

## **ENVIRONMENTAL REQUIREMENTS FOR PROJECT INVESTMENT BY INTERNATIONAL FINANCIAL INSTITUTIONS**

*The investment process and major requirements of international financing institutions are analyzed in the article. The environmental assessment necessity as a crucial term for financing provision is emphasized.*

**Key words:** *investment, international financing institution, project cycle, environmental assessment, environmental requirements.*

Environmental investment is intended to prevent harmful effects on the environment and is designed for the long term. Environmental investment projects are aimed not only at the economic benefits that come as additional revenues (mainly due to the savings of all kinds of resources), but also at the prevented economic damage caused by destructive impacts on the environment [1].

The highly energy and resources consumption and somewhat indifferent attitude towards the problems of environmental protection at the practical level (energy, agriculture, industry, utilities, etc.) is rather typical for transition economy countries, such as Ukraine is today. Unfortunately, it is very difficult to count on substantial state support for the development of environmental programs in current economical conditions. Thus for several last years, industrial, agricultural and municipal sectors actively involve exterior investment cost, mostly from international sources. It should be noted that this investment in the Ukrainian economy can be “compensative” (credits) and “gratuitous” (grant and program implementation support, etc.).

The best-known international financial institutions (IFIs) that cooperate with Ukraine are The World Bank (WB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) and others. In addition to these major global and regional IFIs there are a number of international foundations and development agencies, who take part in the development of environmentally sound economy of Ukraine, such as the Agency for International Development (USAID), Global Fund

Climate Partnership (GCPF), Canadian International Development Agency (CIDA), etc. [2].

For example, investment lending carried out by the World Bank provides funding for a variety of activities aimed at creating the physical and social infrastructure necessary to reduce poverty and achieve sustainable development [3]. Under the auspices of the World Bank, projects are carried out in a variety of areas – from reducing poverty in the cities to rural development, improvement of water supply and sewerage systems, rational use of natural resources, elimination of the consequences of military conflicts, the development of education and health.

The World Bank has a large variety of investment instruments: specific investment loans, loans for industry or sectoral needs, etc. There are some tools for the increasing of the flexibility of lending – adaptive program loans and experimental and innovative loans. Among other instruments, technical assistance loans, loans to financial intermediaries and emergency recovery loans are used for the specific needs of the borrowers as well.

In Ukraine, loans from the World Bank are widely used in the field of public utilities, particularly energy efficiency projects, which help to achieve energy savings, reduce carbon emissions and improve heating services. Currently, 12 World Bank assisted projects are implementing in Ukraine.

The European Investment Bank (EIB) is one of the inter-governmental institutions serving regional needs. For today the EIB is the largest credit institution in the world. The size of its loan portfolio only in Ukraine in 2015 amounted to 3 billion Euros. Areas of loans' use are energy, transport and telecommunications [4].

Investment activities of the European Bank for Reconstruction and Development are aimed at large-scale projects, with general cost from 5 to 250 million Euros. It is typical for EBRD to provide credit funds via the local banks [5]. As well as the World Bank, EBRD primarily selects for loans the most pressing areas: energy efficiency and alternative energy sources. For the entire period of independence Ukraine has implemented 363 projects with the involvement of the EBRD costs.

According to EBRD procedures, projects and programs have to meet next requirements:

- take place in the country from the list of EBRD operation countries;

- have a significant economic effect;
- assume the contribution of the major sponsor to the chartered capital in cash or in kind;
- serve the interests of the national economy and promote private sector development;
- meet the banking and environmental standards.

A typical project cycle of the investment project has specified phases:

1) **Identification.** At this stage, the borrower and the IFI analyze the country development strategy and outline projects that can be implemented in accordance with these policies. Projects must be well-grounded economically, socially and environmentally.

2) **Preparation.** The borrower is responsible for the draft preparing, which usually lasts 6-12 months. In many cases, the IFI is providing technical and financial assistance. In the course of drafting, the working group responsible for the project in the borrower's country should define which technical, institutional, economic, environmental and financial terms need to be provided for the successful implementation of the project. An assessment of the potential environmental impact of the project is provided, if necessary.

3) **Evaluation.** IFI is solely responsible for the evaluation of the project, which is usually held by the IFI staff, sometimes jointly with specialized consultants. The evaluation team assesses the project work carried out at the stages of identification and preparation of the project. This group prepares the Project Assessment Document in relation to investment projects and the Policy Documents in relation to lending transactions for the purposes of structural reforms. The documents are carefully reviewed, and if necessary, they shall be corrected, whereupon they are submitted to the leadership of IFIs. After the approval of the leadership these documents are published.

4) **Negotiations.** During the negotiations the IFI and the borrower try to reconcile the measures to be taken to ensure the successful implementation of the project. Borrower considers the final versions of the documents, afterwards the parties agree on the terms of the loan.

5) **Approval and entry into force.** If the loan or credit is approved, the IFI and the borrower sign an agreement (Memorandum). When the loan or credit is approved, a corresponding agreement passes the procedures

established by the Government of the State of the borrower, and then Memorandum is published.

6) ***Project implementation and supervision of the project.*** The borrower is responsible for the implementation of the project and can use agreed technical assistance of the IFIs. Supervision of the project is the responsibility of the IFI, and it oversees the activities of project results evaluating and associated reporting.

At the end of the appropriation period (from 1 to 10 years) the report on the completion of the project is compiled, stating the achievements, challenges and lessons learned. The report applies to the Board of Executive Directors of IFI for approval.

7) ***Post-completion project assessment.*** Upon completion of the project IFI conducts an audit of the project to compare the results of the project with the original objectives. This audit provides a report on the project completion and a separate report on the audit. These reports are not published, but based on these reports IFIs periodically evaluates the results of projects series.

As we see, an essential requirement of funding for the implementation of multilevel environmental protection activities is the justification of environmental safety of planned activities. General requirements for the implementation of the environmental assessment are similar, but there are specific aspects and request, which are taken into account by each individual financial institution when providing investment funds. For example, each IFI has its own list of activities, which are in any case not financed by its funds. For other projects pre-investment environmental assessment is conducted. Its main principles are: preventiveness - to assess before making major decisions on the implementation of the project; complexity - consider all the impacts on the environment: the natural, social, man-made; democracy - to provide the right to participate in the decision-making process for all interested parties.

General scheme of pre-investment environmental assessment includes the following steps:

- definition of the assessment tasks with consideration of possible alternative design decisions;

- forecast, analysis and evaluation of the significance of the expected environmental impacts;
- development of mitigation measures (prevention, reduction, compensation, etc.);
- development of the monitoring plan (at the implementation stage of the project).

Pre-investment environmental assessment is carried out at the first two stages of the project cycle and includes conclusions on compliance of proposed activities with environmental legislation of the borrower country and (in some cases, on the recommendation of IFI) with international environmental requirements. Based on the findings of the environmental assessment, IFI may decide as to continue the investment procedures for the project, as to refuse funding for this type of activity because of its non-compliance with environmental safety requirements and high probability of irreversible environmental impact as a result of its implementation. Hence, it is recommended that only the experts and specialized organizations on environmental issues that are qualified and aware in national and international legislation could be involved in the process of the preparation of complex pre-investment environmental assessment.

In addition, it is considered advisable to involve IFI investment at the regional and national levels to finance environmental problems solutions for the project of transboundary significance and projects related to environmental restoration of areas that have experienced hostilities. This experience can be useful not only nationally, but also used for similar projects in neighboring countries or for joint programs of study of transboundary effects on objects and territories.

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**Артемова О. С., Васенко О. Г. ЕКОЛОГІЧНІ ВИМОГИ ДО ФІНАНСУВАННЯ ПРОЄКТІВ МІЖНАРОДНИМИ ФІНАНСОВИМИ ІНСТИТУЦІЯМИ**

*У статті наведено аналіз процесу інвестування та основних вимог міжнародних фінансових інституцій до фінансування проєктів. Підкреслено необхідність екологічної оцінки як ключового аспекту для надання фінансування на здійснення проєктів.*

**Ключові слова:** *інвестування, міжнародні фінансові інституції, проєктний цикл, екологічна оцінка, екологічні вимоги.*

**Артемова Е. С., Васенко А. Г. ЭКОЛОГИЧЕСКИЕ ТРЕБОВАНИЯ К ФИНАНСИРОВАНИЮ ПРОЕКТОВ МЕЖДУНАРОДНЫМИ ФИНАНСОВЫМИ ИНСТИТУЦИЯМИ**

*В статье приведен анализ процесса инвестирования и основных требований международных финансовых институций к финансированию проектов. Подчеркнута необходимость экологической оценки как ключевого аспекта для предоставления финансирования на осуществление проектов.*

**Ключевые слова:** *инвестирование, международные финансовые институции, проектный цикл, экологическая оценка, экологические требования.*