CEE Bankwatch Network comments on:

Background material on the EBRD's Capital Resources Review 4 (2011-2015)

Introduction

CEE Bankwatch Network warmly welcomes the opportunity to comment on the proposals for the Capital Resources Review 4. At this particularly challenging time in the EBRD's operations, we believe it is especially important that the views of a wide range of stakeholders are taken into account.

As a network of non-governmental organisations from the EBRD's countries of operations that has worked for almost 15 years to prevent the environmentally and socially harmful impacts of development finance, we believe that we are well placed to bring critical but constructive perspectives to the debate, and we look forward to seeing how the EBRD takes our recommendations into account.

We would like to begin with a few overall recommendations before commenting on specific sections of the CRR4 background paper. These apply at any time, but their importance is magnified by the planned capital increase, and in our opinion the EBRD's effectiveness in the environmental and social spheres would be greatly improved by implementing them.

Overall recommendations

1) If the EBRD is to contribute positively to improving people's lives and the environment in its region of operations, we believe that **measurable on-the-ground development and environmental change goals need to be clearly laid out**, and not only its market-transition-related goals, both in the CRR4 documents and elsewhere. We believe that too many assumptions have been made in the apparent conviction that market-oriented projects automatically bring improvements to people's lives and the environment; we further believe that more sector-specific goals are needed.

The EBRD is mandated "to promote in the full range of its activities environmentally sound and sustainable development". However to date this has mainly taken the form of screening projects along with the undertaking of a sprinkling of specifically targetted environmental projects. **This needs to change to an approach led by environmental and development policy**, whilst maintaining the EBRD's specific areas of expertise.

2) The review which has been taking place of remaining **transition challenges** is very welcome and, in our opinion, necessary. We welcome the review's recommendation for the bank to focus on increasing qualitative aspects of transition.

However we believe that the wider question of what transition is, and what it does or does not involve, needs to be re-examined as part of the ongoing revision of the bank's transition indicators, both on the project and country level. EBRD projects often involve models that go beyond a basic market economy, such as public-private partnerships for infrastructure, even where their usefulness and value for money has not been thoroughly proven. The current transition indicators give high scores for this, even though the same infrastructure work carried out through traditional public procurement would equally assist the development of the country and its economy, often at a lower cost.

The CRR4 background documents acknowledge that the fact that the transition mandate is 'once removed' from ultimate goals (such as meaningful jobs, poverty reduction, higher incomes, high-quality services, a sustainable environment) often makes it harder to measure the EBRD's impact. (p.46) In our opinion **the link between transition and the ultimate goals needs to be made more explicit. Social wellbeing and environmental change indicators need to be brought into the transition indicators (or treated separately but given equal weighting**) if the EBRD genuinely intends to promote environmentally sound and sustainable development with the same vigour as it promotes market economies.

3) We welcome the reference made at several points in the document to the EBRD's goal of financing transition to a **low-carbon economy**. However we are concerned that this is not sufficiently backed up by actions that are likely to lead to this end. The planned activities for the period appear rather to lead to a more efficient, but still thoroughly carbon-dominated economy in the region. It is profoundly concerning that some of the activities are not merely aimed at making more efficient existing facilities, but in actually constructing new infrastructure that would lock the relevant countries into *new* patterns of fossil fuel use lasting several decades. Similarly, environmental remediation activities must not be mixed into projects that aim at capacity expansion, as the benefits of the remediation may be cancelled out by the expansion. Also, the length of the permitting process for capacity expansion may adversely affect much-needed environmental remediation plans.

Without **a commitment to phase out support for both fossil fuel projects and the heavily subsidised and carbon intensive aviation industry,** and to use the relatively scarce resources for renewable energy and energy efficiency, it is unclear how the EBRD can make a substantial contribution to putting the transition countries on track towards a low-carbon economy.[1]

Where the EBRD plans to finance renewable energy, we welcome this, but caution that the construction of large hydropower plants cannot be regarded as sustainable. The World Commission on Dams established by the World Bank is clear about the differences between small, potentially sustainable hydro projects – those under 10 megawatts – and larger projects that come with serious environmental, greenhouse gas, ecosystem and social consequences unless a wide range of conditions are met.[2]

As a public financing institution with a signal function for other investors**, the EBRD should lead new markets, rather than reinforcing existing ones**. **It should invest according to what is needed in terms of investments into renewable energy and energy efficiency in order to meet the GHG reduction requirements put forward by the IPCC, not only weak existing political commitments**. So far, according to the 2008 Sustainability Report, investments into making more efficient existing power stations (and presumably prolonging their lives) and industrial energy efficiency exceeded investments into renewable energy by nearly 5 times and 3 times respectively (p.12). While energy efficiency investments are much needed, a rapid switch to new renewables is also required. We acknowledge the increase in renewable energy investments in the last few months and hope that this will continue to expand beyond the immediate crisis context.

4) The EBRD needs to swiftly implement its Gender Action Plan and regularly report on progress made, and ensure that gender becomes truly integrated into all bank operations through visible leadership and appropriate institutional arrangements.

Specific comments and recommendations

p.9-14 **Transition impact during CRR3**

We believe that the EBRD's performance in transition during CRR3 should be seen in the context

---

1 Current assumption's of the EBRD's benign carbon impact are based on a carbon accounting system which does not include facilities being used for the purpose for which they were intended, eg. combustion of oil brought through pipelines, or emissions from vehicles travelling on a motorway.

2 For further details on Bankwatch's position on sustainable renewables, see our study Change the lending, not the climate, http://www.bankwatch.org/publications/studies.shtml?x=2207396, p.44ff.

of our comments above, that the criteria currently used to measure transition are oriented too exclusively towards market models and not well enough linked to environmental change and development goals, and that they promote market models which may not in every case be the best tools for the job.

Recommendation 1: We would welcome increased opportunities for stakeholder engagement on the revision of the transition indicators for projects and countries and the integration or increased weighting of development and environmental change indicators.

p.31-32 **Productivity**

"Productivity can be reviewed both in terms of operational volumes per staff member and in terms of number of operations per staff member. Whilst the focus of the Bank's analysis of productivity is on the number of operations, the increase in the planned average size of projects in CRR3 has contributed to the significant increase in annual business volume.

The composition of projects has changed and due to the crisis related activity there has been a particular increase in larger operations in the last two years of CRR3. Operations above €50 million in 2010 for example are projected to account for 11% of the total operations compared to 6% in 2005."

We are concerned that a focus on staff productivity measured in terms of number or volume may impact on the *quality* of the EBRD's projects. Beyond a minimum acceptable quantity, there should not be a focus on closing a maximum number or volume of projects, but on undertaking very good quality projects.

Recommendation 2: That the EBRD measures staff performance not in terms of volume or number of projects but in terms of the staff member's work on ensuring that the projects are well selected and implemented.

CRR4 Strategic Framework and Objectives

Medium-term operating priorities

p.40 Reflecting the evolution of the region and the impact of the crisis, medium term priorities include:

- *a focus on transition and the deepening of democracy with a growing emphasis on qualitative dimensions of the transition such as institutional and environmental sustainability;*
- *support for financial sector stability and the resumption of normal conditions of financing for the real sector;*
- *the development of diversified and knowledge based economies that provide a basis for balanced and sustained economic growth and employment;*
- *the shift towards an energy efficient low carbon economy supporting energy security and economic competitiveness; and*
- *the acceleration of infrastructure, including environmental, investment based on a mix of ownership, management and financing models to enhance the long-term growth potential.*

We very much welcome the commitments to increase the emphasis on the qualitative dimensions of transition, to diversify economies, and to shift towards energy efficient low carbon economies, albeit with the caveats expressed in the overall recommendations.

In principle we also welcome the support for SMEs, however we are concerned about the lack of information about the final beneficiaries of EBRD financing in projects involving financial intermediaries, and the lack of information available to the public on the environmental and social impacts of this financing. Indeed, at a recent consultation on the Clean Technologies Fund in Kazakhstan, SME representatives also raised the issue that often they are not aware of the EBRD's initiatives, that interest rates are high, and that there is a non-transparent process of decision-making by the intermediary banks.

Recommendation 3: The EBRD needs to disclose final beneficiaries of financial intermediary financing, and publish those equivalent to environmental category A or B on both the EBRD's and the financial intermediary's website before financing is approved.

Recommendation 4: The bank needs to disclose qualitative, independent evaluations routinely to increase accountability and properly assess the extent to which the EBRD is achieving its stated goals with financial intermediary projects.

Regarding infrastructure, there is a clear need for infrastructure improvements in the EBRD's countries of operations. However this needs to be more clearly aligned with environmental policy objectives to ensure that EBRD investments do not promote environmentally detrimental developments such as increasing road transport. Infrastructure goals also need to be more closely aligned with development objectives, such as ensuring access to clean water, or increased access to services for women. More emphasis should also be put on maintaining current infrastructure or finding minimal cost solutions rather than embarking on large new projects.

Recommendation 5: **The EBRD needs to set concrete development and environmental change goals in the CRR4 documents, in sectoral strategies, and in country strategies, as well as at the project level.** It cannot simply be assumed that these will automatically result from market economic models – after all the countries with the most developed market economies are also very far from reaching goals such as environmental sustainability in almost all sectors.

Recommendation 6: In addition, the EBRD needs to ensure that its cost-recovery-oriented policies will not result in raising the price of environmentally acceptable transport modes, waste management options or energy resources to the extent that they become relatively less attractive compared to subsidised, environmentally harmful ones.

Recommendation 7: The EBRD needs to ensure that its infrastructure investments take into account long term issues such as increasing resource prices, which would make carbon-intensive infrastructure investments less attractive, and resource-efficient ones more attractive.

p.45 **CRR4 objectives**

"One such innovation will be the more systematic pursuit of opportunities for policy dialogue, and the development, where appropriate, of an integrated approach to transition that seeks to purposefully combine projects, policy dialogue and technical assistance in targeting reform objectives."

Recommendation 8: This approach is welcome to the extent that it concentrates on enabling improved functioning of institutions in areas that will bring cross-cutting improvements in project outcomes, such as environmental and procurement issues. However, the bank must avoid focusing on using technical assistance and policy dialogue to promote models of public private partnerships for infrastructure in countries where institutional capacity is low across the board and where there is little likelihood of effective outcomes from such models in the foreseeable future.

p.46 "The Bank's transition mandate is unique among IFIs in directing it to support systemic change rather than delivering development outcomes. But the choice was, of course, based on the conviction that a democratic and pluralistic market economy is the form of social organisation best capable of achieving results that people care about: meaningful jobs, poverty reduction, higher incomes, high-quality services, a sustainable environment. The Bank's focus on transition, which is "once removed" from these ultimate goals, often makes it harder to judge its impact. The Bank will, during the CRR4 period, continue to reinforce its work in areas, such as the environment, micro-finance and municipal services, in which systemic change and development outcomes are closely aligned."

See Recommendation 5

p.46 **Regional orientations**

The EBRD's aim of 'moving east and south' certainly has some logic, however there is a danger of supporting regimes with poor human rights records, without sufficient democratic reforms and corporate governance. This problem is most acute in Uzbekistan and Turkmenistan, but also applies to other Central Asian countries. Large infrastructure projects in particular are in danger of becoming vehicles for material and political support for repressive regimes, with few tangible benefits for ordinary people.

We are concerned that the apparent assessment in the new draft Turkmenistan Country Strategy that the country now complies with Article 1 of the Agreement establishing the EBRD is highly problematic.

Recommendation 9: The bank must re-examine its assessment of Turkmenistan's compliance with Article 1 in the light of submissions received during the public consultation on the new draft Country Strategy.

Recommendation 10: Future activities in Turkmenistan and Uzbekistan must be conditioned on significant improvements in clear and detailed criteria on political freedoms, not only on sector-specific market-oriented criteria.

The EBRD also needs to pay particular attention to environmental and social governance in these countries, which may substantially affect policy dialogue efforts. For example in Kazakhstan a new tax code approved in 2009 significantly reduced the list of pollutants that are subject to taxation (companies now pay for only 16 pollutants) and many substances such as dioxins, heavy metals (e.g. vanadium, mercury), PCBs and others have been excluded. This has also led to a situation where emissions of these substances are not measured, which appears to violate both the Aarhus Convention (as citizens cannot access basic environmental information because it is not collected) and the Stockholm Convention on Persistant Organic Pollutants.

Another issue in Kazakhstan has been the weakening of national safety standards in coalmines, which may have contributed to the accidents at EBRD client ArcelorMittal Temirtau's coalmines.

Recommendation 11: The EBRD must ensure compliance with national laws, European regulations and international agreements ratified by the EU, including the Aarhus Convention and the Stockholm Convention.

p.47 Sectoral orientations

"Development of diversified and knowledge based economies providing a basis for balanced and sustained economic growth and employment.

*Demand for financing in the **corporate sector** is expected to rise sharply shifting over time from refinancing to restructuring, mergers and acquisitions and capital expenditure financing. Demand will reflect the combination of pent-up investments delayed by the crisis and lasting scarcity of commercial finance. The Bank will seek to develop the significant food supply potential of the region working through the entire value chain, including agricultural infrastructure and support to upstream agriculture..."*

Recommendation 12: We support the aim of developing diversified and knowledge-based economies. We also understand the need to support the corporate sector, given the impacts of the crisis. **However the EBRD must concentrate on financing companies that are socially useful and make or sell environmentally acceptable products**, in order to move its activities beyond screening projects and into the realm of truly promoting sustainable development. For example, we see no justification in using public financing to support car manufacturing when climate policy dictates that a modal shift to public transport, walking and cycling is necessary; or support for plastic packaging manufacturers in countries where there are no relevant recycling facilities.

Recommendation 13: The EBRD must show more clearly how it assesses whether financing is available from other sources at a reasonable rate, in order to avoid undue support for larger companies which could mobilise other resources themselves.

Recommendation 14: In the agricultural sector, the EBRD needs to demonstrate added value by incorporating a significant environmental element into its projects. Its region of operations has a high biodiversity value, whose preservation must be built into projects.

Recommendation 15: As agriculture is a significant source of employment in the region, the EBRD needs to ensure that it pays adequate attention to supporting small producers, which generate proportionally more employment than large producers. Efficiency gains resulting in decreased agricultural employment need to be offset by other employment opportunities if the bank is to have an overall positive impact. Particular care needs to be paid to the impact on women, considering their high participation in the agricultural workforce.

Recommendation 16: The EBRD needs to develop a stringent, publicly consulted policy to prevent the use of tax havens/secrecy jurisdictions by EBRD beneficiaries.

p.47-48 ***"Support for financial sector stability and the resumption of normal conditions of financing for the real sector.***

Demand for financing in the financial sector is expected to be sustained including for balance sheet strengthening and consolidation. This will require both debt and equity, and will present the Bank with opportunities to promote higher standards in risk management and corporate governance. In conjunction with other IFIs, the Bank will seek to build on initiatives such as the Joint IFI Action Plan to help address regulatory weaknesses. Demand for the Bank's support through credit lines, including for energy efficiency, is also expected to accelerate. As the recovery takes hold, the Bank's support for private equity will be important for SME development, firm restructuring and as a source of risk capital. A particular effort will have to be made to develop the region's local currency money and bond markets, a factor that contributed to excessive forex wholesale funding and unhedged currency positions in the lead-up to the crisis."

Recommendation 17: We welcome the focus on developing local currency markets, but would go further to suggest that the bank should plan a phase-out in its support for foreign currency lending for consumers and non-exporting SMEs.

See also Recommendations 3 and 4

"Acceleration of infrastructure, including environmental, investment based on a mix of ownership, management and financing models to enhance the long-term growth potential.

Investment and transition challenges are coming together in the region's massive replacement of ***energy, municipal and transport infrastructure*** *with significant implications for the Bank for the CRR4 period with an opportunity to assist in building market-based frameworks for infrastructure, one of the least advanced areas of the transition process, and pursue ambitious energy efficiency and environmental objectives. The unfinished transition agenda in this sector combined with high additionality over the CRR4 period is likely to result both in a larger number of transactions, and with more limited syndication opportunities, in larger transactions."*

See Recommendations 5, 6, and 7

"Shift towards an energy efficient low carbon economy supporting energy security and economic competitiveness.

While market reforms in many countries now provide price signals to use energy more efficiently, the key challenge is to address the entrenched structures and behaviours that prevent effective responses to market incentives. This challenge is exacerbated by the systemic market failure to monetise and internalise the cost of environmental damage which continues to produce excessive pollution and inefficient energy use. A low carbon economy is an increasingly important element of transition to well functioning markets, where energy resources are used efficiently and market actors face incentives to continuously improve performance. Within this context, and building on *the experience established in the Sustainable Energy Initiative, the Bank has considerable opportunities to expand its **energy efficiency and climate change** activities in large energy intensive industries, in energy efficiency financing, low carbon energy production, gas flaring reduction and municipal infrastructure network efficiency."*

Recommendation 18: We welcome the emphasis on a low-carbon energy efficient economy, however we are concerned that 'energy security' may often serve as a justification for investments that involve a continued reliance on fossil fuels and conflict with greenhouse gas reduction objectives. The EBRD needs to make investments on the basis of what is needed in order for its region of operations reduce to GHG emissions to the extent required according to the IPCC, rather than just those contained within current weak political commitments.

Recommendation 19: The EBRD needs to phase out loans for fossil fuels and the heavily subsidised aviation industry (except safety improvements) and increase energy efficiency and new renewables (ie. non large-hydro) investments.

By support for fossil fuels we understand not only the construction of new fossil fuel power plants, but also accompanying infrastructure such as: extraction facilities, pipelines, oil and LNG terminals as well as electricity lines serving fossil fuel power plants. In the field of energy efficiency the EBRD should concentrate on investments which will lead to an overall decrease in CO_2 emissions rather than those in the fossil fuel-powered facilities where energy efficiency investments often lengthen the life-time or increase the capacity of the facility, leading to greater overall emissions.

See also Recommendation 13

p.48-49 Reflecting the above geographical and sectoral orientations, the strategic objectives of the Bank during CRR4 are to:

- *achieve significant and resilient **transition impact** across its countries and sectors of operations taking account of the implications of the crisis for the region and for the Bank;*
- *continue to **develop the portfolio "east and south"** with particular attention to Early Transition Countries and the Western Balkans while building up a new portfolio in Turkey;*
- *promote the development of the **corporate sector** supporting economic diversification and competitiveness, including the region's agricultural and knowledge based potential;*
- *contribute actively to the stability and development of the **financial sector** in support of the real economy, including the build-up of local financial markets;*
- *participate in the replacement, upgrading and development of the **energy, municipal and transport infrastructure** of the region; and*
- *improve **energy efficiency** and contribute to address the **climate change** challenge by supporting the transition to a low carbon economy in the region.*

See Recommendations 1, 3 - 7, and 9 - 19

p.50 Strategic portfolio management

While the bank needs to keep a relatively balanced portfolio in order to spread risks, as a public financing institution it needs to be more restrictive in some areas of lending in order to effectively promote policy goals such as greenhouse gas emissions reductions and diversification of economies. It already has some no-go areas, and needs to expand these and to become more restrictive in other lending areas. This would help to increase the cumulative impact of lending for several projects in a sector, as well as decreasing the likelihood of the bank financing projects which could secure financing from other sources.

See Recommendations 12, 13, 17, 18, and 19

p.50-51 Transition

See Recommendation 1

p.51 **Portfolio growth**

"The Bank must balance project size across its portfolio. The development of its activities in smaller early transition countries requires the capacity to process efficiently small transactions. Conversely, larger projects are required to achieve systemic transition impact and to support continuing productivity growth. A balance between larger and smaller projects is also necessary from a risk perspective as smaller projects to date have been riskier and more resource-intensive than larger projects."

It is rather surprising to see this kind of thinking coming from a public institution. In our opinion it is precisely public institutions which should be able to take on smaller, higher-risk projects than commercial banks would be ready to finance.

Recommendation 20: The appropriate resources should be allocated to ensure that the EBRD is able to undertake smaller and higher-risk projects, whether appropriate larger projects are under development or not. Larger projects must only be financed if they will actively contribute to the goal of transition to a socially just, low-carbon society.

p.52 **Risk**

"*Diversification also implies the inclusion of lower risk assets which allow to take increased risks in more difficult business environments within a balanced portfolio approach. Increasing differentiation in risk across countries of operations should allow the Bank further opportunities for balancing its portfolio across a broader range of risk categories."*

See Recommendation 13

Eastern Europe and Caucasus

p.58 "In the manufacturing and services sector the Bank's focus will be on improving competition, efficiency and governance standards." ... "In select cases the Bank will consider working with prominent local Industrial Groups, where doing so would have high transition impact, promote good corporate governance, bring about highly visible improvements to disclosure, as well as improve environmental and energy-efficiency standards."

Recommendation 21: Given recent experiences with poor performance in environmental and disclosure performance by EBRD clients such as ArcelorMittal and Ukrenergo, the EBRD needs to tighten up its pre-project appraisal of the client's commitment and capacity to achieve improvements to disclosure and environmental and energy-efficiency standards. Where the commitment or ability of the client to meet these standards is not clear, no financing should be forthcoming.

See Recommendation 12 and 13

p.59 "The Bank will also finance bankable projects that address inefficiencies and low productivity in primary agriculture, particularly where up-to-date farming techniques and machinery can be introduced. The Bank will continue to support sponsors who are able to address global food security by increasing agricultural output and exports through productivity gains."

See Recommendations 14 and 15

p.62 "The Bank will finance transmission projects, to reduce bottlenecks and increase efficiency, particularly in light of Ukraine potentially joining ENTSO and the Energy Community, which will bring Ukraine's energy sector into Europe and Southeast Europe regionalisation."

CEE Bankwatch Network has serious concerns based on the experience with electricity transmission projects being implemented and developed in Ukraine to date:

- The performance of the Bank's client Ukrenergo is unacceptably below what would be expected after 5 years of cooperation.
- The proposed projects are a result of the highly controversial "Energy Strategy of Ukraine for the period up to 2030" and aim mostly to increase the export of surplus electricity from Ukraine that is generated by nuclear and outdated thermal power plants. Such plans cannot be considered as part of a "sustainable energy" package but rather increase the nuclear risk, amount of radioactive waste and CO_2 emissions.
- Furthermore the Energy Strategy mentioned above shows the needs for extensive upgrades and modernisation of local distribution grids while current projects focus on the construction of major 750 and 330 kV transmission lines that bring no visible benefits to the local population and household consumers.
- According to the Ten-Year Network Development Plan for public consultation published on 1 March by ENTSO-E[3], the "project of synchronous interconnection of Ukraine and Moldova system to ENTSO-E's Continental European system is in the launching phase of a feasibility study". Neither of the projects developed by Ukrenergo is listed among the list of "network and substation expansions or reinforcements requirements related to this connection"[4]. Therefore it is too early to finance projects that will hypothetically facilitate Ukraine's entry into ENTSO-E, as this has not yet been confirmed, and the need for the projects is uncertain.

Recommendation 22: The EBRD should refrain from any further financing of high voltage electricity transmission lines in Ukraine with a voltage of 330 kV or above at least until (i) Ukrenergo completes all previously IFI-financed projects in accordance with EBRD policies, Ukrainian legislation and international best practice and (ii) the synchronous interconnection of Ukraine and Moldova's systems to ENTSO-E's Continental European system has been studied, consulted with the public and a list of the required projects is developed.

p.62 "In the Caucasus, the focus will be on regional cooperation to facilitate trade with neighbouring countries (Turkey in particular) and to develop substantially small and medium renewable projects, focusing on hydro."

We welcome the intention to develop small and medium renewable projects, however we are highly concerned about the focus on hydropower. Knowing that there are currently several hydropower projects under development in Georgia, we assume that some of these may be potential targets for investment by the EBRD. However these projects would be highly detrimental in terms of impact on the population, biodiversity, and cultural heritage.

The EBRD must follow closely the recommendations of the World Commission on Dams (WCD) report on how to plan the construction of new hydro generation facilities. The WCD recommendations stress the importance of finding constructive and innovative ways forward for decision-making (that first of all include gaining public acceptance as well as comprehensive and participatory assessments of the various options to satisfy people's water and energy demands), address the issue of existing dams, and emphasise that social and environmental concerns should be given the same weight as technical, financial and economic concerns during the options assessment process.

Recommendation 23: The EBRD must not finance development of new greenfield hydropower generation facilities in Georgia, without a strategic development plan for Georgia's power sector based on participatory processes, but should continue rehabilitation of already existing HPPs within the country.

---

3 http://www.entsoe.eu/fileadmin/user_upload/_library/consultations/Open_Consultations/TYNDP/100301_ENTSO-E_TYNDP_for_Consultation.pdf, page 153.

4 Annex 1

p.62 "Policy dialogue will be developed to improve the structure, efficiency and transparency of the oil hydrocarbon sector, supported by associated financing. The Bank will also support policy and projects to improve safety in the Ukrainian coal sector including through financing of new projects (particularly where these promote improved health and safety standards) and privatisation initiatives in the sector. Attention will be given to the independent oil and gas sector for increased competition and industry efficiency. In the Caucasus, the Bank will aim to address significant transition challenges through infrastructure, environmental, safety and energy efficiency projects in the hydrocarbon sector."

See Recommendations 18 and 19

p.63 Transport: "Financing of concessions could also be envisaged towards the end of the period particularly for regional airports and roads."

The EBRD has financed several road concessions and seems keen to finance more. However it is far from certain that in practice this really offers any real improvement over traditional public procurement methods, as, beyond construction, there is almost no risk for the concessionaire, while the costs to the public sector are usually higher than for public procurement projects, due to the need for returns for the investor and the higher cost of private finance.[5]

Recommendation 24: In view of the lack of cases where public-private partnerships (PPPs) for infrastructure have been proven to offer better value for money for the public sector than publicly procured projects, along with the low institutional capacity in its countries of operation, the EBRD should not prioritise them. If, nevertheless, the bank does invest in PPPs, we would point to the series of recommendations laid out in our publication Never Mind the Balance Sheet (see footnote 5).

p.64 "Subject to concrete steps being taken to corporatise Ukraine Railways, further sovereign financing of railways can also be anticipated as well as non-sovereign financing of commercial activities such as freight operations, for which modernisation of the railcar fleet is needed."

See Recommendation 6

South-Eastern Europe

p.69 Financial sector: "MSME financing through financial intermediaries will be a key component to the Bank's crisis response in this region. As this sector is the driving force of many economies, it will be vital to maintain access to finance for long term sustainability, directed through banks and non-bank financial institutions that will extend outreach to rural areas."

See Recommendations 3 and 4

p.69-70 "In natural resources, energy security and diversification of energy sources is a key priority as highlighted by the temporary cut-off in gas supply to the SEE region in January 2009. Further development of the gas infrastructure network and reform of the gas sector to bring it into line with EU directives on liberalisation and third party access is a key priority for countries in SEE."

p.70 "In power and energy, the Bank will focus on regional integration and energy security, supporting transmission interconnections, and platforms for cross-border trading, upgrade the stock of traditional power capacity and support renewable energy projects to improve security of supply."

p.70 "In natural resources, the Bank will support regional oil and gas pipelines, and related infrastructure to address energy security issues as well as increased gas storage facilities to help meet energy security and EU regulations. Consideration will be given to mining, ore and metal processing and coal projects which can be conducive to economic growth."

[5] For further discussion of our concerns about public-private partnerships in infrastructure, see our November 2008 publication 'Never Mind the Balance Sheet' at: http://www.bankwatch.org/publications/document.shtml?x=2132584

See Recommendations 18 and 19

p.70 "Financing of renewable energy projects will also help Bulgaria meet its renewable energy targets."

Bulgaria is one of the few countries in the EBRD's region of operations where significant new investments have been made in the renewable energy sector. We therefore see little additional need for EBRD investments in this sector as the market is becoming well-established on a commercial basis. In addition future investments need to be carried out with much more care than the ones so far as there have been significant environmental impacts in some projects, as well as overexploitation of the sustainable potentials for some renewable sources, eg. wind and mini-hydro.

At the same time there is a threat that Bulgaria will barely meet the targets for 2020 because of problems with the grid connection access of the new facilities.

There has been little progress made in the field of energy efficiency and especially in tapping the potential for energy savings in the residential sector, where the financing schemes should be prolonged.

Recommendation 25: In Bulgaria the EBRD should focus primarily on energy efficiency and then selectively on promoting underdeveloped renewable technologies. For example, financing should be targeted towards RES-heating systems where there is a huge delay in the usage of the economic potential.

p.70 "In transport, ... The key transition objectives are to accelerate progress in restructuring – institutional separation of infrastructure from operations – and to improve the legal framework for PPPs and concessions, which would assist in attracting the private sector where possible as a co-investor or operator in selected projects. There are a number of potential motorway PPP opportunities in Romania and BiH."

p.71 "In Romania and Bulgaria, plans to finance development of road infrastructure on a PPP basis potentially provide opportunities for the Bank to support private sector participation in the development of transport infrastructure."

See Recommendations 5, 7, and 24

p.71 "The Bank will continue to promote improved regulatory and contractual arrangements for water-, waste- and urban transport operators to facilitate private sector financing and operation within these sectors."

See Recommendations 5, 6 and 24

p.72 - "A major objective will be to support the region to get closer to EU 2020 targets..."

We very much agree with the need for increased measures for greenhouse gas reduction and investments in energy efficiency and new renewables in the region.[6]

Central Asia

p.73 "The transition outlook for this region remains clouded by political uncertainties and a general aversion to rapid market reform, especially during times of high commodity prices. Political systems in Central Asia have not yet developed mature institutions of interest intermediation and accountability, suggesting that incumbent governments and conservative policies are likely to remain in place despite whatever pressures for change may arise."

This section points at some of the challenges posed by the planned move 'south and east' by the

[6] For further details on Bankwatch's position on sustainable renewables, see our study Change the lending, not the climate, http://www.bankwatch.org/publications/studies.shtml?x=2207396, p.44ff

EBRD. There is a likelihood of supporting regimes with poor human rights records unless the EBRD concentrates on MSME financing, and there is a likelihood of the EBRD encountering significant legal and institutional barriers in carrying out its work. The bank needs to adjust its work accordingly, for example by restricting its activities to non-government entities in some countries.

See Recommendations 9-11

p.75 "In agribusiness, the Bank will support bankable private sector projects that address inefficiencies and low productivity in primary agriculture, particularly where up-to-date farming techniques and machinery can be introduced. The Bank will also target food distribution (including retail) and work with sponsors who are able to address global food security by increasing agricultural output and exports through productivity gains."

See Recommendations 14 and 15

p.78 In power and energy, the Bank will advance the transformation of the power sector through implementation of the Sustainable Energy Action Plan (SEAP) – including energy imbalances, regulatory institutional development and adequate tariffs, targeting projects with significant positive impact on efficiency and reliability of supply through both debt and equity financing to private generators (including gas and "clean coal").

p.78 "In natural resources, the Bank will support competition by working with smaller private operators, pipelines, related ports and infrastructure, retail service and storage sector. In Mongolia, the Bank will continue to promote increased efficiency and EHS standards of the emerging natural resources private sector, especially in the mining and mining-related industries. In addition, it will support the development of large scale projects that attract FDI and reputable international partners."

So far the EBRD has not significantly contributed to the development of renewables in Kazakhstan – a situation which needs to change during the coming years. The SEAP for Kazakhstan states that "*it is hoped to allow Kazakhstan to bring the total share of Renewable Energy (RE) in the energy balance to 5% by 2024*", but considering that the current RE share is only 0.023% and that the government plans to increase it only to 0.1% by 2014[7] it is clear that the EBRD needs to do all it can to invest in new renewables and make use of technical assistance and policy dialogue if even this low target is to be realised.

We are concerned that the SEAP also contains investments into completely new coal power plants: Balkhash TPP (4x660 MW), and Astana TETS-3 (2x120 MW) – as well as a new unit for Ekibastuz GRES-2 (1x525 MW). We are also concerned to see the EBRD using the term 'clean coal', even in inverted commas, as it is an oxymoron and gives the false impression that a solution has been found for coal's significant air pollution and CO_2 emissions.

The EBRD recognises that the Central Asian countries are over-reliant on commodities, but plans to invest into natural resources, including large scale projects. As well as environmental concerns it is necessary to mention that such projects tend to afford significant material and political support for governments that have not shown themselves to be committed to multiparty democracy and pluralism.

Recommendation 26: The EBRD needs to step up its efforts to support new renewables and energy efficiency in Central Asia. There is high unrealised renewable potential, for example in solar electricity generation and renewable heat generation, as well as extremely inefficient heating infrastructure in cities.

See Recommendations 18 and 19

p.79 Kazakhstan: "Support is also expected to be provided to further the government's aim of developing key road sections on a PPP basis."

---

7 http://www.eco.gov.kz/rus_txt/m1.doc

See Recommendation 24

p. 79 "For MEI, efforts will focus on supporting sector reform (to encourage municipal finance) and regulatory improvements (in particular long term tariffs) especially for the water and urban transport sectors. PPP models will also be explored with reform minded local authorities."

See Recommendations 5, 6 and 24

Russia

p.83 Manufacturing and services: It will focus on sectors where most impact could be made by the Bank, including high tech industries, local forestry companies, automotive suppliers and industrial equipment, without excluding projects with high transition impact in other sub-sectors when appropriate."

p.83 "The Bank will work with the Russian Corporation for Nanotechnologies (Rusnano) to identify high tech innovative projects that could be considered for financing."

See Recommendations 12 and 13

p.83/84 The Bank will consider bankable projects that address inefficiencies and low productivity in primary agriculture, particularly where up-to-date farming techniques and machinery can be introduced and support sponsors able to address global food security by increasing agricultural output and exports through productivity gains.

See Recommendations 13, 14 and 15

p.85 To re-start lending to the real economy, the Bank will focus on providing priority products that support MSMEs. The Bank will not only provide SME and MSE focused credit lines, but will support banks with technical assistance for loan work outs and corporate recovery.

It will also support retail lending and the provision of consumer lending, including mortgage lending, provided it is undertaken in a prudent manner and embracing best practice standards.

See Recommendations 3, 4, and 17

p.86 "the Bank will consider investments in: (i) new generation capacity to renew existing ageing infrastructure. Where appropriate, this could be done in conjunction with gas flaring reduction projects through investment in generation capacity fuelled by associated gas; (ii) renewable energy; (iii) privatised companies, IPPs and new entrants to strengthen and deepen market liberalisation; (iv) transmission capacity to eliminate bottlenecks and consequently create a larger, more liquid market; and (v) distribution networks to promote energy efficiency and commercialisation."

p.86-87 "In the natural resources sector, the Bank will promote infrastructure type projects, including pipelines serving both the domestic and export markets, along with gasification projects of various regions and gas utilisation projects. The Bank will continue to follow various potential infrastructure projects in different regions of Russia, including the Far East. The Bank will also consider investments which lift constraints associated with development of oil and gas production and transportation, address gas flaring, support small and medium size independent oil and gas and mining companies promoting private investments and ownership in the sector, and contribute to environmental improvements, energy efficiency, and safety issues of past practices and/or enhancement of future practices."

See Recommendations 13, 18 and 19

p.87 "In the municipal sector the development of pilot PPP projects or privatisation schemes in the solid waste, urban transport or water sectors will serve as benchmarks for sustainable private sector involvement."

See Recommendations 5, 6 and 24

p.87 "As the economy starts to recover, investment in railcar and shipping fleets as well as port infrastructure will be stepped up, providing significant opportunities in the transport sector in Russia. Further reform of Russian Railways and the state-owned port entity, Rosmorport, will provide additional funding opportunities subject to remaining within single obligor limits.

See Recommendations 5 and 6

p.87 "Successful closing of the first PPP structures in the airport sector (e.g. Pulkovo) and the road sector (e.g. Moscow- St Petersburg highway) are likely to set the standard and may be followed by a programme of PPP projects also requiring support. This may be extended to regional infrastructure, where this can be provided on a commercial basis."

See Recommendations 5, 6, 7 and 24

Central Europe

p.91 "In agribusiness, the Bank will focus on supporting local agribusiness companies with cross-border expansion plans into countries of operations where transition is less advanced."

Recommendation 27: In this region the EBRD needs to ensure that it does not support agribusiness companies which already have a high market share. For example, although retail concentration levels are not at western European levels, it is crucial for consumer choice that they are not enabled to reach such levels.

p.92 "Over the past 10 years, the Bank has provided a significant amount of SME financing to the region, mainly through the EU/EBRD SME facility. Although many banks graduated from this initiative, SME lending has faltered as a result of the crisis and the Bank will look for ways to re-ignite lending to the real economy, and especially to this sector that forms the foundation of many economies. There will be targeted lending through both banks and leasing companies to deliver this objective."

The Bank will encourage local pension funds to invest into private equity funds and it will support funds focusing on turnaround situations, or enterprise restructuring to accelerate recovery in the region."

See Recommendations 3 and 4

p.93 "In power and energy, the Bank will support projects enhancing energy competition, diversity and security. During the recovery process long term funding from commercial banks will not be available. Therefore, the Bank will support the replacement of ageing and polluting power generation assets, including replacement of capacity after Ignalina NPP's closure. It will also increase power generation from renewable energy sources to meet EU targets for sustainable energy, and support energy efficiency projects. The Bank will finance distribution and transmission projects to reduce bottlenecks for connection of new renewable energy generation and support regional electricity transmission interconnections, especially in the Baltic States and Poland. It will participate in future privatisations of power companies leading to a further transfer of ownership to the private sector.

In natural resources, the Bank will support regional pipelines, gas storage facilities, and related infrastructure to address energy security issues and EU regulations."

We welcome the EBRD's plans to invest in renewable energy generation, as there is still a great need for this in the Central European and Baltic countries. However we are concerned at the bank's interpretation of energy security as being mainly connected to the diversification of gas supplies. We believe that in the medium to long term - which is relatively close considering the lifetime of investments - a much greater focus on renewable energy and demand management is needed.

See Recommendations 7, 18 and 19

p.94 "During the recovery period there will be demand for Bank financing for large PPP transactions in the transport sector (motorway PPPs in Slovakia and Poland) and some private sector rail activities are expected in Poland."

See Recommendations 6, 7 and 24

Reporting

p.120 "The Bank has a comprehensive system of reporting its transition, operational and financial performance on a quarterly basis to the Board of Directors, and on a monthly basis to the Executive Committee and senior managers throughout the Bank. External reporting is through the annual Financial Report and Interim Financial Statements."

See Recommendation 1

p. 114 **Human Resources**

Recommendation 28: The EBRD needs to ensure that the staffing of the Environmental and Social Department is increased proportionally to the likely loan volume, if the bank is to maintain, and preferably increase, its ability to effectively appraise and monitor projects. It is particularly recommended to increase the presence of environmental and social specialists in countries with a high volume of lending (Russia) and in borrowing countries with environmentally and socially critical sectors eg. Kazakhstan)

p. 124-125 **Evaluation**

Recommendation 29: The EBRD needs to release the full versions of its OPER reports, at least for public sector projects. Without these it is impossible to verify whether the EBRD is learning appropriate lessons from projects. There is no commercial confidentiality issue here, and other IFIs do release such evaluations.

p. 127-129 **Public Information Policy**

In order to be able to breathe life into its aspirations of transparency, the EBRD needs to adopt a true presumption of disclosure, based on the recommendations of the Global Transparency Initiative's Transparency Charter for IFIs.

Specifically, the EBRD should adopt provisions that would guarantee an obligation to provide all information requested subject only to a narrow regime of exceptions set out in the Public Information Policy (PIP); and the right to request a review of any refusal to provide information from an independent body, to ensure accountability. The exceptions to disclosure as set out in the 2008 PIP remain extremely problematic and broad. Although the EBRD has an internal appeals system, no attempt has been made to establish an independent review for refusals to provide information.

The PIP also fails to expand significantly the list of documents subject to automatic disclosure. The evaluation reports mentioned above are just one example of information that is not currently available under the EBRD Public Information Policy. Others include the final beneficiaries of financial intermediary loans, and the environmental and social conditions laid out in project loan agreements.

The performance requirements as introduced by the Environmental and Social Policy (ESP) transfer the responsibility for disclosure of project-specific environmental information from the Bank to the client. Specifically, the ESP requires clients to release the Stakeholder Engagement Plan, or Public Consultation and Disclosure Plan (PCDP); Environmental Impact Assessment (EIA)/ Social Impact Assessment (SIA) report; Summary Livelihood Restoration Framework; the Environmental and Social Action Plan (ESAP) or Summary ESAP (for Category A and B projects, respectively) and annual implementation reports. Even this does not always happen.

However, for other documentation produced during the lifetime of a project, the ESP indicates only that "the client will provide on-going information to identified stakeholders, commensurate to the nature of the project and its associated environmental and social impacts, and the level of public interest". The policy avoids mandating disclosure of concrete types of additional documentation that should be released into the public domain, such as feasibility studies, environmental audits, appraisal studies for category B projects, monitoring reports and the evaluation reports and environmental and social conditions mentioned above. Overall, the language of the ESP is too weak, leaving disclosure of often crucial information to discretion of its clients.

Recommendation 30: Particularly in the light of issues of financial sector governance and transparency arising from the financial crisis, the EBRD needs to move towards true presumption of disclosure, as laid out in the Global Transparency Initiative's *Transparency Charter for IFIs,* available at: www.ifitransparency.org/doc/charter_en.pdf

CEE bankwatch network