Lender Perspectives of ESIA challenges
Integration Challenges

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Agenda

• What is EBRD
• Why and How we do due diligence and ESIA
• Integration challenges
• Case studies
• Discussion
What is EBRD?

European Bank for Reconstruction and Development (EBRD) is an international financial institution, promotes transition to market economies in 35 countries from central Europe to central Asia and SEMED.

Together with our donors, we promote private sector competition underpinned by the rule of law, a sustainable approach to modernising infrastructure, the efficient use of resources, and an environment that is conducive to growth.

- Founded in 1991
- Owned by 65 countries and two inter-governmental institutions (EU and EIB)
- Capital base of €30 billion
- A+++ rated bank (from all 3 main rating agencies)
The GET aims to further scale up green business volume, and to expand to new areas of activity, such as environmental protection and technology transfer.

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiative</th>
<th>Categories</th>
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<tbody>
<tr>
<td>1994</td>
<td>Sustainable Energy Initiative (SEI)</td>
<td>Energy efficiency, Renewable energy</td>
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<tr>
<td>2006</td>
<td>Sustainable Resources Initiative (SRI)</td>
<td>Water efficiency, Material efficiency, Adaptation to climate change</td>
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<td>2013</td>
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<tr>
<td>2015</td>
<td>Green Economy Transition (GET)</td>
<td>Environmental protection, Technology transfer</td>
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</tbody>
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Public

European Bank for Reconstruction and Development
Why does EBRD place emphasis on environment and social issues?

The Agreement Establishing the EBRD commits the Bank:

“to promote in the full range of its activities environmentally sound and sustainable development.”
Why do Environmental and Social Issues Matter
Why does ESIA matter to Lenders

The Business impact:
- Delays or decline of permit applications
- Construction delays due to permitting
- Additional expenditure on environmental abatement, new technologies or remedial needs
- Social dialogue
- Reputational impact
Environmental and social due diligence

- Environmental and (increasingly) social issues pose substantial reputational risk
  - Integrated approach to ESIA is now a requirement, how to do Cumulative issue and Health Impacts
- EBRD designs tailored environmental and social due diligence on all projects
- Due diligence designed proportional to risk
- Projects ultimately required to meet National standards and EBRD Performance Requirements, notably EU standards such as IED and BAT requirements.
- Results of due diligence and E&S compliance considered by Bank management and Board of Directors during project approval process
Environmental and Social Policy (2014)

• E&S Policy applies to Bank
  – Categorization of Project based on risk and EU EIA requirements (Annex 1 projects A category).

• 10 Performance Requirements (PRs) apply to all clients and projects

• EBRD PRs have same titles and are broadly equivalent to IFC Performance Standards

• Also broadly equivalent to Equator Principles

• Reference to EU environmental standards

Policy and PRs have been updated and a new E&S Policy 2014 (applicable from November 2014)
Stakeholder engagement and consultation

• Always important
• All projects are disclosed for meaningful engagement, prior to Bank approval: A vs B, public vs private
  • Development of a Stakeholder Engagement Plan (SEP) available in local language
• May require more than National EIA process in terms of stakeholder engagement as well as content
• Category A projects require participatory engagement (meetings) plus of disclosure of a fit for purposes Environmental and Social Impact Assessment in local language (s)
• Engagement with local stakeholders needed, including NGOs
  • This needs to be continuous.
How do we compare with our peers?

**IFC**
- very close match, but global vs. European (EU) approach

**Equator Bank’s**
- Like IFC but practical implementation varies and mainly restricted to project finance
- Environmental and Social Due Diligence required

**EIB**
- Similar policy vs European Principles for Environment
  - EIA and Natura 2000 of high importance
- More decentralised approach
EBRD approach to due diligence
EBRD due diligence

• Each project is different
• Project categorization; this defined scope of due diligence and disclosure.
• Assessment of site sensitivity and full project, including associated operations and facilities.
• Benchmark against EU IED and relevant BAT Bref Notes (BAT Conclusions) and assess environmental performance and identify opportunities
• Need to develop Stakeholder Engagement Plan (SEP) and Non Technical Summary (NTS) to ensure meaningful public consultation on all projects
• EBRD will not finance projects that are in sensitive biodiversity areas (inclusive of Natura 2000 etc) where appropriate assessments conclude there are significant unavoidable adverse impacts
• Major projects: ESIA, SEP, NTS disclosed for at least 60 days.
• An Environment and Social Action Plan (ESAP) developed for projects to allow compliance with the relevant PRs.
PR1: Appraisal (1)

- All EBRD projects are subject to appraisal of potential environmental and social impacts.
- A-Category projects undergo “special formalised and participatory assessment processes”, generally a “comprehensive environmental and/or social impact assessment.”
  - Greenfield and major expansions that can cause significant adverse effects are Category A.
  - A category requires the disclosure of an ESIA in line with EBRD/IFC guidance prior to consideration by Board of Directors for financing.
- B-Category projects also undergo due diligence process to identify and assess potential future impacts.
- ESAP develop and agreed to allow longer term compliance.
Is it Category A or B?

- Decision generally based on consideration of size, location, and associated facilities.
  - Annex 1 Projects are A,
  - Annex 2 based on sensitivity
- Local authority may require an EIA, this does not have to trigger IFI qualification
- Large Greenfield cement projects (plant, quarry, transmission line) would trigger A category requirement for the Lenders
- Large expansions or modernizations due to the environmental and social impacts (including perceived) may trigger A category impact
- New quarries above 25 ha size or in sensitive locations – A category
- Direct effect on protected areas, such as Natura 2000 triggers A-categorization
Integrated Approach

• IFI’s for a long time have included the need for integrated approach more than National or EU legislation – ie ESIA

• EU requirements in EIA are still less than that of IFI’s and supplementary information often needed to address IFI needs (notably the S part of ESIA)

• The pressure is now to integrated more Social, Health and Cumulative as well as Gender, Human Rights etc.

• The documentation needs to be appropriate and fit for purpose.
  • Are long elaborate studies needed?
  • IFI’s do not always require this, as needs to be fit for purpose
  • What level of detail and how to do good scoping is key
Experience to date in Countries of Operation

- Many projects developed locally, without reference to corporate or international standards.
  - Integrated approach is limited, notably Social, Health and Cumulative
- EIA process often done for ‘pure’ local permitting purposes, without any detailed baseline data or in-depth assessment of environmental and social impacts; alternatives and/or recommendations to use best practice.
- EIA often does not include associated facilities –
  - Important issue to consider full Project not parts.
- However, permitted projects are being marketed to international companies. The EIA could
  - affect the future value of the asset, and permits can be withdraw or operators asked to reduce output.
  - delay project financing.
- Non Technical Summary (NTS) and SEP is a requirement of all IFI’s and the EU EIA Directive
Key issues

Lack of experienced biodiversity experts.

- In some countries there are only few biodiversity experts. This becomes a bottleneck in some projects.

Use of local standards .

- Often projects focus on local standards for abatement – Nox, dust; without taking into account international requirements or future changes in legislations.
- Convergence of standards world-wide and on-going tightening up of standards

Social Assessment, and inclusion of local populations

- Will the local community benefit- any local taxes to local community ?
- Is this a long term risk

Importance of team undertaking EIA

- Need for mix of experts that understand both local and international requirements.

The local EIA may be required for financing in the future and could affect project finance or value of asset.
Financial Institutions will only invest in the best projects

- Environmental standing often reflects overall performance

Transparency and public consultation are a major focus of many international institutions and EU

- Poor consultation can result in major delay to projects
- B level projects may require full EIA, SEP (NTS etc).

Stronger international focus on social and labor issues

- All projects need a SEP

Take into account Lender requirements when doing an ESIA - the S part and integrated approach.

New EU EIA Directive pushes the integrated approach more but more guidance needed
How to contact us

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