EBRD’s Environmental Due Diligence
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Aims of Presentation

1. EBRD Activities
2. EBRD Environmental Due Diligence (EDD)

1. EBRD Activities

What is the EBRD?

- An Investment Bank with Public Shareholders:
  - owned by 61 countries (including Japan - 8.6%) and supranational shareholders (EU; EIB)
  - AAA-rated international financial institution founded in 1991
  - 1000 employees (15 Japanese staff)
- Mandate: facilitate the transition to market economies
- Capital base of €20 billion and net cumulative business volume of €33.3 billion to date - €4.9 billion (301 projects) in 2006:
  - Largest single investor in the region
  - Nearly half of EBRD financing devoted to financial institutions
  - 80% private sector/privatisation projects in 2006 (76% in 2005)
Knowledge of local environments: 32 offices in 29 countries

EBRD and Environmental Guiding Principles

- Environmental and Sustainable Development Mandate – Responsibility as a public institution
- Core Business Issues – legal, financial and reputation-based – Private sector orientation

2. EBRD Environmental Due Diligence (EDD)

Helps the Bank decide if an activity should be financed:

Helps identify ways in which operations can be structured:
- to avoid and/or mitigate risks
- to provide environmental benefits
Environmental Protection as a Criterion for Project Appraisal

Positive financial appraisal
Positive technical appraisal
Positive legal appraisal
Positive environmental appraisal

Very happy bankers!

The Operation Cycle

Identification
Concept Review
Screening
Due Diligence
Review
Approval
Implementation

Preparation
Approval
Implementation

Screening
The nature, size and location of operation (greenfield/not, sector, facilities, production, output, vicinity of sensitive areas, etc).

The type of transaction (equity, project loan, corporate loan, working capital, material investment, financial restructuring etc).

If environmental information is insufficient to classify the project, an Initial Environmental Examination (IEE).

Project requirements

EBRD environmental standards

- Applicable national environmental law
- EU environmental standards
  Where such standards do not exist or are inapplicable...
- Good international practice i.e. IFC, World Bank, other IFIs, good industry practice

Environmental Screening

Screens the project on the basis of available information:
**Environmental Screening Categories:**

- **A level**
  - Major or significant environmental impacts which are not easily identified or mitigated

- **B level**
  - Significant environmental impacts which are easily identified and can be mitigated

- **C level**
  - Minor or no environmental impacts associated with the project
  - No assessment required

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**Environmental Investigations**

- Review of environmental documents provided by the Clients (e.g. EIA, audit)
- Review of national EIA legislation
- Past liability (soil/ground water contamination)
- Current E, H and S legal compliance
- Key issue and adequacy of mitigation measures
- Site visit
- Discussion with the Sponsor
- Discussion with national environmental authorities, if needed
- Discussion with affected people, if applicable

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**Environmental Action Plan (EAP)**

If environmental investigations identify shortfalls or opportunities for improvement…

… the Bank will require the Sponsor to establish a programme for improvements to achieve compliance (incorporated into Legal Documents)

The Environmental Action Plan

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**Category A Projects**

- Project notification
- Scoping
- Public consultation and disclosure plan
- Full EIA package in local language
- Local disclosure, EBRD London, EBRD Resident Office
- Best efforts for EIA on client web-site in English and local language
- Minimum comment period (60/120 days before Board)
- Feedback to public on comments following consultation
- Annual environmental report to public
Environmental Impact Assessment (EIA)

- Scoping
  - Identification of potential environmental impacts
  - Identification of alternatives
- Public consultation and disclosure plan
- Determining of environmental baseline
- Assessment of environmental impacts
- Mitigation measures and/or measures to enhance environmental benefits
- Environmental monitoring plan

Social Due Diligence as part of Environmental Due Diligence

More explicit social commitments in 2003 Environmental Policy:

"Environment" used in a broad sense - also includes

- Worker protection issues: Health & safety, child labour, forced labour, discrimination
- Community issues, "such as cultural property, involuntary resettlement, and impacts on indigenous peoples"

EBRD Social Requirements

- Compliance with national employment law and ILO core convention on child labour, forced labour and discrimination
- Compliance with IFC Safeguard Policies on indigenous peoples, involuntary resettlement and cultural property.

References for Japanese organizations

- Environmental Due Diligence is a decision-making tool
- Establish Guiding Principle (e.g. Equator)
- Establish the workable Procedures and record-keeping Data Management Systems
- Establish accountable Disclosure and Consultation Procedures
- Be mindful of increasing demand for Corporate Social Accountability