CEE bankwatch network

EBRD Policy Brief

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Revision of EBRD 2008 Environmental and Social Policy

For more information

Fidanka Bacheva-McGrath
EBRD campaign coordinator
fidankab@bankwatch.org

Bankwatch welcomes the two-stage consultation process for the revision of the EBRD's Environmental and Social Policy (ESP) and the opportunity to comment on the existing policy. Since the adoption of the ESP in 2008, our experience with a number of controversial projects suggests that the implementation of the ESP has not sufficiently safeguarded the environment and communities affected by EBRD investments, in spite of the policy's ambitious commitments and expectations.[1] Moreover flaws in the implementation of the policy have pointed to gaps in the overall mandate of the bank, in particular those related to promoting sustainable development and climate action. The following proposals are aimed at prompting considerable improvements in the new ESP.

EBRD's sustainable development mandate (re)defined

The new ESP should put forward **a clear definition of *"environmentally sound and sustainable development"*** and should overcome the vagueness surrounding the concept through the introduction of **measurable targets**[2] **and robust criteria** for assessing *"high environmental and social benefits"*.[3]

In the last five years the EBRD has initiated ambitious programmes as part of its commitment to promote sustainable development and the transition to a low-carbon economy. For example the Sustainable Energy Initiative has entered its third phase, and the Sustainable Resource Initiative is just being launched. While well-intentioned, these initiatives are incapable of achieving such goals, since they are not sufficiently robust to promote the necessary shift to sustainability and decarbonisation. Instead they allow for the introduction of efficiency fixes and mitigation measures to ultimately unsustainable project activities, often perpetuating the status quo and contributing to locking countries into unsustainable futures.

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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1 Bankwatch and its partners have detailed our concerns on the ESP implementation in a number of complaints to the Project Complaint Mechanism and are looking forward the recommendations that will result from them.

2 Additionally Bankwatch has already proposed that the EBRD should employ new environmental and social indicators, which should be designed to measure countries progress and project contribution to sustainability.

3 Paragraph 2 and Section E. *Promoting investments with high environmental and social benefits, including working in partnership with others*, paragraph 45.

New climate performance requirement to deliver absolute carbon reductions

The new ESP should include a climate performance requirement (PR) to affirm the EBRD's commitment to support the transition towards a low-carbon economy in its countries of operations. The new PR should introduce CO2 reduction targets for absolute rather than relative emission cuts and specific requirements for investments across all sectors.

The current policy recognises the importance of addressing climate change but is ambiguous regarding the level of CO2 emissions that the EBRD is willing to accept in projects it finances. There is a commitment to prioritise projects with a positive climate impact, but no clear commitments on avoiding projects that increase emissions or decrease them by an amount that is not sufficient to make a proportional contribution to a country's emissions reductions commitments.

The urgency of action on climate change has increased since 2008 when the current ESP was put in place. According to the IPCC, limiting global temperature increases below two degrees compared to pre-industrial levels[4] would require dramatic emissions reductions in Annex-I countries: at least 80 percent emissions decreases in 2050 compared to 1990 levels[5]. According to the European Commission's predictions this means the almost total decarbonisation of the energy, industrial and residential sectors by 2050[6] in the EU and 50-70 percent reduction in greenhouse gas emissions outside of the EU.

4 This goal was recognised by parties to UNFCCC in the Copenhagen Accord as well as in the Durban Platform.

5 Intergovernmental Panel on Climate Change, The fourth assessment report, 2007.

6 European Commission, A Roadmap for moving to a competitive low carbon economy in 2050, March 2011

Sustainability criteria for renewable energy projects

The bank should adopt and disclose sustainability criteria for renewable energy investments in an annex to the ESP. This would both screen out damaging renewable energy projects at an early stage and set a good example for other investors who may not have such detailed due diligence processes as the EBRD.

A rapid but sustainable uptake of renewable energy is essential if we want to address climate change and unstable fuel prices, and create new jobs in the process. However as renewable energy by definition has to be situated where the renewable resources are located, there is a danger that, if installed without eg adequate site selection and impact assessments, renewable energy installations can cause harm to biodiversity and create a public backlash against their use. As renewable energy is one of the chief areas we would like to see the bank investing in, this danger will only increase in the future with an increasing number of investments.[7]

EU policy requirements

The new ESP should be more explicit about a project's compliance with EU legislation, for example in relation to Strategic Environmental Assessment legislation; EU legislation not explicitly listed in the ESP like the Water Framework Directive and Waste Framework Directive; relevant legislation not explicitly '*environmental*' such as the animal welfare legislation; as well as EU policies that are not legally binding but nevertheless important, like EU long-term climate goals.

7 Several EBRD-financed projects have already been challenged by civil society organisations and the public, especially in the hydropower sector. Although in some cases the issues raised reflect failure to properly implement the existing ESP (notably the Ombla, Boskov Most and Paravani hydropower plants), some cases also point to unclarities in the policy itself which are specific to renewable energy sources that need to be addressed (eg. Paravani).

New facilities' compliance with the ESP

The new ESP should make it clear that all national and EU legal requirements for all stages of the project cycle need to have been met ***before the project is approved by the EBRD board***. After key finance decisions have been made and contracts signed, the bank has little leverage, and the public is in a weaker position to influence any project decisions.

Examination of project alternatives

Project alternatives need to be defined in the scoping stage of the ESIA process and should include all options identified by stakeholders, not only those that the project promoter considers technically and financially feasible.

The current formulation of the ESP is ambiguous due to a loophole[8] regarding the inclusion of alternatives analysis in project assessment, allowing project sponsors to claim that a certain option is not '*technically and financially feasible.*' Proper assessment of alternatives should aim to address inequalities in decision-making processes and should seek to define more sustainable paths for development, in accord with the carrying capacity of the local/regional ecosystems, as well as the economic, cultural and other rights of the affected people.

No-go zones

The ESP should establish "no-go zones" for:

(a) areas protected by national or international law, such as national parks or reserves, Natura 2000 sites and UNESCO World Heritage sites

(b) areas not protected by law but which are (i) high conservation value areas, critical ecosystems, water-catchment areas and biological corridors; (ii) areas important for food security and traditional livelihoods; and (iii) territories of indigenous peoples where full free prior and informed consent has not been obtained, following the recommendations of the IUCN from the World Congress in Barcelona in 2008.

The current ESP has provisions for projects that impact critical habitats and protected or designated areas, but these provisions have not been effective in ensuring adequate protection, since implementation depends too much on state authorities and bank clients. Additionally, areas of high biodiversity value or critical habitats often lack protection status, and there are sites that are eg important water source areas, however, state attempts to protect them tend to meet opposition and strong lobbying efforts by commercial interests.

Financial intermediaries environmental and social standards

The USD 10 million threshold for subprojects required to meet EBRD PRs should be removed, and PRs 1-8 and 10 should be required for any high-risk project, no matter the size. This threshold seems very high for FI investments, since most FI investments we are aware of have been much smaller and we wonder if any FI investments have ever actually exceeded this threshold.

Additionally Bankwatch will submit separately comments on public information and consultation, resettlement and human rights, and is actively involved in the consultations on the energy policy.

8 PR 1.9: *"This assessment will include an examination of technically and financially feasible alternatives to the source of such impacts, and documentation of the rationale for selecting the particular course of action proposed."*