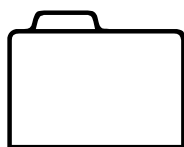


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“EIA and Multi-lateral Financial Institutions”

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Chapter 2/6 EIA and Multi-lateral Financial Institutions

6.1 Introduction

The purpose of this chapter is, firstly, to provide an overview of the procedures and processes for environmental impact assessment (EIA) with special emphasis on five Multi-lateral Financial Institutions (MFIs). These institutions are the World Bank¹, the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank. In addition, the approaches and procedures of the European Investment Bank (EIB), International Finance Corporation (IFC) and the Caribbean Development Bank have been briefly described.

Secondly, it describes the experiences of the Banks in actually implementing their EIA procedures over time. This includes several brief case studies of projects financed by the World Bank, the AsDB and the EBRD.

Lastly, the chapter will attempt to identify the major "successes" and "failures" in applying EIA to investment projects and to make recommendations for improvement.

The structure and information in this chapter builds upon, and updates, an unpublished background paper titled, "Overview of Multilateral Financial Institution Procedures for Environmental Assessment" which was prepared by the Environment Department of the World Bank for a technical workshop held in Washington, D.C in 1993. The present chapter is based on information available in the Spring and Summer of 1997. The procedures of the five Banks are presented in the form of a Table and the text draws from that Table. Environmental Impact Assessment as a requirement for MFI project preparation is evolving in all the institutions surveyed. Procedures are regularly being revised and fine tuned as experience and information improve. The information presented here, therefore, should be used as background reference only. Readers interested in specific application of procedures and policies should verify current practice directly with the corresponding MFI.

6.2 The Purpose of EIA Requirements and Procedures

A comprehensive evaluation of the experience to date with EIA across the major MFIs does not exist, but assessments undertaken by individual institutions suggest that major benefits have been gained from implementing EIA requirements and procedures.² There is a broad consensus among environmental staff in the five Banks that EIA has been a useful instrument for improving the environmental soundness of investment operations.

¹ The name "World Bank" refers here to the International Bank for Reconstruction and Development and International Development Association (IBRD/IDA). The "World Bank Group" is normally used when referring to the IBRD/IDA, IFC and MIGA.

² One of the most recent, and comprehensive, reviews undertaken by an MFI is "The Impact of Environmental Assessment -- the World Bank's Experience -- Second Environmental Assessment Review" which was published in November, 1996 and covers the World Bank's experience with EIA from 1992 to that time.

The five MFIs reviewed in this chapter, along with many other development aid agencies, adopted distinct EIA procedures between 1989 and 1992. The first MFI to initiate formal environmental procedures was the World Bank with the adoption of Operational Directive 4.0 in 1989. The purpose of the procedures in each of the MFIs was generally the same: to improve project selection, design and implementation and to minimise adverse environmental impacts. Preparation of EIA reports (or EA reports)³ is a borrower responsibility, but the Banks determine what type of EIA, if any, is required for each project they support. Standard outputs of the EIA process are recommendations (i) on environmental soundness/feasibility of projects; (ii) for changes in project design; (iii) for mitigative measures needed to minimise adverse impacts; (iv) for measures which can bring about additional environmental benefits to the project; and (v) for proper environmental management during implementation of the project. For example, the AfDb states in its "Environmental Policy Paper" (1990) that:

"The Key to the AfDB Group's approach to environmental management and sustainable development will be the use of procedures to assess the environmental impacts of Bank lending programs and projects. These procedures will enable the integration of environmental safeguards in projects. Environmental considerations, wherever essential, will become an integral part of loan agreements and bidding documents (para. 4.1.1)"

Concerning the conceptual underpinnings for EIA, some institutions place more emphasis, in principle, on very early programmatic assessment of basic alternatives (including site, technology and policy options), but in practice this has not produced significant operational differences in outcome. For example, the World Bank's EA policy puts considerable emphasis on the need to start the environmental review early enough to allow for serious consideration of basic alternatives, but this policy commonly has had a practical outcome similar to other EIA procedures more focused on site-specific impact analysis and mitigation measures for a given investment.

In practice, therefore, the two concepts have not produced widely different results. Most of the EIAs produced so far on MFI projects have tended toward the more traditional impact analysis and been weak on basic alternatives discussions. The main reason for this is that, generally speaking, a Bank's entry point into the borrower's project planning process (and particularly if the borrower is from the private sector) tends to be after the borrower's own identification process, at a point when major decisions about types of investments and siting have often already been made and the preparation process is relatively limited to implementation issues. The main exception is with programmatic loans where subprojects are still to be defined after Board approval, a situation shared by all five Banks reviewed here. Programmatic loans are made in various sectors, e.g. roads, irrigation, etc, whereby a framework for the preparation and implementation of numerous similar subprojects is established.

³ The World Bank uses the term "environmental assessment" rather than "environmental impact assessment". Consequently, the term "EA Report" is used to refer to the full environmental study which it requires. The term "EIA report" is used to refer to the full environmental study required by the AfDB, AsDB, EBRD and IBD for projects with significant potential impacts.

It should be noted that efforts are being made to move the EIA planning process more upstream. The World Bank, for example, is using regional and sectoral EAs as tools for integrating environmental concerns into policy and programme planning at a time when basic alternatives can be more fully considered. To date, few regional EAs (REAs) have been prepared but there is a trend towards making more use of this instrument. The main reason for the limited use to date is probably that both the banks and their borrowers tend to take a sector-by-sector, rather than a spatial, approach to planning. While it is still too early to fully assess the effectiveness of REA, early results are positive and appear similar to those of sectoral EAs. REA provides an opportunity for a comprehensive look at geographically defined areas such as watersheds, coastal zones or urban areas. One of the few examples of an REA carried out on an approved project is that carried out by the World Bank on the Paraguay Natural Resources Management Project. EBRD's recently revised Environmental Procedures make provision for strategic environmental assessments (SEAs) pointing out that "the main benefits of SEA is that it allows for a consideration of more far-ranging and cumulative impacts and broader types of alternatives than that provided by a project-specific EIA."

The IDB is seeking to strengthen procedures for systematic dialogue with its borrowers on environmental issues during the programming cycle and before project-specific identification. Pre-investment loans (i.e. loans in support of project preparation), which are used by the IDB when borrowers lack funding to prepare projects, facilitate early consideration of project alternatives and a more focused EIA process downstream in the project cycle. In addition to pre-investment loans, the IDB is also developing Country Environmental Strategies as part of the strategic planning and country programming process. These strategies will outline the bank's approach to environmental issues; enrich the policy dialogue with the countries concerned and facilitate the consideration and approval of the environmental aspects of specific operations. AsDB seeks to integrate environmental concerns early in program and project planning through the use of environmental components in country operational strategy studies. AsDB also prepares environmental sector reports and provides other forms of input for Country Assistance Plans. The World Bank also uses country environmental actions plans and strategy papers for this purpose.

6.3 Screening

6.3.1 Environmental Screening Categories

The EIA process in all the MFI's examined here begins officially with the "screening" of investment projects into categories. Nearly all have adopted a 3- or 4-level classification system for doing this. The categories serve to classify projects according to their potential environmental impacts. The classification of a project into a certain category indicates to the project officers, borrower and other interested parties (e.g. donor governments, cofinanciers, NGOs) the extent, magnitude and significance of environmental issues and the corresponding level of environmental assessment and review required to address them.

Four of the five Banks reviewed in this chapter are currently operating with three main screening categories to signify the degree of potential negative environmental impact (See Annex I, Table 1). These categories can be labelled generically as

- High Impact (HI): Full Environmental Appraisal (EIA or EA) Required;
- Moderate Impact (MI): Limited or Partial Environmental Appraisal Required;
- Low Impact (LI): No Environmental Appraisal Required.

In the revision of its Procedural Regulations in 1996, the IDB established a new system which eliminated formal environmental categories. The objective of the new procedures is to direct attention during screening more on project characteristics and magnitude or importance of potential impacts from which the corresponding analysis, review and evaluation requirements would flow rather than relying on only three or four categories for determining the analysis. All projects are still subject to review and analysis corresponding to their anticipated environmental impact. However, in its new procedures, IDB incorporates the screening of projects into the preparation of an Environmental and Social Impact Brief (ESIB) which establishes the environmental assessment requirements for preparing the operation and identifies the environmental quality and social impact issues that must be resolved to ensure that the operation is viable and eligible for Bank support. In addition it seeks to identify actions for environmental amelioration early in the project preparation phase. The ESIB also includes a description of the legal and institutional framework regarding environmental assessment in the country, particularly that which applies to the proposed project.

In parallel with conventional EIA screening, EBRD also classifies projects to determine the need for an environmental audit. The attention given to environmental audits reflects EBRD's basic private sector orientation and the large amount of its investments related to the rehabilitation of existing industrial installations. It also takes account of the particularly severe issues associated with past operations in central and eastern Europe and the former Soviet Union which are addressed through environmental audits. EBRD also has developed procedures for exercising environmental due diligence on financial intermediary (FI) projects. The EIA procedures of the World Bank and AsDB also give specialised screening guidance on financial intermediary loans, while, for the AfDb, the same requirements apply as in the case of regular investment projects. In the IDB, financial intermediary guidance is adapted to existing institutional arrangements on a case-by-case basis.

The AsDB and the EBRD, in addition to the three categories described above, also make provision for carrying out an Initial Environmental Examination (IEE). The definition and purpose of an IEE at the two institutions is, however, slightly different. At the AsDB, the project staff carries out an IEE for all environmentally significant projects which the Bank assists in project preparation. If necessary, an environmental specialist assists staff in its preparation. On the return of a fact-finding mission, the IEE report is reviewed and if that review determines that the impacts associated with the project are, indeed, significant, terms of reference (TOR) for an EIA will be prepared. If, however, the IEE confirms that there are no significant adverse environmental impacts requiring detailed environmental impact assessment, the IEE document represents the complete environmental impact assessment report.

At the EBRD, the screening of projects is carried out by the Environmental Appraisal Unit (EAU) and recorded in an Environmental Screening Memorandum (ESM). When EAU has received insufficient information from the operations team on a project to allow it to screen it into either category A, requiring an EIA, or category B, requiring an environmental analysis, it screens it as neither, requiring instead an IEE. The IEE is normally carried out by a member of EAU on the basis of a site visit and discussions with the operators of any facility, with environmental regulators and with the locally affected population and local interest groups. The results of the IEE are used to determine whether to screen the project in category A or B. The IEE report, however, is not a substitute for either an EIA or environmental analysis.

All the Banks provide guidance to their staffs on appropriate classification. For example, illustrative lists of project types are a common approach for guidance. The EA Sourcebook of the World Bank offers generic guidance on screening and is used informally by all of the MFIs as a background reference when screening projects.

All five MFIs provide generic screening criteria regarding dimensions such as project type, scale and location, and magnitude of impacts. They also provide sector-specific guidance. In addition, the World Bank, EBRD, AfDB and AsDB have developed illustrative lists of project types. These lists are largely similar although EBRD has a stronger emphasis on industrial project types, reflecting its lending portfolio.

Generally speaking, "environmental sensitivity" is the main issue when screening for project location. For example, in the AfDB, if a project that would normally be a MI -- e.g., small scale irrigation -- is to be implemented in an area with mangrove swamps, it automatically moves up into the HI category. Similarly, the EBRD's Environmental Procedures point out that "EIAs may also be required on operations which are planned to be carried out in sensitive location even if the operation category does not appear in the list for A-level operations. 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."

EBRD and the World Bank explicitly mention countries' legal requirements on EIA as a separate criterion, while the other Banks take this into consideration more implicitly. Other criteria seem similar in meaning although different terms may be used. For example, the World Bank's concern with the reversibility and complexity of impacts appears to be similar to the AfDB's "mitigability" criteria.

6.3.2. *Timing*

The procedures of the five banks for environmental screening are summarised in Annex I, Table 1 (The Project Cycle and the EIA Process). All five Banks have a project cycle which begins with "identification." At this initial stage, the Banks collect and review information about a proposed project and prepare a summary of features, objectives, feasibility, costs, and issues that need to be addressed during project preparation.

The five MFIs carry out environmental screening at roughly the same early identification stage in the project planning process and allow flexibility to (a) delay the screening decision for a short period if enough information is not readily available, or, (b) change the initial decision at later stages if proposed project features are altered or new information surfaces on potential impacts. The World Bank has a "T" (to be determined) category which can be maintained until the end of the identification stage. Reclassification can occur up to appraisal. AfDB has a system which allows for initial classification "I/II", with a final category determined when more information is provided and/or following a scoping mission. AsDB also uses a dual categorisation (e.g., A/B or B/C) where information is insufficient. Dual categories can be maintained until enough information is available. For example, the result of the IEE can lead to final determination of category or reclassification. Overall, procedural variations are minor. In the case of EBRD's procedures there is an extra dimension as to whether the project needs environmental auditing. (The requirement for environmental audits reflects EBRD's emphasis on investments in the private sector and particularly industry. In this regard, it is much more akin to the International Finance Corporation (IFC), the private sector financing arm of the World Bank Group, than the four other MFIs covered in this chapter.)

6.3.3. Recording Screening Decisions

All the Banks produce a record of their screening outputs. The World Bank records screening on an "Environmental Data Sheet" prepared by project staff, while EBRD utilises an "Environmental Screening Memorandum (ESM)." These formats are similar, generally of 1-2 pages, showing the selected screening category, the major project components, the environmental issues, proposed actions and rationale or justification for the chosen category. EBRD's dual-track approach means that two screening decisions are included in the ESM: one regarding EIA requirements and one on the need for environmental auditing.

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**ENVIRONMENTAL SCREENING MEMORANDUM
- Investment Operation -**

Operation Title:

Operation Team:

Initial Environmental Examination needed? Yes/No

Environmental Screening Category:

1 Brief description of the operation

2 Preliminary environmental information

3 Environmental issues apparent at screening (e.g. regulatory compliance, risks and liabilities, global and regional environmental impacts, such as biodiversity and climate change)

4 Environmental opportunities apparent at screening (e.g. energy efficiency improvements, clean production)

5 Reason for screening into the chosen category

Assessment:

Audit:

6 Public consultation requirements

7 Other issues

8 Actions

SIGNATURE: _____ DATE: _____

Environmental Specialist

SIGNATURE: _____ DATE: _____

Environmental Specialist

AsDB also records screening on a data sheet ("Categorisation of New Projects"), containing the category, the type of report required (IEE and/or EIA) and report action (if the summary report is for separate Board circulation or only as part of the Report and Recommendation of the President). In addition to this, the AsDB issues "Environmental Screening and Review" sheets to the project staff. All these data can now be accessed on line from a computer-based Environmental and Social Monitoring Information System (ESMIS). The EBRD has instituted a similar system known as the Environmental Monitoring Information Tracking System (EMITS). Finally, the AsDB's Office of the Environment and Social Development (OESD) issues a report ("Preliminary and Secondary Environmental and Social Review of Loan and Technical Assistance Projects") where the data sheets are compiled. AfDB records screening decisions in an "Environmental Issues" section of the "Project Brief."

At the IDB, the main screening output is the Environmental and Social Impact Brief (ESIB). The ESIB, once approved by the Bank's Committee on Environment and Social Impact (CESI), establishes the environmental impact assessment requirements for preparing the operation and identifies the environmental quality and social impact issues that must be resolved to ensure that the operation is viable and eligible for Bank support. The subsequent EIA process refines and elaborates this analysis and defines appropriate measures in more detail. The EA/EIA requirements are integrated into the project's "Profile II" - the document submitted to the Loan Committee which triggers the preparation phase.

6.3.4. Roles

In the World Bank, project staff initially propose the environmental assessment category, which is subsequently reviewed and approved, if there is agreement, by the corresponding regional environmental unit. The data sheets are "living documents" in the sense that project information and the corresponding screening category may change during project preparation, for example, following scoping. This process is shaped by consultations between project staff and the appropriate regional environmental division. Changes must be approved by the regional environmental unit. The environmental data sheets are formally reviewed and updated at least on a quarterly basis.

In the AsDB, the OESD categorises the project in consultation with Project Department staff, on the basis of information available in the Bank. The Chief of OESD approves the environmental category. In cases where the category is changed, the Chief or his designate must approve the change. OESD also prepares the screening report mentioned above.

In the AfDB, the environmental unit also performs the initial environmental examination and classifies projects on the basis of project briefs provided by the operations departments. In case of disagreement on the initial environmental examination, joint meetings between the environmental unit and the relevant operational departments are held to make the final decision.

In the EBRD, the screening categories are also selected by the environmental specialists in the Environmental Appraisal Unit (EAU), on the basis of initial information provided by project sponsors (borrowers) and operations teams. The EAU also prepares the

Environmental Screening Memoranda (ESM) which incorporates the screening classification and describes the environmental investigations and undertakings required. (EBRD has developed three types of ESM of which only one -- that used to screen investment operations -- provides screening categories. The other two, used for intermediated financing and technical cooperation, do not.) The screening category can be changed by the environmental specialists as more information on the project becomes available.

It is Project Teams in the IDB which have the central role in screening projects (although screening categories *per se* are not assigned) through the preparation of the ESIB. The ESIB must, however, be approved by the Committee on Environment and Social Impact (CESI) whose members include the Division Chiefs of the Environment and Natural Resource Divisions of the Bank's Regional Operations Departments, designated Division Chiefs from the Strategic Planning Department, the External Relations Department and the Legal Department, the Chief of the Environment Division, the Chief of the Indigenous Peoples and Community Development Unit and the Chief of the Women in Development Unit.

6.4 The Project Cycle

The five Banks under review here have project cycles that generally share the same steps: identification, preparation, appraisal, negotiations and Board approval, implementation and supervision, and post-project evaluation (see Annex 1, Table 1). Each of these project phases has significance for the institution's environmental impact assessment requirements, either in matters of decision-making or review and monitoring, which is why EIA procedures have been adopted to coincide with it. It is worthwhile to review key points in the project cycle from the perspective of environmental impact assessment procedures to better understand variations and similarities.

6.4.1 Project Identification

This is the first phase of the project cycle which generally proceeds against the background of country economic and sector work. Project identification may come from several sources including missions from the various Banks as well as other institutions. In the case of the African, Asian and Inter-American Development Banks, as well as the World Bank, this is often from United Nations agencies. In the case of the EBRD, the European Union often plays a role in project identification for public sector projects. For public sector development projects to be formally identified as a priority investment for any of the Banks it must have the provisional support of both the borrowing country and the respective Bank to ensure that its objectives are shared by both.

This phase may last several weeks or months. For purposes of EIA procedures, there seems to be a common emphasis at this stage on identifying main environmental issues even though terminology may vary as may the various written outputs. For all the Banks, this phase involves Bank staff decisions on screening and scoping of environmental issues. Whereas scoping is usually carried out in an informal manner by the AsDB, AfDB and IDB, the procedures of the World Bank and the EBRD give more

specific guidance. EBRD's Environmental Procedures, for example, point out that the 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." Specialists in EBRD's Environmental Appraisal Unit generally prepare project-specific "scoping guidelines" for the Project Sponsors of operations screened in category "A".

It is clear that project identification for all Banks is important for determining the scope of EIAs. Depending on the point at which a Bank enters the identification phase, an idea may be relatively advanced, leaving little room for alternatives analysis, or only a concept, in which case there may be considerable scope for consideration of alternatives in environmental terms. In most cases, however, many decisions related to the project's site have already been made by Project Sponsors. This is particularly true for private sector projects and, by extension, for an institution such as the EBRD, seventy per cent of whose lending is to the private sector.

6.4.2 Project Preparation

For all five Banks, project preparation begins when there is mutual agreement on project objectives between the borrower and the Bank. During preparation, the idea of the project is converted into a detailed proposal that considers all aspects of the project -- technical, economic, financial, environmental, social and institutional. Where the identification stage identified potential environmental issues, this stage involves analysis and assessment of those issues depending on their severity and pursuant to classification decisions taken at identification, and integration of environmental findings into overall project preparation. This is the stage, in other words, where the EA or EIA is actually carried out.

For all the five MFIs, EIA or EA preparation is the responsibility of the borrower with the MFIs taking a review and clearance role. There is, however, some variation in terms of (i) timing, or when EA or EIA work is initiated, (ii) the type of environmental assessment done by the Banks apart from or in addition to EA/EIA work of the borrowers⁴ and (iii) procedures for review and clearance of EA or EIA reports.

For AsDB, project preparation starts -- in environmental terms -- with the *Initial Environmental Examination* (IEE), which is initiated in parallel with the processing of the project preparatory technical assistance, and carried out by the Bank's own project staff or, in certain cases, the borrower. The IEE serves as an independent, early assessment of environmental impacts and issues at the proposed project site and explores options for mitigation and management. A specified format is described in AsDB's procedures, involving project description, description of the area affected, screening of potential impacts and mitigation measures, institutional requirements,

⁴ Generally speaking, Bank's strive to avoid duplicating EIAs which have been carried out previously to meet national requirements. Where these have been prepared, they are reviewed to determine if they meet the Bank's requirements and to the extent they do not, supplementary studies are prepared.

findings and recommendations, and conclusions. On the basis on the IEE findings, the AsDB determines the need for further study, and where the potential negative impacts are considered significant, this generally results in a requirement that the borrower produce a formal EIA. Despite the IEE requirement, which could suggest that initiation of EIA studies would have to move downstream, the AsDB's EIA is still an integral part of the feasibility studies for a project.

For the World Bank, EBRD, IDB and AfDB scoping and preparation and clearance of EA or EIA Terms of Reference (TORs) represent the environmental initiation of project preparation (See Annex 1, Table 1). In the World Bank, a full EA report is required to be prepared by the borrower where potential impacts are significant, in accordance with agreed terms of reference. Similarly, a full EIA report is required by the AfDB, AsDB, IDB and EBRD.

The five Banks show similarity in terms of required sections of a full EA or EIA report. The main substantive variation is with respect to cost-benefit analysis, which is prepared for some projects only by AsDB. However, all the other Banks stress the importance of economic analysis of environmental impacts and assessment of costs and benefits of alternatives and mitigation measures. As a rule, however, borrowers are required to document the way in which they plan to deal with public concerns. In this regard, there is some variation in the documentation requirements on public consultation. The AsDB requires a separate section in the report on the process and outcome of consultations, while the World Bank and EBRD require that records of meetings and public consultation be included as an annex to the EA/EIA report. The World Bank, IDB and AfDB expect EA and EIA reports, respectively, to reflect the outcomes of consultation, with or without a separate chapter on the topic. For operations involving transboundary impacts, EBRD's Procedures state the requirements outlined in the Espoo Convention must be followed. Finally, the AfDB does not explicitly require a separate mitigation plan in the EIA report. However, the report needs to spell out recommended measures and a discussion of mitigative measures must be adopted in the borrower's overall project plan.

In some Banks, additional specialised information is sought. For example, the EBRD has special requirements for Financial Intermediary (FI) operations and environmental audits.

For projects with moderate impacts, staff work is typically required at this stage to assess and review the issues. The AsDB and EBRD have the most elaborate reporting requirements for these MI projects. The World Bank and EBRD may, in some cases, call for a separate analysis of certain selected issues, either by the Bank or the Borrower. This analysis could range from an EIA to a review of the borrower's environmental permits and standards. EBRD's procedures require, for example, that "operations 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." It is difficult to determine how effective

such considerations have been. Only through explicit monitoring requirements can Banks ensure that compliance with relevant environmental standards is actually taking place and in most MFIs such requirements have only recently begun to be introduced.

For the AsDB, the IEE would typically suffice as an environmental analysis for projects with only moderate impacts. AfDB expects the borrowers to develop mitigation measures or incorporate design changes in the context of feasibility studies for projects with moderate impact, while its staff incorporate these measures in Bank project documents.

6.4.3 Project Appraisal

After project preparation has been completed by the borrower, with assistance from the Banks as needed, each of the five Banks undertake a full-scale project appraisal. This is a comprehensive review of all aspects of the proposal, conducted by Bank staff often with the help of consultants. Appraisal is another key decision-point for environmental purposes where major issues have been identified. For the World Bank, for example, the full EA report for a Category A project must be officially submitted by the borrower to the Bank before departure of the “appraisal mission” by Bank staff. This is so that any outstanding issues can be further assessed by the mission during its time in-country. Staff would not undertake any field studies themselves as part of an appraisal mission. If there are major outstanding environmental issues or the required EA report has not been delivered, the mission may be postponed or reclassified as a pre-appraisal mission.

The environmental staff for all five institutions have an important review role at this stage (see Annex 1, Table 1). In the AsDB, OESD does a technical review and may suggest additional studies if necessary. Environmental specialists in the Environmental Appraisal Unit (EAU) at the EBRD also review EIA reports and prepare an Environmental Review Memorandum (ERM). If EAU has insufficient information to conduct a thorough environmental review, it will recommend in the ERM that the Review at hand be considered an interim one and that the operation be resubmitted to the Bank's Operations Committee for Final Review once sufficient environmental information is available to EAU. At IDB the Project Team reviews the EIA and summarises its analysis in the Environmental and Social Impact Report (ESIR). The ESIR, which must be approved by the CESI, establishes the environmental and social impact management conditions that must be included in each operation and identifies the incentive, enforcement and monitoring mechanisms to be employed to ensure their implementation. AfDB's environmental staff review incoming EIA reports after the project officer assesses the study taking into account the TORs agreed upon with the consultant. The World Bank Regional Environmental Sector Units' (RESU) staff may recommend additional measures if an EA is not satisfactory, and formal Regional Environmental Sector Units' (RESU) clearance is needed prior to authorisation for negotiations.

Upon clearance of the EIA, the AsDB's OESD prepares an independent assessment which is incorporated into the appraisal report produced by staff. Significant differences between this assessment and the EIA are specifically noted. In the World Bank, the project task manager is responsible for preparing an EA Annex to the appraisal report for Category A projects and for summarising findings of the EA process for all

categories in the main text. The RESUs review and comment on these sections. In the EBRD, the ERM forms the basis for integration of EIA findings in the Bank's project documents submitted for Board approval.

The AfDB requires that the appraisal for high impact and moderate impact projects should suggest mitigating measures and alternative designs, and include an economic analysis of environmental and social impacts for the various alternative courses of action. This Bank's Environmental Policy Paper emphasises the use of economic analysis at this stage -- "wherever found essential" -- by recommending that environmental costs and benefits be included in regular cost-benefit analysis; that alternative approaches to a project objective be analysed to resolve problems of valuation and quantification of environmental services or objectives with no traditional market value; and that a time horizon sufficiently long be employed to consider environmental benefits in economic analysis of forestry and other projects, also taking the benefits and costs to future generations into account.

Environmental staff of all five Banks have an important role in the review of incoming reports, incorporation of findings in project documents and final clearance. However, some variation exists among the Banks in terms of degree of involvement in these respects. For example, the World Bank's RESUs do not prepare environmental sections of project documents. Instead, they review these sections and give formal clearance prior to negotiations. In the AsDB, the designated environment specialist assists in preparing the EIA derived sections of the Bank's project documentation and this section is cleared by OESD. The EBRD's Environmental Review Memorandum, prepared by environmental specialists in the Environmental Appraisal Unit, serves as an important intermediary step between the EIA report and the official project documentation. As at the World Bank, the environmental section of such documents is the responsibility of the operation's team. The Operations Leader (OL), however, must obtain EAU's approval of the wording of this section. In the case of IDB, environmental clearance for negotiations is not done unilaterally by the environmental unit but through the CESI with the participation of appropriate environmental management.

6.4.4 Negotiations and Board Approval

Generally speaking, formal loan negotiations begin between the Bank and the borrower, after an appraisal report has been issued. Both sides must agree on the conditions necessary to ensure the project's success, including detailed schedules for implementation, how any environmental requirements fit into this schedule, what mitigation and monitoring plans will be required for major environmental issues, and the responsible institutions for any environmental conditions. These conditions may or may not be referenced in loan agreements, depending on whether they are sufficiently material to the overall project success.

All Banks keep open the possibility of having environmental covenants included in loan agreements to the extent needed. Some have put in place standard conditions; for example, the EBRD and AsDB has standard conditions that apply to all loan agreements. In addition, special loan covenants usually covering, but not limited to, the implementation of agreed environmental mitigation measures also may be included. In the EBRD, the most frequently used environmental covenants have been incorporated in

the Bank's standard formats for loan/subscription agreements. These relate to such topics as regulatory compliance, emergency response notification, implementation of Environmental Action Plans, reporting requirements, etc.

In addition to the common acceptance across the Banks that environmental covenants may be included in loan documents, there also is some common ground concerning the environmental information required by each Board in advance of Board discussion. While not formally binding in international law, as a matter of practice each Bank seeks to comply with the spirit of domestic legislation of the United States, a major shareholder in each Bank, which requires environmental information on projects well in advance of Board consideration.

Where projects require a full EIA report, that document is commonly the most convenient means of passing information to the Board. Where projects do not require a full EIA, the Banks' procedures produce different results. For those Banks which do not require a formal report because the environmental impacts of the project are moderate, environmental data sheets or other forms of summary decisions as reflected in staff appraisal reports may be made available.

At the EBRD, environmental conditions related to a project are often incorporated in an Environmental Action Plan (EAP). Its purpose is to obtain agreement concerning key environmental, health and safety performance criteria, corrective actions and improvement programmes and to define monitoring and reporting requirements. Normally, the EAP forms part of the legal documents of the Bank's investment.

6.4.5. Project Implementation and Supervision

After the loan is approved and becomes effective, funds are made available to implement the project. Implementation of the project, including environmental conditions, is the responsibility of the borrower, and the Banks have the responsibility to supervise implementation and the environmental and procurement process to ensure that corresponding procedures and requirements are met. The banks generally also require periodic reports from the borrower that discuss compliance, including compliance with any environmental mitigation measures.

The AsDB uses the standard environmental provisions, in addition to project-specific covenants stemming from EIA recommendations, as a basis for supervision. Its environment unit is responsible for identifying projects requiring special environmental supervision, by way of an annual review. In addition, OENV routinely reviews the borrowers' compliance with recommended mitigation measures during implementation and post-evaluation.

For the other Banks, environmental staff are also involved in identifying projects which require special supervision, some of which may be noted in an implementation plan as part of the loan agreement. The IDB supervision criteria are drawn from EIA recommendations and loan covenants. As is the case with other provisions, the Project Team and Country Office specialists are responsible for monitoring compliance. For the World Bank, EBRD and AfDB, supervision work is generally carried out by project staff, supported by environmental specialists (staff or consultants) as needed.

EBRD's environmental specialists (or environmental consultants), with the agreement of the Operations Leader (OL), may undertake site visits on a routine or occasional basis. The Bank's Resident Offices can assist EAU and OLs in obtaining information on such issues as regulatory compliance and the implementation of Environmental Action Plans.

In the World Bank, a special environmental supervision mission or periodic missions may be carried out, if circumstances so require, and this feature is frequently identified in final documents tied to an implementation plan. Supervision efforts of all MFIs are based heavily on loan covenants and EIA recommendations for mitigation, environmental management and monitoring. The World Bank, in response to internal reviews of project performance, is developing new performance indicators for supervision and monitoring and these will include environmental indicators.

6.5 Public Consultation

All five MFIs consult the public during the EIA process carried out on their operations. The specific requirements differ somewhat from Bank to Bank regarding the timing of consultation, the type and amount of environmental information disclosed and the types of parties which are consulted.

At the World Bank, "consultation with affected communities is recognised in OD 4.01 as key to the identification of environmental impacts as well as to the design of mitigation measures. OD 4.01 strongly recommends consultation with affected groups and local NGOs during at least two stages of the EA process: (i) shortly after the EA category has been assigned -- at the scoping stage -- and (ii) once a draft EA has been prepared. Consultation during the preparation stage is also generally encouraged, particularly for projects that affect peoples' livelihood and culture and projects that are community-based by their very nature. In projects with major social components, such as those requiring involuntary resettlement or affecting indigenous people, the consultation process should involve active public participation in the EA and project development process and the social and environmental issues should be closely linked."⁵

EBRD's and IDB's requirements for public consultation, spelled out in both their Policies on Disclosure of Information and Environmental Procedures, are quite specific and echo the approach taken by the World Bank (on public sector projects) and the International Finance Corporation (IFC) (on private sector projects.) Consultation begins with notification of "A" level projects following Initial Review by the Bank's Operation Committee. The Project Sponsor is requested to provide the affected public and interested NGOs with notification about the nature of the operation for which financing is sought from EBRD. The way that notification is undertaken depends on local political, legal, and cultural practice. Scoping is the first stage at which the public is consulted.

⁵ The Impact of Environmental Assessment: The World Bank's Experience - Second Environmental Assessment Review, p.34.

Following the completion of environmental investigations, the public needs 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 is a minimum of 60 days between the release of the EIA and the date of Board consideration. For public sector operations this period is a minimum of 120 days.

6.6 Experience

As EIA procedures are still relatively new in the five Banks and the project cycle is generally lengthy, there has been little opportunity for evaluation of completed projects for which an EIA or EA was prepared. Project completion and evaluation reports generally are the responsibility of project staff and evaluations staff and, unless project conditions include environmental elements, supervision and monitoring reports from which these evaluations draw may not reflect environmental issues. However, AsDB's OESD routinely evaluates compliance with mitigation measures recommended in EIAs, in addition to the normal project completion and post-evaluation work of project staff.

At the EBRD, for the year of "project completion" (normally coinciding with the end of the Bank's disbursement phase i.e. the time during which the money is actually paid out) the OL prepares an Expanded Annual Monitoring Report which includes an environmental performance criterion. Operation Performance Evaluation Reports (OPERs) are prepared on selected operations by the Project Evaluation Department. EAU can comment on OPERs during their preparation. In future, OPERs will include an environmental rating which is made up of two components: (a) the environmental performance of the sponsor and of the Bank and (b) the actual extent of environmental change (positive or negative) resulting from the Bank's operation.

The AfDB's evaluation unit is considering preparation of independent environmental audits,⁶ with the technical assistance of its environmental staff. AfDB also evaluates the environmental performance of all high impact and moderate impact projects, and may undertake special environmental auditing as part of operations auditing.

Initiatives have been taken to monitor implementation of EIA requirements for projects in progress. In the World Bank, the Environment Department undertook a first Annual EA Review in 1992 which focused on category A projects with EA Summaries submitted to the Board and evaluated the compliance of the EA Reports with the EA Operational Directive. A second review, published in November, 1996, expands the first and covers the World Bank's experience with EA from July 1992 through fiscal year 1995. Before turning to the findings of that Review, many of which would apply to

⁶ Not to be confused with the site-specific environmental audits used routinely by the EBRD during the preparation of some projects with ongoing operations.

each of the Banks described here, three short case studies are presented related to EIAs carried out on World Bank, AsDB and EBRD investments.

6.6.1 World Bank: Paraguay -- Natural Resources Management Project

The primary objective of the project is to promote environmentally sustainable development and natural resource management in the agriculture sector in a major part of the Parana watershed in Paraguay. There was a huge influx of people to this area in the 1980's and early 1990's, resulting in high rates of deforestation (12.5 percent per year), soil erosion, water contamination, and a deterioration of living conditions among local indigenous people. Administrative capacity in the area is inadequate, especially for proper environmental management, and adequate incentives and regulations to promote sound land use are lacking.

The project was prepared in a "bottom-up" fashion, with strong emphasis on local public participation. The various components emerged through discussions of a number of alternatives with local farmers. The project, as it is currently being implemented, promotes: (i) an integrated approach to agricultural development and natural resources protection, using rainfall catchment areas as the basic planning units; (ii) decentralisation of the Ministry of Agriculture; (iii) intensive training of producers and their families in the areas of organisation, resource use, and marketing; and (iv) rehabilitation and realignment of existing roads to reduce soil erosion problems and improve safety.

The project was given a Category A classification because of the existing environmental problems in the region as well as a concern with the impacts of the roads component. However, since it was clear that the project was being designed to improve environmental management, it was agreed that the EA, like the project, should be regional in nature and should seek to assess: (i) whether the various project components would have the positive environmental impacts that were claimed; (ii) whether something more or different could be done to maximise and broaden such impacts; (iii) whether mitigation of "residual" negative impacts could be improved or such impacts avoided altogether; and (iv) whether the proposed institutional (management and monitoring) and policy measures were adequate and, if not, how they might be improved.

The EA was carried out by local consultants and fully met the Bank's requirements. The project incorporated almost all the EA recommendations, including important strategic changes in relation to road rehabilitation and the alignment of new roads, as well as institutional measures. Significant quantities of environmental and social baseline data were gathered by the consultants, including data which had not previously been available. One particularly important design change was the demarcation of new indigenous protected areas as a result of consultation serving the protection of the Tupi Guarani Indians.

6.6.2 AsDB: Nepal: *Kali Gandaki Hydroelectric Project*

This operation concerns a 144 megawatt (MW), run-of-the-river hydroelectric project in the Mahabharat Lekh portion of the lesser Himalayas between Pokhara and Butwal in

Nepal. A 44m high dam will be constructed at Mirmi just after the confluence of the Andhi Khola and Kali Gandaki rivers to divert part of the river flows into a 5.9km tunnel. The tunnel will convey the water to Beltari where a 144 MW power stations will be located. The project will have some storage behind the diversion dam sufficient to operate the full 144 MW capacity for six hours a day even during the dry season. The small reservoir created by the dam will be 5.3 km long, with a total area of 65 hectares. The project will also include a 132-kilovolt (kV) transmission line running from the power station to substations in Pokhara and Butwal. A 28.5km access road will run from the Sidhartha Highway to the dam and reservoir site with a spur road to the power plant site.

The project is needed to meet the growing requirement for electric power in Nepal. The lack of dependable power adversely affects Nepal's gross national product and economic growth. Only about 14 per cent of Nepal's population has access to electricity, with the Kathmandu area receiving a disproportionate share. The Project will eliminate shorter-term load shedding and brownouts, allow further economic development and provide electricity to segments of the population currently without power.

The EIA for this project was carried out by an interdisciplinary team of scientists who conducted a series of studies from 1991 through 1994. These included reconnaissance site visits, biological and socio-economic surveys, a fish sampling programme as well as studies on geology, slope stability, hydrology and sediments related to the project design process. The team consisted of an anthropologist, ecologist, archaeologist, fishery and wildlife ecologist, watershed management expert/forester, botanist and a social scientist/economist.

The major environmental impacts addressed in the EIA included:

- reduction in water flow along a 50km river stretch as a result of water diversion through the headrace tunnel;
- blockage of fish migration due to the dam and the resulting reduction in subsistence and commercial fisheries harvest;
- increased erosion and landslides due to land disturbance (especially related the access road construction), and linked effects to the ecological and socio-economic environments;
- loss of forestry resources directly, because of clearing operations at the Project sites (including the access road and transmission lines), and indirectly, because of increased local demand for firewood, and loss of Sal and Khair, two species of local and regional importance, which are of particular concern; and
- overall habitat loss and disturbance of areas used by "species of concern" (e.g. river otter, python) and other more commonly occurring species, resulting in temporary, and possibly medium-to-long term reduction in species that inhabit the area.

A number of mitigation measures were identified and included in the project design to address these (and other) issues. They included:

- the release of a compensatory flow of at least 4m/sec during the dry season;
- a capture-and-trucking programme to provide fish passage past the dam and a grate to minimise entertainment;

- a fish hatchery programme;
- establishment of a protected area (e.g. nature reserve) to compensate for localised losses of flora and fauna.

The cost of environmental mitigation measures amounted to \$5.3 million during construction and \$100,000 annually during operations.

The EIA involved an extensive public consultation programme. Public meetings were attended by several thousand people. Residents generally showed their satisfaction with the project. Issues and concerns raised in the public meetings were incorporated in the Project impacts to be investigated and addressed in proposed Project mitigation.

Without effective mitigation, the impacts of the Project could be significant, particularly on the poorest families, forests, wildlife, and aquatic resources. However, the adverse impacts are mitigable to acceptable levels and, with the proposed measures, the Project could produce sustained economic changes and improve the lives of many of the local people of the region.

6.6.3 EBRD: Kazakhstan - Aktau Port Reconstruction Project

The port of Aktau on the Caspian Sea is the only commercial trading port in Kazakhstan. It dates from the 1960s, and has since been subject to various improvement and expansion programmes, most recently in the late 1980s with the construction of the oil terminal. Consequently, many of its existing design features fall short of present-day environmental standards that would be applied to ports. The Reconstruction Project offered an opportunity for making good many of these current inadequacies. As with all major developments, however, it also has the potential to cause some adverse environmental impacts.

The project was designed to respond to the key objective of protecting the Port of Aktau from the rising level of the Caspian Sea and improve port operations, specifically through civil works and cargo-handling equipment. As the originally envisioned civil works were limited to the reconstruction of the existing quay wall, the raising of dry cargo berths, and the refurbishing of cargo areas, the project was screened in category B/0 requiring an environmental analysis. The screening was carried out by EAU on the basis of written information which had been made available and was not based on the results of a site visit by EAU although the consultants who carried out the analysis had visited the Port.

The analysis, carried out in late 1994 as part of an overall feasibility study, outlined the relevant national environmental legislation pertaining to the project and described the existing environmental conditions in the port. It also identified a number of environmental impacts associated with both the construction and operational phases of the project, including water quality, fisheries ecology, air quality, noise and waste management. The environmental analysis proposed mitigation measures to address these impacts, including appropriate clauses in engineering works contracts for governing waste disposal, construction materials, air quality and noise during construction. Appropriate conditions were subsequently included in tender documents.

In terms of port operations, the analysis made a number of recommendations regarding surface water drainage and waste reception facilities (including sewage, solid waste, oily waste and ballast water) which were later incorporated in the project design, as well as hazardous material handling and an oil spill contingency plan, which were incorporated in an Environmental, Health and Safety Action Plan.

The original environmental analysis did not address the environmental issues associated with the Port's breakwater and causeway, which supports oil pipelines and two oil cargo berths, as reconstruction of these facilities is outside the scope of the project. However, as they represent a potential threat to both the successful implementation of the dry cargo berth reconstruction and the preservation of the environmental quality of the Port area, a further environmental study was commissioned to carry out a risk assessment of the breakwater and causeway. As a result of that study, the scope of the project was changed to include rehabilitation works on the causeway and the relocation of the pipes on it to address the potential risk of oil damage. The study also identified the amount and type of facilities needed at the Port to deal with waste management and oil spills to MARPOL standards. Provision for these was included in the civil works contract.

The project included a technical cooperation component which addressed environmental issues by providing for the development of an Environmental, Health and Safety Action Plan. That Plan complies with EBRD's revised (1996) Environmental Procedures as well as Kazak legal requirements. It covers environmental concerns arising during the proposed construction works (i.e. raising of the dry dock and rehabilitation of the breakwater and causeway) as well as those emanating from current and projected future port operations.

World Bank Technical Paper Number 126 (Environmental Considerations for Port and Harbour Developments) was used as an "aide memoire" to assist in the identification of impacts and selection of appropriate environmental management and control measures based upon experiences with other ports.

6.7 Quality

As pointed out above, the only MFI which has undertaken a systematic review of the EIAs it has carried out is the World Bank. The Review, published in 1996, looked at World Bank experience between July 1992 through fiscal year 1995. Within that time frame, 10% of its approved projects had been screened in Category A, 41% in Category B and 49% in Category C. Corresponding figures for the AsDB (between 1991 and 1996) were 20% in Category A, 57% in Category B and 23% in Category C. For the EBRD (1991-1996), the figures were 5% in Category A, 51% in Category B and 44% in Category C. The discrepancy in the figures among these three Banks does not, in the first instance at least, represent a difference in the degree of diligence or strictness applied to screening, but the rather the difference in the types of investment portfolios represented by the three Banks. The EBRD, for example, finances far fewer "greenfield", "stand-alone" projects, typically screened in Category A, than the World Bank and AsDB.

In its Review, the World Bank evaluated both the *quality* of EIA work in key areas such as identification and assessment of impacts and analysis of alternatives, as well as the *effectiveness* of its current EIA process.

Regarding quality, the Bank concluded that, although it had improved over the years, there were a number of areas in need of further improvement. The weakest aspect of EIA work continues to be public consultation and analysis of alternatives. Though not specifically identified by other MFIs, the same conclusion would probably apply to them as well. There appears to be a number of reasons for this. One is the non-inclusion of the analysis of alternatives or public consultation in the requirements of borrowing countries. Another is that the design, size or route components of a project have already been identified before the project is presented to the Bank. This is particularly true regarding private sector lending and investment. However, even when the possibility for a comparison of alternatives exists, it can be hampered by a lack of information and knowledge needed to prepare a substantial and in-depth analysis.

6.8 Effectiveness

All the Banks reviewed here have made progress over the last several years in better integrating their EIA processes into the overall project preparation cycles in their institutions. An area which has become particularly important in this regard is that of screening. Although there is no unanimity among Banks as to the best way to implement a screening procedure, they would all agree that it is a crucial step in the overall EIA process. Despite its importance and the success with which screening procedures have been implemented, the need to decide on a particular screening classification sometimes draws attention away from the actual environmental issues and impacts associated with a particular project. This was one of the reasons which led the IDB to abandon its numerical screening classification in favour of the more "in-depth," analytical approach encapsulated in its new requirement for Environmental and Social Impact Briefs (ESIBs).

However, even those Banks which have retained a numerical screening classification have made refinements to it. The EBRD, for example, in revising its Environmental Procedures at the end of 1966, incorporated the new requirement of carrying out an Initial Environmental Examination (IEE) in cases where insufficient information is available at the time of screening to make a decision on a classification. The introduction of this IEE element was based in large part on EBRD's own experience in implementing its original Procedures as evidenced in the Kazakhstan case study described above.

The effectiveness of EIA in project preparation is difficult to determine. The World Bank found that "sectoral EAs and EAs with a careful analysis of alternatives generally have the strongest influence on project design. The principal influence of the more typical, project-specific EAs is through the mitigation, monitoring and management

plans"⁷ Although most other Banks would probably agree with this conclusion, it is the World Bank, rather than the Regional Development Banks covered in this review, which, through its policy based lending, has had the most experience with carrying out sectoral EIAs (EAs).

Perhaps the most important finding of the World Bank's Review of its experience relates to the question of EIA effectiveness in Project Implementation. The World Bank found that, when it comes to implementation, its supervision of projects "is generally insufficient to determine environmental performance and may limit the Bank's ability to detect and address environment-related problems in a timely fashion as projects evolve. Knowledge of the actual environmental impacts and performance of mitigation, monitoring and management plans is often incomplete."⁸ This situation is, of course, not unique to Multi-lateral Financial Institutions and would also apply to EIAs carried out in national contexts, as has been pointed out in other chapters of this book.

6.9 Conclusion

As stated in the introduction to this chapter, the information presented here is based on currently (publicly) available information on EIA in five MFIs. The author was unable to carry out "research in the field" or to conduct extensive interviews with Bank staff involved in the EIA process. As such, this chapter should be viewed primarily as a description of the present "state-of-the-art" in carrying out environmental impact assessment in the context of MFI project planning. However, even if more "targeted research results" were available, it would probably be difficult to draw any firm, overall conclusions about EIA and MFIs for the simple reason that each of the Banks examined here is unique in terms of its mandate, sphere of operations and geographical area of concentration. As such, each Bank's "approach" to EIA is also unique.

Nonetheless, it is possible to draw some conclusions about the "way in which EIA is working" in these institutions even if it is of a general nature and based as much on the author's personal experience as an analysis of the "literature."

First, it would be safe to say that the need for EIA has now been recognised throughout the "MFI community." Procedures for its implementation have been established and, over time, tailored to individual Bank policies and operations. More importantly, it would appear that Bank operations teams and project sponsors (i.e. borrowers) have also accepted the need for, and usefulness of, EIA. Disagreements between operational and environmental staff, for example, on how projects should be classified, are rare. The need to incorporate EIA findings in project design has been accepted.

Second, although the quality of EIAs being prepared is improving, the emphasis on application has been at the "project preparation" level. For environmental concerns to become truly integrated into investment decision making, it will be necessary to move EIA both "upstream" and "downstream." That is to say, more attention will need to be given to Strategic (or sectoral) EIA which examines the environmental implications of

⁷ *The Impact of Environmental Assessment -- The World Bank's Experience* (Second Environmental Assessment Review), p. xv.

⁸ *ibid.* p. xv

development policies, plans and programmes as well at the actual implementation of environmental management plans associated with projects on the ground. MFIs such as the World Bank which are involved in “policy based lending” and finance large structural adjustment schemes are particularly well placed to introduce SEA in their activities.

Thirdly, it is probably safe to say that the quality and usefulness of any particular EIA is more dependent on the quality of the individuals who prepare it than on the adherence to a particular procedure or the application of a particular set of methodologies or approaches. This, by extension, means that the practice of EIA will improve as greater use is made of well-qualified, local environmental expertise in its preparation and implementation together with increased consultation with affected parties and other interested groups as well as NGOs throughout the EIA process.

Abbreviations Used in the Text

World Bank

RESU: Regional Environmental Sector Unit
TTL: Task Team Leader
EDS: Environmental Data Sheet
PCD: Project Concept Document
FEPS: Final Executive Project Summary
PAD: Project Appraisal Document
MOP: Memorandum to the President
PCR: Project Completion Report
OED: Operations Evaluation Division

African Development Bank

ESPD: Environment and Social Policy Division
LO/PO: Loan Officer/Project Officer
IEE: Initial Environmental Examination
PB: Project Brief
AR: Appraisal Report

European Bank for Reconstruction and Development

EAU: Environmental Appraisal Unit
ESM: Environmental Screening Memorandum
ERM: Environmental Review Memorandum
IEE: Initial Environmental Examination
OGC: Office of the General Counsel
OAU: Operations Administration Unit
OL: Operations Leader
OPER: Operations Performance Evaluation Report

Inter-American Development Bank

EN: Environment and Natural Resources Division
ENV: Environment Division
CESI: Committee on Environment and Social Impact
ESIB: Environmental and Social Impact Brief
ESIR: Environmental and Social Impact Report
LC: Loan Committee
ES: Environmental Summary

Asian Development bank

OESD: Office of the Environment and Social Development
PS: Project Staff
PB: Project Brief
IEE: Initial Environmental Examination
SIEE: Summary IEE
AR: Appraisal Report
MRM: Management Review Meeting
MOU: Memorandum of Understanding
SRC: Staff Review Committee
CPRM: Country Project Review Mission
PCR: Project Completion Report
PPAR: Post Project Appraisal Report

ANNEX I - Table I: Project Cycle and EIA Process

World Bank	EBRD	IDB	AsDB	AfDB
<p><u>Identification</u></p> <p>Environmental screening: After consulting with the RESU, the Task Team prepares the EDS, which documents key environmental issues, project category, type of environmental work needed, and a preliminary EA schedule. The same information goes into the PCD/PID and clears the EDS. The RESU reviews the PCD/PID and clears the EDs.</p>	<p><u>Identification</u></p> <p>Operation Leader (OL) requests environmental information from Project Sponsor (PS)</p> <p>Environmental Appraisal Unit (EAU) determine possible need for IEE, screening category and specific information requirements; Screening documented in ESM, which is part of documentation for the Initial (Project) Review by the Operations Committee.</p>	<p><u>Identification</u></p> <p>Project Team prepares the ESIB which is submitted to the CESI prior to presentation of Profile II to the Loan Committee</p> <p>CESI reviews and discusses ESIB and issues minutes in two parts:</p> <p>(a) indicating whether ESIB was approved and noting findings and</p> <p>(b) describing the “environmental quality and social impact issues mitigation measures and EIA or Environmental Analysis and proposal actions”.</p>	<p><u>Identification</u></p> <p>Environmental Screening: OESD requests information and classifies project in consultation with Project Staff; environmental screening and review sheets issued to Projects Staff with the essential screening information (category, type of report and report action)</p> <p>Field reconnaissance; OESD prepares summary report to establish IEE and/or EIA work program for the project (including mission requirements).</p>	<p><u>Project Identification</u></p> <p>Environmental screening; By means of an IEE checklist; carried out by staff of ESPD and based on information gathered by Loan and Project Officers; Joint meetings between concerned departments and the environment unit can be conducted to review and agree on classifications</p> <p>Preparation of Project Brief initiated, with result of screening included as “Environmental Issues”</p>
<p><u>Preparation</u></p> <p>Scoping: The Bank discusses with the borrower the scope of the EA and assists the borrower, as necessary, in preparing TORs for the EA; Normally a field visit for this purpose is conducted by Bank environmental specialist (category A);</p> <p>EA preparation: Bank financial assistance may be requested and given;</p> <p>Advisable for Bank staff to attend borrowers’ EA review meetings (category A).</p> <p>During preparation, EDS (and environmental information in PCD/PID) is updated periodically, as project design develops.</p>	<p><u>Preparation</u></p> <p>Scoping only for “A” level projects, with field visit by EAU staff as appropriate and preparation of EIA TORs;</p> <p>Environmental investigations: EIA, environmental analysis, environmental audit or other types of analysis commissioned by sponsor.</p> <p>Following receipt of results of environmental investigations <u>Environmental Review</u> by environmental staff, who prepare ERM for all projects, with recommendations on environmental mitigation and enhancement, including need to build covenants into loan or subscription Agreements.</p>	<p><u>Preparation</u></p> <p>Project Team Leader informs potential borrower of environmental requirements; drafts of reviews TOR; assists the borrower in their hiring of consultants and mobilises in-house expertise when necessary.</p> <p>EIA is commissioned by the borrower.</p> <p>Project team ensures that the EIA (and any other studies) are completed to the Bank’s Reference agreed upon by the Bank and the borrower.</p>	<p><u>Fact-Finding and Preparation</u></p> <p>IEE preparation, including Fact-Finding mission; review of IEE by OESD; TORs for EIA work prepared, if found required by OESD; if not, IEE represents the complete EIA</p> <p>EIA preparation by borrower.</p> <p>Loan Fact-Finding Mission analyses the results of (draft) EIA, often with OESD assistance additional issues raised and discussed; results and recommendations presented in Project Brief; OESD attendance recommended in Management Review Meetings.</p> <p>Report completion (including SEIA or SIEE) and technical review by OENV, if necessary, OENV suggests additional work;</p> <p>SEIA/EIA or SIEE/IEE released to the Board (upon Borrower permission).</p>	<p><u>Project Preparation</u></p> <p>Project/loans offices assisted by environmental specialists do scoping, and finalise Project Brief.</p> <p>EIA (Category HI) TORs prepared (usually by project officers), based on a general format, ESPD consult with project preparation and feasibility teams to ensure adequacy of TORs</p> <p>EIA preparation: responsibility of borrower/consultants; input provided by ESPD, if needed</p> <p>Project Officers and ESPD evaluate EIA results</p>

<p><i>Preparation contd.....</i>The EA report must received in time prior to appraisal mission departure. The EA report is also made available at the PIC prior to appraisal and the EA executive summary is submitted to Board of Directors. RESU reviews EA and draft project documentation before appraisal authorisation and may recommend postponement of mission or other measures if EA is not found adequate;</p> <p>The Task Team prepares summary version of EA as annex to PAD which replaces the earlier PAD and summarises findings and recommendations in main text of PAD, noting any proposed conditionally; RESU reviews and comments on these outputs.</p> <p>Appraisal</p> <p>Appraisal mission reviews procedural and substantive elements of EA with the borrower, resolves issues, assess adequacy of institutions, ensures that mitigation plan is adequately budgeted, determined if EA recommendations are properly reflected in project design and economic analysis</p>	<p><u>Approval</u></p> <p>Final Review:</p> <p>Recommendations of ERM incorporated by Project Staff in the Executive Summary and the draft Board documentation of the Investment Proposal.</p> <p>Final Review by Operations Committee which discusses any environmental issues arising from the Environmental Review. EAU may recommend that projects be rejected at any stage on environmental grounds.</p> <p>Investment proposal is revised after Final Review, prior to Board approval.</p>	<p><u>Appraisal</u></p> <p>Project Team evaluates the EIA and other relevant information and prepares the Environmental and Social Impact Report (ESIR) prior to presentation of the project to the Loan Committee. The ESIR contains a summary of the EIA and the “environmental and social feasibility statement” which contains the conclusion and rationale as to the feasibility of the operation as well as specific measures and/or contractual provisions recommended for inclusion in the operation to ensure that environmental quality conditions are met.</p> <p>CESI reviews and, if necessary, discusses the ESIR and issues minutes setting forth as findings and recommendations.</p>	<p><u>Pre-Appraisal & Appraisal</u></p> <p>Appraisal Mission staff consults OESD prior to the appraisal mission, where necessary, OESD staff participates on mission..</p> <p>OESD assessment prepared, based on EIA, for the Appraisal Report and Report and Recommendation to the President (RRP):</p> <p>Significant changes from the SEIA previously circulated to the Board highlighted in Appraisal Report.</p> <p>Arrangements reached on environmental measures incorporated as proposed loan covenants in the Memorandum of Understanding; costs and sources of financing of these measures determined: Staff Review Committee meeting on project, with environmental specialist attendance (“ES” projects).</p>	<p><u>Appraisal</u></p> <p>Appraisal mission: Environmental specialists may be included</p> <p>Appraisal report always contains environmental statement based on the environmental screening decision:</p> <p>For HI and MI projects: Project Officers incorporate suggested mitigative measures/alternative designs for limiting negative environmental impacts in appraisal report, including economic analysis of impacts for the various alternative courses of action</p> <p>ESPD advise on and review the appraisal report</p>
<p><u>Negotiations</u></p> <p>Environmental conditionality, actions, criteria, conventants incorporated into loan agreement, as appropriate. Normally the EA’s environmental management plan is explicitly referenced in loan agreement. Care is made to ensure that environmental safeguards are transferred into bidding documentation. Should environmentally important changes be made in the project design during the course of appraisal and negotiations, the RESU is consulted to ensure that appropriate actions/safeguards are taken to comply with Bank environmental policies.</p>	<p><u>Negotiations</u></p> <p>Incorporation of any environmental covenants into Agreements, as agreed during the review and approval process;</p> <p>EAU involved as needed, besides OL and the OGC (legal office).</p>	<p><u>Negotiations</u></p> <p>Project Team meets with borrower to negotiate the loan contract, including environmental measures on the basis of the proposed covenants and conditions in the ESIR.</p> <p>Substantive changes from covenants and conditions proposed in the ESIR must be cleared by CESI.</p>	<p><u>Negotiations</u></p> <p>Environmental measures incorporated as appropriate, in Loan Agreement or Minutes of Loan Negotiations as covenants, based on those proposed in the Memorandum of Understanding; Environmental specialist may form part of negotiation team.</p>	<p><u>Negotiations</u></p> <p>Agreement reached on loan conditions; environmental specialist may participate in loan discussion if environmental conditions are proposed to be included;</p> <p>Environmental considerations are part of loan agreements and bidding documents, “wherever essential”</p>

<p><u>Board Approval</u></p> <p>The findings of the EA process are presented to the Board in standard project documentation.</p>	<p><u>Board Approval</u></p> <p>The findings of the EIA process are presented to the Board in standard project documentation.</p>	<p><u>Board Approval</u></p> <p>The findings of the EIA process are presented to the Board in standard project documentation.</p>	<p><u>Board Approval</u></p> <p>The findings of the EIA process are presented to the Board in standard project documentation.</p>	<p><u>Board Approval</u></p> <p>The findings of the EIA process are presented to the Board in standard project documentation.</p>
<p><u>Implementation</u></p> <p>EA recommendations - particularly the environmental management plan - provide the basis for environmental supervision: compliance with environmental commitments, status of mitigatory measures, findings of environmental monitoring and feedback from local communities and NGOs are part of borrower reporting requirements and project supervision. If major issues special supervision missions with adequate environmental expertise are programmed and budgeted in advance, where possible.</p>	<p><u>Implementation</u></p> <p>Monitoring Reports submitted by borrower: Bank supervision. In case of non-compliance, Operation Leader, in consultation with environmental staff recommend appropriate actions. System of penalties can be imposed: freezing of disbursements, notification to authorities and other financial agencies.</p>	<p><u>Implementation</u></p> <p>Project Team and Country Office specialists are responsible for monitoring compliance with environmental covenants in contracts and reporting through project progress and Monitoring Reports (PPMRs).</p>	<p><u>Implementation & Supervision</u></p> <p>Environmental Supervision: OESD lists projects requiring environmental supervision; periodic country project review missions (CPRM) determine and report progress on environmental mitigation and other measures agreed upon earlier; mission encouraged to consult with OESD; environmental specialists may join CPRMs or conduct independent “environmental audits”.</p>	<p><u>Project Implementation and Supervision</u></p> <p>Quarterly monitoring reports examined by environmental specialists.</p> <p>Field supervision by project officer with consultation with ESPD as appropriate, to monitor the effective implementation of measures recommended in the impact study.</p> <p>Execution of rehabilitation measures, if needed (e.g., modifications in the environmental monitoring plan)</p>
<p><u>Completion and Evaluation</u></p> <p>PCR evaluates environmental impacts and effectiveness of mitigatory and institutional measures.</p> <p>Operation evaluation of the project, including, as appropriate, environmental aspects.</p>	<p><u>Post Completion</u></p> <p>All environmental covenants are identified for monitoring purposes by OAU who require EAU sign-off as evidence of compliance as monitoring reports are received.</p> <p>EAU may undertake site visits.</p> <p>As part of the Bank’s internal monitoring review process, an environmental performance classification is included as part of monitoring reports.</p>	<p><u>Evaluation</u></p> <p>In accordance with the CESI guidelines and criteria set forth in the ESIR, the Project Completion Report must address environmental quality and social impact issues and recommendations.</p>	<p><u>Completion and Post-Evaluation</u></p> <p>Environmental project evaluation included in PCR/PPAR, should include assessment of the degree to which project satisfied environmental requirements and objectives; OESD prepares “Post-Project Appraisal”; annual reports on implementation progress;</p> <p>Environmental specialist may assist in post-evaluation missions.</p>	<p><u>Post Evaluation</u></p> <p>Project finalization: Completion report, input from ESPD as appropriate; Evaluation office assesses environmental performance of all MI and HI projects and examines the need for environmental audit; support from ESPD recommended</p>

Caribbean Development Bank (CDB)

The Caribbean Development Bank (CDB) has used EIA procedures as the principal means to ensure that its projects are environmentally sound. CDB has in place similar environment operational procedures as the World Bank and other multi-lateral institutions. However, most of CDB's Borrowing Member Countries (BMCs) have only just begun incorporating environmental considerations in their development agenda. Consequently the institutional and legislative framework necessary to support the EIA process is either relatively new, weak or absent.

CDB has attempted to use its leverage as a development financial institution to assist its BMCs to improve their institutional capability for environmental management, through the provision of training courses on EIA methodology and technical assistance (TA) grants in the following areas:

strengthening of institutions with responsibilities for various aspects of environmental and natural resources management. These have included assistance to improve operational procedures to incorporate environmental considerations in institutions directly responsible for granting development permits, assistance in the preparation of sector plans or national environmental action plans; and

- environmental studies to provide baseline environmental data to support specific capital development projects. These may include TA loans or grants to carry out environmental studies, baseline environmental data collection.

CDB has not yet carried out a formal evaluation of the effectiveness of its environmental assessment procedures. However, it would be fair to say the following:

- Environmental considerations are now an integral aspect of CDB's investment projects and this has in many instances positively influenced project design.
- CDB's assistance and those of other multi-lateral and development institutions has led to significant changes and general improvements in both the institutional and legislative framework for environmental and natural resources management in its BMC's.
- CDB uses its influence in its BMCs to encourage them to develop and incorporate and integrate environmental considerations in overall macro-economic planning to achieve a more sustainable development path.
- BMCs still require a lot of assistance to improve capacities for environmental management, and in the Caribbean one of the critical areas requiring assistance is that of baseline environmental information, which will assist in improving the quality of EIAs as well as provide a basis for long-term monitoring programmes.

- In its internal operations, CDB pays closer attention to the effective supervision of those projects classified as environmentally sensitive and determine the most cost-effective method of improving their supervision.

European Investment Bank (EIB)

The EIA process plays an important, practical role in the EIB, similar to that in other MFIs, within the context of the Bank's general approach to environmental appraisal. Verification that an EIA has been successfully carried out when required by law is part of the Bank's environmental due diligence but the EIA also serves a more fundamental purpose in helping to evaluate the acceptability of a project from an environmental point of view. In the Bank the overall environmental impact of a project is summarised in what is called an "*Environmental Fiche*" which is prepared for all projects where there are significant environmental effects. Among the specific functions of the EIA are the following:

- to help screen project alternatives;
- to identify the environmental impact of a project and appropriate mitigation measures;
- to yield data for incorporation in the economic cost-benefit analysis;
- to provide information on the extent, form and outcome of public consultation.

The Bank does not undertake EIA-related work itself; nor does it assume responsibility for providing public access to the documents produced. All work associated with an EIA, including publication of the results, is the responsibility of the Project Sponsor. Within the European Union, which accounts for about 90% of Bank lending, the requirements concerning EIA - when an EIA should be carried out, what information it should contain, etc. - are set down in Directive EU 85/337 which has recently been updated by Directive EU 97/11. Along with national law, the EU classification (Annex I and II) also guides the Bank on the need for an EIA outside the Community, especially in the Association Agreement countries of Central and Eastern Europe, but each project is considered case-by-case according to its size, nature and location. Outside the Community, the Bank is generally more pro-active than within to the extent that it will promote an EIA where this is necessary for project development. It may even be involved in drawing -up the terms of reference as well as in financing the study phase, using either its own funds, e.g. in the Mediterranean region under the METAP programme, or those of the European Commission, e.g. in the ACP countries under the Lomé Convention.

Responsibility for environmental matters lies with the EIB's Projects Directorate composed of experienced engineers and economists, who are encouraged to develop their skills in the EIA field.

The experience of the professional staff of the Bank involved confirms the usefulness of EIA as an appraisal process; they also believe that changes in the EU EIA legal framework are in the right direction, including the need to consider alternatives and for more guidance from the competent authorities on scoping.

International Finance Corporation (IFC)

The International Finance Corporation (IFC) is the private sector financing arm of the World Bank Group. Because it works solely with the private sector in developing countries, its clientele and its project cycle are very different from that of the more “traditional” business carried out by the World Bank. Nevertheless, as a member of the World Bank Group, IFC is subject to the World Bank’s broad policies and guidelines regarding environment and health and safety (EH&S). IFC’s Environment Division is responsible for reviewing prospective investments and the existing investment portfolio for compliance with World Bank EH&S policies and guidelines. This review must be carried out in the context of local laws and regulations as well as the IFC project cycle.

In terms of EIA, IFC carries out the same screening procedure as the World Bank (Category A.B.C etc.). However, the only method of investment by IFC is in private sector activities in developing countries through lending or taking equity as part of project capitalisation. The role of IFC in development assistance is significantly different from that commonly taken by IBRD in its typical role of providing development assistance through the public sector. IBRD staff, for example, will often work with government counterparts in reviewing sector needs and requirements, developing a project’s concept and design, or assisting in strengthening public institutions. Thus, IBRD staff will often be involved in project development and implementation from the earliest stage, and be actively involved in policy issues. In contrast, IFC’s role in development assistance is more narrowly defined, and one that broadly resembles the more traditional role of project finance and investment. This often means that, like the EBRD, the type of environmental appraisal it carries out on its projects are environmental audits rather than environmental impact assessments.

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