Financial Intermediary Lending and Environmental Assessment

The World Bank supports economic development through a variety of financial instruments, including the use of banks and other credit institutions in developing countries as financial intermediaries (FIs) for private sector investments. Financial intermediary lending enables large financial institutions such as the Bank, to indirectly support broad economic development by financing a multitude of small to large scale enterprises. Over the years, financial intermediary loans (FILs) have almost exclusively financed industrial and agricultural activities. However, FILs are increasingly supporting private sector investments in large-scale infrastructure such as power facilities and roads.

From an environmental perspective, FILs present both special challenges and opportunities. Environmental quality assurance is complicated by the tiered structure of FILs and wide disbursement of funds to large numbers of subprojects—often in environmentally sensitive sectors. On the other hand, FILs may promote environmentally responsible investment decisions by the FIs—banks and other credit institutions—working in partnership with the Bank. This EA Sourcebook Update discusses how the Bank’s policy of environmental assessment may be applied to FILs in ways that address the challenges and take advantage of the opportunities inherent in these operations. The Update draws heavily on experience of approaches to FILs by the International Finance Corporation (IFC), and the European Bank for Reconstruction and Development (EBRD), as well as the World Bank, and expands on chapter 6 in the EA Sourcebook: Sector and Financial Intermediary Lending and Environmental Review. EA Sourcebook Update No. 24 covers Environmental Assessment of Social Fund Projects.

Introduction to Financial Intermediary Loans

Financial intermediary loans (FILs) typically involve the World Bank’s provision of capital to financial intermediaries, which in turn finance specific investments through loans or equity. Frequently, the Bank’s funds will be channeled through a large financial institution such as a national development bank, which on-lends to smaller commercial banks and other FIs. The national bank is frequently called the “second-tier” bank, while the smaller FIs are “first-tier” banks. Sometimes, a borrowing country’s Central Bank acts as the intermediary between the Bank and smaller FIs.

Demand in the marketplace dictates the types of investments that are eventually made and the pace of borrowing, although the Bank and the borrowing government normally agree on a set of broad criteria.

For example, some FILs may be assigned to rural or industrial investments, whereas others may have a rather specialized focus, such as investments for rural agriculture, pollution prevention and abatement or urban development. Where applicable, FILs should include a technical assistance component to support strengthening of environmental capabilities of the proponent of the project.

The Bank’s EA Requirements for FILs

The Bank’s Operational Policy (OP) 4.01: Environmental Assessment, requires that FILs are subject to the same rigor by the Bank and the same expectations of environmental performance in design and implementation as regular investment projects. However, the
nature of FILs requires differing roles and responsibilities of the party or parties involved.

The ultimate project sponsor (the company or individual carrying out a project financed by FIL proceeds) is responsible for the project EA. This is consistent with Bank policy for regular investment projects and with EA regulations in most countries: the entity that wants to undertake a project must also carry out any required EA. In most cases, project sponsors conduct any required EA and hire professional consultants to undertake the EA.

The FIs must verify that subprojects in which they invest meet the environmental regulations or other requirements of the country (or, as appropriate, state, provincial or local authorities), and are consistent with the Bank’s environmental policies. OP 4.01 stipulates that FIs must ensure that the project sponsors (or “sub-borrowers”) carry out an appropriate EA. This essentially means that FIs must screen projects and ensure that any legally required EA report has been prepared and approved by the appropriate authorities, before approving any loan or investment. In the absence of such regulations, the FIs should verify that the EA meets the Bank’s requirements set out in OP 4.01. Depending on country circumstances and the structure of the FIL, such environmental responsibilities may be placed with the FIs directly on-lending to project sponsors or to the “second tier” FIs (usually larger banks with more diverse staff capabilities).

The Bank assesses the adequacy of the country’s environmental requirements as they would apply to the project and the proposed EA arrangements for subprojects before and during appraisal of the FIL package. The Bank may choose to propose components to strengthen these requirements or the capacity to implement them. On several occasions, the Bank has assisted in preparing simple manuals for FIs on environmental screening and review, supported by training. The Bank may also provide participating FIs and relevant environmental authorities with information such as OP 4.01, the EA Sourcebook, and the Pollution Prevention and Abatement Handbook.

For subprojects with potentially significant adverse environmental impacts (all Category A subprojects and, as appropriate, Category B subprojects), the Bank may decide to review subproject documentation, including EA reports, prior to their approval by FIs. When the Bank determines that a country lacks adequate capacity, it requires prior review and approval of all relevant subprojects until such capacity is developed. A key objective for the Bank is to ensure that EA capacity develops on a broad scale and not only in the limited context of a given FIL.

Involvement of the Financial Sector

There are four good reasons why it is important to involve FIs in the EA process:

- In most countries and under agreements with the World Bank, financial institutions are responsible for appraising the financial soundness and the appropriateness of project proposals submitted to them. Environmental aspects are an integral part of this responsibility.
- The World Bank does not have the requisite physical capacity to screen and review subprojects, sometimes several hundred, under each FIL.
- Many countries lack the legal and institutional framework to environmentally regulate and enforce the private sector. In such circumstances, the Bank still needs to ensure that projects are environmentally sound, the FI partners often being best placed to perform this role.
- Most importantly, evidence suggests that accounting for environmental risk is in the best interest of FIs, especially in countries where environmental regulations and enforcement mechanisms are being strengthened. Environmental risk translates increasingly into financial risk.

In summary, FIs will find that they need to account for environmental aspects to protect their portfolios against environment-related risks.

However, it is important to understand the constraints inherent to the banking sector. It is unrealistic to expect FIs to regulate and enforce environmental laws. Consequently, FIs can only be expected to undertake (i) legally required actions; (ii) actions in their own best interest; and (iii) actions in which they have the knowledge and capacity to undertake. The key is to alert FIs to their legal obligations, highlight their self-interest in meeting these obligations, and explain how it can be done. IFC’s approach to conveying the importance of environmental risk management to its FI partners is shown in Box 1.

The EA Process for FILs

Just as FILs are different from standard Bank lending operations, the EA process for FILs also differs from that applied to standard investment projects. The standard EA process follows a path that runs parallel with the identification, preparation and implementation of the project, usually with clearly defined locations. In contrast, the EA process for FILs must address a situation where any number of as yet unknown, geographically dispersed subprojects will be proposed by potential investors over the course of the project’s implementation. This requires the following two-stage process:
Box 1. Environmental Risk Management at IFC

Environmental risk is defined broadly by the International Finance Corporation (IFC) as encompassing risks to the natural environment, risks to a company, and as a consequence, risks to the company’s financiers. Risk management for financial institutions is thus the process of assessing and managing risks. The major environmental issues affecting the companies in which financial intermediaries (FIs) invest include: site contamination, major hazards, special concerns (such as potential loss of biodiversity) and violations of regulations. The increasing importance of FI lending in IFC’s portfolio, prompted the production of guidance to assist FIs to assess and manage risk.

At the heart of IFC’s *Environmental Risk Management for Financial Institutions* guidance document is a corporate environmental checklist which poses a series of questions designed to:

- Identify risks to the environment associated with a company’s current operations, such as potential site contamination, major hazards, special concerns, or non-compliance with applicable laws
- Identify similar risks to the environment associated with a company’s planned investment
- Assess liabilities associated with current or future environmental risks.

Guidance is provided on how FIs can determine where more detailed environmental assessments are required and on managing risks throughout the investment project cycle. A simplified environmental performance reporting proforma outlines the contents of annual environmental reports to be submitted to IFC. A program for training financial officers within IFC’s lending partners in the application of environmental risk management techniques is a regular feature of IFC’s activities.

*Environmental review by the Bank of the overall FIL during the Bank’s normal identification, preparation, and appraisal process*

*EA of individual subprojects during implementation of the FIL (on-lending to sponsors)*

**Stage 1: The Bank’s Environmental Review of FILs**

**Environmental screening**

Like all other projects considered for financing by the Bank, FILs are subject to *environmental screening* as soon as they are identified. Thus, preparing the Project Concept Document which outlines the objectives and components of the potential project, the Task Manager must consider its environmental implications. In the case of an FIL, this can often be done only in general terms. For example, if a credit line for farmers is proposed, the potential environmental issues might include pollution and health hazards related to use of agrochemicals or disposal of animal wastes, or impacts on water resources from expansion of irrigation systems. However, since the actual investments under the FIL cannot be determined (being dependent on demand among farmers), it is not possible to gauge the significance of all potential impacts. The appropriate approach is therefore to record that the FIL could, in certain circumstances, result in adverse environmental impacts, and to establish a process ensuring that the potential environmental risks of subprojects are adequately assessed and managed. A Category B rating would normally apply in such circumstances.

For certain types of FILs, such as those earmarked for major infrastructure investments by the private sector (for example roads, power plants, or ports), the inherent environmental risks merit a Category A rating, consistent with established practice for standard investment loans. At the other end of the spectrum are FILs mainly concerned with institutional development, upgrading of computer systems, and training, which are generally classified as Category C.

Box 2 lists a number of questions that should be asked during screening and preparation of a potential FIL and beyond.

**During FIL Preparation: Institutional Analysis**

More substantive than the classification decision is the determination of what to do over the course of preparation and implementation of the FIL. For those FILs classified in Category A and B, the key questions to ask, as early as possible are:

- What are the applicable EA and permitting requirements of private sector investments?
- Can this system be relied upon by the Bank for purpose of the FIL?
- If not, what needs to be done to put in place an adequate system?

An analysis of the environmental institutional and regulatory framework for private sector investments supported by the FIL should be undertaken by competent specialists, to determine the capacity to manage the EA process for subprojects (including screening, EA preparation, review of EA documentation, and permitting or licensing of facilities). The analysis should not be limited to assessing capacity to undertake EIAs only, but also to using instruments such as environmental audits and risk assessments.

The key player in this regard is the national and/or sub-national environmental agencies, relevant sector agencies (to the extent they have a role in environment-based permitting/licensing), the banking sector, and the domestic environmental consulting industry.
Business associations may have an important role in some sectors or countries.

If it is clear that a particular institution (whether an environment agency or a FI) has the responsibility for screening, review and permitting, the analysis should focus on that institution. Boxes 3 and 4 provide recent examples of such institutional analysis.

The analysis of the national institutional and regulatory framework should conclude with a statement of the existing system for environmental management (EA, licensing, permits, etc.) pertaining to new investments; this should address the following questions:

- How well will it work for the particular FIL operation?

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<tr>
<th>Box 2. Checklist of Issues to Consider during Environmental Screening of FIL Operations and Beyond</th>
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<tr>
<td><strong>General considerations:</strong></td>
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<tr>
<td>■ What is the maximum/minimum size of investments to be made by the FI?</td>
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<td>■ In what sectors are the FI involved and what are the associated risks?</td>
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<tr>
<td>■ Is the Bank’s loan earmarked or fungible (used for unspecified purposes)?</td>
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<td><strong>Environmental policy and procedures:</strong></td>
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<td>■ Does the FI have an environmental policy or statement in its charter?</td>
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<td>■ What staff have environmental responsibilities and training?</td>
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<tr>
<td>■ Does the FI have environmental procedures, and how are environmental risks evaluated and assessed?</td>
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<tr>
<td>■ Is technical assistance required to develop environmental capability?</td>
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<td><strong>Environmental compliance and liabilities:</strong></td>
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<tr>
<td>■ What are the risks and liabilities associated with the existing/potential portfolio?</td>
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<td>■ What is the relevance of the current and prospective legal regime to the project?</td>
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<td>■ What is the nature of environmental compliance among existing clients, and have any legal actions taken place (or are pending)?</td>
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<tr>
<td>■ Does the FI define, limit or exclude environmental liabilities?</td>
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<td>■ Does the FI have exclusion lists for chemicals or other sub-sectors?</td>
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<td><strong>Monitoring during implementation:</strong></td>
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<td>■ Will the Bank be able to exert influence over the FI’s portfolio?</td>
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<tr>
<td>■ Does the FI supervise and report on environmental management issues?</td>
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<td>■ Will the Bank need to be involved in environmental appraisal of subprojects?</td>
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*Source: Conducting Environmental Due Diligence on FI Projects, EBRD.*

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<th>Box 3. Institutional Analysis for FIL in India</th>
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<td>The Private infrastructure Financing project in India supports private sector infrastructure investments by means of a financial intermediary arrangement. Due to the nature of the eligible subprojects, this operation was classified in Category A. To ensure that appropriate EA work was done for subprojects, the main financial intermediary—Infrastructure Leasing and Financial Services Limited (IL &amp; Fs)—was requested to prepare a detailed “Environmental and Social Report” as part of the feasibility studies prior to the project appraisal. This report discussed the existing legal, regulatory and institutional framework for EA in India, in terms of how it would function for the investments under the loan. The report also presented the environmental and social assessment procedures to be followed by IL &amp; Fs, within the overall Indian legal framework, and a staff development plan to ensure the satisfactory implementation of the procedures.</td>
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- Which entities would be responsible, if any, and what is their capacity?
- What are the risks involved in doing nothing to strengthen the system?
- What are the most realistic and cost-effective ways of ensuring appropriate management of environmental aspects, including choice of institutions?
- What are the possible capacity building interventions or regulatory adjustments that can be made to strengthen the laws and institutions involved over the short, medium and long term?

Institutional analysis should also give clear recommendations for establishing or strengthening an EA process for the FIL. Ideally, recommendations should be presented as a plan, equivalent to the environmental management plan of an EA report. The plan/recommendations should cover the following areas:

- Measures to strengthen the regulatory system, such as permitting requirements
- Allocation of specific responsibilities for environmental screening, review, permitting, and so forth
- Measures to build capacity, which might include training programs, hiring of environmental professionals, developing environmental manuals or checklists for FIs
- Alternative mechanisms to ensure adequate environmental performance, such as adoption of environmental management systems (using specifications such as ISO 14001), or requiring public disclosure of environmental information.

If it is determined through this analysis that FIs will need an environmental manual or other guidance to perform environmental due diligence, this should
Box 4. Preparing the EA Process for an FIL: Latvia

During preparation of the Enterprise and Financial Sector Restructuring Loan to Latvia, a careful Institutional analysis was undertaken to design an EA approach with three overriding objectives:

- Meeting the Bank’s EA requirements
- Meeting the requirements of Latvian EA regulations
- Doing so in a cost-effective and feasible fashion.

The first step was to examine the existing regulatory framework for EA in Latvia and determine the capacity of relevant institutions. This analysis concluded that the existing framework was adequate and that responsibilities for EA related functions (environmental review and issuance of permits) among different institutions were clearly defined. The analysis also found that the soundest approach would be to rely on existing institutions rather than creating new mechanisms that would only compete with, and potentially undermine, existing institutions.

At the same time, the analysis identified a need among both FIs and project sponsors to be guided on how the EA process worked and how to ensure that their investments were in compliance with Latvian as well as Bank environmental requirements. As a result, a decision was made to prepare a consolidated source of guidance on the EA process for use by all the parties involved. Following this decision, a local consultant developed—under the guidance of the Latvian Ministry of Finance and the World Bank—a manual called *Investors’ Guidelines for Performing Environmental Due Diligence in Latvia*.

Latvian banks participating in the Enterprise and Financial Sector Restructuring Project are currently using this manual as a proactive tool to ensure that projects they consider for financing comply with Latvian regulations and the environmental policies of the World Bank. This has contributed to a growing awareness of environmental risks among these FIs and has reduced tensions between the environmental authorities and sponsors/FIs.

The institutional analysis also identified a need for EA-related training, both within the Latvian Ministry of Environment and Regional Development, and in the banking sector. A training program was designed as part of final project design and implemented shortly after the loan became effective. The US Environmental Protection Agency and the European Union PHARE program supported these activities.

Incorporating results into FIL design and documentation

The outcome of the institutional analysis should be ready prior to the Bank’s appraisal of the FIL and incorporated into the Project Appraisal Document. This, in turn, forms the basis upon which the Bank and borrower can agree on any necessary capacity building, the institutional responsibilities for screening and review of subprojects, timing of key actions, and performance indicators. For example, if there is agreement to develop an environmental manual for FIs, target dates should be established. In some cases it may be necessary to require adoption of an environmental procedure by FIs as a condition for accessing Bank funds for on-lending. This is quite common in FILs financed by the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). In other instances, conditionality may be tied to actions to be undertaken by an environmental agency or another appropriate regulatory body.

Preparation for environmental supervision of FILs

Environmental supervision of FILs is greatly facilitated by developing a set of simple, monitorable performance indicators during FIL preparation of appraisal. Depending on the circumstances of the particular FIL (country conditions as well as the structure of the loan), environmental performance indicators for FIs may include:

- The percentage of staff (loan officers) trained in environmental screening and compliance verification
- Evidence that FIs have checked whether proposed subprojects comply with applicable EA requirements and have received necessary permits.

The first indicator is a simple measure of an FI’s commitment to adopt an environmental risk management approach. Performance should be measured over time against agreed targets. The second indicator requires documenting compliance verification against which performance can be judged from the quality of information in a random sample of subproject files.

Some multilateral financial institutions (MFIs) such as the IFC and EBRD routinely require FIs to submit brief annual or semi-annual environmental reports over the course of an FIL’s implementation, summarizing the environmental performance of their project portfolios and compliance with environmental agreements. Pre-designed forms are usually provided to facilitate this reporting and help them maintain a
history of subproject environmental performance often required by the MFIs during supervision. If all environmental responsibilities reside within an environmental agency, the performance indicators should be adjusted accordingly. For example, the quality of the agency’s reviews of subproject EA reports and associated permitting decisions could be the basis for a performance indicator.

Stage 2: Implementation — Environmental Management of Subprojects

When a FIL has been approved, the environmental review system for subprojects should be established as quickly as possible. If required, the environmental manual or other guidance should be finalized and provided to the intended users in conjunction with training for staff within participating FIs and/or environmental agencies (see Box 6). By the time the FIL becomes effective, all relevant parties should understand their roles relating to environmental screening, EA preparation, review and implementation monitoring.

Environmental screening of subprojects

The manual should contain simple checklists of project types and environmental characteristics of project types and locations, and the corresponding type and level of analysis normally expected by the FI, consistent with the laws and regulations of the country as well as Bank requirements. For example, greenfield construction of an industrial facility adjoining a natural forest would normally warrant a full

Box 5. Evaluating the Adequacy of FI Environmental Due Diligence

This questionnaire is designed to guide the collection of information as the basis for evaluating the environmental procedures and performance of the FI. The questions may be discussed with FI staff having responsibility for environmental issues, a senior manager, or a credit officer.

1. Current environmental procedures
   - Does the FI have any formal environmental policy or procedures? If yes, please describe them and provide appropriate documentation.
   - Are there any types of projects in which the FI will not take part due to the environmental risks? (e.g., projects involving handling of hazardous wastes or endangered plants or animals).
   - Who is responsible for environmental issues? (name/role and title).
   - How are environmental considerations taken into account in the credit review and approval process for project loans or equity investments?
   - In the view of the FI, to what extent is the nature of its investments in projects likely to be subject to environmental risks, and how are potential environmental risks taken into account?

2. Staff environmental capabilities
   - Are there any staff with environmental training in the FI? If so, describe.
   - Are there any technical staff with an engineering/industry background responsible for technical analysis of credit proposals?
   - What experience, if any, does the FI have of hiring or dealing with environmental consultants?

3. Environmental aspects of existing portfolio
   - To the FI’s knowledge, are any of its investment/loans subject to environmental liabilities of any kind?
   - To the FI’s knowledge, have any of its commercial customers been the subject of environmental criticism? If so, describe.

4. Environmental services
   - Does the FI, as part of its advisory services, have the capability to advise corporate clients on the environmental risks associated with project finance?
   - Does the FI offer a service of investment in “environmental funds” of any kind?

5. Other issues and plans for the future
   - Has the FI signed any national or international agreements or declarations concerning environmental issues?
   - Has the FI ever received any criticism of its environmental record? If so, what was the criticism?
   - Does the FI carry out environmental audits of its properties to analyze health and safety issues, waste disposal, etc.?
   - Does the FI have plans to develop environmental procedures in the future? If so, what are these?

Source: Adapted from Conducting Environmental Due Diligence on FI Projects, EBRD.
Box 6. Example of Contents of an Environmental Manual for Participating FIs

An environmental manual for banks and other credit institutions should be simple and user-friendly for non-environmental professionals (with a minimum of jargon and technical terms), and tailored to the environmental regulations of the country and the requirements of the Bank. It should lead the user to select the key environmental issues associated with a given investment proposal and to determine what needs to be done about them for a sound and legal investment decision.

The manual developed for the Enterprise and Financial Sector Restructuring Project in Latvia is an excellent example, issued jointly by the Latvian Ministry of Finance and the Bank. It explains in simple terms and with user-friendly forms and checklists, the process that Latvian FIs should follow to ensure that private sector projects meet both Latvian and Bank environmental requirements. Since Latvia already had regulations in place requiring investment proposals of a certain type and scale to be subject to EA and permitting, the role of FIs was to check that potential project sponsors adhere to these rules and to make an informed decision as to whether or not to finance proposed projects. In other words, the manual helped the FIs to consider environmental risk as part of the overall financial risk associated with any type of investment and to avoid those investments that would clearly violate existing laws or Bank policy. The manual is also directly useful to investors seeking financing from the banks, the environmental authorities, and NGOs.

The main sections of the manual includes:

Introduction: How to use this manual

Part 1: What investors should know about environmental due diligence in Latvia
- Environmental screening
- Environmental review: consultation and permits
- Environmental assessment at the regional level
- Environmental Protection Committee Level
- State environmental assessment
- Environmental audits
- The role of lending institutions in the environmental review process
- Table 1: Project documentation required according to environmental screening category
- Table 2: Primary responsibilities of principal actors during environmental review

Part 2: The EIA Process in Latvia
- Appendices:
  - Suggested outline for environmental impact assessment, including environmental management plan
  - Suggested outline for environmental audit
  - State environmental protection institutions
  - List of significant environmental laws and regulations

EIA, whereas expansion of existing facilities would normally require an environmental audit and/or risk assessment or perhaps an environmental management plan. Where the types of sub-projects are known and relatively straightforward, such as retail outlets, environmental design criteria might be acceptable in place of EA studies, followed by supervision to ensure satisfactory implementation.

In many countries where a system of screening by environmental authorities is in place, the FIs need only verify that investment proposals have been screened in accordance with the applicable regulations and that the project sponsor intends to carry out appropriate EA work. Additional guidance on screening may be obtained from Environmental Assessment Sourcebook Update No. 2: Environmental Screening.

Environmental review of subprojects

The environmental review role of FILs will normally be focused on compliance to ensure that all environmental requirements have been addressed. The technical efficacy of these requirements are typically the concern of the project sponsor. Where in-country capacity for regulatory review is inadequate, the Bank may retain a review and clearance role for EAs of sensitive subprojects.

Environmental manuals should normally contain checklists to help FIs verify that proposed subprojects meet applicable environmental requirements. An example of such a review checklist is provided in box 7.

Follow-up by FIs during subproject implementation

FIs should develop environmental performance monitoring procedures to ensure implementation of agreed environmental actions, and to assess the risks associated with changes in the regulatory framework or the sponsor operations. These procedures, outlined in the FIs environmental manual, should include simplified proformas for submission of monitoring reports by
Box 7. Checklist for Environmental Review of Subprojects by FIs

The following environmental issues should be addressed prior to an FI making a decision to proceed with individual subprojects:

- Have all EA requirements been complied with (including public involvement and reporting)?
- Is the subproject in compliance with existing or proposed environmental legislation or Bank requirements?
- What are the key environmental risks associated with the subprojects?
- Have these risks been addressed through subproject design or other mitigation measures?
- Are all mitigation measures (such as contaminated land remediation and ongoing environmental monitoring) fully costed and covenanted in the loan agreement as appropriate?
- Are the costs associated with environmental mitigation or residual environmental risks likely to affect the subproject’s viability?

sponsors. Ideally, environmental monitoring should be linked to standard credit-risk monitoring procedures, and involve staff from the sponsor and FI in the submission of reports.

For medium and high risk loans, the FI should undertake periodic checks on compliance with agreed actions through selective auditing of subprojects. This might best be done on a sub-sectoral basis and involve the use of consultants or in-house experts.

*Environmental reporting and Bank supervision*

Progress reports to the Bank from FIs should include:

- the environmental screening decisions for subprojects;
- the results of the EA process;
- evidence of necessary permits/licenses provided;
- status of compliance with agreed environmental actions; and
- any actions on the part of the FI to resolve outstanding environmental concerns with subprojects.

Periodic Bank supervision should evaluate: (i) the environmental screening and review process (including the successful implementation/use of the manual, effectiveness of training, and so forth); and (ii) random checking of selected subprojects. In some FILs it will be necessary to supervise first tier and second tier banks, in some only one of them, in others the dynamics between the banks and the regulatory agencies.

This *Update* was written by Aidan Davy and Colin Rees, and benefitted from inputs by Bank staff and by specialists from other international development institutions. The *EA Sourcebook Updates* provide guidance for conducting environmental assessments (EAs) of proposed projects and should be used as a supplement to the *Environmental Assessment Sourcebook*. The Bank is thankful to the Governments of Norway and The Netherlands for financing the production of *Updates*. Please address comments and inquiries to *EA Sourcebook Updates*, Environment Department, The World Bank, 1818 H St. NW, Washington, D.C., 20433.