

EBRD Country Strategy Comments

August 5, 2011

CEE Bankwatch Network comments on the draft EBRD strategy for Kyrgyz Republic

For more information

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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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The following are comments from CEE Bankwatch Network to the European Bank for Reconstruction and Development Country Strategy for Kyrgyzstan. As Kyrgyzstan is an Early Transition Country with limited capacity for additional external borrowing and in light of recent political events in the country, Bankwatch emphasizes that the EBRD must carefully weigh and analyze any project it considers for financing in this particularly vulnerable country.

One general comment is that the draft Country Strategy was not available neither in Kyrgyz nor Russian, and this may prevent the public from participating in the commenting process. Our experience from Ukraine shows that the draft Country Strategy was translated and available for comments in Ukrainian. On the other hand, the EBRD resident office held meetings on the Draft Country Strategy in Bishkek with the public as requested. This variable approach to the commenting processes should be unified, and we hope that the positive practice of translating draft country translation into local or Russian languages and holding consultations will be a regular practice.

Challenges

A key challenge is to re-establish access to basic public services, such as water supply, solid waste management and city transport. An additional challenge is to improve energy supply and energy efficiency. (p.3)

Every project in the **energy and infrastructure sectors** should be subject to public scrutiny and **favour environmentally and socially sustainable development** and should not be politically-driven.

Implementation of the previous country strategy

The Bank supported a landmark large-scale operation with a foreign strategic investor in 2010: a US\$ 150 million three-year revolving credit facility with Centerra Gold Inc. in support of the company's ongoing operations and potential acquisitions of mining assets, signed in 2010. (p.7)

The "Centerra Revolving Debt" project, approved on 10 November 2010, was poorly received among civil society as there were no public consultations held about the project and the EBRD could not tell for what the loan will be used. A letter from EBRD staff in October

2010 “The Facility may or may not be used for the Kumtor project”¹. The EBRD granted derogation to the disclosure of information by Centerra Gold Inc. because the company is “a publicly listed company on the Toronto Stock Exchange” (the letter from Secretary General 19 November, 2010) and so no project summary document was disclosed nor were public consultations held.

We believe that in failing to notifying the public about this derogation and with the lack of proactive information provided about the scope of a project with such a checkered past, the EBRD substantially undermines its own credibility. Given that the Kyrgyz Republic is party to the EITI, we would like to see the EBRD strengthening transparency among its clients.

Energy efficiency and climate change

According to a recent market demand study assessing the market potential for energy efficiency and renewable energy investments in Kyrgyz Republic, experience in assessing and financing renewable energy projects is still limited. Although the existing legal framework satisfies the basic requirements of private investors, enforcement is still a challenge and some rules need to be more clearly and transparently defined. No specific investment and/or financing related to energy efficiency initiatives are currently in place in Kyrgyz commercial and residential sector, where energy consumption per square meter is still very high. In the industrial sector, equipment and machinery is characterised by obsolete and outdated technology, with energy losses in such equipment typically around 30–40 per cent. (p.17)

We see a role for the EBRD to **promote and support renewables and energy efficiency for local producers**. We recommend including in the text: “Energy efficiency projects (i.e. those with objectives towards energy efficiency and

environmental improvements) will be prepared thoroughly and with a clear assessment of what is and is not possible to achieve” to avoid inappropriate use of public finance.

EBRD’s operational response

To re-establish access to basic public services, the Bank will focus on improving water supply, solid waste and public transport projects in Bishkek and the South. (p.23)

The Bank will also develop solid waste and public transport projects in Bishkek, Osh and Jalal-abad. Where needed, it will establish Stakeholder Participation Programmes for new MEI operations aimed at improving collection rates and anchor acceptance of water tariff increases among the population. (p.23)

Giving the sensitivity especially in Kyrgyzstan to issues of tariffs and the affordability of public services , we welcome the EBRD’s initiative to establish Stakeholder Participation Programmes for MEI projects. As we do not support commercialisation in and of itself, these programmes should be added to the Strategy text: **“The Commercialisation of municipal utilities and enterprises should be evaluated solely in view of concrete, on-the-ground improvements and better services provided”**.

For all water and transport projects, the following text should be added: **“Tender and procurement transparency and close scrutiny of value-for-money for the public sector should be in place.”**

We strongly support the EBRD’s plans to engage in sustainable, municipal solid waste treatment projects. Collection, separation, and recycling services and plants are desperately needed in Kyrgyz cities and as a means to solve waste problems in smaller towns and villages. The EBRD should also **adopt an integrated approach and concentrate on preventing waste production** in its other projects.

To improve energy supply and energy efficiency, the Bank intends to explore sustainable and energy

¹ <http://old.bankwatch.org/newsroom/documents.shtml?x=2269767>

efficiency opportunities across all sectors. It will seek to provide a credit line for energy efficiency and renewable energy (Kyrseff). However, this will be subject to progress made with tariff reforms and raising collection rates. Potentially viable power sector investments could include hydro power projects, high-voltage transmission line rehabilitation, as well as participation in the privatisation of distribution companies, if coordinated with other IFIs. (p23)

Improving energy supplies and energy efficiency in all sectors is of great importance for Kyrgyzstan. The EBRD should ensure that these **special credit lines will be used efficiently** in Kyrgyzstan.

While it is clear in the case of rehabilitating hydropower plants and transmission lines that benefits will accrue to the public sector, it should be more explicit to **whom from the private sector these credits will be targeted** and as well the size of the loans should be **affordable for borrowers**.

The EBRD should also ensure **transparent privatisation processes** if they are to take place.

Many priorities that the Bank has set for the Kyrgyz Republic provide environmental and social benefits, such as water and wastewater treatment and energy efficiency. For projects in sensitive sectors, such as small hydropower projects, the Bank has developed eligibility criteria in the absence of any other national or international guidance on key issues for small scale hydro. The Bank will work closely with financial intermediaries on these projects, and it is likely they will need to employ third-party consultants to assess the proposed projects against these criteria. (p24)

The “**eligibility criteria**” referred to in relation to small scale hydro should be **explicitly mentioned or consulted** and the involvement of **financial intermediaries in these projects should be well-justified**.

The general public in these countries has very little information about financial intermediary investments – who the final beneficiaries are or what the development impacts have been. We recommend

disclosing which sectors and businesses have benefited from FI loans and what the average size of financing has been i.e. in publicly disclosed reports from FI projects. If these subprojects will include small hydro, whom they target and affordability should also be mentioned.

Gender Action Plan

As part of the implementation of the EBRD's Gender Action Plan, the Bank will continue to develop and implement gender-related components in MEI projects that promote equitable distribution of project benefits among men and women in the community. The Bank will also continue to support women's entrepreneurship through Financial Institutions projects that increase access to finance for women-owned and women-managed MSMEs and address barriers that impede access to credit, in particular in rural areas. Additionally, the Bank will look for opportunities to work with clients in other priority sectors to adopt gender balanced approaches in their human resources policies and practices (e.g. equal opportunities in recruitment and career development). (p 24)

As Kyrgyzstan was chosen as a pilot country for the implementation of the Gender Action Plan, the Country Strategy should reflect **which projects were analyzed as part of the GAP and what lessons were learned**. The EBRD must report transparently on the results of GAP implementation in Kyrgyzstan and in other pilot countries, and in the country strategy it would be beneficial to mention more explicitly the experience so far and the lessons learned. For example, the Bishkek water project was identified during the 2011 EBRD Annual Meetings as one of the GAP pilot projects and it highlighted how “women spend a lot of time boiling water unnecessarily, people buy bottled water etc.” Reporting on experiences and lessons learned will be particularly important in this regard given the expansion of MEI projects in Kyrgyzstan.