

COMPLIANCE REVIEW REPORT: CMI OFFSHORE PROJECT, TURKMENISTAN

MANAGEMENT RESPONSE TO FINDINGS

EBRD Management welcome the opportunity to provide this Management Response to Findings and Management Action Plan.

- EBRD Management fully considered the compliance review's contributing effort in addressing this case. EBRD Management believe that the compliance review has identified areas in the Environmental and Social Policy (ESP) that will need due attention in the Bank's ongoing review of its ESP so as to avoid any ambiguity.
- Management maintain that the Project has been structured to comply with the requirements of the 2014 Performance Requirements. Appropriate Environmental and Social Due Diligence (ESDD) due diligence was carried out proportionate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impacts. The ESDD identified that the potential risk areas relate to the existing offshore oil extraction operations and the use of established navigation channels in the Caspian Sea. The ESDD concluded that these risk areas exist without the project and independently of the project, and that the Bank's client has no control or influence over these risks.
- The CMI Offshore Project was approved by the Board of Directors on 18 October 2017; however, the loan was not signed and expired. The project has been cancelled.

MANAGEMENT ACTION PLAN

Pursuant to Paragraph 44 of the 2014 PCM Rules of Procedure, the Compliance Review Report made two recommendations, one of which is specifically intended to 'address the findings of non-compliance at the level of EBRD systems or procedures in relation to a Relevant EBRD Policy, to avoid a recurrence of such or similar occurrences' (Paragraph 44 of the 2014 PCM Rules of Procedure), and the other to 'address the findings of non-compliance in the scope or implementation of the Project, taking account of prior commitments by the Bank or the Client in relation to the Project that was subject to the Compliance Review'.

PCM Recommendation 1: At the level of systems or procedures, the Bank should develop detailed guidance to clarify the normative implications of the related requirements under the ESP to identify and characterise potentially significant environmental and social issues associated with project-related facilities or activities, and to consider direct, indirect and cumulative impacts related to a project. Such guidance should have regard to best practice identified in the implementation of the environmental and social safeguard policies and accountability standards of other multilateral development banks, as well as in national and regional implementation and application of EIA rules. Of course, the current, ongoing review of the ESP offers an opportunity for clarification of the environmental and social appraisal requirements applying to functionally-related projects.

Management Comment 1: The Management acknowledges that guidance could make it clearer that the Bank's 2014 Environmental and Social Policy contains distinct environmental and social appraisal requirements for activities or facilities, which are not part of the project depending whether these (i) are owned and controlled by the Client, or (ii) cannot be controlled or influenced by the client.

Management Action 1:

- 1.1 The Management will take the opportunity during the current, ongoing review of the ESP to further clarify the environmental and social appraisal requirements applying to project related existing facilities, associated facilities and functionally-related other projects in line with the environmental and social safeguard policies and accountability standards of other multilateral development banks, as well as EU EIA Directive and related guidance.

This action is being implemented in the context of the ongoing review of the ESP that will be completed in the first half of 2019: **Timeline – by 30 June 2019**

- 1.2 Once the revised ESP has been approved by the Board of Directors, Management will develop guidance on:
- (i) The scope and boundaries of the past and present environmental and social issues and risks associated with the project, project-related existing or associated facilities that will be subject to the Bank's environmental and social appraisal; and
 - (ii) under which circumstances the Bank's environmental and social appraisal will need to consider environmental and social risks and impacts relating to existing and new facilities and activities that are associated with the project, but are not financed by EBRD.

This action will be initiated upon approval of the revised ESP by the Board of Directors and completed by year end 2019: **Timeline – by 31 December 2019**

PCM Recommendation 2: At the level of the scope or implementation of the present Project, the Bank should without delay review the relevant environmental impact assessment(s) conducted in respect of the oil extraction operations serviced by the Client with a view to identifying any critical issues arising for the Client's operations. Where any such issues arise, the Bank should consider agreement of an Environmental and Social Action Plan (ESAP) to ensure these are effectively addressed. The Bank should have particular regard to any risk of direct, indirect or cumulative impacts to the Hazar State Nature Reserve, and any appropriate measures to mitigate such risk which might be taken within the scope of the present Project.

Management Comment 2: Although not appropriately recorded, the Management did, as part of the ESDD, review publicly available information on the oil extraction operations serviced by the Client. These did not indicate any specific risks to the Client that would have needed to be addressed in the ESAP.

The Bank's appraisal also acknowledged that in 1999, the Bank provided a loan to Dragon Oil for development of off-shore hydrocarbon fields in 'Block II', west of the Cheleken peninsula. The project was categorised "A" and an Environmental Impact Assessment was prepared and disclosed in accordance with the Bank's requirements. An environmental audit of the existing operations was also undertaken. The investigations concluded that the project involving rehabilitation of existing

infrastructure and the Bank's requirements for continuous integrity monitoring and the adoption of the Oil Spill Response Plan will prevent and mitigate against oil spills, which is the key measure required to prevent adverse impacts on the marine flora and fauna in the Caspian Sea, including the Hazar State Nature Reserve.

The Management did not identify any other publicly available environmental impact assessments on the oil extraction operations serviced by the Client.

Management Action 2: Given that the Project has been cancelled, the Bank will not be in a position to address the recommendation at the level of the scope or implementation of the Project. However, to address the lessons learned from the project, the Management will strengthen its systems and practices for other similar projects by:

- (i) amending its guidance on environmental and social appraisal to include the requirement to identify publicly available environmental impact assessments of associated facilities serviced by a Client of the Bank and review these to identify any critical environmental and social risks for the Client's operations. In the event that any material environmental and social risks are identified, which are within the Client's control or influence to mitigate, the Management will develop and agree with the Client appropriate measures to mitigate such risks and include them in the Environmental and Social Action Plan (ESAP).
- (ii) preparing internal procedure to appropriately record all elements of the Bank's environmental and social appraisal, even when they do not identify relevant issues.

This action is already being implemented on projects and it will be formalised through additional guidance and instructions that will be completed in the first half of 2019: **Timeline – by 30 June 2019**