



# Development Bank of Namibia

**Good business is good for development.**

**DBN ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT  
APPRAISAL AND MONITORING PROCEDURES**

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## List of acronyms

|                |  |
|----------------|--|
| <b>DEA</b>     | Department of Environmental Affairs              |
| <b>EBRD</b>    | European Bank for Reconstruction and Development |
| <b>EAP</b>     | Environmental Assessment Practitioner            |
| <b>EIA</b>     | Environmental Impact Assessment                  |
| <b>ESIA</b>    | Environmental and Social Impact Assessment       |
| <b>ESMP</b>    | Environmental and Social Management Plan         |
| <b>RAP</b>     | Resettlement Action Plan                         |
| <b>E&amp;S</b> | Environmental and Social                         |

## Definitions

|                                       |   |
|---------------------------------------|---|
| Environmental and Social              | Covers all aspects of the environment, including biophysical, socio-economic, health and safety and climate risk issues   |
| Environmental Assessment Practitioner | An independent practitioner who has the necessary qualifications and experience to conduct an Environmental Impact Assessment or other Environmental and Social work and as defined by Namibia's Environmental Management Act |
| Environmental Clearance Certificate   | The Certificate issued by the Environmental Commissioner in terms of Namibia's Environmental Management Act in order for a project to be implemented.   |
| Relevant Approval Authority           | The DBN has various approval authorities in place for approving transactions depending on the funding amount required   |
| Unreasonable E&S risks                | Matters of non-compliance, especially where a standard has been set in the ESMP that will lead to undesirable consequences if left unattended. These risks will be prioritised according to the significance of the risk.     |

## Annexes

|         |   |
|---------|---|
| Annex 1 | Guidance notes to the ESMS                  |
| Annex 2 | Standards required by DBN's external funder |
| Annex 3 | Climate Screening Manual                    |
| Annex 4 | Internal legal and ESMS updating procedures |
| Annex 5 | E & S Due Diligence Appraisal Form          |
| Annex 6 | E & S Monitoring Report Template            |
| Annex 7 | Annual E&S Reporting Template               |

# **ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM RISK ASSESSMENT APPRAISAL AND MONITORING PROCEDURES SUMMARY**

## **1. Introduction**

The Development Bank of Namibia (DBN) is committed to inclusive and sustainable growth of the Namibian economy to achieve the goals set by Namibia's Vision 2030. As a result, the underlying fundamentals of this policy are to balance short-term gain with long-term development and sustainability.

Specifically, in aligning itself with NDP4 and the Industrial Policy of 2012, DBN regards financing of manufacturing, tourism, transport and logistics infrastructure in Namibia to be of great importance. Notwithstanding the focus on the key sectors, on account of the small size of the Namibian economy, the Bank will consider funding projects in other sectors where financial sustainability and development impact can be proven. Further, in the interest of creating an enabling environment, the DBN intends to participate significantly in infrastructure developments.

In order to ensure that environmental, climate change, health and safety, and social risks are duly considered during the risk assessment appraisal process of the DBN, the Bank has set up an Environmental and Social Management System (ESMS) that is outlined in this document. The aim of the ESMS is to align the DBN's processes to the requirements of the relevant Namibian environmental laws and international best practice pertaining to environmental and social issues. As a result, all projects submitted to the DBN for funding will need to be screened for environmental and social risks in keeping with the Bank's values of sustainability and putting Namibia first. While the DBN has focused on doing sustainable business since inception, no formalised environmental and social policy had been in place. Loan assessments included a small section for comments on environmental and social matters that at most confirmed compliance with the relevant laws, namely the Environmental Management Act, Act No. 7 of 2007 and its regulations.

Whenever reference is made to environmental and social issues in this document, these shall include matters pertaining to climate change, a project's impact on the natural and social environment, health and safety. This document contains the procedures that will be taken to ensure that all applications:

- are duly screened and considered for their environmental and social risk
- are evaluated to ensure the appropriate level of environmental and social assessment and management is carried out to the satisfaction of all applicable legislation and standards.
- are monitored to ensure that the agreed upon management measures (usually contained in an environmental and social management plan (ESMP)) are adhered to, and that they remain effective to address impacts for the lifetime of the project, while the DBN has a commitment via the loan.

## **2. Commitments and Responsibilities**

### **2.1. Systematic risk and impact assessment**

The DBN is committed to guarantee that its operations are in line with the Bank's ESMS by assessing environmental and social risks throughout the project life cycle of its clients, starting as early on as possible. Starting during project implementation Bank will further provide effective audit and monitoring of environmental and social management issues enshrined in its ESMS. The priority is to avoid risk by considering project concepts and design as early in the process as possible, followed by mitigations methods to reduce, manage or compensate for remaining impacts.

### **2.2. Transparency, good governance and inclusivity**

The Bank and its clients are required to engage in meaningful and transparent consultation with affected communities and interested parties in line with the Environmental Management Act, Act No. 7 of 2007, and its Regulations (2012) as well as with any subsequent regulations made under this Act. Applicable international standards and requirements of lenders to the DBN are also to be followed in this regard.

All engagement processes need to warrant that affected and especially vulnerable groups can participate in a free, prior and informed manner in decisions made in terms of the management of environmental or social impacts.

### **2.3. Promoting gender equality and poverty reduction**

Since poverty, gender inequality and ecological degradation are often interrelated, the DBN is committed to take specific care to consider gender inequality and poverty when carrying out the assessments of projects it intends to fund.

### **2.4. Health and safety**

The DBN is committed to respecting workers' rights as one of the keystones for developing a strong and productive workforce. The DBN and its clients need to adhere to Namibia's Labour laws and regulations and the Bank will proactively work with its clients that these requirements, generally accepted occupational health and safety standards and the International Labour Organisation Core Labour Standards are met.

### **2.5. Client support**

Since the DBN's clients span across all Namibia's economic sectors and also vary in terms of other characteristic, their ability to manage environmental and social issues will show a considerable degree of variance. It is in this light that the Bank is committed to provide its borrowers with high-quality technical guidance and support to enable the borrowers to comply with the requirements under the DBN ESMS.

The DBN takes an adaptive approach to the Environmental and Social Management Plans that it may agree on with its clients. The environmental and social management measures will be related to the level of environmental and social risk involved, project size and any project changes that may occur during implementation.

## 2.6. Climate Change

As part of the DBNs environmental and social assessment process, an assessment of the susceptibility to climate change needs to be included. A process should be put in place to encourage clients to develop projects that either have a positive impact on climate change or minimise the impact on climate change as much as possible. The Bank will further ensure that projects properly plan and account for the costs related to the inclusion of mechanisms to address the mitigation of impacts on climate change.

### 3. Basic process

Below is a schematic representation of basic environmental and social risk management procedures, describing the sequence of steps to ensure the E&S risk assessment is appropriate to the risks associated with the transaction:

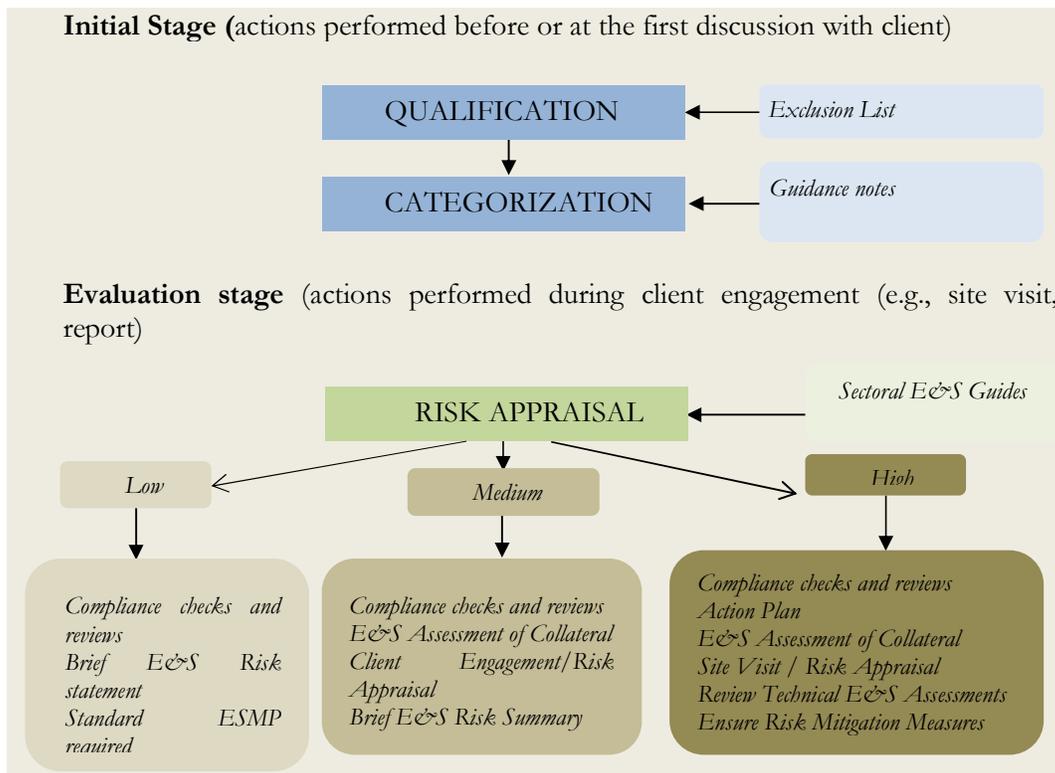


Figure 1: Step-by Step E&S management procedures: Identification and Appraisal

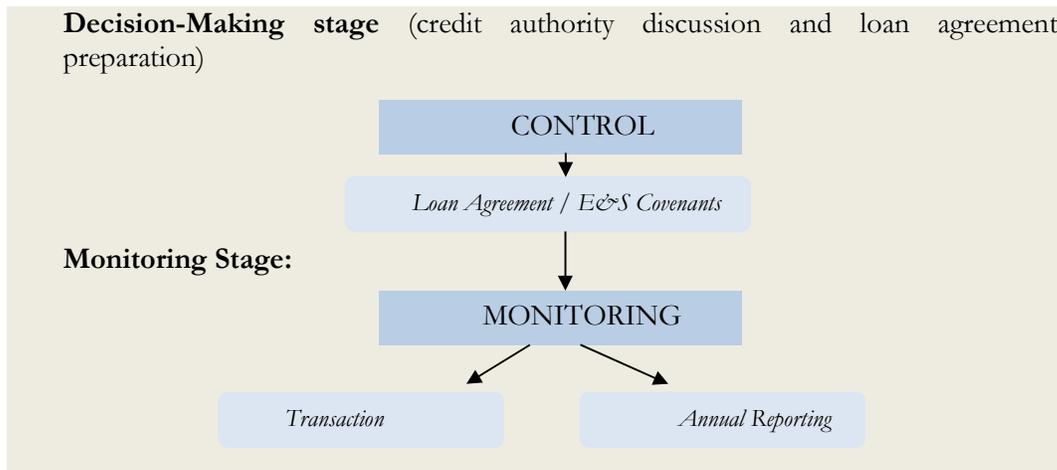


Figure 2: Step-by Step E&S management procedures: Decision & Monitoring

#### 4. Laws and Standards

The DBN will ensure that transactions (both debt funding and equity investments) are reviewed and evaluated against the following applicable Environmental & Social requirements of Namibia, and of any of the DBNs funders should these requirements be more stringent than Namibia’s legal requirements. These requirements include the following:

1. The **DBN Environmental and Social Management Policy**.
2. **DBN Exclusion Lists** (See Section 5).
3. The **Environmental Management Act (2007)** and its **Regulations (2012)**, including requirements for Environmental Assessment and Public Consultation.
4. Other applicable **Namibian legislation** to be listed as part of the Environmental and Social Assessment Process.
5. The **Labour Act (2007)** is applicable for all developments and will be a standard requirement.
6. International Labour Organisation Core Labour Standards.
7. Applicable international environmental, social and health and safety conventions that Namibia is a signatory to.
8. Relevant environmental and social requirements of the DBNs funders, as reviewed from time to time.
9. Note specifically the requirement to include Climate Risk screening and relevant follow-up work in all applicable transactions.

#### 5. Risk Management Steps

The step-by-step E&S Risk Management Procedures described below shall be applied to transactions to ensure they are reviewed against, and compliant with the applicable laws and standards (**Section 7**), and that the relevant information regarding E&S risks is appropriately documented and provided to the Relevant Approving Authority.

**DBN will:**

- Run these procedures from the office of the Environmental Manager.
- Integrate the E&S Procedures into the existing credit appraisal process.
- Whenever possible include the required information on E&S risks in existing loan appraisal documentation and the Loan Agreement

## 5.1. STEP 1: Transaction Qualification

|               |  |
|---------------|--|
| <b>WHAT</b>   | At an initial stage of client inquiry, the cognizant DBN staff ( <i>e.g. Business Analyst, Portfolio Manager</i> ) will ensure that the activity to be financed is not excluded from financing under the DBNs Exclusion List.  |
| <b>OUTPUT</b> | If the proposed transaction involves an excluded activity further consideration of financing will be terminated. If the proposed transaction is not excluded from financing, the normal loan processes can proceed. The status of all transactions relative to the DBNs Exclusion List shall be documented and kept on the relevant credit file. |

### DBN Exclusion List

The DBN will not invest in any of the following projects:

- Production or trade in any product or activity deemed illegal under Namibian laws or regulations or international conventions and agreements that Namibia is signatory to;
- Production or trade in pharmaceuticals, chemical compounds and other harmful substances subject to international phase -outs or bans, including pesticides classified as Class Ia (extremely hazardous), Ib (highly hazardous) or II (moderately hazardous);
- Production or trade of ozone-depleting substances subject to international phase-out;
- Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);
- Commercial logging operations for use in primary rain forest;
- Production or trade in wood or other forestry products than from sustainably managed forests. This specifically excludes wood harvested as part of controlled debushing excises aimed at invader bush throughout Namibia;
- Production and trade in weapons and munitions;
- Production or trade in alcoholic beverages (excluding beer and wine), when these products form a substantial part of a company's primary operations, or a financial institution, investment fund or company's financed business activities. "Substantial" means more than 10 % of a financed institution's/company's consolidated balance sheet or earnings. For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume;
- Production or trade in tobacco;
- Gambling, casinos and equivalent enterprises, when these products form a substantial part of a company's primary operations, or a financial institution, investment fund or company's financed business activities. "Substantial" means more than 10 % of a financed institution's/company's consolidated balance sheet or earnings. For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume;
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content <20%;
- Drift net fishing in marine environment using nets in excess of 2.5km in length;
- Production and activities involving harmful or exploitative forms of forced labour and/or child labour as defined by national regulations; and,

- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Where the DBN Exclusion List are less stringent than those of its funders, due care will be taken to ensure that the portfolio funded by these funders is properly ring-fenced and that it at all times complies with their Exclusion and Lists, unless this has been waived by the DBNs funders for specific strategic projects.

## 5.2. STEP 2: E &S Risk Categorisation

DBN transactions should be categorised according to the following criteria:

**High Risk** - projects are likely to induce significant and/or irreversible adverse environmental and/or social impacts, or significantly affect environmental or social components that are considered sensitive (See Annex 1). These projects require a full Environmental Assessment Process according to the Environmental Management Act (2007). The E&S requirements from DBNs funders (refer to Annex 2) that are applicable combined with any other Namibia-specific potentially significant impacts need to be determined during categorisation and confirmed during scoping, in order to guide the studies to be conducted during the full ESIA.

|               |  |
|---------------|--|
| <b>WHAT</b>   | When the project does not involve an excluded activity, the responsible DBN staff must objectively <b>determine the environmental and social risk category</b> for the proposed activity.                            |
| <b>OUTPUT</b> | Based upon the preliminary risk categorisation, the responsible staff will <b>inform the client of the E&amp;S Requirements</b> for financing and <b>obligations</b> to satisfying these requirements (see Table 4). |

**Medium Risk** – projects are likely to have detrimental site-specific environmental and/or social impacts that are less adverse. Likely impacts shall be few in number, site specific, largely reversible, and readily minimized by applying appropriate management and mitigation measures or incorporating internationally recognized design criteria and standards. These projects can typically be completed by a scoping study combined with integrating DBN E&S requirements (including requirements from the DBNs funders, refer to Annex 2) into an ESMP.

**Low Risk** - projects are not likely to directly or indirectly affect the environment adversely and are unlikely to induce adverse social impacts. Environmental Assessment is not necessary for these projects according to the Environmental Management Act (2007) but in order to ensure best environmental and social practice, basic DBN E&S requirements (including those of its funders as highlighted in Annex 2), and specific sectorial social and environmental legislation, an ESMP will be made mandatory.

**N.B:** As a matter of policy, all transactions where the activity financed includes land grab, the resettlement of people or the potential of affecting existing livelihoods, either directly (e.g. cultivated fields destroyed) or indirectly (fruit trees, wood or grazing used by nearby communities), transaction will be given a medium rating to trigger EIA. All potential clients need to indicate in their applications if a proposed transaction includes these potential situations to ensure that (i) the acquisition does not involve land grab and/or that affected parties lose their land and livelihood as a result of such transactions; (ii) where involuntary resettlement is involved, the client complies with acceptable benchmarks; and (iii) whether there are communities that use the land for their livelihood. The analyst will also with the assistance of the Environmental Manager, if necessary, cross-check this information to ensure transparency.

**Example:** To illustrate, see example below:

*Table 4--Applicable Environmental and Social Requirements*

| High Risk  | Medium Risk  | Low Risk   |
|--|--|--|
| Exclusion List   | Exclusion List   | Exclusion List   |
| Compliance with local environmental, health, safety and labour laws, and public disclosure requirements engendered therein   | Compliance with local environmental, health, safety and labour laws, and public disclosure requirements engendered therein   | Compliance with local environmental, health, safety and labour laws, and public disclosure requirements engendered therein |
| Relevant Operational Safeguards in place by lenders to the DBN   | Relevant Operational Safeguards in place by lenders to the DBN   | Standard ESMP  |
| Full Environmental and Social Appraisal commensurate with the level of potential impacts and risks, following the Environmental Scoping Report. Usually this will result in an Environmental and Social Management Plan (ESMP), Environmental and Social Assessment (ESIA) and/or a Remedial Action Plan (RAP) | Environmental Scoping Report according to the requirements of the EMA (2007) and its Regulations (2012) of Namibia.<br><br>Resulting in an ESMP, and an Abbreviated RAP. |  |
| Focus should be on the conclusions of independent, third party assessments, and the results of stakeholder engagements.  | Recommendations will be made based on the results of a scoping report, an ESMP, an abbreviated RAP and any other bank action   | Focus should be on identifying any non-compliance of existing legislation and ensuring the client has a plan to            |

|  |                      |   |
|--|----------------------|---|
|  | plans as applicable. | remedy the non-compliance in a reasonable time frame. The ESMP spells out all compliance and standard environmental and social management issues. |
|--|----------------------|---|

The categorisation tool has been tailored for the Namibian situation. It may be used by DBN staff to categorise a project, but should be done in collaboration with the Environmental Manager if needed.

- The applications only receive environmental and social consideration once they have been approved by Environmental Manager. Small applications (low E&S risk) will be approved with a standard ESMP as conditions precedent to draw down.
- The Environmental Manager will approve the preliminary risk rating for the medium and high risk projects and instruct the client on the E&S requirements for the transaction. The results should be documented in the appraisal report with all supporting documentation duly filed in Credit File.
- All projects that potentially have a medium or a high risk will be subject to a scoping report as required by Namibia’s environmental laws. The preliminary risk categorisation will indicate whether a full ESIA is expected or whether a scoping study should be adequate. The categorisation is confirmed during scoping. Some projects prove to be more complicated than originally anticipated and require further work, whilst others may be solved with design modifications, or with simple management techniques, eliminating the need for further environmental and social work.
- Depending on the risk rating, a scoping study and possibly a full ESIA will need to be provided by the client and reviewed by the DBN. If a scoping study or full ESIA is required and not provided by the client upfront, then the appraisal process will be kept in abeyance until such work has been completed.

### 5.3. STEP 3: E & S Risk Identification and Appraisal (Overview)

The categorisation is indicative of the likely level of E&S risk associated with the transaction and determines the appropriate level of risk appraisal. The E&S Risk Appraisal should either confirm or modify the preliminary risk categorisation. If it becomes evident that the preliminary E&S risk categorization is not appropriate to the transaction, it should be re-categorised (and the basis for that action documented).<sup>1</sup> Risk categorisation is confirmed during the scoping study. When the scoping report is ready for consideration by the DBN, as received from the client, it

<sup>1</sup> For every transaction where real estate is offered for collateral, the DBN should also ensure that the appraisal of the property offered includes consideration of potential environmental contamination.

should reveal if further work is needed, or whether the project impacts can be mitigated subject to the conditions contained in the ESMP, and other actions plans.

|               |  |
|---------------|--|
| <b>WHAT</b>   | The objective of client engagement during appraisal is to ensure compliance of the transaction with Namibian legislation and applicable DBN E&S Standards. Such E&S risk appraisal involves independent reviewing of outcomes, identifying the likely E&S risk issues potentially associated with the client’s business activity, and appraising the client’s capacity to responsibly manage those E&S issues.                       |
| <b>HOW</b>    | Depending on the nature of the business activity and applicable requirements, the E&S risk appraisal can be based upon a desk review, and conversation with the client, a site visit, and/or be based on the review by technically qualified experts (either client staff, independent third-party experts, or both). The use of E&S Appraisal Tools by the responsible DBN staff is essential and is discussed in the next section. |
| <b>OUTPUT</b> | The appraisal effort should be sufficient that, when summarised by the DBN staff, it allows the Relevant Approval Authority to make an informed decision regarding the acceptability of the E&S risks associated with the transaction. The responsible DBN staff must then ensure that any additional Applicable Requirements are communicated to the client and adequately appraised.   |

- The Environmental Manager will consider the scoping report submitted and the summarised Environmental and Social impacts and how they are to be managed by the client.
- He or she will then identify any risks that the project may not be approved at the DEA, otherwise instruct the client to continue with the submission to the DEA, if this has not yet been done.
- Should the scoping reveal that further work is needed, i.e. a full ESIA or limited further studies, then the Environmental Manager will agree with the client what these studies should be.
- A scoping appraisal report will be documented. If the scoping process is complete (i.e. no uncertainties or detailed assessment required) the application may be recommended for approval subject to Environmental Clearance.
- The ESMP becomes the E&S covenant with the DBN.
- If a full ESIA is required, then the appraisal process will be kept in abeyance until such work has been completed.
- Medium and high risk projects will only proceed to the Credit Review Process once a scoping study is in place. If the scoping study indicates the requirement of a full ESIA, the application will only proceed to the Credit Review Process once the ESIA has been submitted to the DBN.
- Medium and high risk applications may only be submitted to the final Authorising Authority once the Environmental Manager is satisfied that all environmental and social risks have been appropriately addressed in line with the DBNs ESMS.

### 5.3.1. *Low E&S Risk Transactions*

|               |   |
|---------------|---|
| <b>WHAT</b>   | When the E&S risk is categorised as <b>Low</b> , environmental and social appraisal is limited to discussing with the client the basic environmental and social requirements, including basic principles, laws and regulations. These include applicable environmental, health, safety, and labour laws and regulations. A standard ESMP will guide compliance to these requirements.                       |
| <b>HOW</b>    | In order to ensure the client's compliance, the DBN will include compliance with E&S issues as a condition precedent or a condition subsequent depending on the severity of the non-compliance. These conditions will be at the discretion of the Relevant Authorising Authority. Otherwise no additional environmental and social risk appraisal is required for transactions categorised as low E&S risk. |
| <b>OUTPUT</b> | Meeting conditions precedent and/or conditions subsequent as documented in the DBN loan agreement   |

### 5.3.2. *Medium E&S Risk Transactions*

|               |  |
|---------------|--|
| <b>WHAT</b>   | When the E&S risk category is <b>Medium</b> , DBN staff must identify the E&S risks associated with the business activity, see whether DBN E&S requirements, including those of the DBNs funders, are triggered and assess whether the client has the capacity to manage these risks. The Environmental Manager will verify the risk categorisation and provide guidance on the E&S risks, especially in light of a project's likelihood to move to a high risk category.  |
| <b>HOW</b>    | <p>Conduct a site visit and engage with the client, using the following tools:</p> <ul style="list-style-type: none"> <li>✓ DBN E&amp;S requirements, and DBN's risk appraisal tool, and the requirements from DBNs funders to make a preliminary determination whether any of these requirements apply to the transaction.</li> <li>✓ Consult with the Environmental Manager who may consult further sources if necessary.</li> <li>✓ Most importantly, use the risk identification guidelines compiled for Namibia. Guide the client to address at least the issues identified during this process in the scoping phase, but that the applicable Environmental Assessment Practitioner is responsible for identifying and considering all potential issues.<sup>2</sup></li> <li>✓ Request appropriate documentation from client: environmental clearance certificate, ESMP and if applicable, an abbreviated Resettlement Action Plan.</li> </ul> |
| <b>OUTPUT</b> | Prepare a <b><i>Brief Environmental and Social Risk Summary</i></b> to be  |

<sup>2</sup> The DBN will guide the client to make use of a reputable Environmental Assessment Practitioner (preferably Namibian) that has the necessary qualifications and experience. The Bank acknowledges that inexperienced or unqualified EAPs may cause further risks to the Bank and the Client.

included in the relevant transaction documentation to the Relevant Approving Authority. This documentation is to be reviewed by the Environmental Manager.

**N.B:** It is only necessary for DBN staff to identify the particular E&S risk of concern, and allow the client to demonstrate adequate risk control and mitigation measures are in place.

### 5.3.3. *High E&S Risk Transactions*

|             |  |
|-------------|--|
| <b>WHAT</b> | <p>The DBN has various approval authorities in place for approving transactions depending on the funding amount required. The Environmental Manager will be responsible for all Medium and High Risk E&amp;S Transactions. The objective is to gather as much information as possible regarding the nature of the E&amp;S risk associated with the transaction in order to make an informed decision regarding its compliance with applicable standards and acceptability to the DBN. The Environmental Manager will be involved in assisting the client to select a short list of EAPs and to ensure that the proposals submitted for the work are realistic and of appropriate quality. Given that the issues are likely to be technical in nature, the focus should be on accessing available information <b>from the third-party expert assessments</b> (e.g., EIA, ESIA, RAP) and verifying the information submitted by the client to regulatory authorities regarding such risks. The Environmental Manager shall ensure that the Namibian legislation and the DBNs E&amp;S requirements, including those of the DBNs funders, have been addressed in the assessment and in the ESMP. He or she will gauge how much of the work done is understood and committed to by the client and that the process was interactive.</p>           |
| <b>HOW</b>  | <ul style="list-style-type: none"> <li>• Visit the client to ensure that the client understands the nature of the E&amp;S risks associated with its business activity and can demonstrate the capacity to manage those risks. Ensure that he or she is actively involved in the E&amp;S process. Assist the EAP in creating awareness of the importance of E&amp;S compliance.</li> <li>• Be part of the process and attend stakeholder meetings as appropriate to identify issues of concern. Gauge community acceptance of the project.</li> <li>• Promote good stakeholder communication.</li> <li>• Use the DBN E&amp;S requirements to make a preliminary determination whether any of these requirements apply to the transaction.</li> <li>• Utilise relevant EBRD Sub-Sectorial Environmental and Social Guideline to help identify relevant E&amp;S risk issues and the best practices for managing such risks.</li> <li>• N.B: In the absence of a relevant EBRD Sub-Sectorial Environmental and Social Guideline, utilise the relevant IFC sectorial, or generic, Environmental, Health, and Safety Guidelines<sup>3</sup>, to assist in preparing to engage the client.</li> <li>• Request appropriate documentation from client: environmental clearance certificate, ESIA (or equivalent documentation submitted to</li> </ul> |

<sup>3</sup>[http://www1.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability+Sustainability+Framework/Environmental%2C+Health%2C+and+Safety+Guidelines/](http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability+Sustainability+Framework/Environmental%2C+Health%2C+and+Safety+Guidelines/)

|               |   |
|---------------|---|
|               | the national authorities) Resettlement Action Plan and ESMP.  |
| <b>OUTPUT</b> | Prepare a <b><i>Detailed Environmental and Social Risk Summary</i></b> (Annex 1) to be included in the relevant transaction documentation to the credit authority. This summary is to be complied by the Environmental Manager. |

## 6. E&S Risk Control and Monitoring

|                |   |
|----------------|---|
| <b>WHAT</b>    | When unreasonable E&S risks are identified, the DBN must ensure that the necessary actions are taken by the client and/or the identified risk is rendered acceptable to the DBN throughout the term of the loan.  |
| <b>HOW</b>     | <p>Include E&amp;S covenants: The DBN (e.g. legal counsel) should ensure that appropriate E&amp;S warranties and covenants are incorporated in each loan agreement to ensure compliance of the client with the applicable E&amp;S requirements. The ESMP will form the basis of these agreements and must include proper documented action plans and monitoring schedules that can be followed by the DBN.</p> <p><b>Monitoring by the DBN:</b> it is incumbent upon the DBN to monitor E&amp;S risks during the term of the funding to ensure that its clients remain compliant with the applicable requirements.</p> <p>For all medium and high risk projects, clients will be requested to provide regular feedback based on a self-monitoring tool to be developed by the Environmental Manager and verification of milestones included in the ESMP. This will be augmented by a more detailed annual review reports compiled by the Environmental Manager. The Environmental Manager will report the Risk and Compliance Committee on environmental and social risks at its monthly meetings and to the Board Audit and Risk Committee at its quarterly meetings. The Board Audit and Risk Committee will in turn report to Board on environmental and social risks.</p> <p>Note: The client is responsible to renew the Environmental Clearance Certificate every three years. A report should be required from the Client with such an application, which provides a review of the previous 3-year period, stating the status of all risks, how they are managed, and which highlights any pertinent environmental and social challenges and how they are addressed.</p> |
| <b>OUTPUTS</b> | <p>E&amp;S covenants to include in loan agreement where applicable are as follows:</p> <ul style="list-style-type: none"> <li>• the ESMP and relevant action plans as a basis</li> <li>• prior to disbursement clients shall prove to the DBN that the necessary mitigation measures as proposed in the ESMP are in place in line with the agreed action plans</li> <li>• an agreed upon action plan and timetable to mitigate the risk after loan disbursement</li> <li>• A financial estimate of the costs of mitigation, over the loan period, including rehabilitation, and incorporation of these costs into the feasibility study or business plan of the client.</li> <li>• Actions by the bank to limit its exposure to environmentally and socially derived liabilities in the transaction (e.g., monitoring and/or</li> </ul>   |

reporting requirements, insurance, warranties by the client, etc.)

- Reporting requirements regarding non-compliance of major environmental or social incidents, etc.).

**Possible monitoring actions by the DBN:**

- requiring the client to produce a self-monitoring report on a defined schedule and
- provide copies of inspection reports by regulatory authorities as received by the client
- Regular monitoring visits by DBN staff.<sup>4</sup>

The Environmental Manager will be responsible to:

- determine the nature of E&S requirements to be covenanted in the Loan Agreement and to convey that information to the DBNs legal counsel and to the Credit and Lending Departments;
- E&S risk monitoring, the appropriate frequency of such monitoring, and where such information shall be documented.

## **7. Training and capacity building**

The DBN will appoint an Environmental Manager who will guide the implementation of the ESMS process. This person will coordinate and ensure that all transactions that are eligible for funding with DBN are appropriately screened for E&S risks and that these are addressed in each transaction.

Furthermore, DBN staff will receive the appropriate training to help mitigate E&S risk prior to the implementation of the ESMS.

## **8. Continuous updating and improvement**

DBN has devised an internal review and reporting procedure to capture updates to national environmental and social laws and to continuously improve Environmental and Social Management System functioning. This function will reside with the Environmental Manager.

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<sup>4</sup> For example, if the DBN credit risk appraisal procedures mandate regular monitoring visits to the client during the term of the loan (e.g. quarterly), information regarding the status potential significant E&S risk issues should be included in the periodic monitoring report