



# ENVIRONMENTAL APPRAISAL FRAMEWORK

## EXECUTIVE SUMMARY

*\*This document provides GEF applicants with an understanding of the DBSA Environmental Appraisal Framework. It should be read in conjunction with the DBSA GEF Environmental Safeguard Standards.\**

# Environmental Appraisal Framework

## Executive summary

### 1. Background and Purpose

The purpose and scope of the Development Bank of Southern Africa's (DBSA) Environmental Appraisal Framework (EA Framework or EAF) is to ensure that the DBSA's environmental appraisals are applied in a consistent manner that supports and enhances the DBSA's decision-making processes for sustainable socio-economic development in the region. The purpose and scope of the EA Framework is therefore to:

- Give effect to DBSA's environmental policy;
- Ensure a transparent, uncomplicated and consistent application of the environmental appraisal module in all DBSA-supported programmes and projects;
- Identify potential sources of environmental risk during project and programme appraisal, relating to, amongst others: climate change, natural and built environmental impact, legal compliance, institutional capacity, and public and political concerns; Dam Safeguards etc?
- Facilitate the allocation of a quantitative risk rating for project environmental risks, thereby enabling environmental risk pricing;
- Direct the appraisal of all programmes and projects supported directly by the DBSA, as well as those supported by the DBSA through Financial Intermediaries<sup>1</sup>;
- Assist with decision-making and serve as an impact and risk management tool that supports the DBSA business with respect to environmental sustainability; and
- Identify opportunities to enhance positive impacts on the environment.

In addition, the EAF provides the DBSA's employees, particularly the Environmental Analysts (EA), with a common reference document which details the requirements and frameworks to be followed when undertaking an environmental appraisal as a precursor to funding a particular project or programme.

### 2. DBSA Environmental Policy

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<sup>1</sup> The EA Framework provides an overview of the procedure to be followed where the service required is financial intermediary lending, as well as agency agreements, in terms of which the Bank must ensure that the environmental conditions associated therewith are considered in the environmental appraisal and, more importantly, that the conditions are adhered to by the ultimate Borrower or implementing institution. The EA Framework details the procedure for other DBSA investment products, such as equity investments, bids and bonds.

The EA Framework is guided by the DBSA Environmental Policy Framework which comprises the following key policies, strategies, guidelines, and appraisal procedures:

- The DBSA Environmental Policy;
- Procedures for Environmental Appraisals;
- Environmental Strategy;
- EMS (Environmental Management System) – facility management;
- Waste Management Investment Strategy; and
- Environmental Sustainability Strategy

### **3. Principles for Environmental Assessment<sup>2</sup>**

The principles underpinning the EA Framework are set out in Section 2 of the National Environmental Management Act (NEMA), Act 107 of 1998. The DBSA, as an organ of the state, is bound by this statute which establishes sustainable development principles for decision-making on matters affecting the environment, and specifically requires development to be socially, environmentally and economically sustainable.<sup>3</sup> The Constitutional Court has upheld that sustainable development does not require the cessation of socio-economic development, but seeks to regulate the manner in which it takes place. Sustainable development entails the undertaking of development processes that seek to achieve a balance between environmental sustainability and socio-economic developmental considerations. Achieving this balance is an integral part of environmental authorities' responsibility in terms of NEMA. The notion of sustainable development within South Africa entails the consideration of the cumulative impact on the environment, which includes environmental, social and economic factors, which must be considered during the decision making process. This is particularly important during decision making in relation to projects or programmes that comprise "Listed activities" as defined in the regulations promulgated in terms of NEMA for Environmental Impact Assessment.

For the purposes of the DBSA's EA Framework, the definitions adopted are those outlined in Section 1 of the NEMA as follows:

*"Environment means the surroundings within which humans exist and that are made up of-*

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<sup>2</sup> In this document the term 'environmental assessment refers to an Environmental Impact Assessment (EIA) and/or Strategic Environmental Assessment (SEA).

<sup>3</sup> Section 2(3) of NEMA.

- (i) *The land, water and atmosphere of the earth;*
- (ii) *micro-organisms, plant and animal life;*
- (iii) *any part or combination of the (i) and (ii) and the interrelationships among and between them; and*
- (iv) *The physical, chemical, aesthetic and cultural properties and conditions of the foregoing that influence human health and well-being.”*

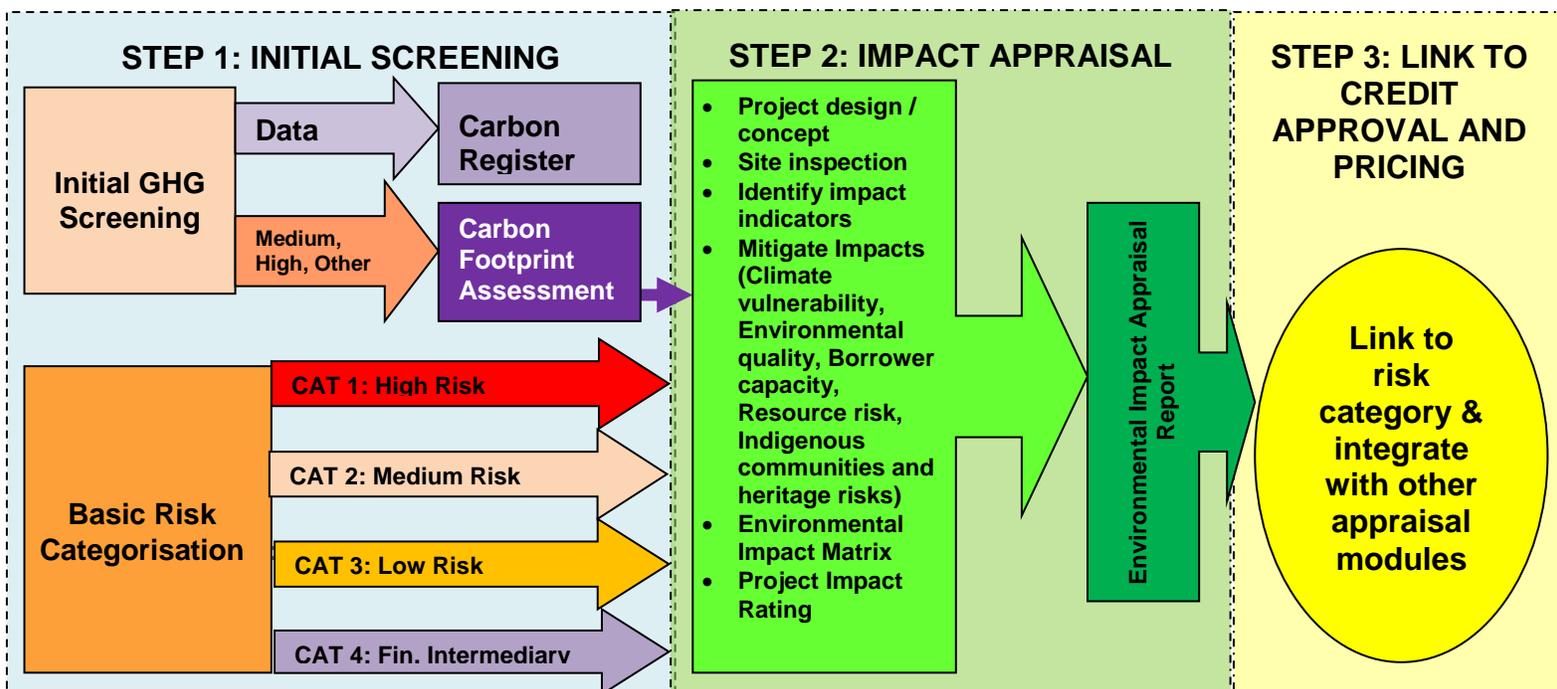
The definition above is in line with the definition provided by the SANS ISO 14015: 2003. In this national standard, applicable to any organization, the “environment” is defined as the “*surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation*”. These definitions set the parameters of environmental appraisal at the DBSA.

#### **4. Strategic Considerations for the DBSA**

- i. The Environmental Appraisal represents a rigorous, transparent and consistent appraisal procedure, based on the implementation of the standardized Environment Impact Matrix (EIM) and indicator categories, clearly articulated mitigation requirements, including legal conditions, linked to the relevant indicator/s; which serve to ensure that all projects are subjected to the same approach during appraisal;
- ii. All project appraisals will result in an impact score and all appraisal reports will include the scored EIM, with clear mitigations, legal conditions and other recommendations linked to indicator scores, which indicate serious environmental risks and impacts;
- iii. The integration of Carbon Footprint Assessments into the EA Framework enables the measurement of carbon emissions for DBSA funded projects;
- iv. The EAP enables the undertaking of desktop Green House Gas (GHG) assessment for all projects,
- v. Climate resilience/ vulnerability assessment is undertaken for all projects; and
- vi. A scored result of environmental impact for each project (the Project Environmental Risk Rating).

#### **5. Environmental Appraisal Process**

The DBSA Appraisal Process, impact assessment and management methodologies are applied to environmental appraisal on a consistent basis as outlined below.



### 5.1 Project appraisal process

The three core stages are as follows:

#### Step 1: Initial Screening

The initial screening stage comprises two steps. The first being the Basic Risk Categorisation<sup>4</sup> of the project based on the nature of the project and its associated impacts, as well as if the project will be located in an environmentally sensitive environment, and the second being the initial Green House Gas (GHG)<sup>5</sup> screening of projects to be funded. These two steps are based on desk top analysis.

The aim of the initial screening is to facilitate the following:

- Decision-making during the appraisal process to ensure the effective and efficient appraisal of projects;

<sup>4</sup> Basic Risk Categorisation – High level screening of magnitude of environmental impacts

<sup>5</sup> Green House Gas (GHG) screening- <sup>5</sup> screening of the volume of Green House Gas emissions

- The identification of information required for the environmental appraisal, including the necessary authorisations and approvals required, and carbon emission estimates where this is required;
- The identification of potential environmental benefits and opportunities for consideration and emphasis during appraisal process; and
- Determining the level of impact assessment required; and

*Step 2: Impact Appraisal*

The impact appraisal is conducted through engagement with clients, site visits and information and document review. The Project Impact Appraisal identifies the individual risks of the project and assigns impact ratings for two scenarios namely: before and after mitigation. The EIM is used during this process as it serves to ensure consistency in the project appraisal process.

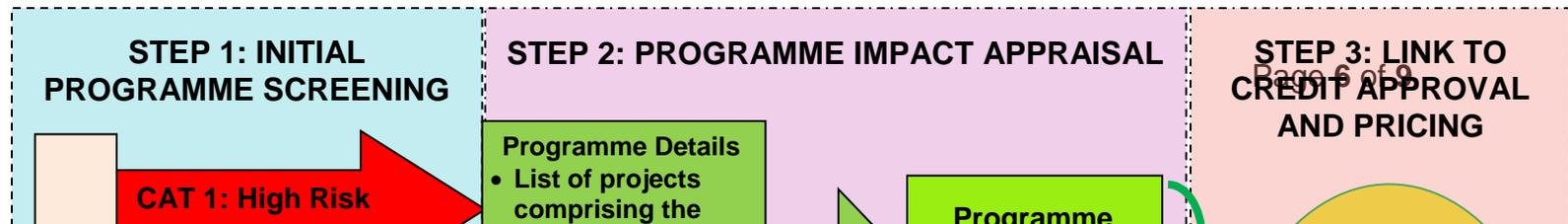
*Step 3: Link to Credit Approval and Pricing Processes*

The overall impact rating and score of the project is integrated into the Credit Risk model and the indicator category scores and subsequent pricing for a project.

**5.1 Programme Appraisal Process**

In any instance where the DBSA funds programmes such as municipal infrastructure development programmes which generally cover a range of projects that may not be well defined or detailed at application stage, the programme appraisal process applied by the DBSA is not able to be as rigorous as the project appraisal process. However, benchmarking with similar projects within the DBSA credit portfolio takes place.

**FIG 2: Programme Appraisal Process**



The three core stages for the programme appraisal are as follows:

*Step 1: Initial Screening*

As with the project appraisal, an initial screening of the programme is conducted to ascertain a Basic Risk Categorisation<sup>6</sup> and an initial Green House Gas (GHG)<sup>7</sup> screening of the programme. These two steps are based on desk top analysis. The aim of the initial screening is to facilitate the following:

- The identification of information required for the environmental appraisal, including the necessary authorisations and approvals required, and carbon emission estimates where this is required;
- The identification of potential environmental benefits and opportunities for consideration and emphasis during appraisal process.
- Determining the level of impact assessment required; and

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<sup>6</sup> Basic Risk Categorisation – High level screening of magnitude of environmental impacts

<sup>7</sup> Green House Gas (GHG) screening- <sup>7</sup> screening of the volume of Green House Gas emissions

- Decision-making and evaluation during the appraisal process to ensure the effective and efficient appraisal of projects.

### *Step 2: Impact Appraisal*

The impact appraisal is conducted through engagement with clients, site visits and information and document review. The programme appraisal process focuses primarily on the risk profile of the programme and on the institutional capacity of the Borrower to undertake environmental management. Consequently, the impact scoring resultant from the programme appraisal is only indicative.

### *Step 3: Link to Credit Approval and Pricing Processes*

The impact score resulting from the programme appraisal does not currently carry through to the Credit Models.

## **6. Application**

- The application of the EA Framework is mandatory in all of the DBSA's projects and programmes. One exception relates to funding which is directed towards feasibility studies;
- The EA Framework is applied by the Environmental Analysts (EA) within the DBSA; and
- All of the DBSA's project appraisals are required to include the EIM as well as Environmental Risk Rating, including the Environmental Indicator scores.

## **7. Application within Africa: DBSA's extended operational area:**

Where projects are to be undertaken outside South Africa the legislative and regulatory requirements of the country in which the project is located must be followed within the framework of the DBSA EA Framework.

However, where there is no enabling legislation for environmental assessments and/or an absence of regulations exists to apply the DBSA EA Framework, the Borrower will be required to implement a process outlined in this EA Framework, or alternatively, with reference to the World Bank or other internationally recognised environmental assessment and review standards, as may be required by DBSA during the appraisal process.

The DBSA reserves the right to apply procedural requirements and environmental quality standards as appropriate which go beyond the minimum legislative and regulatory requirements of the African state under consideration.

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