

Environmental and Social Data Sheet

Overview

Project Name:	BANDESAL SUSTAINABLE ENERGY AND COVID-19 SMES
Project Number:	2020-0480
Country:	El Salvador
Project Description:	A Framework Loan to the Development Bank of El Salvador to partly finance sustainable energy projects and to provide contingency financial support to SMEs in the context of the COVID-19 breakout.
EIA required:	This is a Framework Loan operation. Most underlying sub-projects (allocations) may require an ESIA under the relevant legislation.
Project included in Carbon Footprint Exercise ¹ :	no

Environmental and Social Assessment

El Salvador's energy policy is to expand the country's natural resource capacity to decrease fossil fuel dependency and reduce greenhouse gas emissions. To this end, the government released the 2010-2024 National Policy, which aims to modernise and expand the country's natural resource capabilities in order to increase the contribution of renewable energy sources in the national energy supply, in addition to energy efficiency measures across the whole economy.

This operation concerns a USD 40m Framework Loan (FL) for sustainable energy projects and financing SMEs affected by the Covid-19 breakout in El Salvador, with Banco de Desarrollo de El Salvador (BANDESAL) as Financial Intermediary (FI). BANDESAL will lend the proceeds of this operation to final beneficiaries, primarily private promoters. Due to the nature of this operation, the sub-projects to be part-financed in the energy sector (USD 20m of the FL), and their environmental and social (E&S) impacts are not fully known at this stage.

The Bank's eligibility criteria and procedures for FL operations will apply. All allocations will require ex-ante approval by the Bank prior to authorising the on-lending of funds to final beneficiaries. The Bank's requirements with regard to eligibility, including environmental and social criteria, will be incorporated into the finance contract.

The FI presented a tentative energy pipeline with a predominant number of individual renewable energy investments including solar PV power plants, biogas power/heat schemes

¹ Only projects that meet the scope of the Carbon Footprint Exercise, as defined in the EIB Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: 20,000 tonnes CO₂e/year absolute (gross) or 20,000 tonnes CO₂e/year relative (net) – both increases and savings.

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and mini hydropower. The pipeline also comprises energy efficiency investments both in the residential and industrial sectors.

The FI's capacity to implement this FL in compliance with the EIB's Environmental and Social Standards is deemed good. Following national laws/regulations BANDESAL implemented in 2015 its own Environmental and Social policy and procedures, as well as Risk Management systems. The FI, through a dedicated Unit, conducts E&S assessments for its investments based on the existing policies, procedures and systems, which are in line with international standards. The FI has experience with fulfilling E&S requirements from other MDBs such as the KfW or IADB, and has benefited (and it still benefits) from Technical Assistance from these organisations for reinforcing its capacity, especially regarding E&S due diligence process, as well as the monitoring, reporting and evaluation of its operations.

Environmental Assessment

The main principles of environmental and social assessment practice enshrined in EU legislation, such as screening, scoping, independent review, public participation, disclosure and monitoring are already present in the national legislation of El Salvador, specifically in Environmental Law D.L. 233 of March 1998 (amended by D.L. from October 2012) and its regulation through Executive Decree N° 17 of March 2000 (amended by Executive Decree N° 39 of April 2009), which are reflected in the E&S policies and procedures of BANDESAL related to investments in the energy sector.

Prior to approving allocation requests submitted by the FI, the Bank will confirm that individual sub-projects comply with the Bank's environmental requirements and that an adequate environmental assessment has been carried out. According to the El Salvadorian legal framework, it is mandatory, for instance, to conduct an Environmental Impact Assessment (EIA) process for solar PV plants above 5 MW. If these plants were located in the EU, they would fall under Annex II of EIA Directive 2014/52/EU amending EIA Directive 2011/92/EU, requiring the national competent authority to decide on the need for a full EIA process. In the case of the interconnection power lines, required as associated facilities, some might be included in Annex I of the mentioned Directive, thus requiring as well full EIAs to be performed. In addition, alignment with the basic principles of the relevant EU Directives (e.g. Habitats Directive 92/43/EEC, Medium Combustion Plant Directive 2015/2193/EU, Industrial Emissions Directive 2010/75/EU, Water Framework Directive 2000/60/EC amended by Directive 2008/32/EC, the amended Energy Efficiency Directive 2012/27/EU and Energy Performance of Buildings Directive 2010/31/EU) will be sought, including compliance with Best-Available-Technique (BAT), where appropriate. All biogas schemes must demonstrate sustainability with the use of primarily low value by-products from agriculture, food and bio-based industry as feedstock. For hydropower projects, the FI will ensure that these will comply with the EIB's Environmental, Climate and Social Guidelines on Hydropower Development (October 2019).

The Bank will assess EIAs and all permitting documentation (including EIA screening decisions) when reviewing the documentation for the allocations, including compliance with EIB E&S standards. Whenever an EIA process is required, the environmental impact study (EIS) and the non-technical summary of the EIS report will be provided in copy to the Bank prior to the Bank's approval of the allocation, and will be published. In particular, the Bank will verify that cumulative impacts were correctly considered for the mini hydropower plants subject to this EIB loan.

The Promoter will be required to verify that none of the schemes has a significant adverse impact on any site of nature conservation importance. Schemes with significant E&S risks,

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including a significant negative impact on any site of nature conservation importance, will not be eligible under this operation.

Social Assessment

The envisaged sub-projects may give rise to typical occupational and community health, safety and security risks and impacts. These risks are primarily linked to traffic, dust and noise nuisances, presence of security personnel and the influx of labour force during construction. The main mitigation and monitoring measures to address these risks/impacts and others will be considered in the respective Environmental and Social Management Plan (ESMP), if applicable.

The Bank will require a social assessment, including the development of a management plan for mitigation of social impacts (as applicable); compliance with national law and ILO Core Labour Standards will need to be ensured by the FI at sub-project level in accordance with the Bank's Environmental and Social Standards. Sub-projects will require the acquisition, lease or easements of land for the installation of their components. For the rest, the promoter is engaging with the sub-project promoters in order to secure voluntary agreements for the lands required by all sub-project infrastructures. It is expected that the implementation of the schemes (sub-projects) under this FL will not lead to involuntary physical or economic displacement or resettlement.

Public Consultation and Stakeholder Engagement

The Bank will verify that adequate disclosure of information and meaningful public consultation have been carried out or are both planned for, in the context of the ESIA process, as well as prior to and during the construction phase, and if applicable throughout the lifetime of the project. At sub-project level, the FI will ensure that comprehensive grievance mechanisms, both for communities and for the sub-project workforce (including EPC contractor and sub-contractors), are in place during both implementation and the entire operation period of the sub-projects.

Stakeholder engagement activities will be conducted in compliance with national legislation and with the FI's guidelines on Stakeholders Engagement, which is considered satisfactory by the Bank.

Other Environmental and Social Aspects

BANDESAL has a strong commitment to sustainable development and green financing highlighted in its Environmental and Social Policies and Procedures. The FI is currently in the process of becoming an Accredited Entity by the Green Climate Fund.

Conclusions and Recommendations

The legal environmental and social obligations under the national law and the FI's ESMS provide comfort and support the fulfilment of the EIB's standards under this operation. Nevertheless, the social and environmental impacts and mitigation measures for the envisaged sub-projects will be assessed individually by the FI and will be reviewed by the Bank as part of the ex-ante allocation approval process. The investments targeted by the operation are not expected to have major residual social and environmental impacts, provided that all mitigation measures assessed by the FI and the Bank at sub-project level are implemented.

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The following undertakings are proposed:

The FI shall not commit any EIB funds against schemes that require an EIA or biodiversity assessment according to EIB E&S standards and national law without, prior to commitment, receiving consent from the competent authority, and the EIA having been made available to the public.

Under the allocation procedures, all underlying sub-projects including their compliance with EIB standards will be reviewed ex-ante by the EIB.

The FI shall store and maintain updated the relevant documents (including EIA screening decisions, environmental studies related to the EIA, the Non-Technical Summaries of the EIAs, and Nature/Biodiversity Assessments or equivalent documents supporting the compliance with the principles of the EU Habitats Directive) to be provided to the Bank upon request. In case the EIB requires such documentation, the promoter shall provide all documents requested promptly.

For schemes subject to an EIA, the FI should deliver the EIA studies, the non-technical summary and the environmental consent to the Bank before the funds are allocated.

For schemes that may have an impact on a nature conservation site, the promoter shall obtain confirmation from the competent nature conservation authority, or an equivalent confirmation satisfactory to the Bank, that the scheme does not have a significant negative impact on any such site. Such confirmation should be delivered to the Bank before the funds are allocated. Schemes with significant negative impacts on areas with a high biodiversity value, nature conservation areas, shall not be eligible.

Schemes (i) with significant negative social impacts or (ii) requiring resettlement, which cannot be mitigated to the Bank's satisfaction, shall not be eligible.

The Financial Intermediary will undertake to monitor and report to the Bank on the compliance with EIB E&S Standards, with a periodicity yet to be defined for the individual allocations.

Under these conditions, the operation is acceptable in E&S terms.