

Environmental and Social Policy

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Foreword

This Environmental and Social Policy (hereinafter the Policy) replaces the Environmental Policy of the Black Sea Trade and Development Bank (hereinafter BSTDB, or the Bank) approved by its Board of Directors in 2001.

The Policy covers the environmental and social dimensions of sustainable development. The economic dimension of sustainability is covered in other policies of BSTDB.

This Policy has been approved by the BSTDB Board of Directors at the 95th Meeting and is effective as of 1 January 2014.

Purpose

The objective of the Policy is to promote environmental and social sustainability in the Member States of BSTDB. This objective is derived from the mandate of the Bank that is "to contribute to the transition towards prosperity of the people of the region". BSTDB believes its mandate can be effectively achieved by applying sustainable development principles to its business management. In this context, the purpose of the present document is to define the main policy statements of BSTDB with regard to environmental and social aspects associated with its finance activities; the Bank's approach towards integrating these aspects into the financing decision making; and the principles BSTDB follows and the commitments it makes in promoting through its financing the environmental and social sustainability in the Member States.

Commitments

BSTDB recognizes that its financing activities may generate temporary and longer term impacts on the state of environment and well-being of the people in its Members States, which can be both positive and negative. Therefore the Bank commits to undertake the necessary measures to prevent and mitigate these risks and negative impacts to the extent feasible on one hand, and maximize on the other the positive effects.

BSTDB understands that in order to manage environmental and social risks and impacts associated with its operations efficiently, these need to be thoroughly identified, assessed, mitigated and monitored. In this respect the Bank commits to undertake environmental and social assessment and monitoring of all its operations commensurable to their potential risks and impacts, and to ensure that these are structured and implemented in accordance with the requirements of this Policy.

BSTDB considers that environmental pollution should be rectified at source rather than mitigated at the "end of pipe" and that measures to prevent pollution should be regarded by its Clients as a priority, and as early in the planning process of any new development as possible. Any historic or existing environmental pollution that has occurred or is unavoidable should be identified, made as minimal as possible, handled in an appropriate way and in accordance with BSTDB requirements, and if necessary compensated to any affected parties. In this respect the Bank commits to ask its Clients to prevent pollution at source where possible, and apply the principles of pollution prevention and polluter pays to all its financing operations. Existing contamination should be assessed for health and environmental risks and responsibility for managing and addressing these issues should be allocated and any necessary mitigation and monitoring should be agreed.

BSTDB regards the respect for fundamental human rights in a working environment as a crucial element of sustainable development. The right for decent work, observance of minimum age of employment, fair and equal treatment and opportunity, respect for health

and safety, freedom of association and recognition of the right to collective bargaining are all good practices as defined by the International Labour Organization (ILO) Core Labour Standards (CLS). In all operations it finances, the Bank will seek to ensure, as a minimum requirement, that these rights are required to be upheld and respected by its Clients in the agreements governing the Bank's financing.

Furthermore, BSTDB is committed to the ILO conventions against forced labour and child labour and supports the fundamental human rights for decent work and social justice, as well as the rights of children to develop physically and mentally to their full potential. The Bank commits to be mindful of these issues throughout its operations, and to not knowingly engage in financing any activities that may be suspected of involving forced labour and/or child labour, including in the supply chain to the extent feasible.

BSTDB recognizes the role and importance of the Black Sea in the sustainable development of the region, the economic, social and health values of its marine environment, as well as the high vulnerability of its ecosystems due to the special hydrological and ecological characteristics. Therefore the Bank commits to take full account of the protected status of the Black Sea as defined by the International Convention on the Protection of the Black Sea Against Pollution, and relevant International Maritime Organization (IMO) conventions where appropriate in its operations. The Bank will also seek to ensure that its operations both marine- and land-based, which have the potential to add to the existing pollution and eutrophication employ efficient preventive and mitigation measures and focus on improving the status of its biodiversity and marine safety.

BSTDB regards climate change as a serious challenge that is not bound by political or geographical borders, and affects globally the state of the environment and well-being of people. The Bank commits therefore to contribute to addressing this issue at the regional level by including as part of its lending portfolio the financing of appropriate operations in its Member States that reduce Green House Gas (GHG) emissions, apply energy efficiency measures, cleaner production, use of renewable energy sources, and meet carbon emissions targets set by the Governments or proactively by Clients.

BSTDB recognizes the importance of biodiversity conservation and the vital services the ecosystems provide to humans and businesses, such as food, fresh water, clean air, raw materials, water purification, carbon storage and sequestration, protection from natural hazards, climate regulation, natural areas for recreation and aesthetic enjoyment, soil formation, nutrient recycling, primary production, etc. Therefore, the Bank commits to promote through its operations sustainable use of living natural resources and protection and conservation of biodiversity.

BSTDB considers transparency and accountability as key elements of a sustainable business development. The Bank commits to disclose to the general public information on environmental and social performance of its operations, as per the provisions of this Policy, and require its Clients to engage in dialogue with their stakeholders, identify and interact with potentially affected communities, disclose relevant information about their business activities, consult them as appropriate, and ensure their informed participation. Furthermore, BSTDB provides a grievance mechanism to manage concerns raised by the stakeholders potentially affected by its operations.

Environmental and Social Assessment

All operations financed by BSTDB are subject to environmental and social assessment as an integral part of its due diligence and appraisal process, along with risk management, financial and economic analysis, monitoring, evaluation, and other functions, which form the operation cycle of the Bank as per its Operation Cycle Policy.

The environmental and social assessment is carried out by the Environmental and Social Sustainability Office (DES) of BSTDB and it has the following main objective:

- a) identify and assess the potential environmental and social risks and negative impacts, including the ones that may affect the reputation of the Bank, associated with any given operation considered by the Bank for financing;
- b) identify efficient preventive and mitigation measures, as well as potential environmental and social opportunities; and
- c) integrate these into the operation structure.

Thus, the Bank can take an informed decision on whether to provide financing to the assessed prospective operation, and if so, what are the environmental and social issues that need to be addressed during planning, financing and implementation of the operation.

The depth of environmental and social assessment will be appropriate to the nature and scale of the operation and commensurate with the level of environmental and social risks and impacts such operation generates including its area of influence.

Operations financed directly

The environmental and social assessment of operations financed directly by BSTDB, focuses on the following issues depending on their relevance to each particular case:

- The environmental and social management arrangements of the Client employed to identify the environmental and social risks, impacts and opportunities associated with its business activities and the financed operation in particular, and how these risks and impacts are managed;
- Labour and working conditions and how people are treated in the working environment based on their rights for voluntary labour, decent and fair treatment, non-discrimination, equal opportunities, minimum age of employment, free association and the right to collective bargaining, occupational health and safety at the work place;
- The applied pollution prevention and abatement measures and how efficient the resources are being used;
- Potential issues associated with the Client and its business activities and operation in particular that affect the local communities, their health, safety and security;
- Issues related to land acquisition, involuntary resettlement and economic displacement;
- Impacts on biodiversity, ecosystem services and sustainable use of living natural resources and measures to manage and mitigate these impacts;
- Protection of any cultural heritage that may be affected by the Client's activity and/or operation financed by the Bank;
- Potential risks and impacts on Indigenous Peoples.

Operations financed through Financial Intermediaries

The environmental and social assessment of operations financed by BSTDB through Financial Intermediaries (FIs) focuses on the capability of such FIs to manage environmental and social risks and impacts associated with their business activity in a manner that is compliant with the requirements of both this Policy and the national legislation in effect in the country of operation, including the country's commitments under international law. This includes assessment of the FIs environmental and social risk management policies and procedures; the level of integration of such policies and procedures into the overall portfolio management; portfolio analysis by environmental and social risk category; as well as the existing internal capacity to manage the associated environmental and social risks and impacts. If these are found to be satisfactory the Bank would normally delegate the function and responsibility for environmental and social assessment to its Client FIs. These are required to ensure that the

sub-borrowers financed from the BSTDB proceeds comply with the requirements of this Policy, national regulations and standards in effect, including environmental, labour, health and safety, relevant International Conventions, and the BSTDB Environmental and Social Exclusion List. However, for high risk and significant negative impact operations such as Category A and B+ (see the Environmental and Social Categorization) the Bank will determine the extent to which the function and responsibilities for environmental and social assessment is delegated to the Client FI, and what attributes may retain for itself.

Environmental and Social Categorization

BSTDB categorizes its operations based on i) the associated potential environmental and social risks and impacts, and ii) the scope of environmental and social assessment necessary to identify, assess and mitigate these impacts and risks. These categories are A, B+, B, C and FI and are defined as following:

- Category A are high risk operations that have the potential to generate significant adverse environmental and social impacts which are diverse, irreversible, or unprecedented;
- Category B+ are medium-high risk operations that have the potential to generate adverse environmental and social impacts that are generally beyond the site boundaries, largely reversible and can be addressed through relevant mitigation measures;
- Category B are medium risk operations that have the potential to generate limited adverse environmental and social impacts that are generally site-specific, largely reversible and readily addressed through mitigation measures;
- Category C are low risk operations with minimal or no adverse environmental and social risks and impacts;
- Category FI are operations that involve financing through Financial Intermediaries.

Category A operations are subject to Environmental and Social Impact Assessment (ESIA) process and require meaningful consultation with the public that may be affected by such operations. This includes setting of procedures for public notification, disclosure of related information about the operation and its potential environmental and social risks and impacts, public review and comment.

The ESIA is carried out by independent third party specialists on behalf of the Client, or both the Client and the Bank and is submitted to BSTDB for review. Additional studies may be requested if the ESIA is missing critical elements or is not at an appropriate level of detail, and is not consistent with the requirements applied by the Bank.

The environmental and social assessment of Category B+ and B operations may also include ESIA, however the scope of the process is more limited and is determined by the nature and extent of the potential environmental and social impacts depending on the operation's specific design, processes involved, and location.

The environmental and social issues identified during the environmental and social assessment process of any operation need to be addressed by the Client throughout the life of the BSTDB financing by implementing relevant preventive and mitigation actions. These actions are normally set forth in form of an Environmental and Social Action Plan (ESAP) and its implementation is part of the operations' financing terms and conditions.

Environmental and Social Standards

BSTDB seeks to apply good international environmental and social practices in all the operations it finances. By good practices, the Bank recognizes the World Bank (WB)/International Finance Corporation (IFC) Performance Standards, and Environmental, Health and Safety (EHS) Guidelines; the European Bank for Reconstruction and Development

(EBRD) Performance Requirements; the European Principles on the Environment (EPE); the European Investment Bank (EIB) Environmental and Social Practices Handbook; the European Union (EU) environmental and social standards; the ILO CLS; the World Health Organization (WHO) standards; relevant IMO conventions; as well as relevant international conventions, such as but not limited to the Convention on the Protection of the Black Sea Against Pollution; and the multilateral environmental agreements under the United Nations Economic Commission for Europe (UNECE), in particular the Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention), and Convention on Environmental Impact Assessment in a Trans-boundary Context (Espoo Convention).

In co-financed operations the Bank accepts for reasons of consistency and to avoid duplication, the environmental and social requirements of its partners if these are equivalent or superior, more developed or more stringent than its own requirements in this respect.

Environmental and Social Compliance Requirements

All operations financed by BSTDB need to comply with the following minimum environmental and social requirements:

- National and applicable EU environmental, labour, health and safety, and public information laws and regulations, including national commitments under international law;
- Availability of permits, approvals, licenses and certificates required under relevant laws and regulations. If these are not available at the time of BSTDB financing approval the Client will need to submit a satisfactory plan for obtaining such permits, approvals, licenses and certificates;
- Category A operations need to meet the requirements applied by EU, namely the Environmental Impact Assessment (EIA) Directive and relevant sector-specific and cross-cutting Directives, or the requirements applied by WB/IFC. Category A operations that are likely to generate trans-boundary impacts need to meet the requirements stipulated under the Espoo and Aarhus Conventions irrespective whether the country of operation is a party to the Convention;
- Do not involve production, use, distribution, trade, or businesses stipulated in the BSTDB Environmental and Social Exclusion List.

The Bank commits that its operations are covenanted by its Clients to be compliant with the requirements stated above. In addition to that, the Bank translates into covenants the findings of the environmental and social assessment carried out for its operations. These may include implementation of ESAP, Environmental and Social Monitoring Plans, Consultation and Resettlement Plans, etc. These terms and conditions are tailored to reflect the nature and scope of each particular operation financed by BSTDB.

The Bank normally seeks compliance with its environmental and social requirements at the time of financing approval. However, in cases when compliance cannot be met at the time of approval BSTDB jointly with the Client will agree upon a plan to achieve within reasonable timeframe such compliance. The Bank will publicly disclose this information (see the Public Information and Disclosure) and provide relevant explanations on how the non-compliance will be resolved and in what timeframe. If the operation does not make satisfactory progress towards compliance the Bank may cancel it and/or stop further financing.

Decision-making

All operations submitted for approval to the Bank's Board of Directors will have a summary of the associated environmental and social risks and impacts. This will include operation's

categorization, description of environmental and social assessment process undertaken, material environmental and social risks and impacts identified, mitigation measures required, any comments and material concerns raised by the potentially affected stakeholders, and how the aforementioned issues will be managed by the Client during the lifetime of the operation. The Board of Directors, in the decision-making process, will take full account of the environmental and social implications of the operations considered for approval.

Public Information and Disclosure

In line with its Public Information Policy BSTDB undertakes to inform the public in a transparent and timely manner about the environmental and social aspects associated with its operations. This information is posted on the Bank's website as Operation Summary Documents (OSDs) and includes general information about the operation financed, as well as information on environmental and social categorization, the potential risks and impacts, and how these will be addressed throughout the life of the BSTDB financing. OSDs are disclosed to the public after such operations are approved by the Bank's Board of Directors unless there are good reasons for maintaining confidentiality, particularly for private sector operations. In such cases, the OSD will be disclosed at the time of signing of the final financing agreement with the Client.

BSTDB also discloses to the general and/or interested public relevant environmental and social information of its Category A operations. Such information may represent ESIA reports prepared by or on behalf of the Client or the Bank, Non-technical Summaries of ESIA, ESAP, Stakeholder Engagement Plans (SEP), and any other relevant studies, reports and plans. For private sector operations this information is disclosed not later than thirty (30) calendar days before the Board of Directors approval, and sixty (60) calendar days for public sector operations. This information is disclosed on the Bank's website and is open for public comments. However this does not substitute for the Client's obligation to identify stakeholders affected by or interested in the operation and to communicate with them in a meaningful way.

The Bank reports on general environmental and social performance of its operations during a financial year in its annual report, for which purpose it dedicates a separate chapter.

Monitoring

All the operations financed by the Bank are monitored against the agreed environmental and social compliance requirements in order to ensure that relevant environmental and social terms and conditions stipulated in the legal agreement are met, including implementation of ESAP. In addition to that, monitoring determines whether the prevention and mitigation measures employed to manage environmental and social risks and impacts are effective or need adjustments.

Monitoring of environmental and social aspects is based on the information provided by the Client in the annual environmental and social performance report, and information collected during the site visits, which are mandatory for Category A and B+ operations, and on a need basis for Category B operations. In case of complex operations with high risk environmental and social issues the Bank or the Client may retain third party independent monitoring consultants to monitor the implementation of such operations.

Environmental and social monitoring is undertaken by DES and is part of a broader operation implementation and monitoring process directed by the Operation Implementation and Monitoring Department (DPM) of BSTDB.

Evaluation

Evaluation of environmental and social performance of the operations financed by the Bank is undertaken after operation completion and focuses on assessment of the operation's outputs, outcomes and impact against expected results and the overall mission of the Bank.

This process is performed by the Bank's independent Evaluation Unit (DEO) and the results are reported directly to the Bank's President and Boards of Directors and Governors, as per the Bank's Post Evaluation Policy. DES may also be involved in the evaluation process, however its role is limited mostly to consultation and provision of technical expertise.

The evaluation of environmental and social performance of operations along with other aspects of performance is based on international evaluation standards, methods and criteria and measures how effective and efficient is the Bank in achieving its mandate. DEO uses for this purpose various evaluation products such as Operation Performance Evaluation Reports, Annual Evaluation Review Reports, Evaluation Studies, etc.

Complaints and Grievances

Any party that is directly and/or significantly affected by the Bank's operations and the environmental and social impacts generated by these operations may submit complaints and grievances to the Bank. BSTDB provides the necessary means for these complaints and grievances to be communicated, processed and dealt upon in a timely, transparent and responsible manner. All the complaints and grievances are submitted to the BSTDB's Head of Internal Audit (DIA), which is an independent function within the Bank and is responsible for the management and coordination of the Bank's independent accountability mechanism according to which such complaints and grievances are handled.

The complaints and grievances are submitted to the Bank in accordance with the Procedure for the Receipt, Retention and Treatment of Complaints available on the Bank's website.

Institutional and Implementation Issues

The Policy is implemented by the Environmental and Social Experts of DES and BSTDB commits to allocate the necessary resources in order to ensure that this Policy is effectively implemented, fully integrated into its operation cycle and is applied in a systematic manner to all the operations financed by the Bank.

BSTDB will revise the Policy as necessary, or at least every five years from the effective date, and will develop and maintain the appropriate environmental and social procedures and guidance notes in order to support its implementation.

Cooperation

In order to ensure good implementation of this Policy the Bank cooperates with governmental bodies from its Member States, partner Multilateral and Bilateral Financial Institutions, businesses, civil society, and general public, as appropriate and to the extent feasible.