1. According to the West African Development Bank Operational Policy on Environmental and social Assessment, impacts assessments on environment and society are designed to ensure that the development options are considered environmentally and agree with the concept of sustainable development, and that any harm to the environment is recognized as early as possible in the project cycle and taken into account in their design. The conditions of that policy also apply to projects of sectorial investment loans and loans through financial intermediaries. Policy includes a brief statement of the specific options in this regard, for this type of loans. This Directive shall examine these considerations and options thoroughly.

2. For reasons of convenience, it should take the important terms defined in the Operational Policy. An "environmental and social assessment" sets all the means that are used to classify, evaluate and monitor projects or activities of a sectorial point of view of environmental protection. An "environmental and social impact assessment" refers to a specific study and part of the environmental and social assessment process. This gives rise to an "evaluation report on environmental and social impacts."

3. The BOAD can use sometimes to financial intermediaries for loans. However, the loans from financial intermediaries have a number of specific aspects in relation to the environmental and social assessment. The project manager at the launch of a project often has little information on the sub-projects, except that the sectors in which they fall. Sometimes information on
these sub-projects is not even known at the time of evaluation. Funds are generally transferred gradually and not always for specific projects, loans made by financial intermediaries, in conjunction with other types of funds are often used to finance the expansion or maintenance of incumbents. The Project as well as the staff of the BOAD usually have little or no contact with the real borrowers. Therefore, the Project will be able to conduct the preliminary examination of the loan assuming that the types of sub-projects that the financial intermediary may support financially. For this reason, since the preliminary sorting of specific sub-projects is normally required and that further environmental analysis can then impose the Operational Policy indicates that it belongs to the executing agencies to perform these tasks.

4. The implementing agencies are very diverse. Financial intermediaries, they may be organizations in the public and private sectors: sectorial credit agencies, commercial banks, development financial companies. Borrowers themselves may be municipalities, cooperatives, industries, nationalized agricultural enterprises, public or private enterprises. The skills and interests of borrowers with respect to matters relating to the environment vary widely, and they operate in contexts of policy and regulations on environmental protection that are extremely different from one country or one sector to another.

5. The following issues addressed in this chapter are the foundation from which BOAD ensures that its participation in the lending of financial intermediaries leads to projects that respect the environment:
   • special considerations given to the preliminary examination of lending by financial intermediaries;
   • institutional responsibility for environmental and social assessment;
• Guidelines for assessing the ability of institutions to meet the objectives of the Operational Policy on Environmental and Social Assessment in the case of loans made by financial intermediaries;
• options to meet the requirements of the Operational Policy on Environmental and Social Assessment;
• Solutions to strengthen institutional capacity and national policies;
• funding opportunities for environmental and social assessment.

**Preliminary examination of loans through financial intermediaries**

**Classification criteria**

6. Projects funded by the BOAD from financial intermediaries are classified in category IF (cf. Manuel classification of project of BOAD). However, the Project Manager shall, at the launch of the project, classify loans through financial intermediaries and store them in categories A, B, C or D, given the information available either on sector, either on the range of sub-projects to be funded, or both at once (refer to operational Policy which provides definitions for each category). In case there would be a real indeterminacy, it is better to classify the loan in category B, which will allow participants to have some flexibility when it comes to examining a variety of sub-projects and maintain the level of analysis of each to the extent of the potential importance of representing their impact on the environment and society. The following additional guidelines may be helpful:

**(a) Category A.** Any sub-project that would be classified as Category A if it was funded directly by the Bank pursuant to a loan classified as A (eg. Clearing of rainforest, thermal power plant construction). A set of sub-projects whose cumulative effects justify their ranking in this category, although the
scale of each, when taken separately, would be classified in the less demanding category.

(b) **Category B.** Any sub-project that would individually classified as B or whose cumulative effects on a given resource would require an environmental analysis corresponding to a project of this category. Sub-projects that lend themselves to the application of design criteria or performance standards provided that the solution is effective in a given regulatory and institutional framework.

(c) **Category C.** Sub-projects that individually or cumulatively, have no serious impact on the environment.

(d) **Category D.** Sub-projects that focus on improving the environment.

**Recommended types of environmental and social analyzes**

8. Project managers must determine not only the category of the project, but also the recommended type of environmental analysis. The possibilities are numerous and vary according to the circumstances:

(a) **Category A or B according to isolated sub-projects.** In this case, the Operational Policy on Environmental and social Assessment requires that the financial intermediary class the sub-projects and conducts environmental and social analysis in accordance with this Policy.

(b) **Categories A or B considering cumulative effects.** Each sub- project in question, taken in isolation, has limited effects. In such cases, the best way to proceed would be to ensure that the financial intermediary agrees to
produce a sectorial or regional environmental and social assessment or a smaller study, according to the Operational Policy. BOAD Services participate in framing the study needed and conduct its review within the framework of the project evaluation. This study is to understand the key issues and environmental impacts and provide a set of measures to avoid or mitigate them and estimate their cost. BOAD may require that the financial intermediary includes measures that will serve as conditions of loans to sub-projects, it said, in many cases, additional environmental studies of sub-projects in particular will not be necessary.

(c) **Category D.** Projects that fall under this category do not require specific environmental analyzes. However, the nature of the loan will determine whether to establish a review procedure and oversight to ensure that sub-projects actually help improve the environment.

**General principles**

9. One of the main tasks assigned to the Project manager during the elaboration of the project is to make provisions under which the requirements of the Operational Policy on Environmental and Social Assessment will be met. The delegation of decision-making and administering loans to other authorities that BOAD is one of the main benefits represent lending by financial intermediaries. If the sub-loan approval procedures are too restrictive or if they require the active participation of the BOAD, this advantage will lose its interest. Project managers must, therefore, find a balance that allows both the freedom of action of the financial intermediary and the supervision of the BOAD to avoid as much as possible the approval of sub-loans resulting in projects environmentally damaging. Insofar as the
conditions vary by country, sector, the loan amount, the funding agency and the borrower, the question must be approached with flexibility.

10. From the viewpoint of the environment management, the ideal structures are those where:
   - The national policy and legislation stipulate that the impacts of a project on the environment must be taken into consideration;
   - Regulations (or incentives) have been enacted to protect the environment;
   - The competent institutions are in place to administer the regulations;
   - Enforcement is consistent and sufficiently rigorous and incentives attractive enough to ensure compliance.

Insofar as the context given away from this ideal, it will be harder to achieve sound environment management.

11. If the conditions relating to the environment do not apply to loans financed by the BOAD (or other international development institutions), these funds appear more expensive than those that are not accompanied by such conditions. It shows two particularly unfortunate situations in the case of loans made by financial intermediaries: first, those who use the funds of the BOAD for a large part of their portfolios will be disadvantaged compared to other competitors and, Moreover, the independent intermediaries on-lend to borrowers matching funds or without conditions relating to the environment. Borrowers like intermediaries are likely to seek other sources of funding, which means that low environmental friendly projects can be implemented with these funds transferred without such conditions.

12. It would be desirable to consider each loan granted by BOAD as an opportunity to gradually improve the overall management of a country's resources. For this reason, should the conditions attached to loans from
financial intermediaries reflect the progress made in this regard. The ultimate goal is to make enough improvements to the implementation of the environmental assessment process no longer requires special considerations. Meanwhile, each loan will require arrangements to meet the objectives required by the BOAD in environment matter.

**Statement of institutional arrangements**

13. There are a number of provisions to conduct an environmental and social assessment – Pre-selection of the project; framing (or scoping), establishing the framework, realization and validation of the environmental and social impacts assessment, and monitoring the implementation of sub-projects (see para. 23-25). At least we are not in the ideal situation where the country already has procedures actually applied; it will take for specific projects, provisions that are consistent with the Operational Policy on Environmental and Social Assessment. The first task assigned to the Project is that of deciding when developing the project, the most productive and most effective solutions, given the circumstances, so that the preparation of sub-loans is not too expensive or delayed while being admissible by the BOAD and the borrower.

14. It is important to be consistent in respect of loans granted by financial intermediaries in a particular country. The procedures selected must be well defined and guidelines for their implementation clearly defined so that each time a similar set of circumstances present in the country, the procedures for the environmental and social assessment of a loan is more or less the same. The terms of the loan documents clearly defined facilitate Moreover, monitoring to assess the effectiveness of the method chosen and the extent to which enforcement agencies comply.
15. Efforts to achieve an environmental and social assessment will be the extent of risks. Loans in certain sectors or sub-sectors as well as large projects are, for example, greater risks for the environment (read the description of the categories presented at paras. 7 and 8). The country's situation in terms of regulation as well as the resources and experience of financial intermediaries involved are less obvious variables.

16. The method chosen should be appropriate for the requirements it imposes on participants. It will enable the project manager to take advantage of strengths and role assigned to organizations.

Guidelines for the institutional capacity assessment

17. It will be necessary to assess the capacity of borrowers to comply with the requirements of the Operational Policy on Environmental and social assessment; the project manager considers the following aspects:

- National requirements for environmental and social assessment;
- National legislation and regulations relating to the environment and the balance sheet of their application;
- International treaties signed by the country and the assessment of its conformity, where appropriate environment;
- Regional, national and local regulations relevant to the project and national procedures (eg. factory location, emission limits for pollutants, performance standards, building permits and licenses, building codes and plumbing measures fight against erosion, monitoring programs, etc.).
- The existence of government agencies responsible for the implementation or validation assessments of environmental and social
impacts as well as the administration of regulations relating to the environment and responsible points (a) to (d) described above;

- The effectiveness and consistency of administrative services with responsibilities for environment and application of regulations relating to the environment;
- The capacity of the financial intermediary to presort sub-projects, establish environmental and social assessment frameworks, and perform validation of these studies and to monitor their recommendations;
- the possibility of increasing the capacity (compared to most of his mission, available resources to attract and retain qualified personnel, from the point of view of its workload, of the importance of these capabilities are and other possible solutions are, for example, consulting firms or agencies of local government);
- The ability of borrowers itself to conduct an environmental and social impacts assessment or other studies;
- The existence in the country of skills in environmental and social assessment, such as consulting firms, NGOs, academic and research institutions or government agencies;
- BOAD experience on environmental issues, projects carried out in the same country or in the same area;
- Experience with BOAD enforcement agencies;
- The characteristics of the sectors in which the project and predictable subprojects fit (e.g., greater the risks are and greater the environmental skills are necessary).

18. The results obtained on these questions will provide recommendations regarding environmental responsibilities and to establish guidelines for carry. Issues relating to national environmental policy and administration, as well as the needs institutional strengthening and technical assistance, emerge.
Opportunities for strengthening national policies or institutions

National Policy

19. There are cases where the BOAD grants loans even though the capacities to address environmental concerns are not sufficiently developed due to deficiencies in the national policy and its implementation. BOAD must not only support the development of sub-loans financed by sectors and strengthening the capacity of financial intermediaries, but also working with the government to improve the overall environmental planning. By saying that, an excess conditions relating to a wide variety of concerns may jeopardize the success of a loan operation or credit by a financial intermediary. That is why it would be preferable, although the project has a component of institutional capacity building, as national policy issues are, as far as possible, separate from those concerning loans made by financial intermediaries.

20. The development of a policy and institutional capacity gradually and will require technical assistance as well as flexibility in the method. A multi-annual borrowing, for example, whose main objective is to strengthen the institutional capacity and develop policies could be granted. In such cases, it would be appropriate that the overall progress in the environmental management is a prerequisite for further loans granted by BOAD to financial intermediaries of country. In this way, all development projects would aim for management of resources, not just those funded by BOAD.

21. It may be that the operations of financial intermediaries are totally inappropriate and that the assessment by the BOAD reveals that the country’s
situation in terms of environmental management is such that there is little chance that these intermediate receive sufficient attention to the negative effects of a project during its evaluation or implementation. In such cases, the BOAD should work as much as possible not to fund, through intermediaries, projects with significant risks to the environment but work towards a policy that will prevent the financing of such projects.

Institutions

22. In most cases, the various environmental functions that relate to the transferred loans will require the participation of agencies and environmental units that already exist or are to be created. BOAD is able to provide guidelines that will enable these bodies to define the skills and resources they need to have. It must also be prepared to include in the draft a technical assistance and, if necessary pane, ensure that improved capacity to become a factor from which the financial intermediary shall have the right to exercise some flexibility in its decisions. A mid-term review may be necessary in the case of loans over several years, and the loan terms can be modified if sufficient improvements have been made (reducing, for example, the participation of BOAD environmental and social assessments).

Arrangement of responsibilities to meet the requirements of the Operational Policy on Environmental and Social Assessment

Possibilities for presort subprojects and validation of environmental and social impacts assessments

23. An organization capable of performing preliminary examinations of sub-projects will probably perform environmental and social assessment validation, where the grouping below, the two functions. Still, it is quite
possible that these two functions are outsourced to different bodies, and this is necessary if the validation is required by a government agency.

(a) Government agency. In cases where there are regulations on the environment and where the organisms responsible for its application are well established, the best solution may be applied to the case of loans granted by financial intermediaries is that presort projects or environmental and social assessment validation are mainly made by these bodies. The project evaluation shall indicate the conditions, determine if they are consistent with the policies of the BOAD and implement appropriate procedures. If validation is not required, the mission is considered as a matter of national policy. If a ministry sector other than environmental agency performs validation, it will indicate whether the cross-cutting issues are addressed and, where appropriate, how. Ideally, the best way to ensure that subprojects are environmentally friendly is a government agency approves validation.

(b) Current capacity of the financial intermediary. There may be a financial intermediary has important environmental expertise to carry out the preliminary screening of projects, identify issues, define and undertake studies to examine their conclusions. BOAD will, in assessing these skills, focus on: procedures, experience, staff and resources in relation to the workload, their means of access to specialists if their services are needed and show their ability to influence decisions - especially if it is to approve a project to modify the design or implementation and to establish the conditions of environmental performance in contract documents ready.

(c) Capacity building of the financial intermediary. The loan will help develop ways to conduct an environmental and social assessment. This is reasonable when it comes to important financial development agencies or large specialized banks in the financing of development projects. In contrary, this idea can only be applied to smaller institutions or those whose projects
generally have no impact on the environment. The project evaluation should pay particular attention to the commitment through active participation in the management of the environment in development loans as well as available resources. BOAD can provide advice on the required staff needs and procedures.

(d) Environmental Consultants. A financial intermediary may contract the services of consultants specializing in environmental and social assessment. This solution may be the most practical way for small commercial banks or other financial agency exclusively vocation for which it would be uneconomic to develop internal capacity. In addition, this solution may be temporarily useful as the above options are set up. BOAD should examine consultants recruitment agreements.

(e) Local scientific institutes. The financial intermediary may call a local university or environmental research institute to perform a preliminary review of the project and to validate the environmental and social assessment. These bodies play more or less the same role as consulting firm. The advantage of this solution is that, in this way, the institute can become custodian responsible and impartial information on the local environment. However, it may be inadequate if the university or research centers are not sufficiently diversified to solve a full range of environmental issues that may arise if they are not able to respond promptly to requests for their academic or research programs or if the political position of these institutions may bias results.

(f) Specialized organization. If it is, among other things, a pyramidal loan where a relatively large number of commercial banks or similar financial institutions act as intermediaries, it may be more profitable to collaborate in creating and financing an agency responsible for the environmental and social assessment of their projects. BOAD would then determine if it will be enough to influence the development and approval of sub-projects.
(g) **BOAD.** If the capacity of the financial intermediary must be strengthened or if the national legislation and institutions are not able to perform an environmental assessment that meets the requirements of the Operational Policy on Environmental and Social Assessment or if BOAD not familiar with the financial intermediary in question, it may be that it wishes to reconsider itself preliminary examinations reports and environmental and social impacts assessments of the projects that pose real dangers for environment. The criteria for determining the sub-projects for which BOAD must first give its approval will depend on the circumstances (see Appendix 6-2). The loan agreement may include provisions to gradually reduce its stake.

**Possibilities for conducting environmental and social assessments**

24. The project manager will discuss with the financial intermediary the choices that arise when deciding who will be responsible for conducting the environmental assessment:

(a) **Borrower itself.** This option is similar to the provisions that the BOAD usual remedies for loan projects, the borrower typically involving consultants or academics or research institutes to conduct environmental and social assessments. The approval of sub-projects based in part on the presentation of studies. BOAD guidelines or country may allow the financial intermediary to help the borrower.

(b) **Financial Intermediary.** The regional or sectorial environmental and social assessment has already been mentioned in paragraph 8b. This approach is particularly attractive if it comes to a set of relatively homogeneous sub-projects. It offers the possibility to carry out an assessment of environmental and social impacts "generic" giving rise to guidelines or standards (using, for example, local bodies issuing licenses and permits). The financial intermediary would use these guidelines in the secondary loan agreements and thus the sub-projects would not be subject to further study insofar as they would
comply. Consultants or academic institutions or research would be, in the same way, responsible for carrying out the studies.

(c) Governmental agencies. In countries where the central or regional authorities usually undertake assessments of environmental and social impacts, financial intermediaries will benefit from their capabilities and may be invited to do so. The question is whether the environmental and social assessment process is applied so sufficiently distinct sector responsible for policy development so that the analyzes and conclusions are unbiased, regardless of whether the participation of NGOs and communities will be possible and whether the agency has enough resources to support the workload that the loan will require.

Possibilities for surveillance, monitoring and evaluation of subprojects

25. Solutions more or less similar may apply to the supervision and monitoring of the sub-projects operation and the review of their compliance with the principles of environmental protection:

(a) Governmental Agencies. Ministries of environment and sectorial ministries may have supervisory responsibilities and monitoring, in particular as regards the operation of sub-projects. They will participate in the development of means of surveillance and monitoring in order to avoid duplication. It is possible that the program followed by a government agency is enough complete and do not require additional information. This case is the most desirable and it affects not only the BOAD loan terms but also on the overall development of the country.

(b) Financial Intermediary. If financial intermediaries have the ability to perform a preliminary review of sub-projects and to validate assessments of environmental and social impacts, they should also be able to monitor the implementation of mitigation measures, guidelines and standards as well as measures to protect the environment in general. These intermediaries may
also gather all the information BOAD needs to conduct its evaluation project. Although the information on the supervision, monitoring and evaluation may be part of the reports that the borrower must provide the financial intermediary will need trained personnel to periodic inspection activities carried out in the field tasks.

(c) Consultants or research institutes. Intermediaries as well as the borrowers can use consultants for supervision and monitoring of sub-projects, in the same way as if it is their preliminary examination, or perform environmental and social assessments or other studies.

(d) Non-governmental Organizations. NGOs can be helpful when it comes to exercise supervision and monitoring with respect to certain aspects of the implementation of a project, especially if the affected communities have argued that issues resulted in the integration of specific measures in the plan design or implementation. An NGO may, for example, monitor and report the progress of resettlement operation.

Financing of environmental and social assessments and evaluations of environmental and social impacts

26. Costs related to the environmental social assessment of lending financial intermediaries may refer to:

• Preliminary examinations of sub-projects, validation assessments of environmental and social impacts and monitoring activities;
• Assessments of environmental and social impact studies and other sub-projects;
• Strengthen institutional capacity in the environmental and social assessment of loans made by private intermediaries;
• Strengthen institutional capacity at the national level.
27. None of these costs are excessive. An environmental specialist who requires only modest support from specialist advisers may, for example, conduct the preliminary examination of nearly 50 sub-projects per year, establish terms of reference for those who require further studies and make sure that implementation is consistent with the principles of environmental protection. It is rare that environmental and social impacts assessments themselves even represent one percent of investment costs unless it is complex projects which, in principle, are not financed by loans intermediaries. The development of environmental and social assessment procedures and implementation of training programs do not represent either excessive cost.

28. Strengthening institutional capacity, through, for example, the conversion of existing staff or the creation of a unit responsible for environmental assessments can be funded through a technical assistance component of the loan. Trust fund for the environment or bilateral donors can also grant capital specifically designed for this purpose. Current operating expenses will be borne by the financial intermediary or other implementing agency once the technical assistance has ended. Strengthening institutional capacity at the country level may similarly be funded as part of training in public administration included in loans of a project. It is possible, again, that subsidies are available for it.

29. Although funding environmental and social impacts assessments usually associated with borrowers themselves, the financial intermediary may consider that the cost of regional or sectorial Environmental and Social Assessment is part of the project elaboration costs and should be covered by the loan.
Conclusion

30. As already mentioned in the introduction, loans made through financial intermediaries and their environmental and social assessment may eventually become very complex. The experience cannot, because of its failure, serve as a reference, it is important to ensure that the formulation of procedures to be as accommodating as possible while still being effective. This should be beneficial not only to a particular loan situation through an intermediary, but the environmental and social assessment process as a whole. A loan through a financial intermediary can be an invaluable advance resource management of a country occasion. As procedures take shape, however, the flexibility of the method is required. The ultimate goal remains to achieve the establishment of institutional capacity that will ensure that the participation of the BOAD environmental and social assessment of sub-projects will be less required.

ANNEX 1

Examples of criteria used in the review of applications for funding of sub-projects

The borrower (financial intermediary in question) will not, without the prior consent of the BOAD, approve subprojects belonging to category A and include the following activities:

- Manufacturing, transportation, storage, use or elimination of dangerous or toxic materials;
- Encroachment on natural regional, national or international importance habitats;
• Conversion of at least 10 hectares of wetlands or forests;
• clearing or grading of at least 100 hectares of land;
• moving at least 50 families;
• Removal of surface water or groundwater or effluent discharge in these waters, more than 5 liters per second rate.
ANNEXE 2
Options for the environmental assessment of loans by financial intermediaries

Institutional capacities assessment
1. National requirements for environmental assessment and evaluation of environmental impacts
2. National legislation on environment and previous application
3. Relevant regulatory procedures (for points 1 and 2 above)
4. Capacity of the financial intermediary (preliminary exam, validation studies, monitoring, etc.)
5. Opportunity to strengthen the capacity of the financial intermediary (with respect to item 4)
6. Capabilities of the final borrower (assessment approx. Environmental impacts assessment of sub-projects)
7. Availability of expertise (preliminary examination, framing, etc...) in the country
8. Experience of environmental

Options for the preliminary project review and validation of environmental impacts assessments
1. By the current environmental unit of the financial intermediary existing
2. The new environmental unit of the financial intermediary
3. By the government environmental agency or ministry
4. By consultants
5. By local non-governmental organizations
6. By a special body
7. By BOAD

Option on the environmental impacts evaluations
1. By consulting the final borrower (subprojects).
2. By consulting the financial intermediary
3. By a government agency

Option regarding the monitoring and evaluation of project
1. By the financial intermediary
2. By consultants or research institutions
3. By non-governmental organizations
4. By government agencies