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CEE Bankwatch Network Green Istria, Croatia

Comments on the draft EBRD property sector strategy

General comments

CEE Bankwatch Network's comments on the EBRD's new draft property sector strategy, presented below, are primarily concerned with the environmental and social impact of the bank's investments in the sector. We would like to see the investments being targeted at projects that will clearly leave ordinary people and the environment better off, particularly in the current crisis context, and where the EBRD adds clear value compared to private sector investors.

Energy Efficiency

We particularly welcome the planned investments in energy efficiency. These need to be further expanded. Particularly in the current crisis context, energy efficiency investments and the consequent cost savings could be the most relevant measures in this sector for improving people's lives, and the EBRD should consider diverting additional funds from other property sub-sectors which have fewer direct benefits for ordinary people.

Annex 2 of the draft strategy correctly identifies some of the challenges for the implementation of energy efficiency measures, however **the strategy as a whole needs to go further in exploring the ways in which these challenges can be overcome, particularly in the residential sector.** It needs to propose more solutions in which the EBRD could play a role, whether through private or public sector projects.

Sustainable building

In addition to energy efficiency investments, **the strategy should lay out additional plans for how the EBRD intends to promote environmentally sustainable construction** in its property investments. Buildings that are constructed now will have a significant environmental impact over their lifetime and it is important to give adequate consideration to how this can be minimised. Examples may include greywater systems, solar water heating, sustainable insulation materials such as cellulose fibre, avoidance of PVC and other non-recyclable materials in construction, biomass heating etc.

Socially useful property investments with high added value

In our view the EBRD can add value in the property sector mostly in the areas mentioned above, which make environmental, social and economic sense but would not otherwise

happen by themselves due to the lack of financial incentives and unclear legal frameworks.

In other property sub-sectors such as hotels, shopping centres and logistics space, it is less clear why public money should be used to support activities that are clearly commercial and profitable during times of growth, and for which there is therefore little added value from EBRD financing. As the draft strategy states on p. 28: *"The Bank will work to address the steep decline in financing availability and the repricing of risk across the region, in the knowledge that the resources it has available, though limited, have become markedly more additional than they were at the peak of the market."* While additionality can currently be claimed for almost any investment due to the lack of private financing, it is crucial that the EBRD tightly prioritises the use of its limited funds, giving precedence to those with clear long-term additionality and positive social and environmental impact.

Specific comments on the text:

1.2 EBRD activity over the period

p.14 We welcome the relative decrease in investments in hotels between 2000 and 2008 and recommend a further decrease in such investments. Hotel investments should be limited to budget accommodation in less advanced transition countries, and high-end tourist hotel investments should be avoided. The latter serve a very limited segment of the population and should be privately financed. It would be useful, both on p.14 and on p.31, to have an explanation of what 'tourism' investment means, apart from hotels. This is also not very clear from looking at the list of approved and signed projects on the EBRD's webpage, which mostly seem to be hotels.

Similarly on p.14 it would also be useful to have an overview of what the 'investment funds' invested in - otherwise the proportions are very unclear.

2. Transition challenges

p.26 The short discussion of tourism here concentrates on hotels. It should also be taken into account that much of the region's existing tourism activity is not based on hotels but on small-scale private accommodation that brings direct benefits to local people, and in such cases the impact of new hotels may have a questionable impact on the local economy. It is reasonable for some low-budget regional city centre hotels to be opened or renovated in less advanced transition countries, however it should be examined whether and why private finance is not available for such enterprises before investing.

3. Operational Priorities

p.28 It would be easier to understand the EBRD's intentions in each sub-sector if the Operational Priorities contained headings such as Logistics, Hotels and Tourism etc. For example the bank's plans for the tourism sector are mostly under the heading of Geographical Diversification on p.30-31, which is somewhat confusing.

p. 31 **We ask the EBRD to clarify in the strategy which kind of tourism projects it is planning to support, other than hotels.** We welcome the relatively restrictive nature of the criteria on p.31 given the potential of poorly planned tourism to cause negative social and

environmental impacts. However it is precisely in areas such as the Croatian coast or the Bulgarian Black Sea coast where tourism has developed very rapidly through private sector development where little further investment can be justified except for renovation of existing facilities. The local economies are already too highly dependent on tourism and tourism development has taken a heavy toll on the landscape, particularly on the Bulgarian coast.

In particular we would welcome a statement from the EBRD that it does not intend to finance golf courses or associated developments in the foreseeable future, particularly in Croatia and Bulgaria, as these are more and more frequently associated with environmental destruction and possible corruption.

The Croatian Law on Golf, marginally passed at the farcical 7th sitting of the Parliament on 15 December 2008 after being hurried through an unjustified urgent procedure, is being challenged by a number of parties as being unconstitutional. Among other deficiencies, it allows the forced expropriation of land for golf courses without appeal, and awards golf courses the status “question of national interest”, as if they have the same importance as defence facilities or motorways. Up to 25 per cent of golf course land over 85 ha is allowed for construction, thus opening the way for underhand transfer of agricultural land to construction land. There are few golfers among the Croatian population, yet more than 20 golf courses are planned in the County of Istria alone. Any investment in this field within the current legal framework runs a high risk of supporting corruption and inappropriate development, not to mention golf’s relatively high environmental impact through pesticide and water use.

In Bulgaria, more than 20 golf projects are being planned, worth around EUR 1 billion. As they are largely planned along the coast and near ski resorts - supposedly to make the existing resorts attractive all year round - they pose a new threat to Bulgaria’s already beleaguered Natura 2000 sites.

Annex 3 Social and environmental appraisal of projects

This section is useful, however we have identified three important challenges that still need to be covered:

1) Transport impacts of property developments. **The EBRD needs to state how it will ensure that its property developments do not add to road traffic and congestion.** For example developments should be located by public transport facilities, and it should be clear how the company concerned intends to take advantage of these. The EBRD should not finance logistics depots on motorways, as these are likely to contribute to an increase in road traffic and potentially to a decline in rail freight transport.

2) The weakness of urban planning in many of the EBRD’s countries of operation. City development often proceeds randomly, with glass-and-steel skyscrapers appearing side by side with single-storey residential housing, and unattractive retail and industrial development sprawling on the edge of cities. In cases where cultural heritage is affected, the strategy states that the EBRD will “work with clients to assist in the process of both preservation and in deriving benefit according to best practice set up by such institutions as the United Nations Educational, Science and Cultural Organisation (UNESCO)” and that “the Bank shall work with clients on tourism projects to both maximise local benefits sharing by communities and also preserve and take advantage of cultural heritage.” However **in cases where there is no**

direct impact on existing culturally sensitive sites, the EBRD still needs to state how it will ensure that the development is carried out according to sound urban planning principles, including public participation for projects that do not require an Environmental Impact Assessment, and that it is appropriate both visually and in terms of transport impact.

3) Insufficiency of environmental legislation to ensure protection from tourist development. It is stated in the draft Property Sector Strategy that "For each project, national and EU environmental standards are required to be met and where EU environmental standards do not exist, the client will be required to apply other good international practice such as the World Bank Group Environmental, Health and Safety Guidelines.

However **it needs to be clear how the EBRD will treat cases where national and EU legislation exists but is not sufficient to provide sufficient environmental protection.** For example in Croatia, national legislation in Croatia regarding Environmental Impact Assessment does not provide for sufficient "*measures to avoid, minimise or mitigate potentially adverse impacts and, where appropriate and as a last resort, propose compensatory measures*" in the case of the construction of holiday villages and hotel complexes.

The 'old' version of the Regulation on Environmental Impact Assessment (Official Gazette 64/2008) established a 5-hectare threshold to determine whether such projects should be made subject to an assessment. However, amendments to the Regulation approved on 28th May 2009¹ greatly relaxed this requirement. Instead of appropriate thresholds or case-by case examination for each new project regardless of size, the new amendments allow for tourist projects to be carried out without any impact assessment if under 15 hectares and inside urban areas. Projects bigger than 15 ha and *outside* urban areas are subject to a screening procedure.

Considering that in Croatia there are several ex military areas of several hundreds of hectares planned for the construction of tourism facilities *inside* urban areas (with known infrastructure and transport problems), and thus excluded from any impact assessment, this is likely to bring important adverse environmental and social impacts. In order to avoid such scenarios and financing of unsustainable projects, the EBRD should require the environmental appraisal process for significant tourism projects and establish its own criteria.

¹ http://narodne-novine.nn.hr/clanci/sluzbeni/2009_06_67_1594.html