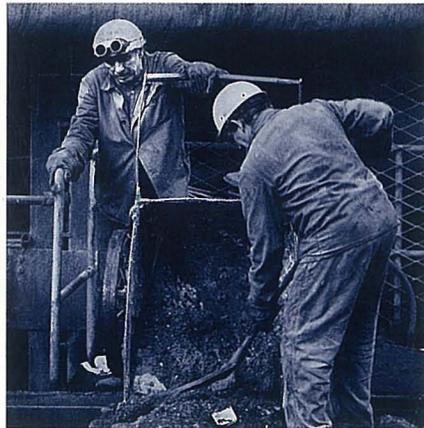




Environmental Policy



European Bank
for Reconstruction and Development

**Environmental Management:
The Bank's Policy Approach**

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for Reconstruction and Development



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Environmental Management: The Bank's Policy Approach

A The Bank's Environmental Mandate

1. The Bank is directed by its Agreement to 'promote in the full range of its activities environmentally sound and sustainable development'. This is the first time that an international financial institution has been given a clear and proactive operational mandate in its founding Charter on environmental protection and restoration. It is so largely because environmental deterioration in the countries of central and eastern Europe has reached such alarming proportions that economic growth and the maintenance of the social fabric depend upon restoring the environment. Even the most basic conditions of production - access to such fundamental resources as uncontaminated water, land and air - can no longer be taken for granted. Major environmental policy improvements, direct restorative investments and integration of environmental concerns into new investments are prerequisites for the successful transition to a market-oriented economy. The Bank will therefore place environmental issues at the forefront of its efforts to promote sustainable economic growth at the regional and national level.

2. The solution of the environmental problems, however, will require more than environmentally specific programmes. The Bank considers that most of the environmental problems may be traced to inappropriate and distortionary economic policies in the countries of operations. These economic policies were as destructive ecologically as they were economically and, therefore, a prerequisite for the success of environmental improvements is the linkage with a framework of structural changes which are initiated and implemented by the countries themselves. Appropriate structural policies, combined with sound investments in a market-based system, would simultaneously lead to improvements in both economic efficiency and environmental conditions. The Bank will play its part in support of policy reforms.

B Policy Priorities

3. In order to play a leadership role in the environmental recovery of central and eastern Europe, the Bank will pursue the following policy priorities:
 - assistance to the countries of operations in environmental policy formulation, including the development of effective legal and regulatory instruments, the adoption of appropriate emissions and effluents standards and the creation of the institutional and human resources capacity to monitor and enforce them;

- promoting the use of a variety of economic instruments to address the underlying cause of environmental degradation and the adoption of market-based techniques in environmental management programmes;
- encouraging the development of an environmental goods and services industry in the countries of operations, of commercially viable investments in environmental technologies and pollution prevention and control, and by funding environmental infrastructure projects;
- initiation of, or support for, special studies and programmes to address regional and national environmental problems and to promote environmental education within the population and institutions of the countries of operations;
- adoption of adequate environmental assessment, management planning, audit and monitoring procedures throughout its activities; and
- promoting the adoption and implementation of procedures for provision of information to, and consultation with, all levels of government and the general public - especially potentially affected parties - concerning environmental matters.

Advisory Assistance on Environmental Policy Formulation, Economic Instruments and Market-Based Techniques

4. The Bank's first environmental responsibility is to improve the environmental situation in the development and restructuring of economic activities in central and eastern Europe. This will require the establishment of environmental policy instruments and institutions in the countries of operations to adjust these to the demands of a modern market economy. The lack of adequate legal, regulatory and economic instruments and of enforceable technical standards, combined with a limited institutional capacity to design, implement or to monitor them, calls for technical assistance from the Bank to country and local authorities to establish such policy instruments and institutions. Programmes to promote environmental education and awareness will be an important element of the Bank's assistance.
5. The Bank plans to promote the adoption of a sound environmental policy taking as its basis the principles of the European Community delineated in Article 130 of the Treaty of Rome, as amended by the Single European Act in 1987. The transnational nature of environmental issues, combined with expected regional integration, call for a coherent set of environmental principles, standards and monitoring systems throughout the Continent. However, the Bank recognizes the need, on occasions, for the use of more stringent environmental standards in areas which suffer from high levels of pollution or are ecologically fragile.

6. These principles include:

- preventative action to avoid environmental degradation;
- development and implementation of effective national policies, environmental standards and monitoring systems;
- promotion of the efficient use of natural resources (eg, energy, water, raw materials, etc);
- adoption of the polluter-pays principle wherever possible;
- establishment of primary responsibility for environmental damage;
- due regard for economic efficiency and cost-effectiveness;
- recognition that legal instruments should be readily applicable and enforceable; and
- involvement of local and national authorities, technical experts, non-governmental organisations, affected populations and the general public in environmental matters.

The Bank will collaborate closely with the newly created European Environmental Agency and other relevant international organisations, such as the World Bank, in helping to establish a proper environmental policy framework in the countries of operations. Operationally, however, the Bank recognizes that the countries of operations will only be able to reach high levels of environmental quality progressively.

Promotion of Business Activities in Environmental Protection and Restoration

7. As stated above, a key priority for the Bank is to assist the countries of operations in adopting environmental policy instruments to govern effectively the behaviour of economic agents. By advising on the environmental standards in the countries of operations and helping to ensure that these standards are operationally effective, the Bank will hope to create a market and steady demand for environmental goods and services. The Bank will be able to encourage this development further by promoting direct investments and joint ventures which target commercially-viable environmental enterprises and by financing environmental infrastructure projects, including those with a strong potential for private sector participation.

8. The development of a strong environmental business sector, especially in pollution control technologies and in technical and managerial consulting services, will be crucial for the effective implementation of the new environmental regulations and standards. The Bank will encourage, where applicable, the use of local firms and expertise in the design and implementation of the environment projects and studies. It will also support projects to strengthen the human resource base for environmental management in the public and private sectors.

Initiation of Regional and National Environmental Programmes and Education

9. Environmental problems in the region are frequently transnational and cross-media in nature and include such issues as central European air pollution; management of the Danube River Basin and pollution control in the Baltic Sea drainage basin. Individual countries will find it impossible to design cost-effective environmental measures to deal with such large-scale problems of airborne and waterborne pollution. A common approach is called for by all countries of operations (and in some instances other countries of northern and western Europe). Regional studies, transboundary environmental impact assessment and multi-country analytical work will be necessary prior to the adoption of broad ranging pollution abatement programmes. The Bank intends to play an active role in such regional programmes and to use them as an instrument of European environmental integration.

Nationally, the Bank will, either individually or jointly with other bodies, initiate or participate in special studies on the state of the environment in the countries of operations and propose programmes of improvement. Similarly, the Bank will also, as appropriate, integrate the environmental aspects in other country reviews.

The Bank fully acknowledges the need for education and training in the field of environment in the countries of operations. The Bank will play a part in support of environmental training in various parts of the educational system. Important target groups include decision makers in industry and local and country administration.

The Bank will pursue an active training policy also with regard to its own staff, in order to enhance environmental awareness and understanding in the activities of the Bank.

Operational Procedures for the Environmental Review of Projects

10. Environmental concerns will be integrated into all parts in the project preparation and approval process through the adoption of systematic Environmental Procedures.

These will include:

- Preliminary request for environmental information for projects
- Environmental screening
- Environmental investigations
- Environmental review
- Incorporation of environmental covenants into agreements
- Environmental supervision of projects
- Environmental evaluation and monitoring of projects.

11. These activities will be integrated into the relevant stages of the project preparation and approval process to ensure that the best possible environmental standards are met in the Bank's projects. Evaluation of completed projects will provide information on "lessons learned" which can be incorporated into the design of future projects. Throughout the process, it will always be the responsibility of the Project's Sponsors to submit, as determined by the Bank, relevant information, records of public reviews and technical studies (such as environmental assessment reports or environmental audit reports). The information needs and time required to complete the various stages of the environmental review process will vary from project to project, depending on the complexity of the project, the severity of potential environmental impacts and the responsiveness of the project's sponsors.

12. *Environmental Screening:* Before projects are submitted for Initial Review by the Operations Committee, they will be screened into appropriate environmental categories by the Environmental Staff of the Bank in agreement with the Team Leader. The environmental categories will determine the nature and depth of environmental information needed and the appropriate environmental guidelines against which the project will be reviewed. It will be the responsibility of the Team Leader to obtain sufficient information from the Project Sponsors both for the environmental categorization to be made and for the actual environmental review. Proper screening will be crucial so that the Project Sponsors may meet the Bank's environmental standards without unduly delaying the progress of the project. Projects will be screened to determine if they require an environmental assessment, an environmental audit and/or some other environmental information.

Environmental Assessment: Projects may need an environmental assessment if they fall within any of the following categories:

- development of a greenfield site;
- expansion of an existing facility onto undeveloped land;
- public infrastructure projects;
- projects with the potential to cause environmental impacts outside the area occupied by the project; or
- whenever required by law.

The types of project which, typically, would attract an A, B or C environmental assessment categorization are indicated in Appendix 1 of this policy. Projects such as those on List A have the potential to cause diverse and significant impacts and will require a full Environmental Assessment (EA). Projects such as those on List B are projects in which potentially significant impacts can be readily identified and remedial measures prescribed without the need for a full environmental assessment. Such projects will require a Partial Environmental Analysis, and will be screened into Category B. Projects with no apparent potential environmental impact (education, training etc) will not normally require an environmental assessment, and will be categorized in Category C; examples of such projects are shown on List C.

Environmental Audit: Projects require an environmental audit in cases where there is property transfer, property lease, or modifications to existing operations. Projects will be categorized "1" if they need an environmental audit, and "0" if they do not. Environmental audits are not an alternative to environmental assessment, and in some cases both audits and assessments will be required.

Other Environmental Information: Projects may require information other than environmental assessments and audits. In particular, Financial Intermediary projects will have special information requirements as discussed in paragraph 22. There may also be opportunities for incorporating environmental measures which would enhance the project without reducing efficiency.

The screening category for each project will be recorded on the project data sheet for the project, and the screening will be documented in an Environmental Screening Memorandum. The Environmental Screening Memorandum will be submitted as part of the project documentation for Initial Review.

13. *Initial Review:* Environmental issues associated with projects will be taken into consideration during the Initial Review of projects by the Operations Committee.

14. *Submission of Environmental Information:* Before Final Review, the Project Sponsors will prepare and submit to the Team Leader environmental information deemed necessary during screening and Initial Review. This information will be the property of the Project Sponsor but the Bank will require the Project Sponsor to release Environmental Assessments to the appropriate interested parties (eg, through any relevant environmental assessment procedures in the countries of operations).

In cases of projects requiring a full Environmental Assessment, the Bank will expect this information to forecast the potential environmental effects of the project so that they can be taken into account in the project design. This will help ensure that the project will be environmentally sound and sustainable and that careful consideration is given to appropriate technologies. As with economic, financial and technical analysis, the environmental assessment is an essential part of project preparation. Responsibility for preparing the assessment will rest with the Project Sponsors although the Bank will define the environmental standards which the project must meet and will provide guidance to the Project Sponsors, if requested. The environmental assessment will record any review of the project by local authorities and discuss issues raised by interested parties. The document will show with which national and international laws and agreements the project must comply if the project is to proceed. The project documentation should include a summary of the public participation process and explain how key environmental issues identified in this process have been addressed in the project design.

In certain circumstances, due to the complex nature of potential environmental and related social impacts of a proposed project, the Bank will establish an independent panel of technical experts to review the project and/or assist in its implementation.

15. *Environmental Review:* When sufficient information has been received, an Environmental Review will be undertaken by the Environmental Staff of the Bank. The Environmental Review will discuss the environmental information submitted to the Bank and will determine if the project is in compliance with the appropriate guidelines; it will also describe mitigation and monitoring requirements as well as any other obligations of the Project Sponsor regarding environmental issues. A close integration with national environmental regulations will be sought in this context.

The Environmental Specialist responsible for reviewing the project will prepare an Environmental Review Memorandum documenting the environmental review. This Memorandum will be included in the documentation submitted as part of the Investment Proposal for Final Review. The Environmental Review Memorandum, which must be signed by the Environmental Specialist who prepared it and by the Team Leader, will make any appropriate recommendations on environmental issues to be considered during the Final Review of the project.

16. *Final Review:* At Final Review, the Operations Committee will discuss any environmental issues arising from the Environmental Review. The Bank clearly establishes the principle that a project can be rejected on environmental grounds, when there are major environmental problems, or when a Project Sponsor fails to handle environmental issues in a satisfactory way. In cases when the members of the Operations Committee cannot form a consensus, ultimately the President has final recourse.

17. *Environmental Covenants:* The Bank will incorporate any environmental covenants agreed during the project review and approval process into Agreements with Project Sponsors before disbursement.
18. *Environmental Supervision:* During project execution and administration, monitoring to ensure compliance with the appropriate Bank standards will primarily occur through periodic reports submitted by the Project's Sponsors and through Bank supervision, or through the Project Sponsor's obligations under national environmental procedures. In cases of non-compliance, it is the Team Leader's responsibility, in consultation with the Environmental Staff, to recommend appropriate remedial action. If the Bank, through its own monitoring system, decides that the Project Sponsors are not complying with agreed environmental standards and performance, a system of penalties will be imposed if corrective action is not implemented. These may include freezing of disbursements and notification to proper authorities and other financial agencies and co-financers who may also apply appropriate penalties.
19. *Environmental Evaluation at Project Completion:* At the stage of project completion, an Environmental Evaluation Report will be prepared to evaluate the environmental impact of the project, as part of the overall project completion report. This report will also note whether the environmental impact was adequately anticipated in the environmental assessment and will comment on the effectiveness of mitigation measures undertaken by the Project Sponsor.
20. *Environmental Monitoring after Completion:* After project completion, environmental monitoring will continue if justified on A and B type projects and Project Sponsors may be requested to supply the Bank with regular environmental monitoring reports.
21. Project documentation will include an account of all the steps taken in the environmental review process, from screening to monitoring of projects after completion.
22. *Procedures for Financial Intermediary Lending:* When the Bank channels its assistance through a corporate or financial intermediary, standards and procedures will need to be applied for each major sub-project. For this reason, the Bank will assess the overall environmental performance and capabilities of the sponsoring organization to carry out the environmental review of projects, including appropriate procedures for screening and review of environmental assessments and audits which may need to be undertaken. In cases of projects involving expansion or retrofitting of existing plants, the Bank will require both the existing and new facilities to be subject to the environmental review process. The Bank may include finance in the project to allow environmental improvements to the existing facilities. The Bank will require that environmental quality levels similar to its own be applied in cases of associated lending.

Where necessary the Bank will recommend and may provide assistance for the strengthening of the in-house environmental capabilities of the Financial Intermediary. The Bank may also provide assistance to Financial Intermediaries in identifying suitable local environmental consultants to assist them in executing their environmental responsibilities in cases where they have insufficient in-house environmental capacity.

Public Participation and Reporting

23. Local participation in the economic transformation process will be essential for the success of the decentralization and democratization process in the countries of operations. The Bank will ensure that Project Sponsors provide adequate information on the environmental impacts of projects to governments at all levels and to the general public, especially potentially affected parties, and that the comments and opinions expressed by these parties will be taken into account in the project approval procedures of the Bank.
24. The Bank will develop its procedures for public participation within a procedural framework agreed upon with the authorities of the country of operations concerned. Within its procedures, the Bank will ensure that the views of public parties have been taken into account, and the satisfactory handling of the public participation process by the Project Sponsor will be taken into account in approving projects. The Bank will require the Project Sponsor to notify interested public parties of the project early in the life of a project so that there is sufficient time for issues raised to be addressed by the Project Sponsor and reported to the Bank in environmental information required by the Bank (eg, Environmental Assessment report). In cases where the Bank recognizes there is justification for withholding information for commercial or other reasons, the need for these omissions will be explained in the environmental documentation.
25. The Bank will also require the Project Sponsor to make publicly available any Environmental Assessment it has been required to carry out, in accordance with national legislation in the country concerned, such that there is sufficient time for public parties to comment on the Environmental Assessment and for those comments to be taken into account in the Final Review of the project.
26. The Bank may insist on loan covenants requiring adequate public participation procedures during project implementation as a condition of loan approval.
27. In accordance with its Agreement, the Bank will also publish a yearly report which provides a review of its environmental programme. The report will provide an overview of major environmental developments in the region and describe the regional programmes, projects and other activities of the Bank

which have directly contributed to environmental improvement, institutional strengthening and human resources development. The report will summarize projects with environmentally sensitive components and will review the effectiveness of the mitigation measures adopted to address these problems. The report will suggest future priorities and challenges which should be considered by the Bank and its countries of operations in the development of environmental programmes. In addition to this yearly reporting mechanism, the Bank will inform the Board as necessary of the environmental aspects of its work from time to time.

C Organization and Staffing

28. The Bank will recruit on a long or short-term contract basis as appropriate, environmental engineers, economists, ecologists and policy experts to carry out its environmental mandate. It will fully integrate its environmental staff into the operational structure to facilitate a collaborative relationship with Team Leaders on the environmental soundness of the Bank's portfolio and to encourage the development of environmental projects and other activities on a broad scale. The supervision and coordination of the environmental review process will be the responsibility of the team of environmental assessment specialists in the Public Infrastructure, Energy and Environment Department, who will have Bank-wide authority and responsibility for ensuring the environmental soundness of all Bank-funded operations.

29. The policy principles outlined in this paper are an initial statement of the Bank's position on these matters. This policy document will be complemented by the development of more detailed environmental procedures in the context of project preparation, review and implementation and the adoption of environmental standards for use in Bank-financed projects. In developing environmental policy documents, the views of the Environmental Advisory Council may be sought during their preparation.

APPENDIX 1

Environmental screening for projects requiring environmental assessment

1. Introduction

All projects proposed for European Bank funding will be individually screened by an environmental assessment specialist to determine the appropriate type of environmental analysis to be required to support project development and review, based on the nature, potential magnitude and sensitivity of the issues.

For projects which may have a significant adverse environmental impact on a regional scale, the principles of the UN/ECE Convention on Environmental Impact Assessment in a Transboundary Context will apply as appropriate.

2. Category A

Diverse and significant potential environmental impact requiring an environmental assessment. Examples of projects in this category are:

- Agro-business facilities (large-scale);
- Chemical, fertiliser and petrochemical plants;
- Dams and reservoirs projects and river basin development programmes;
- Domestic, hazardous and toxic waste management and disposal operations;
- Ferrous and non-ferrous metal operations;
- Groundwater extraction (large-scale);
- Industrial estate development;
- Industrial projects (large-scale);
- Integrated cast iron and steel works;
- Irrigation and drainage (large-scale);
- Manufacture, transportation, use and disposal of pesticides or other hazardous and/or toxic materials;
- Mineral development and processing operations;
- Oil and gas developments and pipelines (large-scale);
- Port, harbour and inland waterway development;
- Production forestry;
- Pulp and paper plants;
- Radioactive waste storage and disposal installations;
- Resettlement;
- Tanneries;
- Thermal and hydropower developments;
- Transportation (airports, motorways, express roads and long distance railway lines);
- Tourism development (large-scale);
- Urban development (large-scale);

- Urban water supply and Wastewater Treatment (large-scale);
- All projects which pose a serious accident or health risk.

3. Category B

Significant potential impact which can be readily identified and quantified and for which remedial measures can be prescribed without much difficulty. These projects will normally require more limited and specific environmental analysis than those in Category A, perhaps using the variety of environmental guidelines that have been developed by local or country authorities as well as by a number of international and regional organizations. In addition, specific environmental design criteria can be developed for individual projects. Such projects will be periodically reassessed to ensure their categorization remains appropriate.

Examples of projects in this category are:

- Agro-industrial and agricultural development projects (medium and small-scale);
- Electrical transmission projects;
- General manufacturing;
- Manufacture of construction materials and cement plants;
- Metals processing projects (surface treatment, shipyards, etc);
- Municipal and public facilities (hospitals, schools, etc);
- Oil, gas and water pipelines (small-scale);
- Rubber industry projects;
- Rural roads;
- Rural water supply and sanitation;
- Telecommunications;
- Textile mills;
- Tourism (medium and small-scale);
- Urban development (medium and small-scale).

4. Category C

Insignificant potential impact not requiring environmental assessment.

Opportunities to enhance environmental benefits should be sought in these projects. Examples in this category are:

- Education (except school construction);
- Family planning;
- Health (except hospital construction);
- Nutrition;
- Institutional development;
- Technical assistance;
- General service sector activities.