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continued
Environmental procedures

1. Introduction
The European Bank for Reconstruction and Development (EBRD) is directed by its founding agreement to "promote in the full range of its activities environmentally sound and sustainable development". The various ways in which the EBRD promotes such development are described in the Bank's Environmental Policy document which is attached to these Procedures. One specific step taken by the Bank to address this mandate and the General Principles and Objectives set out in the Policy is to ensure that all of its investment and technical cooperation activities undergo environmental appraisal as part of the overall financial, economic, legal and technical due diligence which is carried out.

These Procedures address the environmental appraisal process.

The Procedures have two basic aims. The first is to ensure that the environmental implications of the Bank's activities are taken into account early on in the planning and decision-making process and are properly reflected in the preparation, approval and implementation of loans, equity and other types of financing. This means, in essence, taking steps to ensure that the environmental and health and safety impacts which may be associated with operations are appraised alongside the economic benefits. The second aim is to identify ways in which the Bank's investments can be enhanced through the provision of environmental benefits or improvements.

The following sections outline: the purpose and nature of environmental appraisal; the division of staff responsibilities for environmental appraisal within the Bank; the types of environmental investigations and requirements associated with the appraisal process; and, finally, a description of the way in which environmental appraisal is incorporated within the Bank's operation cycle, starting with the identification phase through to post-evaluation. Annexes providing more detailed information on a number of aspects of the environmental appraisal process are attached to these Procedures.

These Environmental Procedures are addressed to Bank staff and are to be followed by them. Guidance to Project Sponsors on how to address the Bank's environmental requirements have been prepared and are available from the Bank.

2. The purpose and nature of 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. It is important therefore that it is initiated at an early stage. Early identification and resolution of environmental issues can avoid the costs and delays in implementation caused by unanticipated environmental problems. Environmental appraisal is also carried out to identify ways in which operations can be designed, financed and implemented to provide environmental benefits and improve environmental quality.

A starting point for environmental appraisal is the identification of the environmental laws and regulations that apply to the proposed operation. The Bank's Environmental Procedures are not a substitute or replacement for those requirements. International agreements such as the "Convention on Environmental Impact Assessment in a Transboundary Context" (the Espoo Convention) must also be respected. National and local requirements related to environmental impact assessment, environmental auditing, land use planning, pollution control, health and safety, and public consultation will always need to be met as described in Annexes to this document.

The early appraisal of environmental issues is important in assessing and mitigating the financial risks of an operation. Failure to take sufficient account of the costs of ongoing compliance with applicable environmental legislation and standards may significantly increase overall operation costs, both in terms of capital expenditure for investments needed to achieve compliance, as well as enforcement measures in case of non-compliance, e.g. increased charges, fines or even the closure of the operation by environmental authorities. There may be an additional financial risk resulting from legal uncertainties in connection with liabilities for historical pollution whether or not these were caused by the enterprise itself. At the same time, the early incorporation of
environmental enhancement measures into the operation design is likely to improve the overall efficiency of an enterprise and thus increase its medium to long-term profitability.

As with economic, financial and technical appraisal, environmental appraisal is, essentially, the responsibility of the Project Sponsor. The Bank’s role, as outlined below, is to determine the type of appraisal needed, to provide guidance on how it should be conducted, to review the results, and to ensure that findings are properly reflected in operation financing and implementation.

3. Roles and responsibilities

The three most significant roles in the environmental appraisal process are those of the Project Sponsor, the Operation Leader (OL) and the environmental specialists of the Bank’s Environmental Appraisal Unit (EAU). As operations progress, other Bank groups such as the Office of the General Counsel (OGC), the Operation Administration Unit (OAU) and the Project Evaluation Vice Presidency also have a role to play. The responsibilities of each of these in environmental appraisal can be described as follows:

- The Project Sponsor’s responsibility is to provide sufficient environmental information to the Bank to enable its Board of Directors to make a decision. EAU may assist the Sponsor by setting Terms of Reference for investigations and in identifying specialists who can help assemble or assess this information. It is the responsibility of the Project Sponsor, however, to commission or conduct all necessary environmental investigations satisfactory to the Bank. Following Board approval, it is the responsibility of the Project Sponsor to ensure that agreed environmental requirements are met.

- The Operation Leader has the overall responsibility, on behalf of the Bank, for the environmental aspects of the operation. This includes the responsibility to establish communication channels between the Project Sponsor and EAU to relay the Bank’s requirements to the Project Sponsor; and to obtain environmental information in sufficient time for the material to be reviewed by EAU and to incorporate the findings in the financial and economic analysis, where appropriate, prior to each stage of the Bank’s decision-making process. EAU will assist OLs in preparing terms of reference for environmental studies, such as assessments and audits. It is the OL’s responsibility to agree the environmental wording of the final Board document with EAU. It is the OL’s responsibility, together with OGC, to incorporate environmental requirements agreed with EAU in legal agreements, and to monitor their implementation during the involvement of the Bank in the operation.

- The Environmental Appraisal Unit’s initial responsibility is to review any preliminary environmental information about an operation and identify potential environmental concerns and opportunities typically associated with such operations prior to Initial Review by the Bank’s Operations Committee (OpsCom). EAU then prepares an Environmental Screening Memorandum (ESM) for the OL and OpsCom which details environmental concerns and opportunities and the nature of the environmental investigations that will need to be completed prior to Final Review. It also brings any significant concerns immediately to OpsCom’s attention.

Following Initial Review, EAU assists the OL in drafting Terms of Reference for any environmental investigations required; participates in the selection of environmental consultants and liaises with the Sponsors and the consultants, as necessary, during the conduct of the investigations. It is then EAU’s responsibility to review the results of the environmental investigations, including public consultation, and to prepare an Environmental Review Memorandum (ERM) for the OL and OpsCom prior to OpsCom Final Review. The ERM details the environmental control and enhancement measures incorporated in the operation, draws attention to any environmental information still required and highlights any outstanding environmental issues needing resolution. EAU then agrees on the environmental wording of the final Board document with the OL. EAU will assist the OL and OAU during the monitoring of the operation. EAU will support the Bank’s Project Evaluation Vice Presidency in evaluating the operation’s environmental performance.

- The Office of the General Counsel’s responsibility, together with the OL, is to incorporate environmental requirements agreed with EAU in legal documentation.

To the extent necessary, OGC advises on the legal aspects of regulatory compliance and local and international environmental laws and agreements.

- The Operation Administration Unit has a central responsibility in respect of the monitoring of covenants in legal documentation (though overall responsibility remains with the OL). This includes the monitoring of environmental covenants in cooperation with EAU and the OL, both of whom are required to confirm fulfillment of each environmental covenant.

- The Project Evaluation Vice Presidency’s responsibility, with support from EAU, is to incorporate an environmental review component within an operation’s overall evaluation.

- The Environmental Advisory Council (ENVAC), while not involved in the environmental appraisal process on individual operations, may provide guidance to the Bank on the process per se and the implementation of the Environmental Procedures. ENVAC’s views may be sought on operation-specific issues related to the Bank’s financing.

4. Types of environmental appraisal work

Environmental investigations are undertaken or commissioned by Project Sponsors to provide environmental information satisfactory to the Bank. The main types of environmental investigations carried out on Bank operations are environmental impact assessments, environmental analyses, and environmental audits. Many operations will require a combination of an Environmental Audit together with an Environmental Impact Assessment or an Environmental Analysis. Environmental investigations address not only impacts on the physical environment but health and safety and socio-economic impacts as well. Where the Bank’s operation involves intermediated financing there are special information requirements (see 4.2). The specific types of environmental appraisal work which may be required by the Bank can be defined as follows:

4.1 Environmental appraisal related to direct investments

4.1.1 Environmental Impact Assessment (EIA)

An EIA is carried out to identify, predict and assess the future environmental impacts associated with a particular operation where the impacts are potentially significant and cannot be readily identified, assessed or mitigated. The detail and scope of an EIA depend upon the likely types and extent of an operation’s environmental effects and the sensitivity of the locations affected. These are usually determined through scoping. Scoping is a process to identify the important issues and alternatives that should be examined in an Environmental Impact Assessment. More detailed information on how the scope of an EIA is determined is provided in Annex 1. Certain types of greenfield, major expansion, or transformation-conversion operations (see Annex 4) will be subject to an EIA, regardless of their location, due to their environmental significance. Additional types of operation, which might affect environmentally protected or sensitive areas (such as national parks and nature reserves), may also be subject to an EIA. An EIA should include the elements set out as Annex 2. Where appropriate, environmental impact assessments should include an analysis of environmental costs.

In addition to EIAs on specific operations, the Bank may also carry out strategy environmental assessments. The term “strategic environmental assessment” (SEA) is used to describe the process of evaluating the likely environmental consequences of a proposed plan or programme which has the potential to significantly affect the environment, before it is approved. The plan or programme may be related to an economic sector such as transport, energy, forestry, fisheries, etc. or it might be related to a geographical area or region. The main benefits of SEA is that it allows for a consideration of more far-reaching and cumulative impacts and broader types of alternatives than that provided by a project-specific EIA. In addition, it can help facilitate consultations between authorities and the public by identifying issues, initiating baseline data collection and developing action programmes where a number of specific development activities are proposed in a relatively localised geographical area or in the same sector. SEAs can facilitate the preparation of project-specific EIAs at later stages of development.
SEAs will be carried out as the need for them arises. There may be a rule for SEAs in connection with the revisions of existing sectoral policies prior to their approval by the Board. It may also be appropriate to conduct an SEA related to an economic sector in a particular country where long-term development programmes are still being considered by national authorities. The SEA can clarify environmental issues associated with the programme prior to the identification of specific investment operations to be considered by the Bank. SEAs can be financed through technical cooperation funds.

4.1.2 Environmental Analysis

An Environmental Analysis is carried out on operations or activities where any future environmental impacts are potentially significant but where, because of their nature, size and location, they can be readily identified, assessed and mitigated. The content of an Environmental Analysis is similar to that for an EIA although the scope of Environmental Analysis is usually more limited.

4.1.3 Environmental Audit

The typical environmental due diligence requirement for operations that involve existing or past activities is the Environmental Audit. An Environmental Audit identifies past or present concerns and potential environmental and health and safety risks and liabilities associated with the operation. It may also help to establish the baseline conditions for agreeing on responsibility for environmental damage, or to value immovable assets which the Bank considers taking as security. Audits can encompass one or more phases depending on the extent of environmental concerns associated with the operation. An audit covers the environmental condition of the site, operations and related facilities, together with current and pending environmental regulations that apply to the operation. It documents the environmental degradation and existing impacts (on-site and off-site), observations or records of environmental damage, adequacy of pollution control measures, regulatory compliance record, and opportunities for environmental improvements, such as energy efficiency, waste reduction or improved management practices. If the need for additional information or studies is identified, further investigations may be required, such as soil and groundwater testing, or hazards analysis. Audits are usually conducted by an independent third party, such as an environmental consulting firm, to maintain objectivity.

A generic Environmental Audit protocol for manufacturing facilities and specific questionnaires for various sectors have been developed by the Bank. For particular industries, such as chemicals or petroleum production, the audit protocol must be adapted to include industry-specific issues. A sample report format for environmental audits is included as Annex 3.

4.1.4 Initial Environmental Examination (IEE)

At the time that EAU prepares an ESM, sufficient information may well be available about an operation and its location for the environmental investigations that are required to be elaborated in detail. However, sometimes preliminary information is insufficient, in which case an Initial Environmental Examination (IEE) will be required following Initial Review.

An IEE normally requires a site visit and discussions with the operators of any existing facility, with environmental regulators and with the locally affected population and local interest groups.

The IEE will establish whether an Environmental Impact Assessment or an Environmental Analysis is required. When an IEE is required at Initial Review, the formal screening category will be assigned in a revised ESM.

4.1.5 Environmental Action Plan (EAP)

An EAP is prepared as the result of the environmental investigations and is developed by the Project Sponsor. Its purpose is to obtain an agreement concerning key environmental, health and safety performance criteria, corrective actions and improvement programmes, and to define monitoring and reporting requirements. Normally, the EAP will form a part of the legal documents of the Bank’s investment.

The EAP will document the key 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 operation and the costs of doing so.

Where current operations are not in compliance with regulatory requirements and existing permits, the EAP, and the proposed actions and schedules for these areas of non-compliance, should be reviewed and agreed by the competent environmental, health and safety authorities. The EAP should be satisfactory to the Bank prior to Final Review. The EAP should be subject to regular review and revision satisfactory to the Bank and, where compliance is an issue, to the appropriate regulatory authorities.

4.2 Environmental appraisal related to intermediated financing

A significant part of the Bank’s investment in its countries of operations is channelled through financial intermediaries (FIs) which act as the Bank’s vehicles to provide funding mainly for the small and medium-sized enterprise (SME) sector. They include regional, national and sectoral investment funds, banks, insurance and leasing companies, and other financing mechanisms. The Bank needs to ensure the proper implementation of its environmental mandate in its FI operations while respecting the principle of delegated responsibility which characterises such operations. FIs are therefore required to adhere, at a minimum, to the following basic requirements which will be incorporated into the legal documentation:

1. The FI will have to develop and implement environmental procedures satisfactory to the Bank and integrate them as fully as possible into its credit / investment appraisal and monitoring procedures.
2. The FI will have to comply with the Bank’s Environmental Exclusion List for FIs. This list includes activities prohibited by international environmental agreements or where the Bank considers indirect financing inappropriate because of the significance of associated environmental risks.
3. The FI will have to submit to the Bank periodic (usually semi-annual or annual) reports on the implementation of its environmental procedures and the environmental performance of its investment/lending portfolio.

The Bank requires its FIs to assess potential environmental impacts, risks and opportunities associated with their operations, to ensure environmental audits and assessments are conducted where appropriate, and to require that the environmental standards expressed in the Bank’s revised Environmental Policy, and, at a minimum, local and national environmental and public consultation requirements are satisfied. Each FI is required to comply with the appropriate procedures; however, it may tailor these procedures to suit the specific structure of the institution. Such individual procedures need to be agreed with the Bank.

Prior to establishing relationships with FIs, the Bank conducts environmental due diligence on the potential partner(s) and the proposed pipelines of operations. Issues to be considered include the environmental performance and environmental risks and liabilities associated with the FI and its lending/investment portfolio, its environmental policies, procedures and capabilities, the nature of the loans and investments to be supported with the use of Bank funds, and the need for technical cooperation to facilitate the adoption of environmental procedures satisfactory to the Bank.

In addition to lending to, and investing in, SMEs via financial intermediaries, the Bank may also finance investments in specific sectors, on a regional basis. These multi-project facilities allow the Bank to support a number of linked investment operations in conjunction with, on the one hand, enterprises in the Bank’s countries of operations, and, on the other hand, with experienced multinational companies. The environmental due diligence requirements placed upon such investment vehicles are broadly similar to those for FIs. Prior to establishing such relationships, however, the environmental performance of the company is considered in depth using a multi-project facility environmental questionnaire as the basis for such investigation.
Environmental Procedures and the Operation Timeline

**Outputs**
- CCM
- IRM
- FRM

**Events**
- Concept Clearance
- Initial Review
- Final Review
- Board approval
- Signing

**Operation phases**
- Identification
- Preparation
- Approval
- Implementation

**Sponsors**
- Submit all relevant and available environmental information (policies, audits, assessments, permits) to OL
- Request environmental information from sponsors and summarise any major potential concerns and opportunities, if any, in CCM
- Assign environmental specialists

**Operation Leader (OL)**
- Assist OL upon request

**Environmental Appraisal Unit**
- Assistant OL with the TOR for Environmental Investigations
- Review output from Environmental Investigations
- Review and help OL revise Term Sheet
- Review draft FRM

**Monitoring Reports**
- Environmental section in: Monitoring Reports (e.g. progress, additional environmental audit, etc.)

**Eurorap Bank for Reconstruction and Development**

**Terms of Reference**
- XAMR
- OPER
- PED

**Monitoring Reports**
- Circulate draft XAMR and draft OPER to EAU for comment

**Agreement with final environmental wording of Board Document**
- Review draft legal documents and help OL and OGC revise if necessary
- Assist OL in evaluation of any exit audit

**Agreement with final environmental wording of TOR**
- Review of Monitoring Reports
- Assist OL in evaluation of any completion test
- Comment on environmental wording in OPER
- Assist OL in evaluation of any exit audit
As part of the environmental appraisal of intermediated finance operations, the risk to the environment associated with the intermediary and its portfolio is characterised as low, medium or high and indicated in the ESM and ERM (see Figures 2.1 and 3.1).

4.3 Environmental appraisal related to technical cooperation operations

In addition to making loans and equity investments, the Bank also operates a Technical Cooperation Funds Programme (TCFP). All TC operations are screened by EAU (see Figure 2.2) to identify any environmental issues and build environmental requirements. Most TC operations are undertaken as part of the preparation of subsequent investment operations. The environmental appraisal of these kinds of TC operations can result in their expansion or modification to include an environmental investigation as an integral part of the study. Other TC operations are related to sector studies, advisory services (e.g. privatisation, restructuring, financial and legal advice) and training. In these cases, environmental appraisal can result in the inclusion of an environmental component or perspective. TC funds can also be used for “stand alone” environmental activities such as the provision of environmental training courses and studies of environmental standards.

5. The environmental appraisal process within the Bank

Environmental Appraisal is a process that begins at the earliest stages of operation preparation and continues throughout the life of every EBRD investment operation (see Figure 1.0). The stages of the EBRD’s “operation life cycle” are set out in the Bank’s Operations Manual and are described below in terms of the way in which environmental appraisal is carried out at each stage.

5.1 Operation identification/Concept Clearance

During the operation identification phase, Project Sponsors are requested to provide environmental information to the Bank at the same time as other initial information. OIs need to ensure that such information is submitted to EAU no later than Concept Clearance. The information should indicate, for example, if preliminary environmental investigations have already been carried out. It could also provide an “early warning” if the operation is likely to be of a controversial nature due, for example, to its location in an environmentally sensitive area. It is recognised that, in many cases, such information may not be available at an early stage. When it is available, it should be included in the Concept Clearance Memorandum, as it will later help EAU to screen the operation to determine the level of environmental investigation required.

5.2 Initial Review

Prior to Initial Review, environmental screening is carried out by EAU to identify potential environmental issues associated with a proposed operation and to specify the types of environmental information required in order to assess environmental risks, liabilities, regulatory compliance, any adverse environmental impacts, and other concerns. The information required should include an analysis of the applicable environmental legislation and standards.

5.3 Environmental Screening Memorandum

Environmental screening should also identify potential environmental benefits or enhancements which could be built into the operation. These could include opportunities for cleaner production, energy efficiency, waste reduction and other forms of good environmental practice. Screening also provides EAU with the opportunity to identify possibilities for the involvement of the Bank’s Energy Efficiency Unit (EEU) and/or officers of the Project Preparation Committee (PPC) in the operation.

Screening is undertaken by EAU, whose environmental specialists prepare an Environmental Screening Memorandum (ESM). At least two members of EAU are involved in the appraisal of every operation. If an operation requires an Environmental Impact Assessment it is screened...
Environmental Screening Memorandum

Intermediated financing

Operation Title:

Operation Team:

1. Brief description of the operation
2. Preliminary environmental information
3. Environmental issues associated with the operation (e.g., risks and liabilities, regulatory trends and other country-specific issues)
   Environmental Risk Rating: [high/medium/low/insufficient information]
4. Environmental issues associated with the potential portfolio (e.g., typical compliance problems, impacts, risks and liabilities, benefits and opportunities)
   Environmental Risk Rating: [high/medium/low/insufficient information]
5. Environmental due diligence and monitoring requirements
6. Further information requirements
7. Other issues
8. Actions

Signature: ___________________________ Date: ___________________________
Environmental Specialist

Signature: ___________________________ Date: ___________________________
Environmental Specialist

Environmental Screening Memorandum

Technical cooperation

Operation Title:

Operation Team:

1. Brief description of the activity
2. Preliminary environmental information
3. Environmental issues/opportunities apparent at screening
4. Environmental requirements
5. Public consultation requirements
6. Other issues
7. Actions

Signature: ___________________________ Date: ___________________________
Environmental Specialist

Signature: ___________________________ Date: ___________________________
Environmental Specialist
in category "A", if it requires an Environmental Analysis it is screened in category "B". When neither is required, it is screened in category "C". If an operation requires an Environmental Audit, it is screened in category "1". If no audit is required, it is screened "0".

The format of the ESM differs depending on whether the operation being screened concerns an investment operation, intermediated financing or technical cooperation (see Figures 2.0, 2.1 and 2.2) and is only prepared when a draft Initial Review Memorandum (IRM) has been submitted to EAU. The ESM is submitted by the OL to OpmCom as part of the documentation for Initial Review. EAU members have the right to make representations at OpmCom.

5.3 Environmental investigations

Environmental investigations are commissioned by the Project Sponsor to provide the environmental information specified in the ESM. Environmental impact assessments, environmental analyses and environmental audits are the main types of environmental investigations that are carried out on operations that have potential environmental implications. Descriptions of these investigations, together with the special requirements for intermediated financing and technical cooperation (Tc), have been summarised in Section 4 above.

Additional types of investigations, which may be required depending upon the specific nature of the operation, include, for example, energy audit, waste audit, hazard analysis and quantified risk assessment.

5.4 Consultation with the public

The EBRD believes that effective public consultation is a way of improving the quality of operations. The Bank's purpose is "to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics". This means that, at a minimum, Project Sponsors must ensure that all national requirements for public consultation in the country where the operation will take place are met. In addition, Sponsors will have to follow the procedures described in the Bank's Disclosure of Information Policy and Annex 1 of these Procedures. In addition to the involvement of government agencies and elected officials, those potentially affected by a significant new, extended or transformed operation, which has been classified as "A" level, should be consulted so that they have the opportunity to express their concerns and views before a financing decision is made. The specific timescale requirements and other procedures of the EBRD for consultation with the public are detailed in Annex 1. In particular, for private sector "A" level operations there will be a minimum of 60 days between the release of the EIA and the date of Board consideration of the project. For public sector operations this period will be a minimum of 120 days.

5.5 Negotiations/Environmental covenants

EBRD investments are negotiated between Operation Teams and the Project Sponsor. The main instrument for negotiating non-sovereign operations is the Term Sheet, an outline of the future loan/subscription agreement summarising the structure and principal terms and condition of the proposed operation. Negotiations of sovereign operations are focused on the draft loan agreement.

Failing to incorporate environmental, health and safety requirements and conditionalities early into the draft Term Sheet may cause delays in the operation cycle, including the need to renegotiate the Term Sheet. It, at the time of negotiations, details of the outcome of the environmental appraisal process are still outstanding, generic environmental covenants will be incorporated in the Term Sheet. These will alert the sponsor that more specific environmental provisions may be required, depending on the results of the environmental investigations.

It is the OL's responsibility to ensure that the Term Sheet and all other legal documents related to operations adequately reflect the requirements resulting from the environmental appraisal process, in particular those issues raised in the ESM and ERM (see 5.6). The OL must ensure that the environmental provisions included in the legal documentation (e.g. conditions, covenants, monitoring and reporting requirements) have been reviewed and agreed by EAU prior to negotiations. The environmental specialists must agree to any change being made in the legal documents in order to ensure consistency with the environmental and health and safety requirements outlined in the ERM, Board documentation, and any (draft) legal documents and related documentation previously agreed with EAU. It is the responsibility of the OL to request the involvement of an environmental specialist from EAU in negotiations as required and to obtain EAU's approval of the documentation before signing.

5.6 Final Review

EAU carries out a review of every operation before it is submitted to OpmCom for Final Review. The review is based on the findings of the EIA, audit or other environmental investigation carried out on the operation together with the results of public consultation and site visits which may have been conducted by the environmental specialists. It also addresses regulatory compliance issues, including permitting, and the adequacy of mitigation plans, and identifies requirements for legal documentation which have not already been included in environmental covenants.

References to standards often need to be incorporated in the legal documentation. The covenants in such cases will specify conditions to ensure compliance with all applicable standards, regulations and laws. Compliance with relevant environmental standards and regulations is required for all goods, equipment and services procured.

The operation environmental review is documented in an Environmental Review Memorandum (ERM) signed by the environmental specialists who reviewed the operation. A summary of the environmental review is incorporated in the Final Review Memorandum (FRM) which, together with the signed ERM, is submitted to the Operations Committee prior to Final Review. If EAU has insufficient information to conduct a thorough environmental review, it will recommend in the ERM that the Review be considered an interim one and that the operation be resubmitted to OpmCom for Final Review once sufficient environmental information is available to EAU.

At a minimum the environmental section of the FRM should contain, as a reflection of the findings in the ERM, the following information:

i) Current environmental/health and safety status of operation

ii) Potential environmental impact of the operation to be financed by the Bank

iii) Summary of action plan and status of agreement with authorities, if applicable

a) Environmental additionality

b) Status of public consultation

c) Other issues

The OL must obtain EAU's approval of the wording of this section.

As with the ESM, the format of the ERM varies depending on the type of operation. The ERM for a direct investment differs from that for intermediated financing. ERMs are not prepared on TC operations as they are submitted to a simultaneous Initial/Final Review.

At Final Review, the Operations Committee will discuss any environmental issues arising from the environmental appraisal. EAU members have the right to make representations at OpmCom. The Bank clearly establishes the principle that an operation can be rejected on environmental grounds, when there are major environmental problems, or when an operation fails to handle environmental issues in a satisfactory way. In cases where the members of the Operations Committee cannot form a consensus, ultimately the Executive Committee, chaired by the President, will make a decision.
**Investment operation**

1. **Brief description of the operation**

2. **Environmental information reviewed**
   - Information: Date: Outcome:

3. **Site visits by Bank environmental staff/consultants**

4. **Compliance status** (e.g. local regulations, international standards, good practice)

5. **Environmental/health and safety issues and proposed mitigation** (including adequacy of mitigation)

6. **Summary of environmental action plan**

7. **Environmental additivity** (e.g. environmental benefits/enhancement measures other than those covered in no. 5, such as those relating to energy efficiency, clean production, etc.)

8. **Status of public consultation**

9. **Outstanding requirements for legal documentation** (e.g. conditionality, competition agreement, covenants, monitoring and reporting, and exit audit)

10. **Issues of particular concern** (e.g. global/regional etc.)

11. **Outstanding issues**

12. **Further actions required by Bank staff and the Project Sponsor**

**Signature**: Date: ____________
    Environmental Specialist

**Signature**: Date: ____________
    Environmental Specialist

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**Intermediated financing**

1. **Brief description of the operation**

2. **Environmental information reviewed**

3. **Site visits by Bank environmental staff/consultants**

4. **Environmental issues associated with the operation** (e.g. risks and liabilities, regulatory trends and other country-specific issues)
   - Environmental Risk Rating: [high/medium/low/insufficient information]

5. **Environmental issues associated with the potential portfolio** (e.g. typical compliance problems, impacts, risks and liabilities, benefits and opportunities)
   - Environmental Risk Rating: [high/medium/low/insufficient information]

6. **Environmental due diligence requirements** (based on FI’s existing or proposed environmental procedures, if any)

7. **Operation monitoring and supervision requirements** (e.g. EBRD review of loan/investment proposals and reports, annual environmental reporting by FI)

8. **Outstanding requirements for legal documentation** (e.g. environmental clauses in policy statement, conditionality, requirements for sub-projects, monitoring and reporting covenants)

9. **Other issues** (need for technical cooperation support, public consultation etc.)

10. **Further actions required by Bank staff and the Project Sponsor**

**Signature**: Date: ____________
    Environmental Specialist

**Signature**: Date: ____________
    Environmental Specialist
5.7 Board Approval
Final responsibility for the environmental section of the Board Documentation rests with the OL. The OL, however, needs to obtain the approval of EAU on its content before it is included in the documentation and distributed to the Board of Directors. The environmental section should conform to the elements contained in 5.6. The OL must obtain EAU’s approval on any changes made to the environmental section following Final Review. In addition to the environmental section, the Board documentation may include an Environmental Annex. The Board documentation should also include a statement on conformity with the Bank’s Environmental Policy.

Environmental specialist(s) may attend the Board meeting on the operation to assist the Operations Team in answering questions regarding the environmental, health and safety and public consultation aspects of the operation.

5.8 Monitoring
Monitoring is an important aspect of the Bank’s environmental appraisal process. It serves two purposes. The first is to ensure that the applicable environmental standards and various environmental components of operations included in legal agreements, such as the implementation of an Environmental Action Plan, are complied with by the Project Sponsor. The second is to keep track of the ongoing environmental impacts associated with operations and the effectiveness of mitigation measures as a “feedback” mechanism. The environmental monitoring requirements exist until the time at which the loan has been repaid, the Bank divests its equity share in a company, or the operation is cancelled. Where environmental monitoring is required, specific provisions are included in the legal documentation, such as requirements for an annual environmental report, periodic environmental audits by independent experts, the inclusion of environmental performance criteria in the definition of “Project Completion”, exit audits, or site visits by Bank personnel.

After the signing date, all environmental covenants contained within the legal documentation will be identified for monitoring purposes by OAU, who will require EAU sign-off as evidence of compliance as each monitoring report is received satisfactory to the Bank, or as the covenant is otherwise met. EAU should inform the OL and OAU at the earliest opportunity of any breach or suspected breach of environmental covenant or loan condition. The EAU specialist will also liaise with OAU to establish specific environmental reporting needs or deadlines if not specified in the legal documents as part of the general reporting requirement.

Where a waiver or amendment concerning environmental matters is required, OAU will take responsibility for producing the waiver, requesting input from EAU, who will review the text and sign off (together with other Operation Team members) the memorandum prior to submission to Senior Management for approval.

Following operation implementation, EAU staff or environmental consultants, with the agreement of the OL, may undertake site visits on a routine or occasional basis. The Bank’s Resident Offices can assist EAU and OUs in obtaining information on such issues as regulatory compliance and the implementation of Environmental Action Plans.

As part of the Bank’s internal monitoring review process, the environmental performance classification is included as part of monitoring reports. EAU representatives may attend credit monitoring review meetings and will comment as necessary on the OL’s environmental performance classification.

5.9 Completion and evaluation
The Bank’s operation evaluation phase starts at “Project Completion”. For investment operations, “Project Completion” normally coincides with the end of the Bank’s disbursement phase and is legally defined in the Bank’s agreement with the Project Sponsor. The definition may include environmental performance criteria. EAU will assist the OL in determining whether such criteria have been met by the client.

For the year of “Project Completion”, the OL prepares an Expanded Annual Monitoring Report (XAMR). EAU needs to be in agreement with the environmental section of the XAMR. Operation Performance Evaluation Reports (OPERs) are prepared on selected operations by the Project

Evaluation Department (PED). EAU can comment on OPERs during their preparation.

5.10 Reappraisal of operations
Changes can occur in the nature and scope of Bank operations following Board approval and signing. Such changes may have significant environmental implications associated with them. The conversion from a loan to equity, for example, may involve the Bank becoming associated with operations, sites or facilities which were not previously appraised and which could have significant environmental liabilities or compliance problems.

When such changes are envisaged, the OL must liaise with EAU’s environmental specialists to determine if a reappraisal is needed for the modified/restructured operation. A reappraisal will be required if a change in the physical components (e.g. sites, facilities, processes, collateral) associated with the operation may potentially involve environmental issues which were not subject to the initial appraisal. EAU will determine which additional investigations, if any, are needed, and agree with the OL on the time schedule for carrying them out. If the operation is resubmitted to OpeCom, a new ERM will be required. Based on the outcome of the environmental investigations, EAU will determine which, if any, environmental covenants and/or conditions need to be included in the agreements documenting the modification of the operation.

5.11 Workout and foreclosure
If, during workout or foreclosure, the Bank is considering taking physical assets which have been pledged as security on the investment, these should not be acquired until EAU has advised the OL on the need, if any, for further environmental due diligence.
Annex I

Consultation with the public

Introduction
The EBRD’s purpose is “to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiatives in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics”.

In addition to the involvement of government agencies and elected officials, those potentially affected by a significant new, extended, or transformation-conversion operation, which has been classified as “A” level, should be consulted, together with non-governmental organisations, so that they have the opportunity to express their concerns and views before a financing decision is made.

The preparation of an operation which has potentially significant environmental impacts gives Project Sponsors the opportunity to supply information to the public about the proposed operation while at the same time affording the public the opportunity to influence operation design, including location, technological choice and timing.

Many of the countries where the Bank operates already have or are developing public consultation procedures, associated with the preparation of environmental impact assessments. At a minimum, Project Sponsors must ensure that all such national requirements for public consultation and the procedures set out below are met.

Procedures
For all non-sovereign operations, the Mandate Letter sent by the EBRD to Sponsors after Concept Clearance includes the Bank’s public consultation procedures as part of the basis for the EBRD’s further involvement with the operation. For sovereign operations, the EBRD will inform the Borrower about its public consultation procedures following Concept Clearance. The Sponsoring Bank is thus informed of the requirement to make certain environmental information public, in accordance with the Environmental Procedures. For all operations, public consultation requirements will be identified in the Environmental Screening Memorandum at the time of Initial Review and these will be communicated to the Project Sponsor by the OL. These may be upgraded if the environmental investigations demonstrate a need for this.

Among the mechanisms for consultation which may be used are technical meetings with experts, meetings with community leaders, public meetings, press and other media coverage and correspondence.

At Final Review, the Bank’s Operations Committee will be informed, via the Environmental Review Memorandum, about the public consultation status of each operation they consider. When considering whether to approve an operation, the Board of Directors will take into account the comments and opinions expressed by consultants and the way these issues are being addressed by Project Sponsors. They will consider the extent to which the sponsor has addressed the Bank’s public consultation procedures. The documentation on each operation submitted for Board approval will summarise the status and results of public consultation.

For “A” level operations, where there are potentially diverse and significant environmental impacts which cannot be readily identified and quantified and for which remedial measures cannot easily be prescribed, the Project Sponsor will be requested to provide the affected public and interested non-governmental organisations (NGOs) with notification about the nature of the operation for which financing is sought from the EBRD. The way that notification is undertaken will depend on local political, legal, and cultural practice. If there has been no previous notification by the Project Sponsor then notification should be made no later than four weeks after the operation passes Initial Review unless the Project Sponsor has obtained the Bank’s agreement that this timescale, exceptionally, may be modified.

It is EBRD policy that release of information is the responsibility of Project Sponsors. The Bank’s relationship with a private sector sponsor has implicit client confidentiality status, even if no confidentiality agreement is signed. Within this policy framework, the Bank will place the onus on Sponsors to prove, to the satisfaction of the Bank’s Operations Committee, that, on an exceptional basis, there are commercial confidentiality considerations on an “A” level private sector operation which are so important that details of a prospective operation cannot be made public prior to Board approval. Where a private sector client demonstrates, to the satisfaction of the Bank’s Operations Committee, that the comfort of a Board decision to fund an operation is necessary prior to any disclosure about the operation, the legal documentation will not be signed until the necessary public participation is completed. In such cases, the scope and procedures for future public consultation, including a requirement to provide information to the Board on Public Consultation, will need to have been agreed with the Project Sponsor prior to Board submission.

For all “A” level operations, the Project Sponsor will need to have ensured through a scoping process that the key issues that need to be appraised, and the way the public will be involved in the appraisal, have been identified. This scoping process will involve contact by the Project Sponsor with representatives of the locally affected public and with government agencies, as well as with other organisations. Issues may be discussed at a scoping meeting to which the Project Sponsors will invite selected representatives of such organisations as environmental authorities and municipalities, government departments and NGOs, as well as local groups. For operations involving transboundary impacts the requirements outlined in the Epos Convention must be followed. The Bank may, according to circumstances, provide guidance to, and assist, the Project Sponsors at this and other stages of the public consultation process.

Following the completion of environmental investigations, the public will need to be provided with adequate information on the environmental aspects of the operation to enable them to provide the Project Sponsor with comments on the proposals. To facilitate this, the Project Sponsor must make the Environmental Impact Assessment and an Executive Summary (in the local language) publicly available, in accordance with relevant national legislation, and allow sufficient time for public comment prior to the Bank’s Final Review of an operation and its consideration by the Board. For private sector operations there will be a minimum of 60 days between the release of the EIA and the date of Board consideration. For public sector operations this period will be a minimum of 120 days. In addition, there must normally be at least 30 days between the release of the EIA and the time when the OL and EAU consider the results of public consultation prior to the submission of the FRM to the OpCom Secretariat. In practice, a longer period than 30 days will be required by the Bank for the more complex and significant operations. In exceptional cases, where timing is crucial and Bank management is satisfied that the EBRD’s Environmental Procedures have in all other respects been followed, the minimum timescale requirements may be waived in the case of private sector operations. In these cases the waiver will be reported in the Board documentation. At the time of EIA release by the Project Sponsor, the EBRD will make available the EIA and EIA Summary in the Business Information Centre (BIC) without EBRD endorsement. The EIA summary will be sent to the Board of Directors at the same time.

On “B” level operations the country’s public consultation requirements will need to be followed at a minimum. For “B” level public sector operations, an Environmental Assessment will be attached as an annex to the Bank’s Project Summary Document (PSD) which will be released after Initial Review and will be made available through the EBRD’s Publications Desk and Web site, and from its Business Information Centre. For private sector operations a summary of the key findings of the Environmental Assessment will be attached to the PSD, which will normally be released at least 30 days prior to Board consideration of the operation. In some cases the Environmental Assessment will indicate that there have been significant environmental issues associated with ongoing operations, for example where, in the past, facilities have failed to comply with permitting or other environmental or health and safety requirements. In these cases, in addition to release of information by the Bank on “B” level operations, the Bank will normally require that the Project Sponsor will make available to the affected public a statement on the remedial measures agreed with the Bank, prior to first disbursement.

The Bank may require that covenants related to future public consultation during operation implementation be included in loan and subscription agreements. For example, the Bank may require the results of ongoing environmental monitoring to be made available to the public. At operation completion, the evaluation of an operation’s performance will include, where appropriate, a review of the implementation of public consultation requirements and consideration of how any issues that were raised by the public during implementation were addressed.

There are normally no environmental disclosure requirements for “C” level operations.

For all operations, environmental issues will be summarised in the Bank’s Project Summary Document.
Annex 2

Environmental Impact Assessment

EBRD sample report format

EXECUTIVE SUMMARY
A concise summary description of the proposed operation, its rationale, the existing environment, significant environmental impacts, recommended mitigation and enhancement measures and their costs, monitoring proposals, and the extent of the Project Sponsor's commitment to these recommendations and proposals.

1.0 Operational context
1.1 Purpose and need
1.2 Legal and institutional framework
1.3 History of the operation including alternatives considered

2.0 Description of the operation

3.0 Description of the existing environment
3.1 Climatic conditions
3.2 Geomorphology and geology
3.3 Surface and ground water quality
3.4 Landscape
3.5 Ecology and biotic resources
3.6 Air quality
3.7 Noise
3.8 Ground conditions
3.9 Socio-economic and cultural issues
3.10 Land use and settlement patterns

4.0 Description and assessment of the significant environmental impacts of the proposed operation at the local, regional and global levels
4.1 Impacts associated with construction
4.2 Impacts associated with operation
4.3 Impacts associated with closure and decommissioning
4.4 Identification of key uncertainties and data gaps
4.5 Comparison of impacts associated with alternatives, including the do-nothing alternative
4.6 Summary of least-cost analysis of alternatives

5.0 Description of mitigation measures and/or measures to enhance environmental benefits

6.0 Outline of an environmental monitoring plan
6.1 Monitoring during the construction phase
6.2 Monitoring during operation

Appendices
i) Names of those responsible for preparing the EIA
ii) Written material references used in preparing the EIA
iii) Records of public meetings and consultations in preparing the EIA
iv) Technical data that may relate to the assessment but is too detailed to be included in the main text.
Environmental Audit

EBRD sample report format

EXECUTIVE SUMMARY AND COST ESTIMATE
A concise summary of the findings of the Environmental Audit, issues of concern, recommended actions, time schedule for implementation and their costs (within a range). It should also summarise the opportunities for environmental enhancement, any gaps in information, further studies needed and the potential cost and time implications for undertaking them.

1.0 Introduction

2.0 The facilities
2.1 Physical description
2.2 Facility operations
2.3 Location
2.4 History and environmental setting
2.5 Summary of utilities and ownership

3.0 Review of environmental management
3.1 Environmental management structure
3.2 Emergency, security and safety plans
3.3 Company-community interaction
3.4 Environmental insurance coverage
3.5 Allocation of environmental responsibilities

4.0 Environmental status
4.1 Regulatory compliance summary
4.2 Air emissions
4.3 Raw water and waste water
4.4 Material handling, storage, and transport
4.5 Hazardous materials management
4.6 Oil-filled electrical and hydraulic equipment (PCBs)
4.7 Asbestos, mineral dusts and fibres
4.8 Waste management
4.9 Housekeeping
4.10 Noise, vibrations, and other physical factors
4.11 Radioactive materials
4.12 Contaminated ground water and land
4.13 Cleaner technology initiatives
4.14 Energy and energy conservation
4.15 Waste reduction

5.0 Product issues

6.0 Occupational health and safety status
6.1 Regulatory compliance summary
6.2 Accident reporting, recording and investigation
6.3 Health and safety management
6.4 Site safety procedures
6.5 Medical monitoring programme
6.6 Noise and vibration level exposure
6.7 Chemical/material handling
6.8 Temperature exposure
6.9 Personal protective equipment and training
6.10 Emergency response capability and training
6.11 Fire protection
6.12 Training programmes

7.0 Conclusions and recommendations
7.1 Conclusions
7.2 Recommendations and cost estimates
7.3 Terms of reference for further information/studies recommended

Appendices
i) Photo log
ii) Supporting documentation
Environmental screening categories

I “A” level operations
This list applies to “greenfield” or major extension or transformation-conversion operations in the categories listed below.

1. Crude oil refineries (excluding undertakings manufacturing only lubricants from crude oil) and installations for the gasification and liquefaction of 500 tonnes or more of coal or bituminous shale per day.

2. Thermal power stations and other combustion installations with a heat output of 300 megawatts or more and nuclear power stations and other nuclear reactors (except research installations for the production and conversion of fissionable and fertile materials, whose maximum power does not exceed 1 kilowatt continuous thermal load).

3. Installations solely designed for the production or enrichment of nuclear fuels, the reprocessing of irradiated nuclear fuels, or for the storage, disposal and processing of radioactive waste.

4. Major installations for the initial smelting of cast iron and steel and for the production of non-ferrous metals.

5. Installations for the extraction of asbestos and for the processing and transformation of asbestos and products containing asbestos for asbestos-cement products, with an annual production of more than 20,000 tonnes finished product; for friction material, with an annual production of more than 50 tonnes finished product; and for other asbestos utilisation of more than 200 tonnes per year.

6. Integrated chemical installations including the manufacture and transportation of pesticides and hazardous/toxic materials.

7. Construction of motorways, express roads and lines for long-distance railway traffic and of airports with a basic runway length of 2,000 metres or more.

8. Large-diameter oil and gas pipelines.

9. Sea ports and also inland waterways and ports for inland-waterway traffic which permit the passage of vessels of over 1,350 tonnes.

10. Waste-disposal installations for the incineration, chemical treatment or landfill of toxic and dangerous wastes.

11. Large dams and reservoirs.

12. Groundwater abstraction activities in cases where the annual volume of water to be abstracted amounts to 10 million cubic metres or more.

13. Pulp and paper manufacturing of 200 air-dried metric tonnes or more per day.

14. Major mining, on-site extraction and processing of metal ores or coal.

15. Hydrocarbon production.

16. Major storage facilities for petroleum, petrochemical and chemical products.

17. Large-scale logging.


19. Domestic solid waste-processing facilities.

20. Large-scale tourism development.

21. Large-scale power transmission.

22. Large-scale reclamation.

23. Large-scale agriculture/silviculture involving the intensification or development of previously undisturbed land.

24. Tanneries.

The preceding list is clearly non-exhaustive and the types of projects it contains are examples only. EIAs are also required for “greenfield” or major extension or transformation-conversion operations which pose a serious accident or health risk. EIAs may also be required on operations which are planned to be carried out in sensitive locations, even if the operation category does not appear in the above list. These sensitive areas include National Parks and other conservation areas of national or regional importance, such as wetlands and areas of archaeological significance, areas prone to erosion and/or desertification, and areas of importance to ethnic groups.

II “B” level operations
All “greenfield” or major extension or transformation projects not included in the list of “A” level operations are subject to a project-specific “B” level Environmental Analysis unless location, scale or other factors require an “A” level EIA to be undertaken.

III “C” level operations
Operations which do not require either an “A” level Environmental Impact Assessment or a "B" level Environmental Analysis are screened in category “C” which do not require an environmental assessment.

Regardless of the “A”, “B”, “C” categorisation for environmental assessment, operations may require an Environmental Audit.
Annex 5

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.

List of abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CCM</td>
<td>Concept Clearance Memorandum</td>
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<tr>
<td>EAP</td>
<td>Environmental Action Plan</td>
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<td>EAU</td>
<td>Environmental Appraisal Unit</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>EEU</td>
<td>Energy Efficiency Unit</td>
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<tr>
<td>ELA</td>
<td>Environmental Impact Assessment</td>
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<td>ENVAC</td>
<td>Environmental Advisory Council</td>
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<td>ERM</td>
<td>Environmental Review Memorandum</td>
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<td>ESM</td>
<td>Environmental Screening Memorandum</td>
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<td>EU</td>
<td>European Union</td>
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<td>FI</td>
<td>Financial Intermediary</td>
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<td>FRM</td>
<td>Final Review Memorandum</td>
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<td>IEE</td>
<td>Initial Environmental Examination</td>
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<tr>
<td>IRM</td>
<td>Initial Review Memorandum</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>OAU</td>
<td>Operation Administration Unit</td>
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<td>OGC</td>
<td>Office of the General Counsel</td>
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<td>OL</td>
<td>Operation Leader</td>
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<td>OPER</td>
<td>Operation Performance Evaluation Report</td>
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<td>Opcom</td>
<td>Operations Committee</td>
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<td>PCA</td>
<td>Partnership and Co-operation Agreement</td>
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<td>PED</td>
<td>Project Evaluation Department</td>
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<tr>
<td>PPC</td>
<td>Project Preparation Committee</td>
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<td>PSD</td>
<td>Project Summary Document</td>
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<td>RO</td>
<td>Resident Office</td>
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<tr>
<td>SEA</td>
<td>Strategic Environmental Assessment</td>
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<tr>
<td>SME</td>
<td>Small and Medium-Sized Enterprises</td>
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<tr>
<td>TC</td>
<td>Technical Cooperation</td>
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<tr>
<td>TCFP</td>
<td>Technical Cooperation Funds Programme</td>
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<tr>
<td>TOR</td>
<td>Terms of Reference</td>
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<tr>
<td>XAMR</td>
<td>Expanded Annual Monitoring Report</td>
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Environmental policy

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 initiatives 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.lvi)). 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 1.xi)) 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 1.xivi). 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.

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 130x (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 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 environmental 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 additivity 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 management 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 operational 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 consultants, 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 operations. In addition, it will report regularly on its environmental work—for example, through its Transition Report and through the mechanism of the *Environment 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 29–31 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.