

*Environmental policy*



**European Bank**  
for Reconstruction and Development

# The EBRD's environmental mandate

Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development (EBRD) states that the purpose of the Bank is "to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries". The Bank is also directed by its Agreement to "promote in the full range of its activities environmentally sound and sustainable development" (Article 2.1vii). The EBRD is the first international financial institution to have been given such a proactive environmental mandate by its founders. In addition to promoting environmentally sustainable development, "the Bank shall apply sound banking principles to all its operations" (Article 13 i) and "the Bank shall not undertake any financing ... when the applicant is able to obtain sufficient financing ... elsewhere on terms and conditions that the Bank considers reasonable" (Article 13 vii).

The EBRD recognises that sustainable development is a fundamental aspect of sound business management and that the pursuit of economic growth and a healthy environment are inextricably linked. The Bank further recognises that sustainable development must rank among the highest priorities of the EBRD's activities. The Bank will endeavour to ensure that its policies and business activities promote sustainable development, meeting the needs of the present without compromising those of the future.

The environmental mandate reflects the recent history of the EBRD's region of operations. Environmental degradation in the countries of central and eastern Europe and of the former Soviet Union is principally the result of inappropriate and distorting policies and practices in the past. These were both economically and ecologically destructive. Public concern about these problems contributed to the political changes in the EBRD's region of operations.

The EBRD believes that to achieve environmentally sustainable development, structural change needs to be implemented by individual countries. The Bank believes that progress towards sustainable development can best be achieved by working within a sound regulatory and policy framework that also uses market mechanisms to promote environmental protection and that 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 Bank encourages and supports governments to provide the right signals to individuals and businesses, particularly through its operations and selected technical cooperation initiatives.

SGDP 5-1-1-11  
DUM 2

250464



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Revised September 1996.

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## General principles and objectives

The EBRD will ensure through its environmental appraisal process that its projects are environmentally sound and that their environmental performance is also monitored. It will seek to realise additional environmental benefits through its operations, in particular if they also provide economic benefits.

The EBRD will attach particular importance to operations which promote energy and resource efficiency, waste reduction, resource recovery and recycling, the use of cleaner technologies and the promotion of renewable resources, and to other operations with primarily environmental objectives. The EBRD will also continue to play an important role in financing the alleviation of severe environmental problems.

As a means of building the necessary capacity for environmental management in its countries of operations, the Bank will provide training programmes and other mechanisms for enhancing its operations.

The EBRD will actively seek to utilise its operations to contribute to the implementation of multilateral environmental agreements, such as the Framework Convention on Climate Change, the Montreal Protocol and the Convention on Biological Diversity.

The Bank will work with other international financial institutions, the European Union, bilateral donors and UN organisations in promoting a coordinated approach to effective environmental interventions in the region. The Bank will work through the EU to assist its countries of operations in the adoption of sound environmental policies as delineated in Article 130r (Environment) in the Treaty on European Union.

The EBRD will foster the principles of public consultation within its region of operations. It will implement procedures to ensure that information is provided to interested parties concerning the Bank's environmental activities and that views expressed are taken into account in the preparation of projects.

In its internal operations, the Bank will pursue the best practices in environmental management, including energy efficiency, waste reduction and recycling. The Bank will seek to work with suppliers and sub-contractors who follow similarly high environmental standards.

## The EBRD's strategy

The EBRD's strategy for promoting its environmental mandate is focused on the following areas.

### Sector and country strategies

Each EBRD sector and country strategy will contain a section which describes the environmental implications of the Bank's proposals, including environmentally oriented operations in the environmental infrastructure and energy efficiency sectors, and how these relate to the Bank's environmental mandate. This section will draw upon National Environmental Action Plans and the work of other international institutions, notably the World Bank and the EU, to describe the relevant environmental issues associated with the development sectors within which the Bank's operations will be prepared.

### Environmental appraisal

EBRD operations undergo environmental appraisal both to help the Bank decide if an activity should be financed and, if so, the way in which environmental issues should be incorporated in operation financing, planning and implementation. An overall objective of environmental appraisal is to improve decision-making. The EBRD's environmental appraisal work will seek to ensure that each investment operation is environmentally sustainable, incorporating principles such as "polluter pays". The Bank will adopt the same principles of environmental appraisal on its intermediated financing as it adopts

when it directly funds operations. It will ensure that its financial intermediaries have the capability and commitment to carry out environmental appraisals as well as to monitor the environmental components of their activities.

Environmental and health and safety considerations which the Bank views as contributing to the overall benefits of an operation will be integrated into the preparation, approval, implementation, monitoring and evaluation of all the Bank's investment operations through the systematic implementation of the EBRD's Environmental Procedures. (These are described in detail in a separate Bank publication.) The environmental appraisal process will identify opportunities for incorporating environmental mitigation and enhancement measures in operations.

The EBRD will attach particular importance to promoting energy and resource efficiency, waste reduction, resource recovery and recycling, the use of cleaner technologies and the promotion of renewable resources. Particular importance will also be attached to global issues, such as climate change, ozone layer depletion and biodiversity, when appraising projects.

Both technical and management measures will generally be included in operation-specific Environmental Action Plans. The Bank follows the principle that an operation will be rejected on environ-

mental grounds when there are major outstanding environmental problems or when environmental issues have not been addressed in a satisfactory way on a particular operation – for example, when no specific and realistic plan with a precise timetable has been presented. Board documentation will include a statement on each operation's conformity with the Bank's Environmental Policy.

### **Environmental standards**

EBRD operations will support and advance appropriate environmental and health and safety standards throughout the region. The Bank operates in countries which generally have enacted environmental and health and safety legislation consistent with good international practice. Most of them have signed Association or Partnership and Co-operation Agreements with the EU. These provide for approximation of their national legislation towards full EU environmental standards and, in the case of associated countries, for a progressive full compliance with EU standards in view of their future accession.

EBRD operations will be structured to meet national and existing EU environmental standards or, where EU standards do not exist, national and World Bank standards. If these standards cannot be met at the time of Board approval, operations will include a programme for achieving compliance with national and EU or national and World Bank standards. In

addition, the Bank will make recommendations and encourage project sponsors to bring their existing operations at the project site into compliance with good international practice and standards within a reasonable timeframe.

Where alternative approaches to those described above are required by an operation – for example, as may be expected at the present time for most financial intermediaries – such approaches will in all cases be subject to Board consideration on a project-by-project basis. In all cases the standards applying to the operation will be an integral part of the Board documentation.

### **Environmentally oriented operations**

The Bank's additionality is important in promoting environmentally oriented operations in the region. The EBRD will develop a pipeline of viable stand-alone operations with primarily environmental objectives, including investments in environmental infrastructure, such as water supply systems, waste-water management, and solid and hazardous waste management, in energy (district heating, energy efficiency and renewable energy) and in urban transport.

The EBRD will support investments to assist municipalities, particularly by developing the creditworthiness of municipal entities. Through its operations, it will promote the decentralisation of

services, the involvement of the private sector in the provision of public services, the corporatisation of municipal utilities, cost recovery through user charges, and economic efficiency in resource use and allocation.

The EBRD will identify and develop energy efficiency operations throughout its region of operations. The Bank will promote government support for energy savings and reductions in subsidies to energy producers and consumers. It will finance direct investments to reduce the intensity of energy use in larger-scale industries, and encourage energy efficiency through investments to modernise district heating networks. The EBRD will seek to develop financing instruments for small and medium-sized investments that promote energy efficiency.

### **Technical cooperation**

The EBRD will develop, in close cooperation with other donors, and in particular with the European Union, assistance programmes and technical cooperation initiatives related to the establishment of an appropriate legal, economic and policy framework for the promotion of environmentally sound and sustainable investments. It will seek to strengthen regulatory, assessment, monitoring and enforcement capacities to address the underlying causes of environmental degradation, particularly through targeted technical and manage-

ment training initiatives. All such work will be designed to assist the Bank and its private and public sector clients to develop and implement investment operations which meet sustainability criteria.

### **Regional and global initiatives**

Recognising that many of the environmental problems of its region of operations are global and transboundary in nature, the EBRD will continue to contribute to international environmental initiatives, such as those for the Baltic Sea and Danube River Basin. The Bank will be an active participant in the "Environment for Europe" process and will contribute to the work of the Task Force which is facilitating the implementation of the Environmental Action Programme for central and eastern Europe. The EBRD will continue to actively participate in the work of the Project Preparation Committee, the networking mechanism which coordinates the work of international financing institutions and donors in the preparation and implementation of environmental investment operations in central and eastern Europe.

The Bank will, within the framework of its mandate, support through investments the implementation of Agenda 21, which resulted from the United Nations 1992 Conference on Environment and Development, and of relevant multilateral and regional agreements on environment and sustainable development, including

the Framework Convention on Climate Change, the Montreal Protocol, the Convention on Biological Diversity, the Convention on Environmental Impact Assessment in a Transboundary Context, and, where appropriate, the Treaty on the European Union of 1992.

### **Developing the local environmental goods and services sectors**

By requiring high environmental standards to be met on operations which it finances, and through its policy assistance work, the EBRD will help to strengthen demand for environmental goods and services provided from within its countries of operations. The Bank will also encourage this through investments in commercially viable enterprises that are serving this market, including small and medium-sized enterprises. The Bank will encourage the use of local experts in the design and implementation of operations which it is considering financing. A significant component of the EBRD's environmental technical cooperation programme will be devoted to training local experts in the provision of environmental advisory services.

### **Public consultation**

The EBRD believes that effective public consultation is a way of improving the quality of operations. The Bank will foster the principles of public consultation within

its region of operations. In the case of significant "greenfield", major expansion or transformation-conversion operations which have been classified as requiring an Environmental Impact Assessment, those potentially affected will have the opportunity to express their concerns and views about issues such as operation design, including location, technological choice and timing, before a financing decision is made. 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 procedures as described in the Bank's Disclosure of Information Policy and Environmental Procedures. The Bank'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 an operation.

### **Provision of information**

In line with the EBRD's Policy on Disclosure of Information, the Bank will implement procedures to ensure that information is provided to interested parties concerning the Bank's environmental activities. In accordance with its Agreement, the EBRD will incorporate in its *Annual Report* a section on the impact of the Bank's activities on the environment of its countries of opera-

tions. In addition, it will report regularly on its environmental work – for example, through its *Transition Report* and through the mechanism of the *Environments in Transition* periodical, which will describe operations involving environmentally sensitive components and the mitigation and enhancement measures that have been incorporated in them. Environmental issues will be summarised in the Bank's Project Summary Documents which will be available from the EBRD's Publications Desk and in its Business Information Centre (BIC). The EBRD will publish factsheets related to its work in the environmental sector for use by the public and will make available in-depth reports on some of its technical cooperation initiatives.

# Institutional arrangements

In order to ensure that the nine areas described on pages 3-7 are properly addressed, the Bank will establish units to oversee the environmental appraisal process and to initiate and develop environmentally oriented operations. The EBRD will employ specialist staff in fields such as environmental engineering, natural sciences, municipal and environmental financing, energy efficiency and environmental policy to enable it fully to carry out its environmental mandate. The work of the environmental specialists will be integrated into the Bank's operational structure to ensure that appropriate weight is given to the principles of environmental soundness and sustainable development in all its activities and that environmentally oriented operations are developed in areas where the Bank can provide additionality and have a beneficial transition impact. Training in the implementation of the Bank's Environmental Policy and Procedures will be provided to relevant Bank staff.

In its environmental work the EBRD will be assisted by its Environmental Advisory Council whose views will be sought on general policy-related issues and on all sector policies prior to their finalisation. Its views may also be sought on operation-specific issues related to the Bank's financing.

The EBRD's Environmental Policy and its Environmental Procedures will continue to be subject to review.