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**FROM:**

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**TO:**

EBRD  
Board of Governors  
Board of Directors  
President  
Presidential Candidates

**Bulgaria:**

Centre for Environmental  
Information and Education  
(CEIE)

Za Zemiata, For the Earth

**Croatia:**

Green Action

**Czech Republic:**

Centrum pro dopravu a  
energetiku (CDE)

Hnutí DUHA

**Estonia:**

Estonian Green Movement-  
FoE

**Georgia:**

Green Alternative

**Hungary:**

National Society of  
Conservationists - Friends of  
the Earth Hungary (MTVSZ)

**Latvia:**

Latvian Green Movement

**Lithuania:**

Atgaja

**Macedonia:**

Eko-svest

**Poland:**

Polish Green Network (PGN)

**Russia:**

Sakhalin Environmental  
Watch

**Serbia:**

Center for Ecology and  
Sustainable Development  
(CEKOR)

**Slovakia:**

Friends of the Earth - Center  
for Environmental Public  
Advocacy (FoE-CEPA)

**Ukraine:**

National Ecological Centre of  
Ukraine (NECU)

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.

27 March 2012

Subject: Selection of a new President of the EBRD

Dear EBRD Board of Governors, Board of Directors, President and Presidential Candidates,

In view of the announced process for selection of a new President of the European Bank for Reconstruction and Development (EBRD), we are writing to you to request a fully transparent process of proposing candidates and selection based on openly and clearly set criteria. Furthermore we would like to put forward several suggestions on the type of reforms that civil society organisations expect that the new President of the institution will undertake.

### 1) Transition and development impacts

The EBRD does not see itself as a development bank, despite its title, and neither measures the development impacts of its projects, nor sets development targets on the project or country level. It does not take poverty eradication as its primary focus in its developing country operations, although this is required for EU action under Article 21.2 of the Treaty of the European Union. As the UK Department for International Development's Multilateral Aid Review in March 2011 put it: "The link between the impact of EBRD's programmes on transition, and their impact on people's lives is not always well articulated".<sup>1</sup>

The EBRD is mandated to promote sustainable development in all its activities, however, in too many cases – such as the Kumtor gold mine in Kyrgyzstan, or the series of investments in steel giant ArcelorMittal – EBRD projects have caused serious environmental damage or failed to bring significantly environmental improvements. Working under the assumption that EBRD operations will automatically bring benefits without actually measuring them is a risk that at best threatens to waste public financial resources, and at worst to harm the people that are supposed to be helped. Therefore we request that in the future the EBRD will be:

a) Setting measurable human development and environmental goals in country and sectoral strategies, not only market-oriented ones, e.g., aiming to increase the number of people with access to drinkable water or recycling facilities, rather than primarily encouraging private sector involvement across the board.

b) Ensuring that its transition indicators measure social (including employment), development and environmental outcomes, not just privatisation, liberalisation and so on.

c) Reporting annually to the EU how it is contributing to the EU's goals for external action, particularly on poverty eradication.

### 2) Economic transition model

<sup>1</sup> DFID: Multilateral Aid Review summary - European Bank for Reconstruction and Development (EBRD), March 2011, <http://www.dfid.gov.uk/What-we-do/Who-we-work-with/Multilateral-agencies/Multilateral-Aid-Review-summary---European-Bank-for-Reconstruction-and-Development-EBRD/>

The structural weaknesses in the economic models promoted by the EBRD have become all too apparent during the financial and economic crisis, with central and eastern Europe suffering heavily.

The reasons for the current crisis are varied, however in central and eastern Europe some of the main drivers were western European banks fuelling a boom in unsustainable consumer credits and foreign currency borrowing. In order to prevent the collapse of the banking sector in the region the EBRD has provided numerous further loans to banks. However after two years of such injections into the financial system of central and eastern Europe the EBRD is warning that a similar initiative is needed once again, raising questions about where the money from the first round actually went and how successful and sustainable an initiative can be considered if it needs to be repeated after 2 years.

In the transition countries further to the east, an over-reliance on commodity exports has contributed to vulnerable economies – a long-standing problem that has been highlighted by the crisis. The need to diversify economies is clear, however the question is what the EBRD will now do in order to make this a reality. So far it has often financed industries which eg. supply the oil and gas industry, which hardly contributes to diversification. The EBRD's support for the economy should be rooted in a revised economic model, where productive capacities, redistribution mechanisms, employment and wages and countries' development goals take the forefront. To this end, it needs to:

a) Review its portfolio to avoid promoting dependence on the export of commodities in transition countries and instead fostering the development of higher value-added economic activities.

b) Support only those financial intermediaries which have stringent standards, including monitoring, across their operations for the environmental and social sustainability of the projects they finance and which have a proven track record of using EBRD financing to support MSMEs rather than strengthening their balance sheets. This would exclude financing for financial intermediaries – including private equity funds - that make use of tax havens.

c) Tighten up its due diligence and public disclosure requirements on the value for money and budget burdens incurred through public-private partnership projects.

d) Improve disclosure on its financial intermediary (FI) operations, to ensure that:

- the bank routinely discloses what proportion of the intermediated loans has been disbursed, the average loan size, the sectors supported, the size of the companies supported, and in cases of renewables or energy efficiency projects, the details of the projects and the CO2 savings achieved.
- qualitative, independent evaluations are disclosed routinely to increase accountability and properly assess the extent to which the EBRD is achieving its stated goals with such loans.

### **3) Climate policy**

In its special report “the Low Carbon Transition” the EBRD, together with the Grantham Research Institute, stressed that the transition to market economy and the transition to low-carbon economy are deeply complementary, and that in the long-term the bank's region of operation cannot afford to pay the price of lagging behind in the “green industrial revolution”. With climate change now an extremely urgent problem and resource efficiency more broadly becoming increasingly important, it is crucial that the bank puts itself at the forefront of decarbonisation efforts, first and foremost by discontinuing support for fossil fuel projects. The EBRD must promote transition not just to any kind of market economy, but to a socially just, inclusive, energy efficient, renewables-based economy, with an emphasis on creating 'green' jobs and decreasing wealth inequalities:

a) Developing a climate policy that will set clear and ambitious CO2 reduction goals that will guide the bank's investments across all sectors and will bring the necessary policy coherence that is currently lacking.

b) Phasing out loans for fossil fuels – especially coal - and aviation and increasing energy efficiency and sustainable new renewables investments. The EBRD should use its financing to lead new and developing energy markets, not follow existing ones.

c) Adopting a robust set of sustainability criteria for renewable energy to ensure that promotion of renewables does not conflict with the EU's other policy commitments such as halting biodiversity loss by 2020.

d) Develop sustainability indicators as part of the bank's transition indicators system.<sup>2</sup>

#### **4) Democracy and human rights**

Article 1 of the EBRD's statute allows it to operate only in countries committed to and applying the principles of multiparty democracy and pluralism. The only countries where the bank limits

its operations are Turkmenistan, Belarus, and Uzbekistan, thus sending a signal to leaders of countries such as Kazakhstan, Azerbaijan and Russia that they are considered to be applying democratic principles.

The EBRD is now planning to extend its operations to the Southern and Eastern Mediterranean (SEMED) countries, as the political context in Egypt, Tunisia, Jordan and Morocco remains very unclear, with the direction of reform and transition far from assured. The SEMED countries are very different from the former Eastern Bloc states where the bank has traditionally operated, and it is far from clear that the bank is properly equipped to deal with problems such as internal armed conflict, powerful interventionist militaries, poverty, mass unemployment and gender issues which are prevalent to various extents in the SEMED countries. In-depth consultations need to take place with a wide variety of local stakeholders about whether and/or how they want the EBRD - as well as other international institutions - to operate in the new region. Additionally:

a) The EBRD needs to tighten up its definition of 'countries committed to and applying the principles of multiparty democracy and pluralism' and refrain from lending operations in Egypt, Morocco or Jordan until such time as these countries have legitimate, democratically elected governments that respect human rights.

b) The EBRD should also regularly revise its policies in relation to existing countries of operation such as Kazakhstan, Azerbaijan and Russia where democratic and pluralist principles are clearly not implemented.

c) The proposed EU European Neighbourhood Instrument Regulation of 07.12.2011 states that where a partner country fails to observe the principles of democracy, the rule of law and respect for human rights and fundamental freedoms, action will be taken that may lead to the full or partial suspension of EU support. The EBRD's operations need to be aligned with such EU decisions and be coherent with Commission annual and/or multi-annual action programmes.

Thank you in advance for taking the time to consider our recommendations and we are looking forward to your feedback.

Kind regards,



Mark Fodor  
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CEE Bankwatch Network

<sup>2</sup> Some climate indicators have been developed by the bank, which is very welcome, however there are numerous other environmental issues which need to be measured, for example for costs saved due to energy efficiency measures, number of people lifted out of energy poverty by energy efficiency measures, jobs created in the energy efficiency and renewables sector, MW of renewable energy installed, share of RES in the energy mix etc.