

Environmental and Social Impact Assessment (ESIA) at KfW Development Bank, KfW IPEX-Bank and DEG

Central Sustainability Management, nachhaltigkeit@kfw.de, November 2019

Acting responsibly

KfW ensures Environmental and Social Impact Assessments (ESIA) for all relevant investments and projects in emerging markets and developing countries as well as project and export financing in order to prevent potentially negative impacts or risks to human health and the environment and, if necessary, to mitigate or offset them with suitable measures.

ESIA – an integral part of all project appraisals

ESIAs are an integral component of project and programme appraisals conducted by KfW Group. They follow similar procedures and standards in the three business areas KfW Development Bank, KfW IPEX-Bank and DEG. The aim of an ESIA is to assess the risks or negative impacts an investment, project or programme may have on the physical, biological and social environment and to determine measures together with the project partner or business client for avoiding, mitigating or offsetting such undesired effects.

Compliance with relevant national laws and KfW assessment requirements is a prerequisite for KfW's financial engagement. KfW applies internationally recognised environmental and social standards, including those of the EU, the World Bank Group and the International Labour Organisation (ILO) [see Box 1]. Concerns about the protection of human rights form an integral part of the ESIA.

In addition to the ESIA, KfW Development Bank has subjected relevant projects to a systematic climate assessment since 2011. It determines what effects climate change could have on the success of the project and what quantities of greenhouse gases will be emitted. On that basis it examines measures that can better adapt the project to climate change and reduce its emission of greenhouse gases.

Whether and to what extent projects to be financed have negative effects and risks for people and the environment, and what measures may need to be taken additionally by the project to protect the people affected and the environment, is assessed across the Group by more than 70 technical, environmental and social experts. Where necessary, specific environ-

mental and social issues are thoroughly addressed in the due diligence through the deployment of qualified consultants on site with the project-executing agency or the funded enterprise.

Trainings on the procedures and standards of ESIA are compulsory for all new employees and trainees. In the case of substantial changes follow-up trainings are provided for project and contract managers.

The ESIA process

The ESIA process breaks down into a screening and the actual due diligence. As a result necessary measures are determined, which are usually compiled in an environmental and social management plan. The implementation of this plan as well as regular monitoring and reviews of implementation of the measures become integral part of the loan agreement.

In the first step, the screening, KfW Development Bank, DEG or KfW IPEX-Bank categorise the project according to potential environmental and social impacts and risks. The categorisation into A, B and C projects follows the international standards of the World Bank / IFC (International Finance Corporation) and is subject to an internal verification by a non-market unit. The categorisation determines the scope and depth of the assessment.

Category A projects imply potentially diverse significant adverse or irreversible impacts or risks to human health, the environment or the climate. Examples of projects that may cause irreversible impacts – such as resettlement – include infrastructure projects (for example the construction of new highways), basic industry projects (including the construction of refineries) or energy projects (such as the construction of large hydropower projects). Significant adverse environmental or social impacts or risks may also arise from category B projects but these are less severe and can usually be mitigated with state-of-the-art measures or standard solutions. Examples include metalworking or pharmaceutical industry projects in existing industrial zones. No or only minor adverse effects are expected from category C projects.

In the next step, KfW requires comprehensive environmental and social impact studies for

category A projects. For category B projects, the scope, focus and depth of assessment are defined according to specific characteristics of the project or investment. For the assessment as well as the realisation of any project with particularly high environmental and social risks an environmental and social expert is involved.

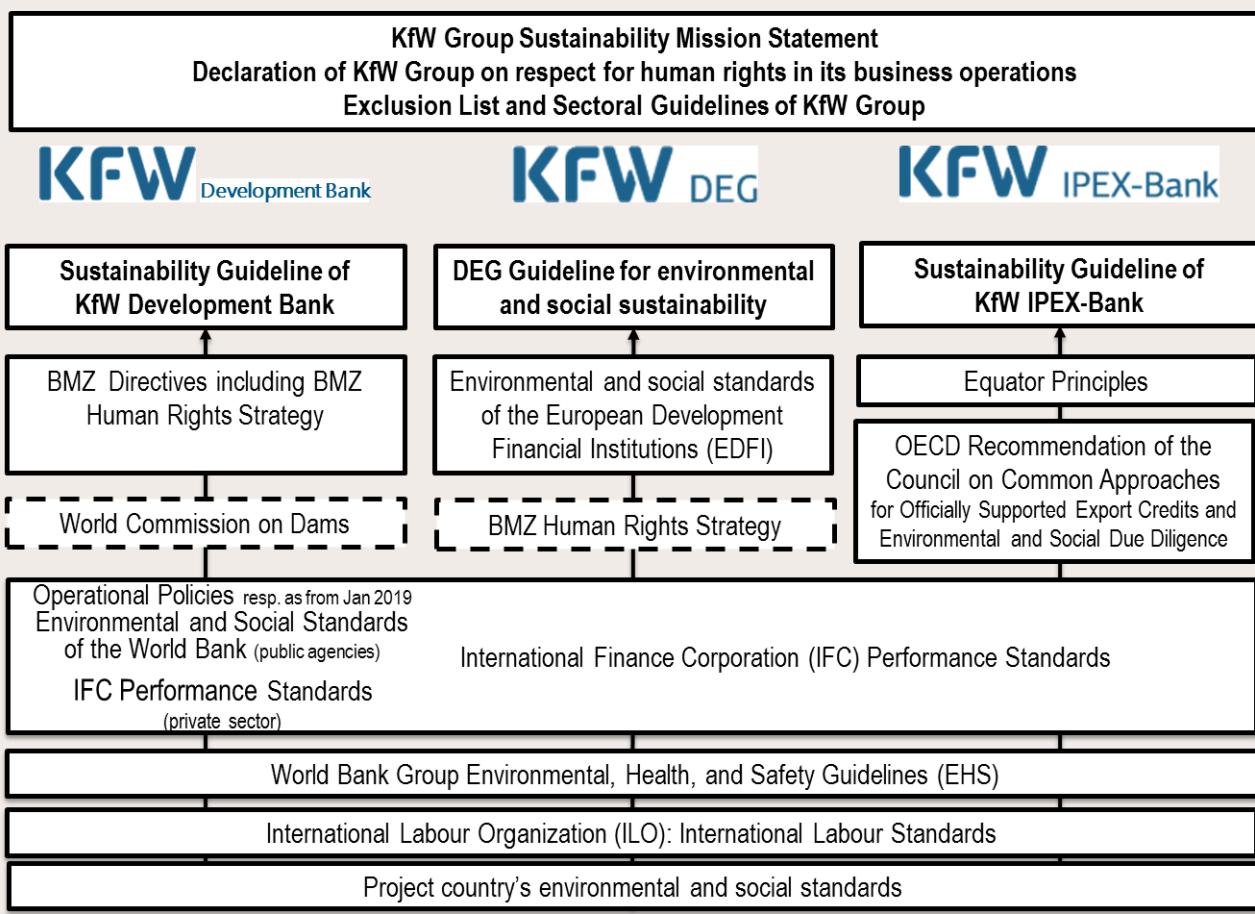
Basis for the assessment are the environmental and social impact studies, any necessary technical studies (e.g. on resettlement or economic displacement or biodiversity offset requirements) and the national approval documentation, including participation by the stakeholders, particularly those affected by the project or investment. These documents must be submitted by the borrower. The assessment of social and human rights impacts requires the disclosure to the public, the involvement of the affected local population and the management of grievances to be undertaken and documented in accordance with international

standards. Projects or investments that are likely to have an unacceptable environmental or social impact that cannot be avoided or mitigated by suitable measures are not eligible for funding.

The main result of the assessment is an environmental and social management plan that defines measures to be adopted by the project partner or the financed enterprise to protect the environment and human health in order to prevent undesirable impacts, to reduce them to an acceptable level, or to offset them. If a project or investment results in the loss of livelihood opportunities and resettlement, based on the outcomes of the participation procedure a resettlement action plan (RAP) is prepared for the affected people that ensures that livelihoods are at least restored. KfW requires the project partners or financed business clients to report regularly and in detail on the implementation of the agreed measures.

Box 1: Standards applied to environmental and social impact assessments

Framework for the ESIA and the most important referenced environmental, social, health, safety and labour standards on which the assessment is based.



Box 2: Case study KfW Development Bank – socially acceptable climate change adaptation

Development finance is complex. Desirable long-term objectives often conflict with short-term negative impacts or risks. A major component of the ESIA consists in estimating such impacts and risks, reducing them to an acceptable level and managing them during implementation. The port city of Beira in Mozambique is an example. From 2018 a tidal outlet and the dredging of the river bed are intended to ensure that rainwater in the Rio Chiveve can run more quickly into the sea. This will protect approximately 3,600 poor households in an informal settlement from flooding. Exacerbated by climate change, this flooding occurs as a result of heavy rain and storm floods, endangers people, destroys property and increases the risk of malaria. The urban population living near the river bank, as well as some 25 fishing businesses will also benefit from the project. But approximately a thousand mangroves in the river bed and 44 households in the settlement will be affected. In a consultation process involving KfW, these households agreed to temporarily move into houses in the centre of Beira that are rented by the municipality, allowing construction to commence. The affected families have since moved into homes and houses of their own which the municipality acquired for them and transferred into their ownership. A local NGO was tasked with reforesting the mangroves at double the original number. These and other measures are documented in an environmental and social management plan that is binding for the on-site implementation, which is monitored by KfW.



Source: KfW Group / Christof Griebenow

Box 3: Case study DEG – environmental protection and fair employment in the textile sector

DEG finances and supports private enterprises investing in developing and emerging economies. It requires its customers to comply with internationally recognised environmental and social standards and helps the enterprises to improve their environmental and social practices. One example is a family-owned garment factory in Bangladesh. Together with the Development Bank of Austria, DEG provided a loan for a textile dyeing facility with a wastewater treatment plant. Prior to the approval of the loan, the environmental and social sustainability of the company's activities was assessed and a corresponding action plan was developed and contractually agreed. The textile manufacturer is systematically implementing the plan and reporting regularly on its progress. It has significantly reduced its consumption of water, electricity and dyes. DEG also provided comprehensive advice on international environmental and social standards along the factory's entire value chain. The company has taken on the role of an environmental and social sustainability pioneer in Bangladesh's textile sector, internationally recognised by an award from the Carbon Performance Improvement Initiative (CPI2). Furthermore, it is one of the few locally producing enterprises that form part of the Textile Alliance founded in 2014.



Source: KfW Photo Archive / photothek.net

Box 4: Case study KfW IPEX-Bank – sustainable export finance for the steel industry

KfW IPEX-Bank is financing the capacity expansion of a major steel plant in India. The loans pay for the supply of modern, energy-efficient production equipment from Germany and Europe that meet European environmental standards. The customer performed an environmental impact assessment for the expansion under Indian regulation and obtained the license from the Ministry of Environment. KfW IPEX-Bank's own environmental and social impact assessment tested both the expansion project as well as the entire plant for compliance with the IFC Performance Standards. The loan agreement includes a series of measures to improve, inter alia, occupational health and safety. The implementation of the measures is being monitored by an independent environmental and social consultant over the term of the loan and the status of implementation is discussed periodically with KfW IPEX-Bank. Accident rates have dropped, and the company now has an occupational health and safety system certified in accordance with the internationally accepted standard OHSAS 18001. The management has committed itself to making continuous improvements.



Source: KfW Group / Henning von Blanckenburg