

04 November 2011

To: Executive Directors of the EBRD,

Copy to: Philip Lam, Operations Leader, Ombla hydropower plant, [lamp@ebrd.com](mailto:lamp@ebrd.com)  
Julien Mauduit, Operations Leader, Boskov Most hydropower plant, [mauduitj@ebrd.com](mailto:mauduitj@ebrd.com)  
Alistair Clark, Corporate Director, Environment and Sustainability Department, [clarka@ebrd.com](mailto:clarka@ebrd.com)  
Riccardo Puliti, Managing Director, Energy, [pulitir@ebrd.com](mailto:pulitir@ebrd.com)

Copy to: Olga Filippova, Civil Society Adviser, [FilippoO@ebrd.com](mailto:FilippoO@ebrd.com)  
Biljana Radonjic Ker-Lindsay, Head of Civil Society Engagement Unit, [RadonjiB@ebrd.com](mailto:RadonjiB@ebrd.com)

**Subject: Transition impact of the Ombla  
and Boskov Most hydropower plants**

Dear Executive Directors and staff of the EBRD,

Further to the letters sent by several NGOs on the Ombla hydropower plant in Croatia on 26 October and on the Boskov Most hydropower plant on 28 October, which we strongly support, we would like to bring some additional issues regarding these projects to your attention. The EBRD has a specific mandate to promote transition to a market economy and to ensure environmental sustainability in all its operations. We strongly believe that as well as the unacceptable environmental impact of these projects, they do not comply with the EBRD's mission and that the bank should not support them.

**Ombla hydropower plant**

Transition impact of the project: According to the Project Summary Document,

*“The proposed project will have a transition impact stemming primarily from two factors: (i) it will set out standards for corporate governance and business conduct, through the Borrower’s acceptance to comply with EBRD’s Procurement Policies for Public Sector Operations and international best practices in project implementation and environmental control; and (ii) it will demonstrate new and replicable behaviour and activities, through building a non-conventional hydroelectric power plant (located entirely underground) as well as facilitating the development of clean energy sources and further contributing to Croatia’s targets in renewable energy generation.”*

We are not convinced by this, on the following grounds:

**Corporate governance and best practice:** While the project promoter, Hrvatska Elektroprivreda (HEP), certainly needs to improve its corporate governance, almost any project that the EBRD could potentially finance in its region of operations would involve corporate governance improvements, thus it is hardly a recommendation for this particular project. Nor is it clear why corporate governance improvements would best be improved by a EUR 100-million-plus loan rather than through, for example, a much smaller technical assistance project.

The idea that HEP is going to comply with international best practices in project implementation and environmental control has already been disproven by its use of an Environmental Impact Assessment that is more than 10 years old and is missing several crucial elements. While we are aware that several mitigation measures are proposed for the project, it is highly unlikely that it is possible to render the project environmentally acceptable with the use of mitigation measures. This is why civil society organisations have called for the EBRD to *withdraw* from the project as opposed to suggesting additional mitigation measures.

**Replicable behaviour and facilitating the development of clean energy sources:** It is not likely that the project will demonstrate new and replicable behaviour and activities and facilitating the development of clean energy sources. This is because the project has been found by the EBRD's consultants to be technically risky<sup>1</sup>, and it is not at all clear whether it *can* be replicated. Even if it can, its serious environmental impacts on precious but vulnerable karst ecosystems make it highly undesirable to replicate such projects.

We strongly support the intention expressed by the EBRD in its Country Strategy for Croatia to support the development of renewable energy in the country and to undertake technical assistance to ensure that the government encourages renewable energy, and we would like to ask what efforts have been made so far by the bank in this regard? We would emphasise that we do not consider the Ombla hydropower plant to be part of this effort. This is because of its serious environmental impact, but also because the EBRD is supposed to lead new markets, not to support state-owned monopolies. Although the EBRD attempts to justify this project as something new and replicable, which could therefore constitute a new market, we see this as highly undesirable and unlikely, as explained above.

In sum, the transition impact justification for this project looks like it was dreamt up as an add-on to justify the EBRD's participation. In our opinion the EBRD's Board of Directors needs to more critically assess such thin justifications for projects and approve only projects which genuinely bring positive impacts for people and the environment.

**Proportion of financing to be provided by the EBRD:** We are surprised that the EBRD is considering supporting such a large proportion of the project financing. (Up to EUR 123.2 million out of a total project cost of EUR 152.4 million, according to the project summary document). In previous conversations with the bank we have been told that the EBRD usually does not finance more than 30 percent of total project costs. We would therefore like to ask why this case is different?

### **Boskov Most hydropower plant**

The transition impact of the Boskov Most project is also doubtful. According to the Project Summary Document, its potential stems primarily from the following:

- *“The Project will enhance the security and quality of supply in the Macedonian electricity sector by addressing the existing capacity gap and providing flexible, responsive power at peak times. In doing so it will improve the efficiency of the*

---

<sup>1</sup> *“All the actors of the project must be aware of its experimental nature and accept higher levels of risk and less control of the construction time and cost than in “common” hydroelectric projects. Undertaking the project in full, as designed at present, carries a high risk of the project not achieving its objectives. The risk is to see the project, after its completion, not functioning as planned or being blocked, during construction, after the whole investment required by the project has been mobilised”.* Tractabel Engineering; Projektni Biro Split: Ombla Hydropower Project – European Bank for Reconstruction and Development – Technical Due Diligence – Final Report Rev. C September 2011, p.9-10

*system for all consumers and, within the sector, strengthen the conditions for the development of a functioning electricity market.*

- *The Project will demonstrate the opportunities that exist to build significant renewable capacity in the West Balkans, in particular using an innovative technical approach; it will in itself decrease the carbon intensity of the Macedonian generation sector.*
- *The Project will be implemented in accordance with best environmental and technical standards, as well as ensuring transparent and efficient procurement procedures are followed.”*

Boskov Most hydropower plant was designed in the 1970s as part of the Yugoslav energy system where the need for peak stabilisation was great due to heavy industry. Macedonia cannot nowadays compare its industrial development with that of Yugoslavia in the 1970-80s. Its industrial sector has not developed in the past 30 years to the extent that a project such as Boskov Most would be necessary. Currently, peaks are balanced with the existing hydropower plants in the country (as they are estimated as maximum 2-3 hours per day). It is most probable that industry in Macedonia will not drastically increase in the next 10-15 years to an extent that would justify a project such as Boskov Most, nor are there any imminent needs for additional new capacity due to closures of old generation facilities. Developing a hydropower plant that would generate surplus electricity would be a reasonable idea for generation of income for Macedonia if it did not involve seriously threatening the habitat of an endangered species, the Balkan Lynx, and other species in the Mavrovo National Park, however the threats from this project are greater than its justification.

The argument regarding the use of an innovative technical approach is not applicable. The technical data available for the Boskov Most plant clearly show that it is a standard hydro power plant (designed in the 80s, with no change in the technology). It cannot be credibly suggested that building large hydropower plants in Southeast Europe is innovative or cutting edge.

Similarly the claim that the project will decrease the carbon intensity of the Macedonian generation sector is not correct. Namely, if the plant is used to stabilise peak periods and will work for a maximum of 5 hours per day, then the existing thermo-power plants will continue working at the same capacity and will emit the same amounts of greenhouse gases. Therefore, the carbon intensity will practically not be decreased.

Finally, as with Ombla, it can hardly be said that the best environmental standards are being applied. First, the project is in a protected area, apparently directly in the area where the endangered Balkan lynx lives. This in itself is unacceptable. On a more procedural level, however, it cannot be said that best environmental standards are being applied when the Environmental Impact Assessment failed to identify exactly which mammals live on the project area, and when the project is being rushed through while changes are being made regarding the Mavrovo National Park and the new Management Plan has not been drawn up yet. Similarly, there has been no Strategic Environmental Assessment of the national Macedonian *Strategy for renewable use of energy sources till 2020*, of which the project is a part.

While we believe that the concept of transition generally needs to be revisited, and have submitted detailed comments on this with our proposals to the office of the Chief Economist<sup>2</sup>, in the meantime projects need to comply with the bank's current definitions of

<sup>2</sup> Please see our comments on the EBRD's country level transition indicators at:

transition impact as well as its broader mandate. We believe that this is not the case with these two projects and once again re-iterate our request to the bank not to finance the projects.

We thank you for your time and look forward to seeing what action you now take.

Yours faithfully,

A rectangular box containing a handwritten signature in black ink. The signature is cursive and appears to read 'F. Bacheva-McGrath'.

Fidanka Bacheva-McGrath

on behalf of CEE Bankwatch Network