is otherwise stated in the EAP. The main aim of the EAP is therefore to bring the client activities in line with EU standards on HSE/Social aspects.

Findings in relation to the environmental action plans (EAPs)

Overview of findings on EAPs

35 clients completed the web-based survey and 28 clients were interviewed in the visits or desk studies. For 37 out of the total 63 clients (59 per cent) the project design included the development of an action plan to achieve their environmental, health and safety and social commitments.

15 projects of the 31 visits/desk studies included an environmental action plan, and these were reviewed and assessed in detail during the study. The EAPs vary in length, content and quality. Some of the variation is clearly because of the different sizes and types of project.

However, the quality of EAPs is very important to improving HSE/Social performance and more consistency is needed in EAPs. For example, out of the 15 EAPs reviewed in detail, four do not include clear indications of the timescales and deadlines of the actions. The

assessment of the EAPs indicated that eight out of 15 EAPs (53 per cent) are high quality documents.

Cost information in EAPs

From a client perspective accurately knowing the costs of actions is essential in order to plan and implement the actions. It is also essential to know the costs before agreeing to the actions. It is therefore surprising that, out of the total 37 clients that responded to the survey or were interviewed in the visits/desk studies that have an EAP, only 14 of these EAPs (38 per cent) are reported to be properly budgeted with useful details on costs of the actions.

Only if the client fully understands the EAP, including having full knowledge of the cost implications and the performance standards required, can the EBRD be confident that the client will implement the EAP. These points are also identified in the EBRD's lessons learned-database (appendix 3). Knowing the costs may also lead to additional investments.

The funding of an EAP out of a loan for debt projects has significant advantages in terms of increasing the probability of the proper implementation of the EAP. In addition, this works in line with the EBRD policy statement about promoting environmentally-oriented investments. EvD suggests that as a standard practice, HSE/Social costs/benefits be a separate line item in the project budget so that it is clearly identified. It is positive that out of the 37 clients that have an EAP, 20 (54 per cent) said that part or all the actions are funded by the loan.

Finally, if the costs are included in the project budget, implementation of the EAP becomes an auditable line item and the EBRD will get regular and effective independent reporting on the implementation of the EAP by the clients' independent financial auditors. Currently, EBRD staff are processing waivers when clients fail to submit annual environmental reports but do not report failures to implement the EAP – which is far more important in achieving implementation of the Bank's *Environmental Policy*. EvD previously undertook a study on waivers and all environmental waivers related to late AERs rather than performance. Tying the EAP to the project budget as a separate line item will help promote implementation of the EAP.

Other findings on EAPs

It is important that the clients are encouraged to adopt the good practice of treating the EAPs as living documents and updating them over time.⁷ This approach to implementation of EAPs means that the clients amend the EAP to reflect progress and shifting priorities and add actions to the EAP over time in order to drive ongoing improvements.

During the discussion and agreement on the EAP with the client the EBRD should properly explain the commercial benefits of the EAP, and the fact that it is more useful if it is updated and treated as a living document. This approach will also help clients to carry out their reporting duties to the EBRD as they can attach an updated EAP to their AER.

Out of the 15 visits/desk studies for clients that have an EAP, it is considered that only four of these 15 clients (27 per cent) are treating the EAP as a living document. More focus on

⁷ ESD tends to lock the EAP into the legal agreement. This improves enforceability but makes it less easy to change the EAP during implementation. It should be possible to constructively update the EAP while at the same time tracking performance.

encouraging and supporting clients in regularly updating their EAPs is needed even if it is simply to show completed tasks. This is consistent with the relevant statement in the Bank's *Environmental Policy*:

“During implementation, results of reports, audits, or monitoring trips may indicate that changes are necessary to the EAP. In this case, EAPs may be updated or revised, to the satisfaction of the Bank, and changes will be summarised in the Project Summary Document on the Bank's Web site.”

In relation to this statement it should be noted that only three out of 15 of the PSDs have been updated since around the time of signing, and none of these PSDs have been changed in relation to the above statement on updating EAPs. It is considered that the above policy statement is quite conservative because (i) for effective implementation of EAPs, clients should be updating them on a regular basis, and the regular changes to PSDs would place a major work load on the EBRD, and (ii) the other sections of PSDs would also need updating to take into account the wider project changes that regularly occur.

Coming to an agreement on the EAP with the client by the time of final review is, for some projects, not realistic. Therefore the EBRD includes a provision in the loan agreement that states that within three months of the signing the client will develop and submit to the Bank an EAP. In these cases it is important that the EBRD follows up with clients in the first three months of the project to ensure that a proper EAP is developed.

For the effective implementation of improvements at clients of HSE/Social aspects, a variety of actions will typically be necessary. These are likely to include some higher cost technical measures as well as low-cost actions such as assigning responsibility in the organisation for management of HSE, training in health and safety and so on.

It will nearly always be the case that low-cost actions will be needed at a client. Often, these have the benefit that clients can implement them first and gain significant initial improvements without incurring much cost. However, four of the 15 EAPs that have been reviewed in detail do not contain such low-cost actions. Even for these types of actions, the EBRD would need to demonstrate the benefits to the clients but it is important that these actions are included in all EAPs.

For MEI and some other projects, investment plans and EAPs are kept as separate documents. In some such cases during the visits the perception has been that the client treats the EAP with a lower priority than the investment plan. This could be one of the reasons that the implementation of the EAP is behind schedule.

Even if the costs of the EAP are not included as part of the loan, the EAP should be combined into one overall investment plan wherever possible (see comment above), which could specify where the funds for each investment action are coming from (that is, from the loan, the client or other). It is apparent that separate plans can cause confusion, uncertainty and, in particular, result in the EAP being given a lower priority.

For five of the 15 clients that had visits/desk studies and that have an EAP, the EAP was included as an actual annex to the loan agreement. This is considered by EvD to be “good practice” and should be implemented where possible.

Implementation of EAPs

With regards to the question on the progress in the implementation of the EAP it is useful to compare the responses to the survey with the information found in the visits/desk studies to see if there are different trends and therefore potential misinterpretations of the questions or unreliable responses.

Table 3.6 – Results in relation to questions in the implementation of the EAP

	Survey responses (out of 22 in total that have an EAP)		Information from visits/desk studies (out of 15 in total that have an EAP)	
	Number of clients	% of clients	Number of clients	% of clients
Full progress in implementing EAP within the agreed timescales	7	32%	6	40%
Some actions implemented, some not implemented, within the agreed timescales	15	68%	6	40%
Most actions not implemented within the agreed timescales	0	0	3	20%

Although the visits are likely to generate results that more accurately reflect the situation in terms of implementation, the above table does not indicate major discrepancies between data from the surveys and data from the visits.

In total, out of the 63 clients that responded to the question on EAP implementation via the web-based survey or during visits/interviews, 37 have an EAP and 13 of these (35 per cent) are achieving full progress in implementation of the EAP within the agreed timescales. 21 (57 per cent) stated that some actions are implemented but some are not implemented within the agreed timescales, and three (8 per cent) stated that most actions are not implemented within the agreed timescales.

In relation to those clients that were visited that are behind schedule with EAP implementation, some clients reported that they will not be able to afford to implement the EAP, and some state that they are able to implement the EAP but prefer a step-by-step approach that takes into account changes in culture that are needed in the work force (for example, improving health and safety management). In some cases, the client is able and willing to implement the EAP, but is behind schedule because of constraints beyond their control. In all cases with implementation of the EAP, affordability is important.

Leverage

The EBRD has limited leverage to force clients to implement the environmental improvements in the action plans but this gets to the heart of the concept of “structuring”. The best approach for the EBRD to encourage clients to implement EAPs is for ESD specialists and OLS to spend more time with key clients highlighting and demonstrating the commercial, environmental and social benefits of the actions.

In most cases it will not be practical to link the EAPs to disbursements in loan deals. Nevertheless, it would be sensible for the EBRD to make initial important actions in the EAP a condition of disbursement for major projects with high environmental risks.

For equity investments there is less leverage as all the EBRD money is usually invested up front. However, in some cases the EBRD has a seat on the board, a position that could emphasise the benefits and encourage the implementation of actions. Further for equity open trades or private placements, the OGC has expressed the opinion that the funds are transferred to the seller of shares, who may use the funds for other purposes. Thus, in terms of “use of proceeds” the actual funds invested may not always be used to directly benefit the project.

Management commitment

In many cases during the visits it was observed that the client performance in HSE/Social aspects was strongly influenced by an international parent company/partner. For 15 out of 31 clients that were visited, it was observed that the senior management is clearly committed to implementation of the EAP and to improved performance in HSE/Social aspects. For 14 out of the 23 private sector projects for which a visit/desk study was carried out (61 per cent) the team observed a strong influence of the parent company on client performance. For example:

- At a mining company in the Caucasus the client reported that the EBRD had had a strong influence on the initial improvements in HSE/Social aspects, and the EBRD investment itself had helped facilitate a significant equity investment in the company. The equity investor sets higher standards of HSE/Social performance and improvements have further stepped up since its involvement. Management at the company is very committed to improvements.
- For a client in the paper/pulp sector the EBRD has provided a loan for a facility in Ukraine, and the client parent company has a long partnership of successful deals with EBRD. The client has particularly high standards in HSE/Social performance and the parent company therefore has a significant influence on the management commitment at the facility in Ukraine that was observed to have good standards. Further, in a pulp company in south-eastern Europe, the client has shown a strong commitment to and has invested heavily in addressing outstanding environmental issues.
- With the help of an EBRD loan a European sponsor has developed a new pharmaceutical factory in Russia. HSE/Social performance in the development and operation of the facility is to EU standards although the client states that this approach is a result of the requirements of the parent company rather than the EBRD.
- An international company is upgrading metallurgical factories in Russia using an EBRD loan. The company sets HSE/Social standards which go beyond EBRD requirements.

As discussed elsewhere in several sections of this report and also identified in the EBRD lessons-learned database (appendix 3) it is important for EBRD to demonstrate the commercial and other benefits to clients of the EAP during the planning process. This will build commitment and ownership.

Overall, a strong correlation was observed between management commitment at a client and positive environmental change. In cases where there is a lack of management commitment unsatisfactory implementation of EAPs is observed, and it is important that auditing and

analysis during due diligence/planning of projects includes an assessment of the management capacity and commitment at the client.

Example case studies on EAPs from projects visited

The following presents example case studies that illustrate the above points on the environmental action plans.

Box 3.10: Case study

Findings on EAPs

- A detailed independent audit was carried out at an airport project. Both the audit and the EAP were good quality except that they had a major focus on environment and no coverage of health and safety or social aspects. The client is committed to implementation of the EAP, and the EAP is being treated as a living document by the Environment Manager and is updated over time.
- The client is behind schedule on implementation of the EAP because local approval for the wastewater treatment plant that it is constructing is still pending. The costs of the EAP were not included as part of the loan, something the client would have wanted.
- A cardboard packaging company outside the EU has an EAP that is a positive example. It is fully costed, is being treated by the client as a living document, and it is updated regularly and used as the basis for the AER.
- At a metallurgical facility the EAP is a well designed living document, including measures to reduce air emissions, water consumption and wastewater discharges as well as to improve energy efficiency, oil and chemical storage and handling and worker health and safety. As part of the EAP a number of further investigations are being undertaken for developing a long-term EHS programme aiming at bringing the facility into full compliance with EU environmental standards based on best available techniques and international best practice within the next three to four years.
- A high-quality audit was carried out for a project with a municipal transport company. This covered environmental, health and safety and social aspects to a sufficient level of detail, and the project preparation provides a good example of an EAP that has clear actions and costs and includes low-cost actions (the first action is the appointment of responsibility). However, the client has not implemented any of the actions in the two years since the deal was signed. It is an example of where the ESD and the OLS need to monitor the implementation phase more closely, and the benefits of EAPs must be properly explained to the clients.
- The standard and coverage of EAPs for MEI projects particularly varies. As already mentioned, for two similar MEI projects related to water supply pipelines, one EAP covers the mitigation of HSE impacts during construction only, whereas the EAP for the other project includes a whole programme of major improvements across the company beyond the scope of the project.
- For one MEI project the client had agreed to the EAP, but admitted that it was not affordable and would not be implemented. The environmental manager used the words “mission impossible”. The ESD specialist had not visited the project and this demonstrates that it is important for the benefits of an EAP to be explained to the client and for EAPs to be developed with affordable actions.
- For another MEI project, the loan agreement required the EAP to be developed within three months of signing. However, the EAP was developed after this deadline and then it was perceived to be inadequate by the PIU, requiring it to be reproduced. Throughout all this the ESD specialist has not followed up on the development of the EAP.
- At an MEI project involving upgrade of district heating systems the existing environmental programme was updated to serve as an EAP in relation to the EBRD investment. The EAP was developed by the client environmental department committed to its implementation, and it is sufficiently detailed and costed. This is an example of good practice.
- At an agribusiness in Russia the client agreed to produce an EAP after the loan was signed. However, no such EAP was produced and the benefits of an EAP had probably not been explained to the client.
- At an agribusiness project in south-eastern Europe, a desk analysis was carried out during project design and an EAP was not requested by the EBRD. However, an EAP would have been useful to the client to address HSE issues, which were more serious than had been perceived through the desk study.

Conclusions and recommendations on the environmental action plans (EAPs)

It is important that costs of actions are known before the EAP is agreed. This will provide more confidence to the EBRD that the client understands the implications of the EAP and is committed to its implementation. In addition, the EBRD should try to include the costs of the EAP in the financing plan wherever possible so that this also increases leverage and the probability of proper implementation and increases the EBRD's environmentally-oriented investments in line with the Environmental Policy.

65 per cent of clients with an EAP that were consulted are behind schedule on the implementation of the EAP. The EBRD needs to demonstrate the commercial and other benefits of the EAP to clients during the planning so that this will build the commitment of the client to implementation and their ownership of the EAP. The EAPs should include low-cost actions, such as assignment of responsibility for HSE, training in health and safety and development of management systems as well as the higher cost technical measures.

It is important that the client treats the EAP as a living document and updates it over time, including additional actions as needed in order to ensure ongoing improvements. This approach should be explained to the clients during the discussion and agreement on the EAP. This approach will also help clients with annual reporting to the EBRD and will help the EBRD to monitor implementation.

To reduce the over emphasis on environmental protection ahead of health and safety and ahead of social issues, it is recommended that the terminology of "environmental" action plan is changed.

3.3.6 Project monitoring and reporting

Monitoring of the environmental performance of clients and the reporting by clients to the EBRD on their progress in relation to environmental improvements and compliance is an important component of the EBRD's project cycle.

The EBRD 2003 *Environmental Policy* states the following in relation to the monitoring of direct investment projects:

"Environmental monitoring is an important aspect of the Bank's project implementation process. It serves two purposes. The first is to ensure that the applicable environmental standards and various environmental components of projects included in legal agreements, such as the implementation of an EAP, are complied with by the project sponsor. The second is to keep track of the ongoing environmental impacts associated with projects and the effectiveness of mitigation measures as a "feedback" mechanism."

"Operations are monitored on an ongoing basis by the operation team and the Environment Department throughout the Bank's relationship with the project."

As stated in the policy there are a number of different monitoring mechanisms that can be used by the EBRD, including:

- monitoring visits by environmental specialists from the ESD
- monitoring visits by consultants on behalf of the ESD

- assessment of client annual environmental reports (AERs).

In addition, during their biannual project monitoring visits, the operation leaders have the opportunity to discuss HSE/Social aspects with the clients and identify any shortfalls, for example in implementation of the EAP.

Findings in relation to monitoring

The following table provides a summary of the monitoring visits carried out to direct investment clients in different countries by the EBRD's ESD specialists.

Table 3.8 – Number of direct investment projects visited by the ESD for monitoring (out of approximately 600-700 active direct investments)

Number of projects visited	2006	2007 (Jan – July)
EU (2004 joiners) countries	0	5
EU (2007 joiners) countries	13	9
Other CEE/SEE countries	4	11
Russia /other NIS	18	11
ETCs	12	2
Total	47	38

Note: For some of the major projects there have been multiple visits, but these data show number of projects visited, rather than total visits.

Out of the 31 projects, 13 (42 per cent) are reported to have had a monitoring visit since signing by a specialist from the ESD or consultants on behalf of the ESD. In addition, out of the 35 clients that have responded to the web-based survey, nine clients (26 per cent) stated that they have had a monitoring visit.

In relation to the three projects that have had monitoring visits from consultants on behalf of the ESD, two of them were under a specific monitoring programme in which a team of consultants has been contracted to visit a number of projects for monitoring. This consultant contract was put in place in June 2006 and represents a constructive and proactive approach to monitoring.

For another project, a consulting firm was contracted through TC funding to carry out quarterly monitoring visits to a high-risk client where much of the loan was being spent on environmental improvements. For 18 out of the 31 projects (58 per cent), it is considered that project monitoring has consisted of no more than checking the annual environmental reports provided by the client.

Common points on environmental monitoring in the EBRD lessons-learned database (appendix 3) relate to the need for proactive monitoring of environmental performance of clients against the EAPs with a particular focus on monitoring through visits rather than from assessment of environmental reports in the London office.

The findings from the study indicate that the ESD has historically taken a desk-based approach to monitoring. But since 2006 its monitoring efforts have increased. In particular, it is apparent that some category B projects are not receiving enough monitoring activity. For several projects where considerable amount of due diligence/audit work to identify potential risks on environmental aspects has been carried out, the follow-up monitoring has been minimal.

For example, for an MEI project in the Caucasus, approved in 2006, the client was required in the loan agreement to develop an EAP within three months of signing. However, nine months after signing, the ESD had not followed up to check whether an EAP had been developed. In fact, an EAP was only recently produced but the PIU for the project have themselves decided that the quality is inadequate and more work is needed on the EAP.

Overall, monitoring is clearly a much lower priority for the ESD given staff constraints and the pressure to carry out due diligence on new projects. Monitoring by ESD staff remains mainly desk-based and involves the review of AERs rather than proactively identifying key milestones in EAPs and contacting clients at relevant times, perhaps via OLs as appropriate, to check whether the client has implemented the required actions in the EAP. EvD notes that some ESD staff have over 150 projects assigned to them making the tasks onerous.

In order to implement the *Environmental Policy* effectively, the EBRD needs to increase the amount of monitoring and improve the prioritisation process for selection of projects to monitor. In 2006 the ESD hired a full-time monitoring specialist and developed a risk-based monitoring strategy. In addition, the ESD has stepped up monitoring over the last year through the contracting of monitoring consultants (Table 3.8). The coverage however remains inadequate.

There are many opportunities for the ESD to improve the efficiency and effectiveness of the monitoring, for example:

- ongoing implementation of the prioritisation system for monitoring that has recently been adopted, and use of the prioritisation system to define annual monitoring plans; Although the annual monitoring plans would need flexibility for the late inclusion of priority monitoring visits that come up during the year, a large proportion of the projects scheduled for monitoring visits for the next year could be specified and fixed in the plan. In particular, the higher-risk category B projects need more attention, particularly in early transition countries and NIS countries.
- developing a shift away from an approach that focuses on checking AERs; Instead EAPs should be used to identify key milestones and proactively following up with clients about progress with the priority actions at a suitable time (for example, just a few weeks before the deadline). Changes to the ESD will also need to cover the over-emphasis on due diligence ahead of monitoring and personal objectives and targets for individuals in the ESD in relation to annual numbers of monitoring visits would be beneficial.
- ESD specialists should be encouraged to extend trips to countries of operations and to add extra monitoring visits in their trips. Although there are some cases where ESD specialists proactively look for additional projects to monitor when they are in a country, for example when their primary purpose of the visit is to carry out due diligence of a particular project, it appears that most ESD staff do not take this approach.

- The ESD should be raising the awareness of OLS related to monitoring HSE/Social aspects, for example through providing short training presentations to OLS when ESD staff are in a resident office.
- Expanding the existing use of consultants for monitoring the high to medium risk projects is already starting to provide useful feedback to the ESD. However, the scope of this work currently appears to be driven by the risk management approach, and it would be sensible for the monitoring to also focus on wider implementation of the policy, such as the statements on additional environmental benefits and environmentally-oriented investments. In addition, the scope of monitoring should shift to ensure a better balance of coverage of HSE and social aspects, and it is understood that the ESD has increased this focus in the recent contract for the consultants.
- The EBRD should also consider expanding the employment of local consultants for monitoring assignments, particularly in EU countries where regulatory enforcement frameworks are generally more reliable than in other countries of operations. One client in an ETC country indicated that it would be more helpful if there was an ESD specialist assigned to the resident office (perhaps paid for with ETC funds). It was felt that local capacity exists to meet the EBRD's environmental monitoring needs in most countries of operations.
- The prioritisation of ESD activities should take into account the shift in capacity of authorities for enforcement of regulations in the countries of operations. In several EU countries of operations enforcement has greatly improved in recent years and there is scope for the EBRD to give equivalent projects in these countries a significantly lower priority for monitoring than in ETCs.
- Improvements in the consistency of monitoring tools, check-lists and reports would help the efficiency and overall effectiveness of the ESD's monitoring programme. Although some flexibility is needed in the monitoring approach because of the differences in project types, sizes, sectors and so on, a more consistent approach would be beneficial.

The core of the approach would be checking the implementation of the EAP and working with the client to update the EAP. Consistent and more comprehensive reporting formats from monitoring visits are needed and these should, where applicable, include an updated EAP.

- Additional monitoring visits will also help with the necessary shift in approach for the ESD to look for additional environmental benefits and environmentally-oriented investments. For many projects there are likely to be opportunities for add-on loan investments in environmental improvements, and monitoring visits by the ESD have the potential to identify such opportunities.

Findings in relation to client reporting

As part of the monitoring process clients are required in the legal agreements to submit annual environmental reports (AERs) to the EBRD. Specifically, the EBRD 2003 *Environmental Policy* states that:

“In order to verify proper and timely implementation of EAPs and adherence to agreed environmental covenants, the EBRD requires that project sponsors submit periodic reports on the implementation of EAPs and any other environmental requirements. As a rule, annual reports will be expected.”

As mentioned above in the analysis on monitoring, the approach of the ESD to monitoring clients is mainly desk-based with a reliance on checking AERs. However, the standard of AERs is often inadequate and does not provide a satisfactory basis for monitoring client performance.

According to clients, there is often limited follow-up and questioning by the ESD on the AERs. According to the ESD, the staff in the department are often under pressure to quickly approve AERs so that disbursements or other important implementation activities can be progressed. The following findings and examples illustrate these points:

- Out of the 31 clients that were visited or interviewed, 20 had submitted at least one AER.
- The other 11 clients that were interviewed/visited were either not required to provide an AER (some of the DLF projects), or were still within the year of signing the deal and therefore not yet requiring an AER.
- Five of the clients that had provided an AER stated that the EBRD had contacted them with follow up questions on the AER.
- It is considered that only six (30 per cent) out of the 20 AERs that were provided to the EBRD contain adequate information to allow a proper judgement on HSE/Social performance.

Box 3.11: Case study – AERs

Positive example on reporting

Although the EAP for a manufacturing company in an NIS country is lacking in actions on health and safety, the structure of the EAP is useful in terms of encouraging the client to track progress and update the EAP as necessary. The client is making good progress in implementing the EAP and is updating the actions over time, treating the EAP as a living document. The AER from the client was clear in reporting on progress, and the updated EAP was attached to the AER. This enabled the ESD to easily review the AER.

Example of shortfalls in reporting

This concerns an AER from a municipal transport company. The EAP developed for the company was of a good standard and addressed the priority HSE/Social issues. However, the company has not implemented any actions in the two years since the deal was signed. The AER was provided nine months after the deal was signed and there was no follow-up from the EBRD to ask for more details or ask any questions.

The AER is inadequate and the client even stated in the meeting that the wording in the AER “means nothing”. This case study demonstrates that the EBRD should require (and enforce) specific progress on implementation of the EAP to be included in the AER and an updated EAP should be attached.

There is a strong need to change the approach to proactive monitoring of progress of EAP implementation. Even if more monitoring visits are not possible, a new approach can be carried out through proactive email communication with the clients, via OLs as appropriate. The monitoring and reporting process will be more effective if AER formats have a better structure and more consistency.

The ESD should provide improved guidance and required structures for AERs to clients. This should include the requirement to always attach an updated EAP that clearly shows the status of each action and the current date of expected completion of each action.

Some required formats of AERs are not consistent, for example the AERs required by the ESD for clients in the MEI sector are very detailed spreadsheets of monitoring data. This might be a useful approach for MEI clients, provided it is better followed up with clients, but the inconsistencies in different AER formats are contributing to the inefficiencies in monitoring.

The ESD should therefore require a minimum set of requirements from all clients in AERs with consistent formats, with the requirement for the updated EAP, and for some sectors additional information can be requested to supplement the minimum requirements. In today's electronic world this might be better handled by setting up a web site where clients can log in and upload/enter data in a prepared format, tied to the EAP, which in turn would make monitoring more efficient.

Some of the recent legal agreements do include an improved structure for requirements in an AER. However, this has not always led to an improved quality of reports. It is likely that at some clients the legal agreements are filed by the client's financial department, and the AER reporting requirements are not passed onto the relevant HSE manager. The EBRD should therefore provide separate guidance on the structure and requirements for AERs, and ensure that it is provided to the relevant HSE manager at the clients. There are several points in the EBRD lessons-learned database (appendix 3) that also identify that the EBRD should be providing better guidance to clients on AERs, including reporting formats.

For many DLF projects it is apparent that AERs are not being provided by clients because they are apparently not required in the legal documents. This contradicts the points in the EBRD board paper on DLF projects. Despite the fact that many DLF projects involve low-risk activities, it is important that EBRD carry out adequate monitoring of DLF projects, and AERs are an appropriate approach for the monitoring of most of these types of project.

Support to clients

In addition to improving the effectiveness of the implementation of environmental improvements at clients through strengthened monitoring and reporting activities, the EBRD should also adopt an approach of providing more proactive support to the clients for direct investments.

In carrying out a more proactive approach to monitoring implementation of EAPs, the ESD needs to identify cases where clients are behind schedule and have particular problems with the implementation of actions. The EBRD already provides detailed guidance to FI clients and this approach should be expanded to direct investment clients. These support activities would not necessarily be time-consuming but would involve actions like directing clients to web sites and existing guidance documents that provide help on specific issues. The EBRD can easily attach a disclaimer to any such support.

Out of the 26 projects that were visited, 18 clients (58 per cent) would gain significant benefits if the EBRD were to provide basic support to clients to improve the effectiveness of implementing HSE/Social aspects. For example:

- A cement factory in south-eastern Europe currently operating close to EU standards could reach these standards through general support and advice from the EBRD. Simple guidance would help with potential improvements, for example health and safety (use of PPE), the need for basic wastewater treatment (oil and grit separators), dust management and storage of containers of waste oil.
- An aggregates business in south-eastern Europe and an agribusiness factory in Central Asia would both benefit from basic support, in particular guidance in health and safety, basic management and housekeeping, energy saving and waste minimisation.
- Many clients would benefit from support/guidance in relation to health and safety during construction activities (eight such clients were identified in the 26 visits).
- Several clients would benefit from provision of best practice guidelines for their sector. For example, in the tourism sector, the clients that are developing and operating hotels would benefit if the ESD directed them to guidance on environmental management at hotels (for example, energy, water saving, waste minimisation and so on).
- Several clients that are less committed to the implementation of the EAPs would benefit from more overall communication and support from the ESD, particularly focusing on demonstrating the benefits of the planned improvements.

This day-to-day support by the ESD should also be supplemented by specific support projects through TC, such as training programmes to clients in health and safety and in planning and implementing HSE management systems. More discussion is provided on TC in section 3.3.3.

Conclusions and recommendations on monitoring and reporting

The EBRD 2003 Environmental Policy states that environmental monitoring is important to ensure that there is compliance with the required environmental standards and implementation of the EAP at clients. However, the current level of attention and current approach for monitoring are not suitable for effectively achieving the statement on monitoring in the Policy.

There are several cases within the projects studied in detail where the large amount of work carried out in due diligence, including planning of an EAP, has not resulted in the expected improvements at client operations. More focus on monitoring and support by the ESD would result in a significant improvement in the implementation of EAPs. It is not worthwhile for the EBRD to carry out such detailed planning, if there is to be minimal effective follow-up in monitoring and support. Developing and implementing an effective monitoring plan is part of the “structuring” process.

As well as increasing the number of staff (EvD argues that at least two additional staff positions or consultant equivalents are needed) and monitoring visits, it is recommended that the ESD change its approach to monitoring those projects that are not visited, from desk-based checking of AERs to a more proactive approach. The ESD should check on progress and offer basic support that will help implementation (for example, direction to useful web sites, provision of guidance and so on). This includes proactive follow-up with clients that

are required in their legal agreement to develop an EAP themselves within three months of signing.

The monitoring process would be much more efficient if the EBRD enforced strict requirements on clients to produce AERs in line with a minimum set of reporting requirements within a specified structure that included the requirement for an updated EAP to be attached to the AER. This would make it much easier for the ESD to track progress and would encourage clients to treat EAPs as living documents and to regularly update them. For some sectors, if necessary, other reporting requirements could be added to the minimum requirements.

The use of web-based reporting for AERs should be further investigated by the ESD and could be implemented on a trial basis in a specific sector.

3.3.7 EBRD project documents

In previous sub-sections of this report on the project cycle, detailed analysis has been provided in relation to most of the relevant main documents (for example, audit reports, EAPs, EIAs and AERs). This section provides a summary of the analysis of these and the other documents in the project cycle.

Environmental summaries

Environmental summaries are developed and updated during project preparation. They provide details on the main risks and opportunities and recommend specific requirements that should be included in the legal agreement. They summarise the due diligence work that has been carried out during the project preparation. Generally, the environmental summaries that have been reviewed are good quality documents that identify priorities and summarise key actions that are needed.

However, there are several cases where there is an over-emphasis on environment and a lack of attention to health and safety and social aspects. In addition, there is a higher emphasis on risk management in the documents. Projects could also be screened for environmental investment opportunities.

Project summary documents

Project Summary Documents for individual projects are published on the Bank's web site. They include a summary of environmental issues related to projects and are published 30 days prior to board review for private sector projects and 60 days for public sector projects (longer for category A projects). The PSDs are often then updated at the time of signing the legal agreement with the client. However they are not being routinely updated after this (for example, when the scope of the project changes, or when an EAP is updated, the *Environmental Policy* states that the PSD will be updated).

In relation to environmental aspects, PSDs do not always fully characterise the current situation. They also need to be more realistic and give greater detail on expected environmental performance. For example, the PSDs for the MEI projects that were visited do not make it clear that most activities of water and wastewater companies are not achieving EU standards and will not do so within the lifetime of an EBRD project.

Audit reports

In summary, independent audit reports are generally of good quality although there are several cases where there is a major emphasis on environmental aspects and many shortfalls on health and safety and sometimes social aspects. The proper use of standard ToRs for audit work, which include health and safety and social aspects, could help eliminate these shortfalls in future. These types of standard ToRs would provide templates that could be tailored for each relevant project.

Environmental action plans

EAPs vary in quality and standard formats for the EAPs need to be developed and applied consistently.

Environmental impact assessments (EIAs)

There are some shortfalls in EIAs as they vary in quality, particularly related to coverage of social aspects and inclusion of environmental management plans (EMPs). As with other documents, standard ToRs and templates would assist with improving the quality of EIAs. Also, changing the terminology to environmental and social impact assessment (ESIA) could help improve EIAs.

Board papers

Board papers typically include a section on environmental aspects that reflects the key points in the environmental summary. Inconsistencies in the wording of board papers (related to environmental matters) can be found in sections outside the environment section. It is therefore important that the relevant ESD specialists check all sections of board papers (which is not always done). For example, the document may not be clear on the expected timing of achievement of EU standards (there is a perception that compliance will be achieved by the end of the project but this is often not the case).

There is potentially also a varying perception about the activities that are actually involved in an audit. For projects categorised as “1” this may imply that a full independent audit has been carried out although this is not always the case.

Other inconsistencies in board papers result from the technique of “cut and paste” which again stresses the need for detailed checking. Examples include:

- For a property project in Kazakhstan, some parts of the board paper refer to the EAP but the environment section in the board paper states that no EAP is required.
- Board papers relating to a MEI project with a water company mention (outside the environment section) the issue of cement-asbestos pipes, but actually, no such pipes are used by the company. The text has been “cut and paste” from another board paper for a different project, and this error has caused some difficulty with the client who, as a consequence, had many enquiries on the types of pipes used.

Legal agreements

The provisions on HSE/Social aspects in legal agreements are not consistent. There are several cases where provisions on social issues have not been included in legal agreements when it would have been appropriate to do so, and it seems that slightly differently worded provisions are copied from one agreement to the next by different project teams. Provisions in the loan agreement are generally tailored for each project. However, the Bank's social provisions are sufficiently large (for example, labour issues) so as to be relevant for many projects.

Problems created by the "cut and paste" approach can be observed in a loan agreement for a DLF project where one section states that the company is required to comply with EU standards, and another section states that the company is required to comply with national regulations only (the latter is true).

The OGC is in the process of recruiting a legal specialist for carbon finance to help the energy efficiency team. Other IFIs have environmental lawyers on their legal team. The OGC's approach to date has been to use standard legal templates to be modified by the legal specialist and the OL/ESD.

However, the standard template for FI projects was not updated until 2006. Thus, FI projects approved between 2003 and 2006 were actually based on the 1996 template. Assigning primary responsibility in the OGC for environment on all projects to a single legal specialist might be a more efficient approach.

Monitoring reports

While the ESD has a standard report format for monitoring visits, it is not always used by ESD specialists. The wider use of a standard for monitoring reports, combined with the use of check-lists, would help improve the efficiency of ESD monitoring activities. Such standard monitoring reports should have minimum requirements, including an updated EAP, and ESD specialists would be given the flexibility to add extra sections to the minimum format, as required.

Annual environmental reports

In order to improve the quality of AERs, it is important that a standard structure of AERs is developed, including the requirement for clients to attach an updated EAP to the AERs.

Document control – ProjectLink

The use of the Bank's document control system – *ProjectLink* (the Bank's internal document control system) – needs improvement. Many of the important background documents for the site visits were not available. *ProjectLink* is not properly used by project staff and it is important that more structure is provided to the system so that the main reports and documents are saved in specific folders.

Although there is minimal information in *ProjectLink* on some projects, other projects are covered by a wealth of unorganised correspondence often with email attachments missing. Improvements in data management via *ProjectLink* would help the efficiency of the ESD, particularly where information on a client is needed at short notice for a monitoring visit. It

would also help with the review of an AER, or where an OL has made enquiries related to a follow-on deal with a client.

3.3.8 Overview of ESD involvement in the project cycle

As explained above, the ESD puts greater emphasis on project planning than on project monitoring. Throughout the project cycle, the ESD should be paying more attention to highlighting to clients the commercial benefits of improving HSE/Social aspects in order to raise the commitment of client management.

This section briefly covers the budget requirements for ESD involvement in the project cycle and also the tools used by the ESD to carry out their tasks in the project cycle. The shortfalls in ESD resources are included in section 3.5 of this report.

Budgets for ESD involvement in the project cycle

It is unlikely that the ESD has the number of staff necessary to increase its coverage of health and safety and social aspects and to increase monitoring activities. The involvement of the ESD at an early stage in planning depends on banking team budgets and the ESD is rarely involved at the early stage during discussions and planning between the OL and the client.

However, this is an important time when the benefits of improvements can be explained to clients and when any opportunities for investments can be identified. The shift in focus of the EBRD to look for additional environmental benefits, including environmentally oriented investments (section 3.2), will require ESD staff to visit clients at an earlier stage.

Later, after a mandate letter is signed, the client is charged for the necessary ESD support and environmental due diligence activities, including consultants and costs of travel. In some cases there is still a possibility of problems arising with budgets because the client does not agree to a specific amount at this stage. It is noted that part of the success of the energy efficiency team is that they offer free energy efficiency audits at an early stage in project design. Perhaps the Bank should also consider offering free environmental audits.

Sometimes there is difficulty with payment for due diligence activities for equity deals because the client does not normally pay in these deals. This is important as equity deals could pose higher HSE/Social risks since the EBRD's policy applies to environmental performance for the whole company rather than to a loan for a defined project. In general, there are available budgets from clients for due diligence audits but clients are more reluctant to pay for monitoring activities, and/or OLs act as gatekeepers.

If the EBRD is serious about effectively implementing the *Environmental Policy*, the Bank needs to increase internal budgets for travel of ESD specialists to projects for (i) early visits to identify additional environmental benefits and environmentally-oriented investments, and (ii) increased monitoring visits to support clients. Decisions about ESD site visit travel requirements should be led by the ESD.

Tools used by the ESD

The EBRD uses a number of tools for ESD activities in the project cycle. As mentioned in earlier sections on the project cycle, it is important for the ESD to increase the efficiency of

its activities by making these tools more consistent and including a minimum set of requirements that are the same for each client. Examples include:

- check-lists for early visits to clients (including lists of potential risks to identify, and lists of potential opportunities/investments)
- formats for visit reports during project planning
- questionnaires for desk analysis studies of low-risk clients
- standard ToRs for independent audits
- protocols for audits, covering HSE and social issues
- structure of EAPs, including clear deadlines, responsibilities and a blank column in the table for the client to fill in the status of each action on an ongoing basis
- standard ToRs for environmental and social impact assessments (ESIA), including required structure of ESIA output and required structure of EMP
- standard sets of provisions for legal agreements for different types of projects
- monitoring protocols and check-lists
- formats for monitoring reports
- guidance and structure of AERs (including the requirement to attach an updated EAP).

Although more consistency and structure is essential for the above documents, it is still important to ensure a level of flexibility to take account of the range in project types, size and sectors. A minimum set of protocols and report structures should be developed, and the ESD specialists should be given a degree of flexibility to add additional points as necessary for specific sectors or projects.

The ESD has several such documents already but their use is inconsistent. Updated documents can be easily produced through short working meetings of groups of ESD staff to discuss and improve the documents.

It is now possible to get cheap portable environmental monitoring equipment. This would allow for quick assessments of key parameters, for example, outdoor and indoor air pollution (total particulate matter – TPM, carbon dioxide – CO₂, and nitrogen oxide – NO_x), noise, water temperature and pH-value, yet the ESD has no such equipment and there is no practice to collect basic data. Rather, the practice is to rely upon client data in case it has been requested. A quick measurement of a few key parameters would enhance the quality of assessment.

EBRD environmental procedures

The ESD would benefit from expanding the environmental procedures towards application of some of the principles, formats and procedural practices of a formal total quality management system (TQM). This would involve more detailed working procedures and the protocols and report structures recommended above would be included in the procedures. This would provide a more consistent approach to the setting of environmental conditions/covenants in legal agreements and ensure that clients adopt and apply better methods for improvements in HSE/Social performance.

3.4 Technical aspects of projects and other specific findings

3.4.1 Environment aspects of projects

As discussed in sections 3.1 and 3.3 the EBRD has a major focus on environment aspects at present and insufficient focus on health and safety and social aspects. For example, 14 out of the 31 projects (45 per cent) had been structured with an over-emphasis on environmental aspects.

Specific environmental aspects for which there were common findings across several projects included waste management and wastewater treatment, and these are related to arguments concerning the boundaries of projects discussed in section 3.1.3. For example, for several projects the management of solid waste at the client site was adequate and in some cases has been improved following EBRD's requirements.

However, the environmental summaries and other planning documents tend to state that the waste will be taken from the site by a licensed contractor but no mention or analysis of the standard of treatment/disposal facility used by the contractor. The EBRD's clients should be encouraged to assess the standard of treatment/disposal operations of their contractors and to look for alternatives if the standards are not appropriate.

In most cases the municipal disposal sites will not comply with national or EU standards, and the EBRD should be more transparent in its documents related to this fact. The assessment of the standard of local treatment/disposal facilities might in some cases generate opportunities for the MEI banking team to propose environmentally-oriented investments in important municipal services.

The same points apply for wastewater treatment. Several clients have a permit to discharge wastewater to the local sewer. However, although there are several positive cases where the EBRD influenced a client to improve its own wastewater treatment on site, the EBRD documents for several projects are unclear about the level of treatment that is carried out on the wastewater by the municipal water company.

In some cases the wastewater is untreated and passes into the local water course. There should be more assessment by the EBRD related to this aspect in the project planning. In particular, the EBRD should be more transparent on the treatment and discharge of effluent wastewater in the project documents. As with solid waste, the assessments of local treatment facilities could generate investment opportunities for the MEI banking team to improve the municipal facilities.

The EBRD's sector strategy for MEI does recognise that most countries of operations do not have wastewater treatment or solid waste management facilities that comply with EU standards. The MEI team has tended to focus on municipal wastewater. Industrial wastewater treatment (pre-treatment) is a business opportunity that no banking team is focusing on despite many industrial wastewater treatment plants being financed within EBRD supported projects.

A few client projects showed some minor environmental issues (as well as health and safety issues) that would require a relatively small number of low-cost actions to address. This would bring these clients in line with EU requirements. Examples included inadequate storage of chemicals and oil and evidence of burning tyres on site. These types of clients would benefit from an increase in EBRD monitoring, particularly if the ESD specialists were

to provide more proactive support, such as best practice guidelines, links to web sites and so on.

Conclusions and recommendations on environmental technical aspects

Standards of wastewater treatment and solid waste disposal (including hazardous waste) in EBRD's countries of operations are generally inadequate and potentially have significant impacts on the environment and public health. Common uncertainties on environmental protection aspects of projects relate to wastewater and solid waste. Therefore, it is important for the EBRD to encourage relevant clients to assess the standard of municipal and other services for wastewater treatment and solid waste management and to look for alternatives where the standards are not appropriate. Lack of EU-level hazardous waste facilities is a good example of where the enabling environment may make it difficult or impossible for a company to achieve EU standards.

A related issue is "affordability". It may cost up to €23 per ton for an MEI solid waste project to fully comply with EU standards. Many of the Bank's solid waste projects are budgeted at a few euros per ton. While these projects demonstrate very positive improvements, the local economy simply cannot afford the levels of performance implied by full compliance with EU standards. This also becomes a constraint for local industry.

The EBRD needs to be more transparent on the current levels of standards in the project documents (for example, in board papers and PSDs). For several projects simple potential improvements were identified which the EBRD could help clients address if the ESD adopts an approach that focuses more on provision of support and advice to clients.

3.4.2 Health and safety aspects of projects

Health and safety is often not being covered in sufficient detail during project preparation. In the visits to clients, common health and safety shortfalls and risks were observed more frequently than environmental or social issues. For example, in 12 (39 per cent) out of 31 projects, the team noted health and safety aspects that had not been adequately addressed during the due diligence/planning process.

There were several projects visited for which construction activities are a major part of the investment. Most clients are not including requirements in contracts for construction contractors to work with specified health and safety procedures/standards. There were problems with health and safety identified at many of the visits, and in eight of these cases the problems related to construction work.

Common health and safety problems observed included, among others, a lack of PPE, lack of safety signs and inadequate protection for working at heights. One client provided a positive example in relation to health and safety as the client included health and safety requirements in the contract with the construction company, and good practices, including proper use of PPE, were observed. Another important area of concern for hotels and buildings funded by the EBRD is compliance with EU standards for fire safety.

Importantly, it is usually only low-cost actions that are needed by the clients to reduce the health and safety risks. It is an issue of habit rather than a cost issue. It is important for the EBRD to include health and safety assessments in auditing work and to include actions on

health and safety in the EAPs. These actions are likely to include development of health and safety management systems, comprising policy and procedures, training, provision of PPE and requirements on contractors.

However, in the EBRD's countries of operations, there are strong barriers to overcome if health and safety improvements are to be implemented. It will take time for clients to change the working culture, for example, for employees to properly use PPE. Several clients that were visited are trying to address health and safety issues but are not succeeding because of the cultural issues.

More support from the EBRD to clients is necessary, particularly related to training programmes, and could be paid for through TC. More specialist resources are needed in the ESD on health and safety. The Bank's internal health, safety and security division and the ESD are now under the same vice president. Perhaps there could be some cross-sharing of knowledge.

Earlier in 2007 the ESD commissioned a study to review their policy and procedures on health and safety, and the ESD has apparently begun to implement many of the recommendations. EvD is of the opinion that health and safety is sufficiently important so as to result in a separate "policy requirement" under the new policy.

Conclusions and recommendations on health and safety aspects

Common health and safety problems were observed at many clients during the visits, particularly for construction work. The EBRD has not been properly addressing these problems during planning of the projects. It is important that auditing and analysis work during planning/due diligence includes components on health and safety and that actions on health and safety are included in EAPs.

Many of these actions are simple, low-cost actions, such as development of health and safety procedures, provision of PPE, training, signage and so on. However, in the EBRD's countries of operations, it will take time for clients to change the working culture towards health and safety. It is recommended that the EBRD use TC funds to provide health and safety training and raise awareness in clients.

The ESD should continue to increase the focus on health and safety through ongoing implementation of the recommendations in the study that was carried out in early 2007. Further, there should be a separate policy requirement for health and safety in the new policy.

3.4.3 Social aspects of projects

The main addition to the EBRD *Environment Policy* when it was last revised in 2003 was to include social aspects. The policy was expanded to include aspects such as involuntary resettlement, indigenous peoples and cultural heritage as well as core labour issues.

The Policy clearly states that projects will be structured to meet IFC safeguard policies on indigenous peoples (IFC OD 4.20), involuntary resettlement (IFC OD 4.30) and cultural property (IFC OPN 11.03). As previously stated, the new policy was approved in 2003 but it was not until 2005 that the first social specialist was hired. Therefore, EvD accepts that implementation start-up was slow.

Although the policy and procedures state that worker protection issues will also be incorporated and that these include occupational health and safety (see above), harmful child labour, forced labour and discriminatory practices, specific International Labour Organisation (ILO) standards are not defined in the policy. It is understood that the main ILO standards relevant to EBRD policy are those on child labour, forced labour, and discrimination.

However, there is uncertainty within the ESD in relation to the level of applicability of ILO standards, and it will be important to clarify this in the revised policy. Further, this policy change was incorporated by referencing the relevant IFC policies. It is not clear that the implications of these changes were fully understood. As the IFC has changed its policy approach, the EBRD has had to publish the old IFC policies on its web site. Going forward, the EBRD will need to develop its own social policies.

Even though inclusion of social aspects was new in 2003, the Bank's OCE had already considered some social aspects in tracking transition impact, for example, increased employment. Going forward, there should be a clear division between those issues the ESD will track and those the OCE tracks. For example, employment creation is clearly a transition impact and should be tracked by the OCE, while unfair labour practices is a safeguards issue and should be tracked by the ESD.

Social and cultural heritage aspects are closely linked with environmental and health and safety aspects. In addition to the main social aspects mentioned above (for example, involuntary settlement), the EBRD's approach covers other principles of good social practices. Overall, the main social aspects covered by the EBRD approach are:

- child labour, forced labour and discrimination at the workplace as defined by relevant ILO core conventions
- retrenchment issues
- occupational health and safety and fire safety
- affordability concerns
- environmental and health impacts on the local community
- indigenous peoples issues
- involuntary resettlement
- cultural heritage impacts.

Depending on the project, the EBRD may also look at the client's overall human resource policies in relation to non-compliance with host country labour laws in areas not covered above, for example, gender aspects and the promotion of community development programmes. Since the EBRD's 2003 *Environmental Policy* was adopted to include social aspects there has been an overall shortfall in attention paid to social aspects by the EBRD.

Although a comparison of the EBRD's annual sustainability reports for 2005 and 2006 does indicate an increase in focus on social aspects, there needs to be more attention on social aspects if the EBRD is to implement its *Environmental Policy* effectively.

A standard certification used by companies interested in demonstrating their commitment to core labour standards is Social Accountability 8000 (SA8000). To date, no EBRD-funded project has sought SA8000 certification. By comparison, IFC offers assistance to help companies achieve SA8000 certification. Seven out of the 31 projects for which a visit or

desk study was carried out (23 per cent) did not adequately address social aspects during planning. Examples are provided below.

Box 3.12: Case study – social aspects

The project boundaries for an airport expansion project are uncertain. The client considers that the responsibility for the involuntary resettlement lies with the local government under the concession agreement between the company and the local government. The issue was identified in the project planning correspondence but, two years into the project, a resettlement action plan had not been produced and the situation for 500 “project affected person” remains unresolved. A plan is now in place and resettlement will take place over the next one and a half years.

Unofficial local lime kiln operators are using the access roads and quarry areas at a client’s cement plant operations. This presents social, safety and reputational issues. Based on the site visit, the client is now taking steps to stop these practices, but there may be income/social impacts for this section of the community.

The affordability of increased tariffs is an important social issue for projects related to municipal environmental infrastructure. Although this is likely to be covered in the project feasibility studies, it is an aspect that does not seem to be checked in the project analysis and planning by the ESD. Affordability is an area where there may be cross-over between the ESD and the OCE.

Cultural heritage issues were identified for two projects. One project involved the planning of a highway through an area of important heritage, including an historical monument. However, in this case neither the EIA nor other planning has covered cultural heritage issues. The other project is an MEI project involving a water company, which turned an old water tower into a museum. There are several example projects where there were positive social impacts in terms of increased local employment and positive impacts on local SME suppliers. In two projects, clients were making social investments in the local community (for example, investments in a local school/orphanage in Central Asia and investments in safety and lighting on the local roads in the Caucasus). In the agribusiness sector it was observed that companies were working with suppliers (SMEs and small family businesses) to improve socio-economic conditions. These activities were not being undertaken based on an EBRD requirement but demonstrate the willingness of clients to undertake social investments. Such investments also help build linkages with local communities and municipal authorities. Some communities in the NIS are still built around the company town concept and there are close linkages between the company and the municipal authority. Indeed, the municipality was a minority company shareholder in one company covered under the web survey.. This project also had direct and indirect impacts on indigenous people, and the city was working with the local community to address indigenous people needs and concerns.

In summary, there were several positive social impacts, such as local employment in areas of high poverty. The main social concerns identified relate to working conditions (for example, health and safety, noise, indoor air pollution), and involuntary resettlement. No significant other social issues were identified (for example, labour, discrimination, gender, child labour, forced labour, indigenous peoples).

The EBRD has insufficient resources to fully cover the social sector. After the adoption of the *Environmental Policy* in April 2003, which included social aspects, the EBRD did not fill the social scientist position until 2005. The senior managers in the ESD recognise that the emphasis and resources are skewed towards environment/engineering. In general, the environmental specialists in the ESD have not been paying sufficient attention to social aspects in their work on projects, and it is likely that further training in social aspects would help to address this problem, if only to raise awareness of some of the social issues and the management approaches.

Although there are many gaps in activities and emphasis on social aspects of the EBRD’s *Environmental Policy*, there are several positive social/transition aspects in relation to EBRD’s activities (for example, increased employment, enhancement of suppliers and so on).

As part of the necessary activities to increase the emphasis on social aspects, the EBRD should be raising the profile of the positive social results internally.

Conclusions and recommendations on social aspects

Social aspects were added to the EBRD Environmental Policy in 2003 but the EBRD was slow to effectively implement these aspects of the policy. A social specialist was not recruited until 2005 and more resources are needed in relation to social skills and experience.

The lack of attention to social aspects of projects has been demonstrated in the visits for this study. In particular, involuntary resettlement may not have been addressed by the EBRD in two of the major projects that were assessed.

The main other social aspect that was commonly identified in the visits was working conditions. There were no other major social issues observed in the visits. The ESD could pay more attention to ensuring that affordability analysis is carried out in feasibility studies for MEI projects.

One approach to addressing systemic social issues in EBRD's countries of operations is investment in private sector projects in the social sector, especially in healthcare and education, both of which are expanding sectors throughout the region. This is in line with approach encouraging environmental and social investment opportunities.

Several clients that were visited were interested in social investment in the local community and the EBRD should be encouraging this. Nevertheless, several EBRD projects in areas of poverty are having a positive social impact on the local community in terms of local employment and strengthening suppliers.

3.4.4 Management systems and responsibility at clients

Many of the EBRD's clients would benefit from a management system on health, safety and environmental aspects of their activities. This would help the clients to implement step-by-step improvements towards compliance with national regulations and EU standards. In addition, there are usually commercial benefits to accreditation with such management systems.

A total of 63 clients were consulted through the survey (35 clients), visits (26 clients) or interviews (two clients), 34 (54 per cent) of these clients have environmental management systems, 17 of which are certified. 27 of the clients (43 per cent) have health and safety management systems, six of which are certified. The EBRD does not currently require clients to implement management systems, but the Bank is considering including this within its revised policy.

The EBRD should not necessarily strictly require the adoption of the management systems for every client because it would not be practical for all clients. However, most private sector clients would benefit. The EBRD procedures and operational plan should require ESD specialists to assess the need for management systems, highlight the benefits to the client, provide guidance and links to web sites supporting the client and recommend the inclusion of this requirement in the EAP. In addition, EBRD should assess where clients should adopt a management system on social aspects and include this requirement in the EAP on a case-by-case basis.

Many of the boundary issues would be addressed if the EBRD were to require clients to develop and implement management systems, the scope of which generally encompasses emissions, contractors, suppliers and so on.

Management responsibility at the client for HSE/Social aspects

The appointment of a manager (or managers) at the client company responsible for HSE/Social aspects, including overall responsibility for implementation of the EAP, is an essential component of improving performance at a company.

49 clients (78 per cent) stated that they have a senior person (or persons) with specific responsibility for HSE/Social management. However, there were some examples where implementation of the EAP is behind schedule, and there is no clear or appointed responsibility for management of HSE/Social issues.

It is recommended that the EBRD requirements on clients include the appointment of an overall manager at clients with responsibility for management of HSE/Social aspects. This is a requirement for FI but not for direct investment project clients. It would be expected to be an essential first step in an EAP, and responsibilities would be a component of the implementation of HSE management systems.

There would be additional advantages as the appointed person could have a direct communication link with the relevant ESD specialist. This would then provide a communication line to improve the efficiency of monitoring of the client, allowing the ESD to proactively enquire about EAP implementation at the time of the main actions. It would also facilitate the increased support that the ESD should be providing on HSE/Social aspects to clients.

Conclusions and recommendations on management systems and responsibility

Based on observations from client, there would be strong advantages at several clients if they implemented HSE management systems. The EBRD should require this for most private sector clients, and this should be included in the revised environmental policy. In addition, the revised environmental and social policy should include the requirement for clients to appoint a manager responsible for HSE/Social aspects, including overall responsibility for implementation of the EAP.

3.5 Levels and efficiency of resources for implementation of the EBRD Environmental Policy

Based on the discussions with different managers and employees at EBRD, the Bank recognises that there are shortfalls in specialist resources at the EBRD in relation to HSE/Social activities for both project due diligence and project monitoring. However, the efficiency of the use of resources is just as important as the number of specialists employed. This section provides analysis and recommendations in relation to resources in the ESD.

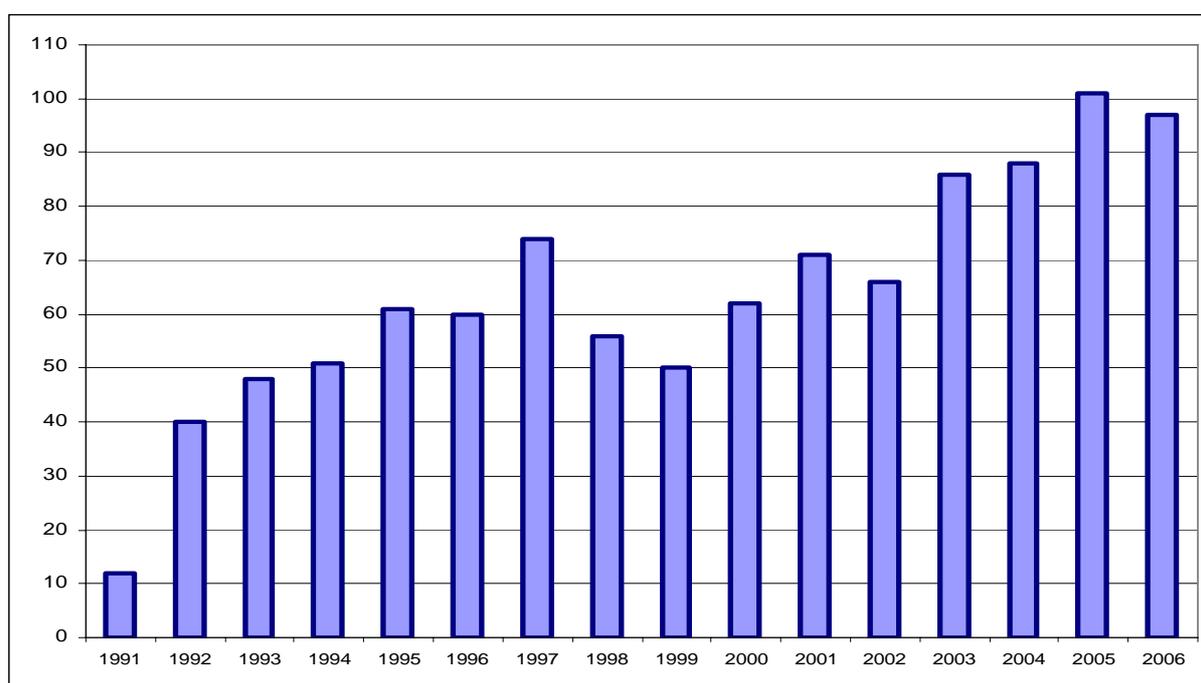
Overview of ESD resources

Figure 3.3 illustrates the growth in the EBRD's portfolio, showing the number of direct investment projects.⁸ Figure 3.4 illustrates the growth in resources at the ESD. These figures are only indicative as the ESD's responsibilities also include contributions to projects at the concept review stage and non-project related tasks (for example, preparing the annual sustainability report, other Bank reports, coordination with NGOs and so on).

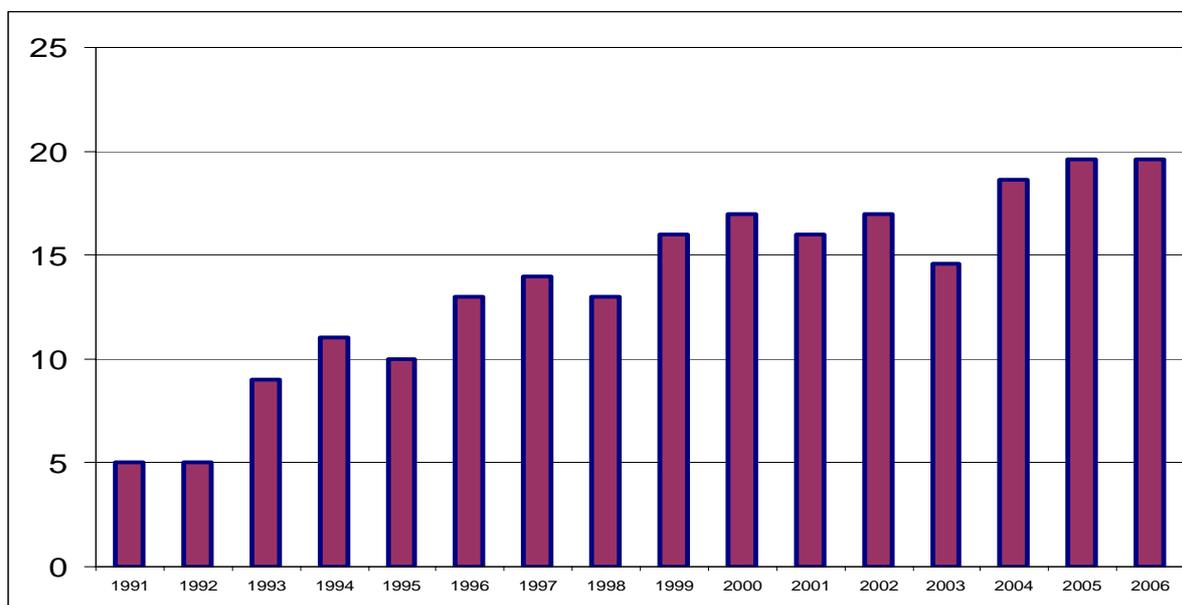
The figures demonstrate that the growth in the EBRD's resources in the ESD has not matched the growth in its project portfolio. While the number of new approvals per person has been relatively constant (five to six new projects per ESD officer), there is also a growing backlog of projects that require monitoring. The limitations on resources (in terms of staff numbers and specialist skills) mean that the EBRD cannot fully implement its *Environmental Policy*.

In particular, there is a major emphasis on resource use for planning projects ahead of resource use in implementation. The number of monitoring visits to clients is inadequate, and the ESD needs to spend more time on proactive monitoring, including visits to clients, instead of desk-based monitoring through assessment of AERs. The PIU for one client, which has worked for many years with EBRD and other IFIs, stated that the EBRD's environmental staff have a significantly lower presence in the field than do those from other IFIs.

Figure 3.3 – Number of EBRD direct investment projects



⁸ The companion FI study provides similar data for FIs.

Figure 3.4 – Staff numbers in ESD

The ESD is starting to address the lack of monitoring and has recruited a specialist to work specifically on the prioritisation and coordination of monitoring. It has also set up a monitoring contract for consultants to visit clients, focusing on category B clients, and is considering approaches to using local consultants for monitoring activities.

In relation to specialist skills, there is a marked shortfall in resources at the EBRD on health and safety and social skills. There is one social specialist in the ESD, employed in 2005 (although part-time labour specialists have been used since 2004), and no full-time health and safety specialist. ESD staff, particularly the social specialists, are usually assigned to the largest high-profile projects, and other projects are therefore neglected. Some of these neglected projects are still significant.

In addition, the ESD often identified opportunities for additional environmental benefits early in project planning. However, there is limited attention to pushing through these opportunities into the project design. The lack of activity in the ESD concerning additional environmentally-oriented investments is mainly a problem of priorities, but the limitations on resources are also a reason for this shortfall.

The IFC defines, under its new procedures, required environmental monitoring frequency as follows:

Table 3.9 – IFC’s priority supervision schedule (ESRR is their internal Environmental and Social Risk Rating System).

Priority supervision field visits	Frequency
<ul style="list-style-type: none"> • Category A projects in construction • Category A projects with ESRR of 3 and 4 • Category B projects with ESRR of 3 and 4 	Annual
<ul style="list-style-type: none"> • Category A projects with ESRR of 1 and 2 	Every 2 years
<ul style="list-style-type: none"> • Category B projects with ESRR 1 and 2 	Every 3 years

All category A and B projects are therefore visited by IFC environmental staff at least once every three years. The implication for the EBRD would be a significant increase in ESD staff and travel budget and a significant increase in the use of external consultants. It should be noted that the IFC’s business volume is slightly larger than that of the EBRD, that IFC has approximately three times the staff of EBRD, and that the IFC environmental department (approximately 150 environmental and social specialists) is approximately six times bigger than that of the ESD.

Based on the ESD’s existing risk rating information and using the IFC structure, the following table summarizes the level of project monitoring that would be required if the EBRD was to undertake the same level of monitoring as the IFC. This analysis does not include category C or FI projects.⁹ Further, it assumes one week/project for category A-level monitoring and 0.5 weeks/project for category B-level monitoring. The implication is that the ESD would need 2.8 staff, or equivalent contractor staff, to carry out supervision to the same degree as the IFC on category A and B projects. According to Table 3.8, the ESD is currently averaging approximately 60 project monitoring visits per year (internal staff and contractor visits), or 30-person weeks. Thus, 1.67 additional person-years of effort and travel funds are required to achieve this level of project monitoring.

Finally, given the nature of category C/1 projects within the EBRD portfolio, which also require monitoring, it is reasonable to assume that two additional person-years of effort would be required if IFC monitoring standards were matched. Given the staffing limitation in comparison with the IFC, the ESD is to be commended for the level of monitoring coverage achieved.

Table 3.10 – EBRD priority supervision needs based on IFC criteria

	Annual	2 years	3 years	Annual level of effort
Category A projects	34	32	–	50 person weeks
Category B projects	101	–	281	97 person weeks

⁹ The previous study suggested that three additional persons were required to provide appropriate coverage for FI projects.

Conclusions and recommendations on EBRD resources for HSE/Social activities

The ESD requires recruitment of more specialists with health and safety and social skills and experience. However, a marked shift in approach at the EBRD as well as actions to improve the efficiency of resources is needed in order to effectively implement its Environmental Policy. There are significant opportunities to improve the efficiency of the EBRD's activities in relation to HSE/Social aspects that have been identified throughout this report and are summarised below.

Planning resources within the policy framework and implementation plan

- *Planning and implementation of a more structured policy framework is needed, including a clear implementation plan with improved environmental procedures comprising more specific and consistent check-lists, protocols and so on. This development of ESD approaches towards a TQM system, including specific objectives and targets on HSE/Social aspects, would provide ESD employees with more strategic vision as well as more structure to their work. As well as the revised procedures and tools, the implementation plan will need to include recruitment of health and safety specialists and social specialists enabling the EBRD to more effectively implement these aspects of the policy requirements.*
- *As the Bank moves east and south, the ESD may need to reconsider its skill mix.*

Improved approaches to monitoring of implementation

- *The ESD should develop an overall plan for monitoring of projects within the annual operational plan. The EBRD should aim for coverage similar to the IFC.*
- *The ESD needs to shift its approach to monitoring in order to emphasise proactive follow-up of key actions in an EAP rather than waiting for an AER to be submitted for review.*
- *The increased use of local consultants, which is being considered by ESD, should initially be rolled out first in EU countries where client performance is generally better than in other countries of operations and local regulatory authorities can be relied on to carry out enforcement. The use of a pool of local consultants, who are less expensive than international consultants and ESD specialists and who are familiar with local conditions and regulations, would increase efficiency of monitoring work while promoting capacity development.*
- *Further training of ESD specialists in social and health and safety aspects is needed to raise awareness of these issues and ensure that shortfalls in planning are addressed.*

Changing the paradigm

- *In addition, measures are needed to change the approach based on risk management to an approach based on additional environmental benefits and environmentally-oriented investments.*
- *The EBRD needs to generally shift its working approach to include ESD specialists as part of project teams rather than as part of the approvals process. The EBRD should also consider the employment of an environmental legal specialist in the OGC.*

Resident offices

- *The EBRD should consider the appointment of ESD members to certain strategic regional offices (for example, one appointment in south-eastern Europe, one in Moscow, one in Tbilisi and one in Central Asia). Perhaps this could be partly paid by ETC funds. This would have many benefits, including significantly raising the profile of the ESD in the resident offices and prioritising HSE/Social aspects of banking teams. This would be useful for addressing language and cultural differences as well as enable the more efficient use of hands-on resources in the field.*

The role of OLs

- *There is scope for the EBRD to expand the roles of OLs and other project visitors to include monitoring implementation of EAPs and identify HSE/Social aspects. Basic monitoring of the implementation of actions within a properly structured action plan and reporting back to the ESD would not require OLs to spend much extra time on client visits and walk-through if these were included in their normal biannual monitoring visits.*

Currently, the biannual monitoring reports do not cover environment. It would be good to include HSE/Social aspects to provide for better monitoring and encourage OL participation. In addition, OLs are not required to have detailed knowledge of HSE aspects for monitoring EAPs, identifying major HSE/Social problems during site walk-through and reporting back possible problems to the ESD.

- *The ESD should carry out basic training courses covering HSE/Social issues for all OLs, including examples, that may occur during site visits and training in monitoring of EAPs. The course should be prepared with an emphasis on the benefits of the OLs carrying out this role in order to encourage them to be involved. ESD specialists should be proactively providing such short one to two hour awareness courses to OLs and other EBRD staff in London and at resident offices they are visiting.*

Management commitment

- *Senior management needs to support a change of priorities before changes to the policy framework and the implementation plan, environmentally-orientated investments and improvements of the ESD (including recruitment) can be effected. In particular, the banking directors need to work on changing the attitude of banking teams towards HSE/Social aspects in parallel with the implementation of changes in working approach at the ESD.*

3.6 Applicability and affordability of the requirements in the EBRD environmental policy

This section presents an analysis of whether the EBRD *Environmental Policy* requirements are appropriate for its countries of operations in terms of their applicability and affordability. The section includes findings and discussion on the requirement for compliance with national regulations and EU standards. In addition, this section discusses the implications of the

Bank's various financial instruments and facilities and the flexibility of the policy to cover such instruments.

3.6.1 Compliance of projects with national regulations

The EBRD 2003 *Environmental Policy* states that:

“Projects supported by the Bank must always meet the requirements under the applicable national legislation.”

Findings on compliance with national regulations

All 35 of the clients that completed the web-based survey stated that their company's activities were in compliance with national regulations. However, out of the 26 projects that were visited, eight projects were considered to be clearly not in compliance with national regulations at that time, and, assessing the company activities outside the project, a total of 10 of the 26 clients were considered to be non-compliant with national regulations. All of the eight projects that are non-compliant have an investment plan, or an EAP, to bring them into compliance if these plans are implemented.

As well as demonstrating that the environmental performance of clients is less than satisfactory, the results show that the EBRD is relying too much on reporting (AERs) from the clients. This often takes the form of short letters stating that they are compliant with national regulations rather than field visits. All of the clients surveyed reported that they are compliant but visiting the clients demonstrated a different situation. A project that continues to pay pollution fines to operate was not considered as being in compliance. This supports the point that, in order to properly monitor clients, the ESD needs to significantly increase the number of client visits.

It is considered that two of the projects will not achieve compliance with national regulations within the lifetime of the project (one of which simply because the EAP is not being implemented), and five of the 26 companies will not achieve overall compliance within the lifetime of the project.

Box 3.13: Case study

Examples of non-compliance with national regulations

A client involved in the expansion of an airport is committed to implementing its EAP but is behind schedule in relation to the implementation of a new wastewater treatment plant (needed, in particular, to treat water runoff from de-icing activities). The construction of the treatment plant has been held up for some time by the authorities who have to approve the plant design. As a result, the company is not in compliance with national regulations. This is an example where a company is committed but factors beyond its control mean that compliance is not currently possible.

A transport company currently has many inadequate HSE practices that are likely to be non-compliant with national regulations. The EBRD has agreed an appropriate EAP with the company but the company has little intention of implementing the EAP and is likely to remain non-compliant at the end of the project.

Several MEI projects in the water and wastewater sector are (or will be) compliant with national regulations but the wider activities of the companies are non-compliant. For example, the companies are not treating all the collected wastewater, which in many cases is discharged directly to a water course or the sea. Some of the companies have an investment plan that will bring them into compliance, but the investments will take many years.

A manufacturing company and a mining company were, that at the time of assessment, non-compliant with national regulations. However, the EBRD investments have a positive effect in that they concern specific environmental measures that will help the majority of the clients' activities to be brought into line with national standards. Although the environmental performance of these clients is currently less than satisfactory, the environmental change brought about by the EBRD project will be substantial.

Knowledge of national regulations

National regulations on environmental, health and safety and social (for example labour) aspects of company operations vary considerably across countries. It is difficult for companies to have a good knowledge of national regulations. One of the more proactive EBRD clients (in relation to improving HSE performance) has employed a team of lawyers to assess national environmental regulations so that the company can ensure its compliance. However, it is taking a long time for this company to understand the legal requirements.

It is difficult for clients to know about and understand national regulations. Therefore, it is all the harder for ESD staff to fully comprehend such regulations. EBRD staff (including the project team of this study) can only use their best judgement, based on knowledge of good practices, in assessing compliance and checking the relevant permits and other documents.

The use by the EBRD of more local consultants, who are more likely to have a better knowledge of the national regulations, should be considered for some due diligence and monitoring work. The ToRs for EIAs and audit reports should include a requirement to review relevant national regulations. In addition, TC projects that produce summaries of the most relevant legislation in different countries would be useful for the EBRD and its clients. Finally, more attention from the Legal Transition Team could benefit the environment sector. Many countries' environmental legislation is still based on command-control systems.

Enforcement of national regulations by authorities

47 out of the 63 clients (75 per cent) consulted stated that they have visits from most relevant monitoring authorities at least once per year. Only five clients (8 per cent) said that there are few monitoring visits.

Many clients state that they are compliant with national regulations because they have obtained the relevant permits. This also mirrors the wording in AERs. However, the following points demonstrate that the permitting and enforcement systems in many of the EBRD's countries of operations are not appropriate or reliable:

- In many cases authorities carry out their monitoring activities through calculations based on norms, rather than measurements and observations.
- There are several cases where EBRD clients stated that, to be compliant, they have to pay a fee and obtain a permit. This "fee" depends on the calculations of the monitoring authorities. It is possible that the permit process might lend itself to inappropriate practices in some countries.
- Many of the regulatory authorities in the countries of operations do not have the proper capacity to monitor compliance with the conditions of permits, particularly when reliable measurements are required of pollutant emissions.
- In several countries of operations many national regulations require standards that are difficult to achieve and may exceed EU standards. In these cases companies perceive the regulatory authorities to be just like tax collectors. This approach does little to encourage improvements in performance.

Working with the competent authorities

EBRD projects would benefit if the EBRD were to strengthen the relevant competent authorities that carry out monitoring and enforcement. Such capacity development programmes could be supported by TC funding. The EBRD's monitoring activities would be relieved in certain countries if the EBRD could rely on local authorities for ensuring compliance.

However, as demonstrated in the above points, major cultural changes are needed in monitoring and enforcement in many countries of operations. Nevertheless, there is scope in many EU countries for the EBRD to rely on local authorities that have been significantly strengthened in recent years. The EBRD could subsequently focus more of its resources on monitoring projects in Russia, NIS and ETC countries of operations.

In relation to communication with local authorities the EBRD's *Environmental Policy* states that:

"Where current operations are not in compliance with regulatory requirements and existing permits, the proposed actions and schedules for these areas of non-compliance should be agreed with the competent environmental and/or health and safety authorities."

However, there was only one clear example in the 26 projects that were visited where the EBRD had met with local authorities during planning. Nevertheless, EvD's understanding is

that meetings with regulatory authorities are routinely carried out when there are non-compliance issues and/or the projects involve significant HSE issues.

When the ESD contacts local authorities about a specific project or about potential wider capacity development programmes, it is important to be cautious and sensitive to the relationship with EBRD clients as clients could perceive the EBRD to be directing authorities towards monitoring them.

It will be important that a balanced approach is adopted with respect to communication with local authorities. However, when there are obvious discrepancies with national or international standards, it is the responsibility of ESD staff to point this out to the client.

Conclusions and recommendations on compliance with national regulations

Given the wording of the EBRD Environmental Policy, an unexpected proportion (at least 25 per cent) of the projects visited are considered to be non-compliant with national regulations. This indicates that the environmental performance of EBRD clients is currently less than satisfactory. All of these clients have EAPs that, if implemented, will bring the projects into compliance by the end of the project.

The results on environmental performance of clients in relation to compliance with national regulations should be looked at within a wider picture. For example, at some projects the environmental change as a result of the EBRD investments will be substantial, and although performance is currently less than satisfactory, many projects overall are positive. However, there is too much reliance by the ESD on accepting statements in AERs that confirm the company is in compliance with national regulations. In many cases, the permitting and enforcement systems in the EBRD's countries of operations are inappropriate.

It is difficult for clients and for the EBRD to know and understand the requirements of local regulations. The EBRD should consider the employment of consultants through major TC projects to develop summaries of legal and permitting requirements for supporting its clients and to assist with the EBRD's monitoring activities.

TC funding should also be used by the EBRD to strengthen the capacity of local authorities for monitoring and enforcement. In most countries of operations it is currently not possible for the EBRD to rely on the enforcement of regulations by local authorities, which generally have inadequate capacity and are operating within inappropriate regulatory frameworks. However, in EU countries there is potential for the EBRD to rely more on local authorities and therefore focus its monitoring resources on higher risk countries of operations.

Compliance with national regulations is one of the most important criteria in the EBRD's Environmental Policy in terms of environmental performance of clients and reputational risks to the EBRD. The EBRD Environmental Policy states that the projects must always be in compliance with national regulations. For operations in the MEI sector, meeting national standards may remain a challenge due to affordability constraints. For example, a major water and wastewater company might be making investments to improve standards but achievement of compliance with national regulations will take many years.

3.6.2 Compliance of projects with EU standards and relevant IFC safeguard policies

In addition to compliance with national regulations, the EBRD has requirements related to EU standards. The EBRD 2003 *Environmental Policy* states that:

“EBRD will require that projects be structured so as to meet: (i) applicable national environmental law; and (ii) EU environmental standards, insofar as these can be applied to a specific project.”

Most agreements with clients require the project activities to be compliant with applicable EU standards except where otherwise specified in the EAP. One of the aims of the EAP is to include actions that bring the project activities into compliance with EU standards.

Findings on compliance with EU standards

Results on compliance with EU standards

It was considered that 10 projects (40 per cent) of the 25 projects (excluding DLF/MCFF projects) assessed through site visit/desk studies were compliant with EU standards at the time of the visit. 15 projects (60 per cent) will be compliant by the end of the project.

This assessment is based on observations at the site visits and a review of progress in implementation of the EAP. This demonstrates that several clients are having difficulties achieving EU standards, and discussions with clients indicated that affordability is often the main problem, particularly for MEI projects.

26 (41 per cent) of the 63 clients consulted through the survey, visits and interviews stated that the implementation of EU standards has been beneficial to their organisation. 25 (40 per cent) of clients stated that they cannot immediately comply with EU standards but have an action plan to bring them into compliance. Only two clients (3 per cent) stated that the requirement to comply with EU standards is not realistic or affordable.

There was a mixed response from clients related to the usefulness of EBRD requirements. 12 (19 per cent) of the 63 clients consulted stated that EBRD requirements have not helped or have constrained their activities. 18 clients (29 per cent) stated that some requirements have been useful and some less useful, and the majority of clients (33 clients (53 per cent) were happy with EBRD requirements.

Uncertainties in the wording of the environmental policy

The EBRD 2003 *Environmental Policy* states that projects will be structured so as to meet EU environmental standards. The above findings indicate that a significant proportion (39 per cent) of projects visited is unlikely to achieve compliance in the lifetime of the project. There are ambiguities in relation to the wording of the policy statement, and it is unclear whether projects are “structured” to meet EU standards within the project lifetime or beyond that point. Members of the EBRD Board assume that projects are being structured to achieve compliance within the lifetime of the project. It is essential that the revised policy, future board papers and PSDs are clearer and more transparent on this aspect.

Knowledge of EU standards

Similar to issues relating to national regulations, there is a lack of client understanding of the detailed practical requirements of EU standards. It is difficult for clients (or the EBRD) to understand and keep track of such requirements, which regularly change as the EU brings out amendments to directives or adopts new directives.

As recommended for national regulations, there would be strong benefits for the EBRD to allocate TC money to consultancy projects to summarise (and keep updated) the requirements of the main EU standards that apply to projects. This would allow clients (and the EBRD) to be aware of the most relevant requirements.

The ESD is collaborating with the European Environment Agency on a handbook regarding EU standards. Without such background knowledge, which will help clients achieve the standards and the EBRD monitor performance, it is questionable whether it is practical for the EBRD to include such stringent standards in the policy.

MEI projects

Clients in the MEI sector have particular problems in complying with EU standards. These are usually municipal companies that are very often affected by low budgets and weak capacity. In some cases the EBRD project concerns a specific water supply pipeline. Here, the project itself can be clearly defined, and the achievement of standards for the project is likely.

In many cases however, the project boundaries are difficult to define and the municipal company is unable to afford EU standards in the foreseeable future. Yet, it must be noted that these projects are good examples in terms of overall social and environmental improvements.

For MEI projects, the EBRD Board has sometimes allowed derogations from the Policy in relation to EU standards provided that the project will have a positive effect on public health. This is a sensible approach. It is unclear how these derogations should be handled in the context of the Bank's *Public Information Policy*.

However, the EBRD's overall approach related to HSE/Social aspects of MEI projects is inconsistent, particularly in terms of derogations but also in terms of the EAPs developed. Whereas one company visited had an EAP that only applied to construction of the pipeline under EBRD investment, another company had an EAP that was equivalent to a wider investment programme across the company but was not affordable. In most cases, a municipal water company will need to develop an investment programme covering step-by-step improvements in water and wastewater services over a number of years and taking into account affordability. These investment programmes would typically run over 10 to 15 years, and the EBRD project (or projects) will only be one part of the programme. It is important that the Policy is developed to take this approach into account. Also, it is important that the EBRD Project Summary Documents are more transparent in relation to the standards to be achieved by MEI projects.

Conclusions and recommendations on compliance with EU standards

Many of the EBRD's clients are finding it difficult to achieve EU standards within the lifetime of the project, particularly those clients in ETCs. However, there are many examples of

positive environmental change, and more than 50 per cent of the clients that were consulted are positive about the usefulness of the EBRD's requirements.

There are uncertainties and ambiguities about the policy statement on EU standards, particularly whether the standards should be achieved within the lifetime of the project. The revised policy needs to be clear on this, and future project documents need to be more transparent.

There would be strong benefits for the EBRD in allocating TC money to help clients (and EBRD monitoring specialists) to gaining a better understanding of the relevant EU standards.

Based on the discussions with clients during visits, many are having difficulties with the affordability of the EU requirements. If the EBRD are to continue to require EU standards, it is important that the EBRD looks for more opportunities to include the costs of EAPs into a loan, particularly for projects in NIS/ETC countries where affordability is particularly difficult.

In those countries of operations that have joined the EU, the national regulations are now equivalent to EU standards, although some countries have agreed time periods during which the standards will be fully implemented and enforced. In these countries the EBRD's requirements for achievement of EU standards are appropriate but also potentially confusing. As the laws and regulations in these countries come into full compliance with the EU, it would be clearer to simply refer to national law in the legal documents.

For some smaller direct investment projects such as DLF projects in ETCs (section 3.6.3) the EBRD has relaxed its policy requirements to necessitate compliance with national regulations but not with EU standards. This is a sensible and flexible approach.

Overall the EBRD is right to require high standards of HSE/Social performance from projects. This is supporting positive change but there should be some transparent flexibility for specific project types. For larger projects in NIS/ETC countries many clients will require much more EBRD support if they are to achieve EU standards in the lifetime of the project.

3.6.3 DLF and other financial instruments

The EBRD has a number of financial instruments in addition to loans for specific investment projects, including the DLF and the MCFF. These types of projects have been assessed in this study, and analysis, conclusions and recommendations are provided in this section. The sample selection was based on the number of investments within the Bank's portfolio rather than investment size.

This may appear to have created an over representation of DLF/MCFF projects within the sample but is reflective of the future direction of the Bank as it moves east and south. The review brought to light some important findings. These are also projects where the Bank's additionality through achieving positive environmental change is significant.

Direct lending facility

The DLF was established by the EBRD in March 2004 to provide smaller loans to local private companies in ETCs (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova,

Mongolia, Tajikistan, and Uzbekistan). The limits of the loans under the facility are €0.5 million to €4 million.

The DIF was set up in 1998 and is similar to the DLF except the operations involve equity. There were seven DLF deals signed in 2006 and four DIF deals. DLF/DIF have been spread among the different ETCs although there have been a high proportion of DLF deals in the Kyrgyz Republic.

Overall, the DLF provides the Bank with a financial instrument to meet the growing demand for medium-sized loans in ETCs. These investments have the potential to generate further private sector investments, often having an overall positive local socio-economic impact (for example, in terms of employment, positive impacts on suppliers, etc) in areas that have high social challenges and development needs.

OLs and ESD specialists at the EBRD think that the environmental due diligence procedures are “fast-tracked” for DLF projects. This is true according to board documents and other documents related to the DLF. The key points in DLF documents related to the management of HSE/Social aspects of the DLF are:

- The DLF instrument has been categorised as C/0 by the EBRD.
- The environment section of the board paper on the DLF states that individual projects are to be appraised, in the first instance through an environmental questionnaire that should be completed by borrowers seeking a loan under the DLF. The board paper states that, where necessary, additional analysis will be carried out and EAPs will be developed and agreed.
- The environment section of the board paper recognises that the DLF is addressing priority projects in least developed countries and that a simplified process with respect to management of HSE/Social aspects is required. Therefore, borrowers are required to comply with national HSE standards as a minimum. In addition, borrowers should comply with national labour laws and ILO standards on child labour, forced labour and discrimination at work.
- Higher risk DLF projects will be audited and the EBRD will agree on an EAP with the clients to meet the required standards in an acceptable timeframe.
- In addition, clients should provide the Bank with an annual environmental report on environmental, health and safety and social issues.
- Projects are approved by the Operations Committee rather than the Board.

The DLF was originally approved by the Board of Directors in March 2004. It was allocated €20 million and an additional €20 million was approved by the Board of Directors in March 2006. There has been a further €30 million in 2007.

The ESD prepared an environmental summary when the DLF was expanded. The suggestion that environmental due diligence is expanded for DLF projects represents a main addition to the recent environmental summary (March 2007). The suggestion is made because companies were found to have limited understanding of HSE/Social issues if environmental due diligence is not systematically performed.

The DLF is playing an increasingly important role as a financial instrument since the Bank is expanding its operations in the ETCs. The DLF was introduced after the last update of the

Environmental Policy (2003), and the review of environmental performance has included the DLF. As part of the study, five DLF projects were visited, including:

- an agribusiness project in Central Asia
- an agribusiness project in the Caucasus
- a mining project in the Caucasus
- a tourism project in Central Asia
- a property project in Central Asia.

Findings on DLF

It is evident that an important aspect of the DLF operates outside the EBRD 2003 *Environmental Policy* because of the requirement for clients to comply with national regulations rather than EU standards. Although this is clearly stated in the latest board paper for the DLF and has been agreed by the Board, it is preferable for a policy to have the capacity to cover all financial instruments and activities of the Bank.

This related to the recommendations for the policy consisting of an over-arching set of guiding policy principles backed by specific objectives, targets and operational plans. The policy principles would be flexible to allow future financial instruments, such as the DLF, to be introduced and appear within the policy framework.

There has been a problem with the categorisation of the DLF (and the DIF and the MCFF) projects. Several of these projects are being categorised as A by mistake, when in fact many of these are simple construction projects for which category B or C is more appropriate. The lack of involvement of the ESD in planning projects suggests that the wrong categorisation is being assigned elsewhere in the system. For example, there were 11 DLF/DIF/MCFF projects categorised as A in 2006. It is unclear whether EBRD reporting on the different number of projects in each category, as in the EBRD *Sustainability Report*, includes some of these DLF/DIF/MCFF projects.

In addition, although several projects clearly assume a lower priority within the ESD, several cases have been identified where it is apparent that the environmental questionnaire was not completed or annual environmental reports have not been provided for DLF projects. It is understood that the ESD is taking steps to address these shortfalls.

Box 3.14: Case study

Positive transition impact and additional environmental benefits of a DLF project in the Caucasus

The DLF does produce one of the most positive examples of projects visited in terms of additionality and transition aspects. The mining project in the Caucasus is a good example of a small loan that has been used to directly invest in significant environmental improvements at the client. At the time of the deal the client was a long way from complying with national HSE legislation.

If the EBRD had stuck rigidly to its *Environmental Policy* and required a project structure to comply with the EBRD policy standards, then the project would not have gone ahead (probably both the EBRD and the client would have pulled out). The project has been planned in detail with respect to HSE improvements and follow-up monitoring is being carried out proactively by the EBRD in this case.

Since the deal there has been further external investment in the company, which has been taken over by a larger parent company that also sets high standards of HSE performance. The EBRD involvement has kick-started improvements in HSE management that have since accelerated.

The project presents an excellent example where the achievement of EU standards would not have been realistic (except in the long-term) at the site. Therefore the EBRD's more flexible approach through the DLF, requiring an action plan to achieve compliance with national regulations, is sensible.

Box 3.15: Case study

Appropriate provisions in a DLF loan agreement

For one DLF project, an agribusiness client in the Caucasus, the loan agreement that was reviewed had particularly appropriate and simple provisions on HSE/Social issues, including:

- assignment of responsibility to an employee for HSE/Social aspects
- accreditation to ISO 9001
- compliance with national regulations
- implement environmental management systems
- implement health and safety emergency response plans
- comply with national employment laws and relevant ILO standards.

Although a timeframe for implementation would have been beneficial, the requirement for annual environmental reporting should be added to the provisions, and different provisions should be tailored for each project. The above example demonstrates how simple requirements can be included in a loan agreement for DLF projects.

Conclusions and recommendations on DLF and DIF

Based on the findings from the review of a selection of DLF projects, a number of recommendations are provided in relation to HSE/Social aspects on the DLF and DIF projects:

- *These and future such facilities should in some way all be covered by the revised Environmental Policy and the approach of developing the policy as a set of guiding policy principles will help to cover similar future instruments.*
- *Compliance with EU standards is unlikely to be appropriate/realistic for many of these clients in the ECTs, and this more flexible approach to requirements on*

HSE/Social aspects is sensible and could often lead to major additional benefits as in the mining project visited in the Caucasus.

- *The ESD and banking teams should ensure that the environmental questionnaire is completed by clients for every DLF/DIF project. This will facilitate a short analysis of the potential positive and negative HSE/Social aspects and should be carried out for every DLF/DIF project by the ESD.*
- *Categorisation should be carried out by the ESD on all DLF/DIF projects based on the environmental questionnaire and other information available at the time.*
- *For most clients under DLF/DIF instruments the due diligence is unlikely to identify serious HSE/Social aspects, and basic loan covenants can be included into the deal.*
- *It is appropriate that these clients are first required to comply with national regulations. The EBRD can encourage further improvements in performance from there. The approach to requirements for clients with significant HSE/Social aspects could include an action plan to bring client HSE/Social activities into compliance with national regulations in the short-term (typically one to two years), implementation of appropriate HSE management systems in the medium term (typically two to three years) and compliance with EU and relevant international standards in the longer-term.*
- *However, it is essential that the EBRD proactively follows up on action plans and facilitates and follows up annual environmental reporting by clients for DLF/DIF projects.*

Overall, these types of facilities in ETCs are additional and have positive transition impact because they are facilitating higher standards of business and HSE/Social performance of clients. As well as generating increases in employment and local socio-economic benefits (for example, strengthening local suppliers), this often generates the interest of other investors allowing companies to continue to develop.

Medium-sized co-financing facility

The MCFF is significant in terms of number of projects in some of the ETCs. A total of seven MCFF deals were signed in 2005 to 2006 (five in Georgia and two in Armenia). One MCFF project in Georgia was visited during this study, and the HSE/Social aspects of MCFF projects were discussed with several EBRD OLs.

MCFF loans are made via local banks for medium sized projects of up to €8 million. The local banks themselves lend 50 per cent. HSE/Social aspects are reportedly given a lower priority for MCFF projects by the EBRD than for the larger deals. In fact, many of the local banks involved are also operating under an EBRD loan and thus their portion of the funding is already subject to the EBRD's FI procedures. Indeed, EBRD risks imposing two different set of procedures on the same sub-project.

The fact that the loans are made via local banks means that the EBRD can treat these MCFF projects as FI deals in terms of environmental category. This would require the partner local bank to ensure that the client complied with national standards, and that the client assigned a member of management with responsibility for HSE/Social aspects.

The partner bank would then be required to monitor the performance of the client. Although this would lower the standards to national rather than EU standards, this would provide more risk management for these MCFF projects than is currently happening (at present the ESD has very little involvement).

The exclusion and referral lists for FIs would be used, and there would still remain an opportunity for the OL to identify whether a project is high risk at the planning stage and to involve the ESD. EU standards could then be included in the agreements for some specific projects although most are likely to be low risk.

According to the Project Summary Document published in 2003 on the MCFF, the environmental categorisation of the overall facility is FI, and the environmental procedures for lending through local banks will apply. As suggested above, this is actually a sensible approach for MCFF projects.

However, this approach does not seem to have been taken forward and MCFF projects have not been treated as FI deals. For example, the seven MCFF projects have all been categorised as A or B (there are five A categories and two B categories), which are generally inappropriate categorisations.

The procedures concerning MCFF projects have so far been inconsistent and inappropriate but there is potential for relatively simple change if the MCFF projects are managed under the environmental procedures for FIs.

4. SUMMARY OF THE MAIN RECOMMENDATIONS

This section provides a summary of the most important specific recommendations from the study.

Policy framework

It is recommended that the EBRD adopt a more structured policy framework. At present the EBRD *Environmental Policy* is a mix of policy statements, supporting explanations and procedural approaches. It is recommended that the policy be significantly shortened into a set of guiding principles and strategic commitments that would not need major changes in five or more years and which would cover all activities and financial instruments of the Bank.

One of the major gaps at the moment is the lack of objectives and targets associated with the policy, and these need to be developed by the EBRD in order to drive improvements in implementation and against which the performance can be measured and properly reported. These objectives and targets could be separate from the policy and could be updated on an annual basis.

In addition, the policy framework would need an operational plan consisting of revised environmental procedures, as well as clearly defined roles and responsibilities, staff resources and budgets. Parts of the operational plan would also be updated on an annual basis and tied to the budget/staff resource allocation.

This change in approach will provide a clearer and more structured policy framework that will generate a better understanding of the *Environmental Policy* by EBRD's staff, clients and other stakeholders. It will be a far more suitable framework within which the other essential recommendations can be implemented so that EBRD can implement its environmental policy more effectively.

EBRD resources for policy implementation

Action is needed to address the shortfalls in resources at the ESD, particularly the gaps in resources in health and safety and social specialist skills. Without an increase in resources, effective implementation of the *Environmental Policy* will not be possible.

In 2003, the Board approved the addition of the three social safeguards policies without allocating additional staff to implement these new policy objectives. As stated above, the new policy should include an operational plan. Resource constraints can and should be addressed at various levels in the Bank. For example, the OGC should consider hiring an environmental lawyer to ensure consistency across transactions.

As there is increasing use of donor funds in ETC countries and these are the countries that need to be given higher focus, it would make sense to hire local environmental experts under ETC funding. If the ESD is to take a "business approach" to environmental investments, the team will need bankers who can work with environmental and social staff to bring new investments or project add-ons to the Board, very much like the Energy Efficiency Team.

These projects should focus on building the business case for pollution prevention/minimisation. Finally, the ESD has begun to contract out its project monitoring function and this could be expanded.

At present the methods and tools in the project cycle are not being consistently applied across the ESD, and a more structured approach, with procedures and tools that are closer to a total quality management system, is needed within the new policy framework.

The EBRD is operating in countries with challenging financial, political and practical situations. If the EBRD is serious about effectively implementing *its Environmental Policy* in these countries, the Bank needs to increase internal budgets for travel of ESD specialists to projects for early visits to identify additional environmental benefits and environmentally-oriented investments and for increased monitoring visits to support clients. Also, the ESD needs to recruit more ESD specialists, in particular with skills and experience in health and safety and social aspects, and also appoint ESD specialists in some resident offices in line with the more hands-on approach that is needed.

EBRD requirements for Clients

The EBRD has set high standards for environmental performance in terms of requiring clients to achieve EU standards. However, many clients are clearly having difficulty in understanding and/or achieving these standards within the lifetime of the projects.

In some countries of operations, for example those countries that are now members of the EU, the EBRD requirements are being implemented more effectively. However, in some other countries, for example ETC, many clients are currently unable to afford to implement these standards and the enabling environment may also make it difficult to impossible.

Although it is correct for the EBRD to aim for high standards in order to drive change, the EBRD should consider varying the timescale of implementation for different types of countries in the same way as it has different types of financial instruments that are tailored to take into account the different situations in different countries (for example, DLF in ETCs). This is in line with the EU's own policy, which sets different timeframes for EU members, EU ascension countries and non-EU countries.

In relation to the timeframe for achievement of the standards the policy implies that this will be within the lifetime of the project. However, this is not clear and there are differing opinions within the EBRD. Also, there is a lack of clarity in relation to the boundaries for which the EBRD requirements apply to a client.

For example, in relation to wastewater and solid waste generated by project activities, the boundaries to which the EU standards should apply are uncertain, and many municipal wastewater treatment plants and solid waste disposal facilities in the EBRD's countries of operations do not meet EU standards. For this reason, the MEI team is increasingly requesting derogations against the *Environmental Policy*.

The EBRD should be more specific and transparent in the policy about the time frames and boundaries of the requirements. For individual projects, the exact time frames and boundaries can be specified at the time of preparation of the environmental summary, and they should be clearly stated in the board paper and Project Summary Document.

Currently, the environmental section in the Bank's board papers is both limited and the style is formalised, with very similar paragraphs appearing in quite different projects. In the interest of greater clarity, EvD argues that the environmental section of the board documents be expanded and that project budgets contain a specific line item for environment which can then be audited year-on-year.

For example, many board papers, and subsequently loan agreements, simply state that EU standards apply but it is often not clear to the clients which standards they need to follow. EU environmental standards are primarily written for national/regional governments and often do not give clear guidance to private investors. Further, in imposing EU standards, it is not always made clear to the client what the cost implications are.

Indeed in a few cases it is not even clear that the banking/ESD team understood the cost implications. Affordability is a particular issue for MEI projects, where the cost of full EU compliance for solid waste, for example is €23 per ton while many of our solid waste projects are budgeted at less than €5 per ton. These projects offer very considerable and positive environmental change but compliance with EU standards is simply not affordable.

Thus, EvD argues for open and frank discussions with the civil society (via the public disclosure phase) and the Board as to what is meant by compliance with EU standards. This is confusing and misunderstood by various stakeholders and it needs to be resolved.

In terms of specific requirements for clients, as a first step, it is recommended that all clients are required to appoint a senior person with responsibility for HSE/Social management activities, including overall responsibility for implementation of the EAP, and selected clients are required to implement HSE/Social management systems.

EBRD's approach to policy implementation: building the business case

The EBRD's approach to implementation of its *Environmental Policy* mainly focuses on risk management, and the recommendation to focus on additional environmental benefits and environmentally-oriented investments will help with more effective implementation of the policy. This business approach to environmental investments will help to generate better cooperation between OLs and the ESD.

The new approach to a more structured policy framework, recommended above, will help with this shift away from the risk management approach. For example, objectives and targets can be set in relation to environmental investments.

In addition, it is recommended that the ESD change its day-to-day approach to provide more support and advice to clients. When major support is needed by clients for implementation of improvements, the EBRD should be making more use of opportunities for technical cooperation funding.

At present, there is minimal use of TC in relation to HSE/Social aspects except for wider TC on MEI project implementation and TC related to energy efficiency investment projects. There are few other examples of the use of TC for private sector clients, many of which are having basic problems with implementation of EAPs, and provision of support for specific time periods would help to resolve these problems.

The most obvious examples for TC that would have immediate impact are health and safety training programmes to private sector clients, expanding monitoring programmes and setting

up overall systems for the ESD to provide more support to clients (for example, developing materials, manuals, lists of existing guidelines and web sites and so on). The ESD would benefit from an overall strategy for use of TC.

The EBRD project cycle

Although the ESD needs more resources in order to implement the *Environmental Policy*, there are major changes that can be made to improve the effectiveness of the activities related to HSE/Social aspects within the project cycle.

In particular, there are many examples where there has been detailed analysis and planning in setting up projects, including the agreement of an appropriate environmental action plan (EAP) with a client, but then there has been insufficient monitoring and support after many projects have been signed, and as a result the actions are not being implemented or are a long way behind schedule. ESD specialists and OLs need to look for opportunities to discuss the commercial benefits with clients that would result from implementation of the improvements and to building the commitment of senior management at the clients to proper implementation.

The same outcome – compliance – can be achieved but via an “opportunities” approach rather than a regulatory approach, keeping the latter as a back-up option. There are many cases where the ESD has waived the due date for an annual environmental report but no examples of where the ESD has written a waiver for a delay on meeting standards and implementation of EAPs (although several EAP have had to be updated), which potentially gives a false impression of full compliance.

Although there have been several examples of detailed planning of environmental improvements at clients, particularly related to more traditional environmental aspects (biodiversity and pollution related), gaps have been identified in relation to identification of potential problems on health and safety and social aspects, and there is a lack of planning of improvements in these aspects in EAPs. It is recommended that EBRD pays more attention to these aspects through better training of staff, recruitment of specialists and use of external specialists as appropriate.

In addition, ESD should be more regularly using more consistent tools, protocols, check-lists, etc, that include health and safety and social aspects. For example, an “Environmental Audit” currently ranges from a questionnaire completed by the sponsor, to a site visit made by a staff member, to a fully independent audit carried out by a third party with certified environmental audit specialists. Based on the nature of the project, all may be appropriate, but should be differently defined.

The existing EBRD Environmental Procedures need to be more consistently used, and expanded to include more such tools. For example, the guidance Terms of Reference (ToRs) for EIA and audit work should be expanded to include more details on health and safety and social aspects, and should be more consistently used (there were several cases observed that indicate that these tools are not often being used).

These guidance ToRs should also include a task for audit teams to assess the capacity and commitment of management at the clients to the implementation of the EAP, and the capacity of local regulatory authorities to properly and effectively monitor the performance of the project.

In many cases, the analysis during due diligence involves a desk study by ESD or one short visit to a client by ESD. Although these are often the most appropriate options for the lower risk projects, these types of projects are being categorised as “1” in terms of the category for auditing. Many of the EBRD Board and external stakeholders are likely to have the perception that a full independent audit was carried out. The project documents need to be more transparent on the type of audit that was carried out.

In addition, the perception of the categorisation system (A, B, C) differs between stakeholders. The audit categorisation (0, 1) may be more important and relevant to planning the management of potential impacts, and while the A, B, C refers more to consultation requirements. However, the perception of external stakeholders is that the A, B, C is the most important in relation to potential impacts, as is also defined in the policy.

The EBRD needs to ensure a clearer and more consistent perception and use of the categories. It is understood that the ESD is working on reducing these uncertainties in categorisation in the revised policy.

Some cases have been identified where there are uncertainties whether a private sector project that has been categorised as B or C should have been categorised as A or B in EvD’s opinion. In these cases the planning has been appropriate and the risks are being effectively managed.

However, if they had been categorised as A, the consultation requirements would have been much more stringent but not appropriate for some of these types of private sector projects (one of which was specifically for environmental improvements at a plant and the extra consultation would have delayed these essential improvements). It is important that the EBRD ensure correct categorisation and, in particular, provide opportunities for flexibility in private sector projects in relation to the detail of requirements for consultation.

The implementation of improvements would be greatly helped if a standard format was consistently used for environmental action plans, including clear responsibilities, costing and deadlines. This format and use of EAPs should also be developed to ensure clients treat them as living documents and update them regularly.

Clients should be required to attach an updated EAP to their AER (that is to provide a status report), which would help the ESD with monitoring activities. At present, the majority of AERs are not providing sufficient information to assess accurately the client performance.

There have been shortfalls in monitoring activities by the ESD. This is one of the reasons why many clients are behind schedule with implementation of the EAP. The recruitment of a specialist to plan and coordinate monitoring activities is helping, and the ESD has been increasing the number of monitoring visits (both with staff and consultants) and has developed a risk-based triage system but further significant increases are needed.

Specific actionable recommendations are summarised below:

- It is timely and the Bank should update its 2003 *Environmental Policy*. The new policy should have a more structured approach providing guiding principles, objectives and targets (for example, carbon neutrality). Further, the new policy should be supported with operational plans, procedures, budget, and staffing. The draft new policy reflects this recommendation.
- Within the context of the review of the new policy and in conjunction with the Board, civil society, governments, and clients, the Bank should consider the

question of what standards are appropriate as the Bank moves east and south. There have been a series of derogations to the existing policy for MEI projects many of which are deemed unable to meet EU environmental standards.

The findings of this study also suggest that EU standards, while a desirable goal, may not be achievable for some clients during the life of the EBRD financed project. Having a policy that requires repeated derogations suggests that something is not working. The Bank should consider a more phased approach across the region.

- The study team observed some confusion on the use of the Bank's two-level categorisation process (A, B, C, FI and 0, 1) and felt that some projects had been wrongly categorised, particularly with respect to category C projects. Further, the instruments that the Bank uses are constantly changing, with increasing use of equity, bonds, etc.

It is not clear that the current system is working nor are current categorizations working for certain types of instruments, (for example, equity, DLF and so on) The categorisation system should be reviewed. EvD's understanding is that the new policy will take a different approach to categorization. In this context, the Bank should provide greater specificity to the annex in the current policy, and should also address the issue of the "area of influence".

At the project specific level, EvD also recommends that the "exclusion list," which currently only applies to FI projects, be extended to all projects. Further, as with FI clients, it is recommended that category A and B project sponsors be encouraged to appoint an environmental manager and develop corporate environmental policy and management plans as part of their good governance structures.

- Internally, there is a miss-match between need and capacity. The Bank needs to allocated more resources:
 - To effectively implement the new policy, the ESD team needs additional staff and technical resources, specifically in the areas of health and safety and social impacts.
 - Environmental staff capacity should be located in regional offices (either by reallocating staff, hiring locally and/or making better use of local consultants).
 - There should be greater separation between the "project support" and the "control" functions within the ESD.
 - To more effectively implement the new policy, the OGC should appoint a full time environmental lawyer to provide overall control of legal agreements.
 - The Legal Transition Team should consider developing expertise to work with governments on environmental regulatory reform.
 - Much greater emphasis needs to be placed on monitoring to ensure that the Bank gets the "environmental benefits" it expects from the projects as "structured" via EAPs and other instruments. The ESD should be allocated a travel budget to allow for more extensive monitoring.
- ESD needs to move towards a TQM system with more structured products (audits, EIA, EAPs, AERs and so on). The team needs to move away from a risk-prevention

procedural approach towards adding value and be more integrated into the banking teams.

The ESD should focus more in its screening of projects on identifying environmental investment opportunities, thus making the *Business Case* for environmental investment opportunities. The EvD understands that this will be part of the new approach.

- Finally, the current *Environmental Performance* and *Environmental Change* indicators should be combined into an *Environmental/Social Impact* indicator, in parallel to the *Transition Impact* indicator and should be tracked every six months. This will provide a better balance between achieving compliance and contributing to positive change and look more broadly at national/regional environmental quality, thus also addressing broader issues such as climate change.

Appendix 1

Survey Questions

Background on Client / Project

Question	Answers
1. Name of Organisation	
2. Country	
<p>3. Please give a brief description of the EBRD-financed project.</p> <p><i>Examples: loan for upgraded process line at factory, loan for new vehicles, loan for new office site, loan for working capital, 10% equity, etc.</i></p>	
4. Name of main contact person at your company/ organisation for the deal with EBRD	
5. Job title / role of this main contact person	
6. Name of person completing this survey	<input type="checkbox"/> Same as above
7. Job title of person completing this survey	<input type="checkbox"/> Same as above

Project Planning and Design

Question	Answers
<p>8. Were the EBRD's Environmental Policy and Procedures clearly explained to your company/ organisation at an early stage in your dealings with the EBRD?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> Partly <input type="checkbox"/> No <input type="checkbox"/> Don't know
<p>9. What are the main environmental, social, health and safety risks associated with the EBRD-financed project? (please tick up to 3 boxes)</p>	<input type="checkbox"/> Air pollution. <input type="checkbox"/> Water pollution. <input type="checkbox"/> Water use. <input type="checkbox"/> Solid waste. <input type="checkbox"/> Impact on local biodiversity. <input type="checkbox"/> Energy use. <input type="checkbox"/> Noise. <input type="checkbox"/> Occupational health and safety. <input type="checkbox"/> Employment / labour issues. <input type="checkbox"/> Social impacts on the local community. <input type="checkbox"/> Health impacts on the local community. <input type="checkbox"/> Risks related to environmental, social, health and safety performance of suppliers. <input type="checkbox"/> Regulatory compliance. <input type="checkbox"/> Other. <input type="checkbox"/> No risks. <p style="text-align: right;">If other, please specify:</p>
<p>10. What are the main environmental, social, health and safety benefits associated with the EBRD-financed project? (please tick up to 3 boxes)</p>	<input type="checkbox"/> Pollution reduction. <input type="checkbox"/> Energy efficiency. <input type="checkbox"/> Reuse and recycling. <input type="checkbox"/> Clean up of contaminated land. <input type="checkbox"/> Environmental, health and safety management systems. <input type="checkbox"/> Improved health and safety. <input type="checkbox"/> Reduced number of accidents. <input type="checkbox"/> Increased employment. <input type="checkbox"/> Social benefits to the local community. <input type="checkbox"/> Cost savings. <input type="checkbox"/> Reduced fees and fines. <input type="checkbox"/> Other. <input type="checkbox"/> No benefits. <p style="text-align: right;">If other, please specify:</p>
<p>11. During project planning did Environmental Staff / Consultants from the EBRD visit your organisation to discuss environmental, social, health and safety aspects?</p>	<input type="checkbox"/> Yes, more than one visit <input type="checkbox"/> Yes, one visit <input type="checkbox"/> No <input type="checkbox"/> Don't know
<p>12. Does the agreement with the EBRD contain legal covenants/ provisions related to environmental, social,</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Don't know

<p>health and safety requirements?</p>		
<p>13. If yes, what do these covenants/ provisions cover? (you can tick more than one box)</p>	<input type="checkbox"/> Environment <input type="checkbox"/> Occupational health and safety <input type="checkbox"/> Social issues (e.g. labour issues) <input type="checkbox"/> Don't know <input type="checkbox"/> Not applicable	
<p>14. If yes, what parts of your activities/facilities do these covenants/ provisions apply to?</p>	<input type="checkbox"/> Just the activities/facilities related to the EBRD investment. <input type="checkbox"/> All activities/ facilities of the company/ organisation. <input type="checkbox"/> Don't know. <input type="checkbox"/> Not applicable.	
<p>15. Did the project planning include development and agreement with EBRD of an action plan to achieve your environmental, social, health and safety commitments?</p>	<input type="checkbox"/> Yes, a fully budgeted action plan. <input type="checkbox"/> Yes, although the costs of the actions were not calculated in detail. <input type="checkbox"/> No <input type="checkbox"/> Don't know	
<p>16. Does the action plan include commitments to enhance environmental, social, health and safety benefits beyond compliance with legislation?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Don't know <input type="checkbox"/> Not applicable (no action plan)	
<p>17. If yes, please specify. (you can tick more than one box)</p>	<input type="checkbox"/> Process changes and enhancements. <input type="checkbox"/> Health and safety training to employees. <input type="checkbox"/> Improvement in labour / human resource policies. <input type="checkbox"/> Investments in the community and/or improved policies towards indigenous peoples. <input type="checkbox"/> Energy efficiency improvements / actions related to climate change. <input type="checkbox"/> Waste reuse and recycling. <input type="checkbox"/> Improved site management / housekeeping. <input type="checkbox"/> Improved working conditions. <input type="checkbox"/> Implementation of health, safety and environmental management systems. <input type="checkbox"/> More attention to cultural heritage. <input type="checkbox"/> Improved environmental and social reporting to stakeholders and disclosure of information to the public. <input type="checkbox"/> Other. <input type="checkbox"/> Not applicable.	<p>If other, please specify:</p>
<p>18. Does your company/ organisation have policies and/or procedures on environmental, social, health and safety aspects of your activities/ facilities? (you can tick more than one box)</p>	<input type="checkbox"/> Environmental Policy / Procedures.	<input type="checkbox"/> Adopted as a result of EBRD requirements / advice.
	<input type="checkbox"/> Labour Policy / Procedures.	<input type="checkbox"/> Adopted as a result of EBRD requirements / advice.
	<input type="checkbox"/> Health and Safety Policy / Procedures.	<input type="checkbox"/> Adopted as a result of EBRD

<p>Also, please indicate if the adoption of any policies/ procedures was a result of EBRD requirements/ advice.</p>			requirements / advice.
	<input type="checkbox"/> Public Consultation / Information Policy / Procedures.	<input type="checkbox"/> Adopted as a result of EBRD requirements / advice.	
	<input type="checkbox"/> Other relevant policies / procedures.	<input type="checkbox"/> Adopted as a result of EBRD requirements / advice.	
	If other, please specify:		
<input type="checkbox"/> No such policies/ procedures			
<p>19. Does your company/ organisation have Management Systems on environmental, social, health and safety aspects of your activities/facilities, and are they certified? (you can tick more than one box)</p> <p>Also, please indicate if these Management Systems were set up as a result of EBRD requirements/ advice.</p>	<input type="checkbox"/> Environmental Management System (e.g. ISO 14001).	<input type="checkbox"/> Certified. <input type="checkbox"/> Application for certification in progress. <input type="checkbox"/> Not certified.	<input type="checkbox"/> Management System set up as a result of EBRD requirements / advice.
	<input type="checkbox"/> Health and Safety Management System (e.g. OHSAS 18001).	<input type="checkbox"/> Certified. <input type="checkbox"/> Application for certification in progress. <input type="checkbox"/> Not certified.	<input type="checkbox"/> Management System set up as a result of EBRD requirements / advice.
	<input type="checkbox"/> Management System on Social Aspects (e.g. SA 8000).	<input type="checkbox"/> Certified. <input type="checkbox"/> Application for certification in progress. <input type="checkbox"/> Not certified.	<input type="checkbox"/> Management System set up as a result of EBRD requirements / advice.
	<input type="checkbox"/> No such management systems.		

<p>20. Does your company/ organisation have a role for a senior person (or persons) with specific responsibility for environmental, social, health and safety management?</p> <p>Also, please indicate if this role was set up as a result of EBRD requirements/ advice.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> The role was set up as a result of EBRD requirements / advice.
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Project Implementation

Question	Answers
<p>21. What is the progress with implementation of the action plan on environmental, social, health and safety commitments that was agreed with EBRD?</p>	<input type="checkbox"/> Full progress within agreed timescales. <input type="checkbox"/> Some actions implemented, some not implemented, within the agreed timescales. <input type="checkbox"/> Most actions not implemented within the agreed timescales. <input type="checkbox"/> Don't know. <input type="checkbox"/> Not applicable.
<p>22. How is the Action Plan being funded? (you can tick more than one box)</p>	<input type="checkbox"/> Funded as part of the EBRD loan. <input type="checkbox"/> Funded by our organisation. <input type="checkbox"/> Other sources of funding (e.g. loans from other banks, etc). <input type="checkbox"/> There are difficulties obtaining funding for implementation of the actions. <input type="checkbox"/> Not applicable.
<p>23. As far as you are aware, are your activities/ facilities compliant with the national environmental, social (e.g. labour) and health and safety legislation and standards in your country?</p>	<input type="checkbox"/> Yes, all activities/ facilities. <input type="checkbox"/> Only those activities/ facilities related to the EBRD-financed project. <input type="checkbox"/> No <input type="checkbox"/> Don't know <input type="checkbox"/> Not applicable.
<p>24. Does your organisation receive visits from local regulatory authorities on environment, social (e.g. labour), health and safety, to monitor your environmental compliance?</p>	<input type="checkbox"/> Yes, most relevant authorities make monitoring visits at least once a year. <input type="checkbox"/> Some relevant authorities make monitoring visits, but infrequently. <input type="checkbox"/> There are very few monitoring visits. <input type="checkbox"/> Don't know <input type="checkbox"/> Not applicable (there are no operations to monitor yet).

Support from EBRD on Environmental Management

Question	Answers
<p>25. How do you communicate with EBRD on environmental, social, health and safety aspects? (tick one box)</p>	<p><input type="checkbox"/> Our main communication on these aspects is at times of visits by EBRD environmental staff.</p> <p><input type="checkbox"/> We communicate directly with a member of EBRD's Environmental Department in London.</p> <p><input type="checkbox"/> We communicate with the Operation Leader / Banker at EBRD on these aspects.</p> <p><input type="checkbox"/> There is little communication on these aspects, except we submit Annual Environmental Reports.</p> <p><input type="checkbox"/> There is no requirement for communication on these aspects.</p>

Environmental Monitoring, Information Disclosure and Reporting

Question	Answers
<p>26. Has EBRD monitored the management of environmental, social, health and safety aspects of your activities/ facilities since the commencement of the EBRD-financed project? (tick one box)</p>	<p><input type="checkbox"/> Yes, a visit from EBRD environmental staff/ consultants.</p> <p><input type="checkbox"/> The EBRD Operation Leader / Banker sometimes discusses these aspects when visiting, amongst other topics.</p> <p><input type="checkbox"/> EBRD enquire about these aspects, but only in correspondence.</p> <p><input type="checkbox"/> No monitoring by EBRD of these aspects.</p> <p><input type="checkbox"/> Not applicable because financing has not yet started.</p> <p><input type="checkbox"/> Don't know</p>
<p>27. During project planning, did you provide information and consult with the local community potentially affected by the EBRD-financed project? (you can tick more than one box)</p> <p>Also, please indicate whether these information disclosure and consultation actions were taken as a result of EBRD requirements/ advice.</p>	<p><input type="checkbox"/> We facilitated meetings with the local community and interested organisations.</p> <p><input type="checkbox"/> We made some documents available to the local community and interested organisations.</p> <p><input type="checkbox"/> No information disclosure / public consultation was needed.</p> <p><input type="checkbox"/> Information disclosure actions were taken as a result of EBRD requirements / advice.</p>
<p>28. Was the information disclosure and public consultation process useful? (tick one box)</p>	<p><input type="checkbox"/> Yes, the process was useful and feedback was taken into account to improve the quality of the project and to manage the potential impacts on the local community.</p> <p><input type="checkbox"/> Some of the feedback was useful.</p> <p><input type="checkbox"/> The information disclosure and public consultation process did not improve the quality of the project.</p> <p><input type="checkbox"/> Not applicable (no information disclosure / public consultation).</p>
<p>29. Have you submitted Annual Environmental Reports to the EBRD?</p>	<p><input type="checkbox"/> Yes, in line with guidance / templates provided by EBRD.</p> <p><input type="checkbox"/> Yes, but we would like more guidance from EBRD on Annual Environmental Reporting.</p> <p><input type="checkbox"/> Not yet applicable (our first report is not yet due).</p> <p><input type="checkbox"/> No</p>

Summary and Further Comments

Question	Answers
<p>30. Which of the following best describes the overall impact of EBRD's environmental, social, health and safety requirements on your organisation? (tick one box)</p>	<p><input type="checkbox"/> The EBRD requirements have mostly constrained our activities.</p> <p><input type="checkbox"/> The EBRD requirements have not helped our activities.</p> <p><input type="checkbox"/> Some aspects of the EBRD requirements have been useful, but some aspects have been less useful.</p> <p><input type="checkbox"/> The EBRD requirements have helped us to manage our environmental, social, health and safety risks, but there have been no positive changes beyond risk management.</p> <p><input type="checkbox"/> The EBRD requirements have helped us to manage our environmental, social, health and safety risks and to implement additional positive changes beyond risk management.</p>
<p>31. Please provide any other comments and relevant background here.</p>	
<p>32. Thank you for completing the survey, which will help the EBRD to update its Environmental Policy. Would you be interested in being added to the contact list to receive information on the EBRD's plans to update the Environmental Policy, and could EBRD contact you again later in the year to discuss options for its new Environment and Social Policy?</p>	<p><input type="checkbox"/> Yes, please send me more information.</p> <p><input type="checkbox"/> No.</p>

Appendix 2

Main Results of Web-based Survey

Main Results of Web-based Survey

Question / Answers	No. of responses	%
8. Were the EBRD's Environmental Policy and Procedures clearly explained to your company/organisation at an early stage in your dealings with the EBRD?		
<input type="checkbox"/> Yes	44	70%
<input type="checkbox"/> Partly	11	17%
<input type="checkbox"/> No	5	8%
<input type="checkbox"/> Don't know	3	5%
9. What are the main environmental, social, health and safety risks associated with the EBRD-financed project? (please tick up to 3 boxes)		
<input type="checkbox"/> Air pollution.	21	33%
<input type="checkbox"/> Water pollution.	21	33%
<input type="checkbox"/> Water use.	13	21%
<input type="checkbox"/> Solid waste.	12	19%
<input type="checkbox"/> Impact on local biodiversity.	10	16%
<input type="checkbox"/> Energy use.	11	17%
<input type="checkbox"/> Noise.	12	19%
<input type="checkbox"/> Occupational health and safety.	14	22%
<input type="checkbox"/> Employment / labour issues.	6	10%
<input type="checkbox"/> Social impacts on the local community.	7	11%
<input type="checkbox"/> Health impacts on the local community.	9	14%
<input type="checkbox"/> Risks related to environmental, social, health and safety performance of suppliers.	4	6%
<input type="checkbox"/> Regulatory compliance.	5	8%
<input type="checkbox"/> No risks	12	19%
<input type="checkbox"/> Other	7	11%
<input type="checkbox"/> If other, please specify:		
10. What are the main environmental, social, health and safety benefits associated with the EBRD-financed project? (please tick up to 3 boxes)		
<input type="checkbox"/> Pollution reduction.	32	51%
<input type="checkbox"/> Energy efficiency.	14	22%
<input type="checkbox"/> Reuse and recycling.	4	6%
<input type="checkbox"/> Clean up of contaminated land.	6	10%
<input type="checkbox"/> Environmental, health and safety management systems.	16	25%

<input type="checkbox"/> Improved health and safety.	20	32%
<input type="checkbox"/> Reduced number of accidents.	7	11%
<input type="checkbox"/> Increased employment.	20	32%
<input type="checkbox"/> Social benefits to the local community.	20	32%
<input type="checkbox"/> Cost savings.	11	17%
<input type="checkbox"/> Reduced fees and fines.	5	8%
<input type="checkbox"/> No benefits.	3	5%
<input type="checkbox"/> Other.	10	16%
<input type="checkbox"/> If other, please specify:		
11. During project planning did Environmental Staff / Consultants from the EBRD visit your organisation to discuss environmental, social, health and safety aspects?		
<input type="checkbox"/> Yes, more than one visit	25	40%
<input type="checkbox"/> Yes, one visit	17	27%
<input type="checkbox"/> No	13	21%
<input type="checkbox"/> Don't know	8	13%
12. Does the agreement with the EBRD contain legal covenants/ provisions related to environmental, social, health and safety requirements?		
<input type="checkbox"/> Yes	59	94%
<input type="checkbox"/> No	2	3%
<input type="checkbox"/> Don't know	2	3%
13. If yes, what do these covenants/ provisions cover? (you can tick more than one box)		
<input type="checkbox"/> Environment	58	92%
<input type="checkbox"/> Occupational health and safety	41	65%
<input type="checkbox"/> Social issues (e.g. labour issues)	27	43%
<input type="checkbox"/> Don't know	2	3%
<input type="checkbox"/> Not applicable	3	5%
14. If yes, what parts of your activities/facilities do these covenants/ provisions apply to?		
<input type="checkbox"/> Just the activities/facilities related to the EBRD investment.	15	24%
<input type="checkbox"/> All activities/ facilities of the company/ organisation.	43	68%
<input type="checkbox"/> Don't know.	0	0%
<input type="checkbox"/> Not applicable.	5	8%
15. Did the project planning include development and agreement with EBRD of an action plan to achieve your environmental, social, health and safety commitments?		
<input type="checkbox"/> Yes, a fully budgeted action plan.	14	22%
<input type="checkbox"/> Yes, although the costs of the actions were not calculated in detail.	20	32%
<input type="checkbox"/> No.	21	33%
<input type="checkbox"/> Don't know.	8	13%
16. Does the action plan include commitments to enhance environmental, social, health and safety benefits		

beyond compliance with legislation?		
<input type="checkbox"/> Yes	25	40%
<input type="checkbox"/> No	14	22%
<input type="checkbox"/> Don't know	5	8%
<input type="checkbox"/> Not applicable (no action plan)	19	30%
17. If yes, please specify. (you can tick more than one box)		
<input type="checkbox"/> Process changes and enhancements.	14	22%
<input type="checkbox"/> Health and safety training to employees.	14	22%
<input type="checkbox"/> Improvement in labour / human resource policies.	8	13%
<input type="checkbox"/> Investments in the community and/or improved policies towards indigenous peoples.	6	10%
<input type="checkbox"/> Energy efficiency improvements / actions related to climate change.	11	17%
<input type="checkbox"/> Waste reuse and recycling.	5	8%
<input type="checkbox"/> Improved site management / housekeeping.	7	11%
<input type="checkbox"/> Improved working conditions.	15	24%
<input type="checkbox"/> Implementation of health, safety and environmental management systems.	14	22%
<input type="checkbox"/> More attention to cultural heritage.	3	5%
<input type="checkbox"/> Improved environmental and social reporting to stakeholders and disclosure of information to the public.	7	11%
<input type="checkbox"/> Not applicable.	37	59%
<input type="checkbox"/> Other.	2	3%
18. Does your company/ organisation have policies and/or procedures on environmental, social, health and safety aspects of your activities/ facilities? (you can tick more than one box)		
Also, please indicate if the adoption of any policies/ procedures was a result of EBRD requirements/ advice.		
Environmental Policy / Procedures.		
<input type="checkbox"/> Yes	37	59%
<input type="checkbox"/> Yes, AND adopted as a result of EBRD requirements / advice	11	17%
<input type="checkbox"/> No	15	24%
Labour Policy / Procedures.		
<input type="checkbox"/> Yes	41	65%
<input type="checkbox"/> Yes, AND adopted as a result of EBRD requirements / advice	0	0%
<input type="checkbox"/> No	22	35%
Health and Safety Policy / Procedures.		
<input type="checkbox"/> Yes	47	75%
<input type="checkbox"/> Yes, AND adopted as a result of EBRD requirements / advice	1	2%
<input type="checkbox"/> No	15	24%
Public Consultation / Information Policy / Procedures.		
<input type="checkbox"/> Yes	20	32%
<input type="checkbox"/> Yes, AND adopted as a result of EBRD requirements / advice	7	11%

<input type="checkbox"/> No	36	57%
Other relevant policies / procedures.		
<input type="checkbox"/> Yes	15	24%
<input type="checkbox"/> Yes, AND adopted as a result of EBRD requirements / advice	0	0%
<input type="checkbox"/> No	48	76%
19. Does your company/ organisation have Management Systems on environmental, social, health and safety aspects of your activities/facilities, and are they certified? (you can tick more than one box)		
Also, please indicate if these Management Systems were set up as a result of EBRD requirements/ advice.		
Environmental Management System		
<input type="checkbox"/> Yes	30	48%
<input type="checkbox"/> Yes, AND the Management System was set up as a result of EBRD requirement / advice	4	6%
<input type="checkbox"/> No	29	46%
Health and Safety Management System		
<input type="checkbox"/> Yes	25	40%
<input type="checkbox"/> Yes, AND the Management System was set up as a result of EBRD requirement / advice	2	3%
<input type="checkbox"/> No	36	57%
Management System on Social Aspects		
<input type="checkbox"/> Yes	14	22%
<input type="checkbox"/> Yes, AND the Management System was set up as a result of EBRD requirement / advice	0	0%
<input type="checkbox"/> No	49	78%
Please indicate if these Management Systems are certified		
Environmental Management System (e.g. ISO 14001)		
<input type="checkbox"/> Certified	17	27%
<input type="checkbox"/> Application for certification is progress	8	13%
<input type="checkbox"/> Not certified	12	19%
<input type="checkbox"/> Not applicable	26	41%
Health and Safety Management System (e.g. OHSAS 18001)		
<input type="checkbox"/> Certified	6	10%
<input type="checkbox"/> Application for certification is progress	1	2%
<input type="checkbox"/> Not certified	20	32%
<input type="checkbox"/> Not applicable	36	57%
Management System on Social Aspects (e.g. SA 8000)		
<input type="checkbox"/> Certified	2	3%
<input type="checkbox"/> Application for certification is progress	0	0%
<input type="checkbox"/> Not certified	15	24%

<input type="checkbox"/> Not applicable	46	73%
20. Does your company/ organisation have a role for a senior person (or persons) with specific responsibility for environmental, social, health and safety management?		
Also, please indicate if this role was set up as a result of EBRD requirements/ advice.		
<input type="checkbox"/> Yes	46	73%
<input type="checkbox"/> Yes, AND the role was set up as a result of EBRD requirements / advice	3	5%
<input type="checkbox"/> No	14	22%
21. What is the progress with implementation of the action plan on environmental, social, health and safety commitments that was agreed with EBRD?		
<input type="checkbox"/> Full progress within agreed timescales.	13	21%
<input type="checkbox"/> Some actions implemented, some not implemented, within the agreed timescales.	21	33%
<input type="checkbox"/> Most actions not implemented within the agreed timescales.	3	5%
<input type="checkbox"/> Not applicable.	23	37%
<input type="checkbox"/> Don't know.	3	5%
22. How is the Action Plan being funded? (you can tick more than one box)		
<input type="checkbox"/> Funded as part of the EBRD loan.	20	32%
<input type="checkbox"/> Funded by our organisation.	27	43%
<input type="checkbox"/> Other sources of funding (e.g. loans from other banks, etc.)	5	8%
<input type="checkbox"/> There are difficulties obtaining funding for implementation of the actions.	3	5%
<input type="checkbox"/> None.	21	33%
23. As far as you are aware, are your activities / facilities compliant with the national environmental, social (e.g. labour) and health and safety legislation and standards in your country?		
<input type="checkbox"/> Yes, all activities / facilities.	58	92%
<input type="checkbox"/> Only those activities/ facilities related to the EBRD-financed project.	0	0%
<input type="checkbox"/> No.	4	6%
<input type="checkbox"/> Don't know.	1	2%
<input type="checkbox"/> No applicable.	0	0%
24. Does your organisation receive visits from local regulatory authorities on environment, social (e.g. labour), health and safety, to monitor your environmental compliance?		
<input type="checkbox"/> Yes, most relevant authorities make monitoring visits at least once a year.	47	75%
<input type="checkbox"/> Some relevant authorities make monitoring visits, but infrequently.	9	14%
<input type="checkbox"/> There are few monitoring visits.	5	8%
<input type="checkbox"/> Don't know.	2	3%
<input type="checkbox"/> Not applicable (there are no operations to monitor yet).	0	0%
25. What is your opinion on the EBRD policy requirements that its clients' activities/ facilities should comply with EU environmental, social, health and safety standards?		
<input type="checkbox"/> The implementation of EU standards has been beneficial to our organisation.	26	41%
<input type="checkbox"/> We cannot immediately comply with EU standards but we have agreed an	25	40%

action plan with EBRD to bring us into compliance.		
<input type="checkbox"/> The requirement to comply with EU standards is not realistic or affordable at this stage.	2	3%
<input type="checkbox"/> We were not required to comply with EU standards by EBRD.	10	16%
26. How do you communicate with EBRD on environmental, social, health and safety aspects? (tick one box)		
<input type="checkbox"/> Our main communication on these aspects is at times of visits by EBRD environmental staff.	13	21%
<input type="checkbox"/> We communicate directly with a member of EBRD's Environmental Department in London.	5	8%
<input type="checkbox"/> We communicate with the Operation Leaser / Banker at EBRD on these aspects.	20	32%
<input type="checkbox"/> There is little communication on these aspects, except we submit Annual Environmental Reports.	24	38%
<input type="checkbox"/> There is no requirement for communication on these aspects.	1	2%
27. Has EBRD monitored the management of environmental, social, health and safety aspects of your activities / facilities since the commencement of the EBRD-financed project? (tick one box)		
<input type="checkbox"/> Yes, a visit from EBRD environmental staff / consultants.	22	35%
<input type="checkbox"/> The EBRD Operation Leader / Banker sometimes discuss these aspects when visiting, amongst other topics.	16	25%
<input type="checkbox"/> EBRD enquire about these aspects, but only in correspondence.	10	16%
<input type="checkbox"/> No monitoring by EBRD of these aspects.	9	14%
<input type="checkbox"/> Not applicable because financing has not yet started.	3	5%
<input type="checkbox"/> Don't know.	3	5%
28. During project planning, did you provide information and consult with the local community potentially affected by the EBRD-financed project? (you can tick more than one box)		
<input type="checkbox"/> We facilitated meetings with the local community and interested organisation.	29	46%
<input type="checkbox"/> We made some documents available to the local community and interested organisation.	27	43%
<input type="checkbox"/> No information disclosure / public consultation was needed.	20	32%
Also, please indicate whether these information disclosure and consultation actions were taken as a result of EBRD requirements / advice.		
<input type="checkbox"/> Information disclosure actions were taken as a result of EBRD requirements / advice.	12	100%
29. Was the information disclosure and public consultation process useful? (tick one box)		
<input type="checkbox"/> Yes the process was useful and feedback was taken into account to improve the quality of the project and to manage the potential impacts on the local community.	16	25%
<input type="checkbox"/> The information disclosure and public consultation process did not improve the quality of the project.	7	11%
<input type="checkbox"/> Some of the feedback was useful.	20	32%
<input type="checkbox"/> Not applicable (no information disclosure / public consultation).	20	32%
30. Have you submitted Annual Environmental Reports to the EBRD?		

<input type="checkbox"/> Yes, in line with guidance / templates provide by EBRD.	39	62%
<input type="checkbox"/> Yes, but we would like more guidance from EBRD on Annual Environmental reporting.	4	6%
<input type="checkbox"/> Not yet applicable (our first report is not yet due).	14	22%
<input type="checkbox"/> No.	6	10%
31. Which of the following best describes the overall impact of EBRD's environmental, social, health and safety requirements on your organisation? (tick one box)		
<input type="checkbox"/> The EBRD requirements have mostly constrained our activities.	5	8%
<input type="checkbox"/> The EBRD requirements have not helped our activities.	7	11%
<input type="checkbox"/> Some aspects of the EBRD requirements have been useful, but some aspects have been less useful.	18	29%
<input type="checkbox"/> The EBRD requirements have helped us to manage our environmental, social, health and safety risks, but there have been no positive changes beyond risk management.	10	16%
<input type="checkbox"/> The EBRD requirements have helped us to manage our environmental, social, health and safety risks and to implement additional positive changes beyond risk management.	23	37%
32. Please provide any other comments and relevant background here.		
<input type="checkbox"/> Other	63	100%
33. Thank you for completing the survey, which will help the EBRD to update its Environmental Policy. Would you be interested in being added to the contact list to receive information on the EBRD's plans to update the Environmental Policy, and could EBRD contact you again later in the year to discuss options for its new Environmental and Social Policy?		
<input type="checkbox"/> Yes, please send me more information, and contact me again later in the year.	54	86%
<input type="checkbox"/> No.	9	14%

Appendix 3

**Review of EBRD lessons learned database on
environmental aspects**

Introduction

This annex represents a review of the environmental lessons in EBRD's lessons-learned database.

Method

The lessons learned are sorted in the EBRD lessons-learned database into the following operation stages:

1. Project Screening / selection / marketing
2. Appraisal / due diligence
3. Design / structuring
4. Negotiation / agreements
5. Financing and co-financing / syndication
6. Disbursement
7. Monitoring / administration
8. Repayment / exit
9. Post-Evaluation

Over 250 of the lessons learned in the database have significant relevance to environmental aspects of the EBRD's operations. These have been reviewed in detail with a particular focus on identification of points that will help to update the EBRD *Environmental Policy*. Most of the lessons learned on environment are within the operation stage categories of appraisal and due diligence, design and structuring and monitoring and administration.

List of common themes on lessons learned on the environment

The assessment of the environmental lessons learned has helped to identify several common themes. The subjects of these themes are listed below, and more details included in Table 1.

General lessons

- Boundaries of influence
- Equity projects
- Responsibility at client for environmental management
- Coordination with other IFIs
- Client management commitment
- Leverage, incentives and sanctions
- Follow-on investors after EBRD deal

Project planning and design

- Early planning of environmental actions
- Feasibility study
- Risk assessment
- Regional analysis for large extractive industry projects
- Environmental action plan
- Cost/savings estimates
- Planning realistic and affordable actions
- Environmental management systems
- Technical cooperation
- Capacity of local authorities
- Consultation with local authorities
- Consultation and public information
- Community programmes

Monitoring and reporting

- Monitoring
- Monitoring data
- Reporting
- Project changes during implementation
- Dissemination of good practice

EBRD resources on environment

- Environment Department resources and the use of external consultants
- Internal cooperation and communications at EBRD

Other lessons

- Health and safety
- Products/LCA
- Reuse and recycling
- Energy efficiency
- Soil contamination
- Wastewater treatment
- Flaring
- Financial intermediaries
- Other – technical (to be added after further review of database)
- Other – operations (to be added after further review of database)

Conclusions on lessons-learned on the environment

The following conclusions have been identified from the review on environmental lessons in the EBRD lessons-learned database:

- There are few references to problems specifically on equity projects although there are many references related to the EBRD's boundary of influence on a project, and several recommendations on methods to increase leverage on clients for strengthening their environmental performance, often relevant to cases where the EBRD has equity projects with a client.
- In relation to the boundaries of influence on environment, several lessons highlighted the importance of the EBRD influencing the environmental performance of clients across as much of the client facilities/operations as possible, exceeding the limits of the EBRD project, in order to maximise positive environmental impact and change. The environmental action plan is a good opportunity to set and agree actions with the client covering aspects outside the project scope.
- There are several recommendations related to the need for the senior managers at clients to be strongly committed to improving environmental performance and to take ownership of the implementation of the EAP. The EBRD should provide general training to the client management on, among others, environmental awareness, environmental management systems and demonstrate the benefits of environmental management. This will help to strengthen the understanding and commitment of the senior management.
- There are a few recommendations in the database for the EBRD to ensure that clients assign a person to have overall responsibility and authority for environmental management. This person would act as the main contact point with the EBRD on environmental matters.
- There were several cases in the EBRD lessons-learned database related to the need for the EBRD to have sufficient leverage on clients to ensure that they implement agreed environmental actions. Agreements should have binding commitments for clients to environmental improvements. For example, the EBRD should consider more often including incentives and sanctions in the agreements related to achieving environmental obligations.
- Although it is important for the EBRD to have some leverage, it is just as important for the EBRD to support and advise the client as much as possible on improving environmental performance. Visits by the EBRD Environment Department to clients at an early stage in the project appraisal and planning process will ensure the early identification of any potential environmental impacts and benefits, and also mean that there is time for the EBRD environmental specialists to work with the client to develop environmental action plans. This approach will help the client to gain an understanding of the need for improved performance and commitment to the actions. It is important for costs of environmental actions to be properly estimated.
- The EBRD should encourage clients to plan and implement accredited environmental management systems. These should integrate with health and safety management systems, and

they will assist with monitoring and reporting activities as well as helping clients to manage their environmental risks.

- There are several points in the database related to the capacity of local authorities to monitor and enforce local regulations. Where this capacity is inadequate, the EBRD should consider focusing more of its monitoring resources. In addition, the EBRD should consider TC projects to strengthen the capacity of local authorities.
- There are several recommendations in the database suggesting that enough time and resources need to be allocated to public consultation and public information activities and that these need to be planned from an early stage in the project design. This should include consultation with the local authorities.
- Common lessons in the database also relate to the need for active monitoring of environmental performance of clients against the EAPs, with a particular focus on monitoring through visits rather than from assessment of environmental reports in the London office. The EBRD need to carefully prioritise its monitoring resources, for example, focusing more on projects early transition countries where often less attention is given to environmental management. The use of local consultants, where they have the capacity, for monitoring activities is recommended on several occasions in the database.
- There are recommendations for more guidance to be provided to clients on requirements for environmental reporting, including the formats of reports.
- There are surprisingly only a few cases in the database on the need for setting of environmental actions to take into account affordability and for EAPs to be realistic and achievable.
- There is no indication in the database that clients are focusing more on environmental aspects than social, health and safety aspects, although there are some specific cases where health and safety risk management is highlighted as a priority.
- In addition, there is little mention in the database on the need for planning of environmental actions to focus more on identifying potential additional benefits that go beyond just managing risks and compliance with legislation and standards. There are some examples encouraging the identification of opportunities for recycling and improving energy efficiency, but overall little on benefits/additionality in comparison with the attention this is given in *the Environmental Policy*.

Table 1 – Summary of common lessons learned on environment in the EBRD lessons learned database**General lessons**

Theme	Summary of common lessons learned on environment
Boundaries of influence	<p>It is important for the EBRD to influence the environmental performance across as much or the client facilities/operations as possible, exceeding the EBRD project, in order to maximise positive environmental impact and change.</p> <p>The environmental appraisal should cover client facilities/operations outside the scope of the project, and the EAP is a good opportunity to set and agree actions with the client covering aspects outside the project scope. The loan covenants should have the widest possible/practical coverage of the client facilities/operations. Monitoring should include the main risks outside the scope of the project.</p> <p>Several of the database lessons gave particular reference to large oil projects, for example assessing the conditions of the pipeline systems downstream of the project. Where knowledge of related facilities/systems cannot be obtained (for example, they are not under the total control of the client), then this should be highlighted in the board paper.</p>
Equity projects	<p>As an equity holder, the EBRD's reputation requires a high attention to environmental protection at clients in which it has equity. During the appraisal, the EBRD should ensure that the client has environmental procedures and appropriate levels of resources/staff working on environmental management.</p> <p>Where the EBRD first has a loan project with a client and later buys equity in that client, the environmental conditions attached to the original loan agreement with the client do not provide sufficient coverage for wider environmental aspects in relation to the subsequent equity deal with the same client.</p> <p>Also, the EBRD cannot require environmental safeguard controls if it acquires an equity stake in a company in the open market.</p>
Responsibility at client for environmental management	<p>It is important for clients to assign a person with overall responsibility and authority for environmental management and to provide this person with appropriate levels of resources/staff.</p> <p>This person should act as the specific contact point with the EBRD on the environment.</p>

Coordination with other IFIs	<p>The EBRD should communicate and coordinate as far as appropriate with other IFIs with respect to environmental aspects, to increase the compatibility of advice and action plans, and particularly to make the environmental reporting processes more consistent.</p>
Client management commitment	<p>Strong leadership and commitment from senior management at the client is essential for the successful implementation of the EAP and sustainable improvement in environmental performance. The EBRD should try to identify proactive and committed clients at project screening.</p> <p>Development of the understanding of clients of the benefits of the EAPs will strengthen their ownership of the actions and commitment to their proper and timely implementation. Training to management at clients in planning environmental actions, EMS and so on is beneficial.</p> <p>The management commitment should include appointment of local environmental staff and resources by the client, and these personnel must be given the approved authority to implement the environmental actions.</p> <p>When the client is a strong and committed foreign company, or is a local company with a strong and committed foreign parent corporation, then this helps to influence the improvement of environmental performance.</p>
Leverage, incentives and sanctions	<p>The planning of projects must include sufficient leverage, as far as possible, to ensure binding commitments from all clients to investing in the actions in the EAPs, and covenants in the agreements should include environmental provisions.</p> <p>In planning and negotiation, the EBRD should look for opportunities to include mechanisms for incentives for clients to implement environmental actions, and sanctions for clients that do not meet their agreed environmental obligations. For example, linking of disbursements to the achievement of pre-defined and agreed environmental benchmarks, and including the main environmental actions and investments agreed by the client within the project completion requirements.</p> <p>Other examples are to include covenants covering punitive share put options, if possible, and/or acceleration of loans in the agreement.</p> <p>Environmental goals and actions should be phased as appropriate, in order to ensure that the EAP is affordable and achievable.</p>

	Loan restructuring and project changes can often be opportunities for the EBRD to incorporate renewed leverage.
Follow-on investors after EBRD deal	The EBRD's focus on helping clients to identify and address environmental liabilities can help to attract potential follow-on strategic investors. The ongoing environmental liabilities and remedial costs must be clearly identified and agreed.

Project planning and design

Theme	Summary of common lessons learned on environment
Early planning of environmental actions	In the project appraisal and planning processes, the EBRD should promote the early identification of potential environmental impacts and benefits, and early planning of environmental actions. The focus on environment at an early stage helps enhance the ownership and commitment of the client to the environmental actions. This should include early planning of monitoring and reporting programmes with the client.
Feasibility study	A comprehensive feasibility study is necessary for major investments to identify the best processes, operational systems and technology to enhance environmental performance. The feasibility study should include reliable cost analysis.
Risk assessment	Environmental action planning should involve a risk-based approach to ensure that the most urgent potential problems are addressed first in the EAP. Guidelines should be developed and used for risk-based approaches where appropriate.
Regional analysis for large extractive industry projects	In large oil and other extractive industry projects, a regional development focus to appraisal and planning is needed from an early stage. This should cover an assessment of the region's capabilities and development needs, and relevant local authorities should be consulted. One specific example in the EBRD lessons learned database is related to the region's oil spill response capability. This is linked to the points on the EBRD's boundaries of influence.
Environmental action plan (EAP)	<p>The development and agreement of an EAP with the client at an early stage is an important part of the project design. The EAP must have the ownership and commitment of the client and be linked to the wider development plans.</p> <p>In addition, the monitoring and reporting activities should be linked to the EAP. This helps the effectiveness of monitoring and reporting as it focuses these activities on the priorities in the EAP.</p>

	<p>It is necessary to include a mechanism for updating the EAP, as needed, including at times of project change. Where EAPs are detailed, it is important to include a facility to update the EAP without always having the need for a formal legal waiver.</p>
Cost/savings estimates	<p>It is important to accurately estimate the costs of environmental improvements, whether this is for planning environmental investments that will be included in a loan or other finance, or planning investments that a client will itself fund as part of the agreed EAP. Clients need to be confident about the estimated costs of the environmental actions.</p> <p>In addition, it is useful to estimate potential savings (e.g. from actions to improve energy efficiency).</p>
Planning realistic and affordable actions	<p>It is important for the EAP to be realistic and affordable. Phased implementation of actions will be more appropriate in many cases.</p>
Environmental management systems (EMS)	<p>There are significant benefits when clients develop and implement a certified EMS. The EMS will help clients to demonstrate their environmental policy and objectives, regulatory compliance, achievements and future plans, and an EMS also facilitates monitoring and reporting.</p> <p>The EMS should be integrated into the health and safety management system and the quality management system.</p> <p>The requirements for the EMS should be realistic and take into account the client's capacity. It might be that EMS implementation is agreed as a long-term target in the EAP. The commitment of client management to the EMS is important. Demonstration of the benefits to management during the project planning and training of management in EMS are important.</p>
Additional benefits	<p>It is important for the EBRD to look for potential additional environmental benefits during planning of projects.</p> <p>For example, there could be opportunities for recovery and recycling of waste materials, cleaner production.</p>
Technical Cooperation (TC)	<p>TC is a mechanism to enhance the capacity of clients, for example to implement the required environmental actions. TC should be planned and tailored by the Environment Department in cooperation with the banking team. Examples for TC recommended in the EBRD lessons learned database include:</p> <ul style="list-style-type: none"> • development and implementation of EMS • strengthening the capacity of local authorities for enforcement of regulations

	<ul style="list-style-type: none"> • strengthening local waste management services where the services cannot cope with a new or increased waste stream • training in environmental monitoring programmes • capacity development in health and safety procedures • strengthening a regional capability for oil spill response • dissemination of good practices and information through industry associations and other professional bodies.
Capacity of local authorities	<p>Due diligence should include an assessment of the capacity of the relevant local authorities, for example to assess their capability to carry out the timely provision of environmental permits and other documents, and particularly to assess their capacity for proper enforcement of environmental regulations.</p> <p>Strengthening the institutional capacity of local authorities to improve their relevant environmental, health and safety capabilities, for example, in relation to assessment, monitoring and enforcement, might be required.</p> <p>Where capacity of local authorities is strong, the Bank could consider whether it is appropriate to reduce the level of monitoring of projects in order to optimise the use of EBRD resources.</p>
Consultation with local authorities	<p>Relevant environmental, health and safety national and local authorities should be consulted at an early stage in planning of large projects and on an ongoing basis, so that an early problems and issues are addressed through early dialogue and cooperation. This also helps to educate the personnel at the authorities in good practices.</p> <p>It is important that the project plans and EAPs are compatible with national and local environmental strategies and action plans.</p>
Consultation and public information	<p>Public consultation and information disclosure on environmental issues can strengthen the focus on addressing these issues. Strong communication and open dialogue, for example, on the EAP, increases the confidence and participation of stakeholders and the local community. Structured environmental reporting to stakeholders and formal mechanisms of ongoing communication are beneficial and should be required by the EBRD where appropriate.</p> <p>One recommendation in the EBRD lessons-learned database for larger projects is to establish a public information forum with a neutral coordinator, as part of the consultation.</p> <p>Enough time and resources need to be allocated to public consultation, which should be started at an early stage. The implementation of the public consultation and information plan needs to be monitored.</p>

	Some project clients would benefit from more guidance on methods for public consultation.
Community programmes	The EBRD should encourage clients to plan and implement community programmes.

Monitoring and reporting

Theme	Summary of common lessons learned on environment
Monitoring	<p>Active monitoring of environmental performance, particularly against the implementation of the EAP, is an important component to design into the planning of a project. Monitoring should be carried out from an early stage in the project and actions taken where deviations from targets are identified.</p> <p>Monitoring should include the assessment of compliance with national regulations and the additional standards agreed with the EBRD and should be linked to agreed environmental targets.</p> <p>EBRD project teams, supported by the Environmental Department, should maintain frequent communication with the clients for monitoring purposes. However, monitoring visits need to be increased as there is too much focus at present on monitoring from the London office. Site visits also help to establish and strengthen a relationship with the client.</p> <p>The EBRD should carefully prioritise its monitoring resources, for example depending on the nature of the client, the location and regulatory environment, and the need to focus on higher risk projects. Large complex projects tend to use up much of EBRD's environmental monitoring resources. In addition, the EBRD should focus resources on monitoring in countries where the capacity of environmental authorities to carry out monitoring of compliance with regulation is inadequate. Monitoring activities by the resident offices should be considered in some cases, as well as the use of local consultants in some countries of operations.</p> <p>Guidance and instructions should be provided to clients on monitoring to increase their capacity for monitoring and reporting.</p> <p>Monitoring programmes should focus on environmental risk management and also include monitoring of benefits (for example, energy savings).</p>

	<p>Specific recommendations on monitoring in the EBRD lessons-learned database include:</p> <ul style="list-style-type: none"> • Complex clients in ETCs will require more resources for monitoring than for more straight forward projects in more advanced countries. The EBRD's monitoring resources need to be planned to take into account the shift in the EBRD's geographical focus. • Implementing and strengthening an EMS helps to improve environmental monitoring. • The frequency of monitoring visits should be planned to be at specific time intervals as well as at specific events in project implementation. • Monitoring environmental performance in relation to production-specific parameters can help in comparison of industry standards and guidelines. • When clients have demonstrated that they are committed to environmental improvements and are successfully implementing the EAP, EBRD should prioritise monitoring resources as it might not be necessary to monitor every aspect of a project and the EBRD could focus on any main problems. In these cases the employment of local specialists to carry out the monitoring should be considered. • Active involvement of the EBRD is needed in pre-opening safety inspections for infrastructure projects. • Monitoring will sometimes need to cover potential environmental problems beyond the scope of an investment project. • In cases of repeat financing of working capital over a significant time period, desk-based monitoring should not continue without some visits to the client for environmental monitoring. • Monitoring at completion, where possible, can be useful to enhance information and reporting.
Monitoring data	<p>Consistent methods and units should be used in reporting of data on emissions to ensure comparative results are available to show trends over time and to facilitate comparison with standards. Data requirements should be specified during project planning.</p>
Reporting	<p>Arrangements, timescales and formats for consistent environmental reporting should be defined and agreed with clients during project design. The detailed reporting requirements should be tailored for each client and included in the legal documentation and linked to the EAP so that deviations from the EAP requirements are quickly identified.</p> <p>More guidance to clients should be provided on reporting requirements, including types of information and data, and required report formats. Clear reporting systems will also help the client to provide information to the public and other stakeholders.</p> <p>Implementing and strengthening an EMS helps to improve environmental monitoring and reporting.</p> <p>For clients also involved with other IFIs, it is important that consistent reporting requirements and formats are planned with the other IFIs where appropriate.</p>

<p>Project changes during implementation</p>	<p>Where there are changes in a project during implementation, an assessment is needed to establish whether additional environmental actions are needed.</p> <p>Project changes can be an opportunity to incorporate additional leverage on clients to implement environmental actions, particularly where the project changes involve additional loans.</p>
<p>Dissemination of good practice</p>	<p>Successful projects in relation to sustainable environmental performance should be used as demonstration projects for other companies/organisations in the area and to help design similar projects in future.</p>

EBRD resources on environment

Theme	Summary of common lessons learned on environment
<p>Environment Department resources and the use of external consultants</p>	<p>Careful prioritisation of resources at the EBRD Environment Department is needed, including planning of the use of external consultants for monitoring and for other activities such as due diligence, independent auditing, feasibility studies, procurement of technology, specific technical/sector experience and so on. Consultants should be selected under competitive tender.</p> <p>For large complex projects, engaging consultants over a long term, to ensure consistency and transfer knowledge, is recommended.</p> <p>In several cases use of local consultants from the country of operation will have particular benefits, where their capacity is adequate. Training of local consultants for monitoring roles should be considered.</p> <p>Potentially conflicting roles of consultants should be avoided, for example consultants that have been used to support the planning of environmental investments and development of EAPs should not necessarily be used to monitor environmental performance during implementation.</p>
<p>Internal cooperation and communications at EBRD</p>	<p>It is important for the bankers and Environment Department to work closely as a team on development and planning of financially feasible environmental investments. In addition, cooperation needs to be enhanced in order to carry out more efficient monitoring, as well as planning of TC components.</p> <p>It is important also for the EBRD to promote communication between external consultants in relation to projects, as appropriate. For</p>

	example, general auditing consultants and specific industry/environmental consultants should interact. This helps to develop integrated solutions.
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Other lessons

Theme	Summary of common lessons learned on environment
Health and safety	<p>It is important that the EBRD enhances its capacity to carry out training and monitoring in relation to health and safety risks. For example, this could be through contracting specialised consultants in occupational health and safety. Development of health and safety procedures is needed in many projects.</p> <p>Health and safety auditing/monitoring programmes need to be included in planning of infrastructure projects.</p>
Products/Life cycle analysis (LCA)	<p>For some sectors, due diligence and project planning should include analysis of the potential environmental impacts during a products life cycle. Specialists in LCA might need to be contracted. The analysis needs to take into account forecast changes in legislation.</p>
Reuse and recycling	<p>The potential for economic and environmental benefits of waste recovery, reuse and recycling should be a standard part of due diligence.</p> <p>At an early stage in project planning the Environment Department should encourage clients to investigate recycling opportunities and look for recycling companies. Examples include packaging materials in the food and drinks sector.</p>
Energy efficiency	<p>A focus on promoting energy efficiency at clients is needed, and energy audits and efficiency improvements should be included in EAPs. This should include encouraging clients to monitor and publish energy savings. More attention to raising awareness at clients in energy efficiency is needed.</p>
Soil contamination	<p>It is important that surveys on liabilities related to potential soil and ground water contamination are included in due diligence for relevant projects, for example, in the chemicals sector. This is particularly important where land ownership is changing. In some cases publication of results of soil surveys should be carried out by the clients.</p> <p>EAPs should include necessary actions related to investigation of soil contamination. Action planning related to potential soil contamination should take into account forecasts of future legislation in this area (for</p>

	example, EU legislation).
Wastewater treatment	<p>The EBRD lessons-learned database has some specific recommendations related to wastewater treatment, for example:</p> <ul style="list-style-type: none"> • The need for simultaneous rehabilitation of the sewerage system and staged design of waste water treatment works. • The need to monitor operation of wastewater treatment works after commissioning. • The need to allow time after completion for stabilisation of the new process before evaluation of the environmental performance.
Flaring	Early assessment of design requirements for gas flaring is needed in relevant projects.
Financial intermediaries (FIs)	<p>Training FIs in environmental awareness, screening, due diligence, regulations, management systems, monitoring and so on is needed to ensure enhanced standards. The EBRD should encourage FIs to contract environmental monitoring and support services to local consultants where the skills are available in a country of operation.</p> <p>Training bankers at the EBRD in environmental awareness, and integration of environmental aspects into their credit manuals and procedures, is needed.</p> <p>For FI projects, it is more difficult to implement environmental procedures for equity deals than for credit deals. The Bank should look for ways to increase its leverage, such as being represented on boards/investment committees. The EBRD should promote environmental awareness at FIs during the planning and negotiation on equity deals and highlight the fact that environmental risks are also potential financial risks.</p> <p>Taking a relationship approach, rather than focusing on specific deals, with FIs will bring all-round benefits, including environmental performance at the FIs. Working closely with the FIs in setting environmental objectives is important.</p>