

## Low-carbon transition as it should be: three steps for the EBRD to have fewer headaches with hydropower projects

For more information

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While it is positive that banks want to finance the much-needed transition away from coal towards renewable energy in the Balkans, it is crucial to ensure that the cure is not worse than the disease. Most of the projects planned in the Balkans are small. But their impacts are too large compared to their benefits. According to a study commissioned by the European Commission<sup>1</sup>, the contribution of small hydropower plants to electricity generation in the Western Balkans 2001–2015 was only 3% of total hydropower output, making their contribution to *“security of electricity supply and to meeting the national renewable energy targets marginal while being regarded as considerable threat for the environment.”*

Bankwatch has spent some of the last year visiting hydropower projects financed by the EBRD in the Western Balkans. We published the Broken Rivers report documenting our findings<sup>2</sup>. The EBRD agreed that some of the problems mentioned needed urgent remediation measures<sup>3</sup>. But the Bank also needs to ensure that similar cases will not happen again.

The sheer number of projects and the fact that they are being built in a region that has weak environmental governance makes financing hydropower a real challenge and a risk for the reputation of the Bank. In this context civil society can be seen as the canary in the coalmine, conveying information about project risks to the bank and enabling it to avoid issues before they happen. If the EBRD and its intermediaries improve the disclosure of project information and the tools available to civil society, fewer potentially harmful projects will pass through the “funnel”.

Some first steps have been made: the Bank has published a list of projects in the Western Balkans<sup>4</sup>. It has ensured that early consultation on the Babino Selo and Neretvica projects in Bosnia and Herzegovina was carried out. It is now crucial to capitalise on the good practices implemented by formalising them. Some concrete improvements can go a long way to ensuring environmentally acceptable projects.

<sup>1</sup> <https://www.wbif.eu/content/stream/Sites/website/library/WBEC-REG-ENE-01-BR-1-Role-of-hydropower-04.12b.pdf>

<sup>2</sup> <https://bankwatch.org/publication/broken-rivers-impacts-european-financed-small-hydropower-plants-pristine-balkan-landscapes>

<sup>3</sup> <https://bankwatch.org/blog/campaign-update-ebrd-confirms-negative-impacts-of-albanian-hydropower-plants-on-people-and-the-environment>

<sup>4</sup> [http://www.webseff.com/index.php?option=com\\_content&view=article&id=329:hydropower-map&catid=7&lang=en&Itemid=331](http://www.webseff.com/index.php?option=com_content&view=article&id=329:hydropower-map&catid=7&lang=en&Itemid=331)

## STEP 1 Make financial intermediaries' investments transparent and accountable

**Why:** A large proportion of the EBRD's hydropower investments in the Balkans goes through financial intermediaries. Out of 83 planned and realised investments in greenfield hydropower plants across the wider Balkan region, Bankwatch has identified 26 or almost one third as financed via commercial banks. This number may be even higher as it does not include figures from the Green for Growth Fund that does not disclose data on "low-risk" category B projects, which includes all of its hydropower portfolio.<sup>5</sup>

The concrete cases of Dabrova dolina<sup>6</sup>, Croatia (Banca Intesa) or Kraljušćica, Bosnia and Herzegovina<sup>7</sup> (Unicredit) show how this can look in reality: insufficient water left to flow in riverbeds.



*The Dabrova Dolina hydropower plant contributed to the drying up of the Šušnjar waterfall in summer 2017,*

*right, by diverting more water than originally permitted. The left-hand picture shows the falls in higher water conditions.*

This is exacerbated by unclear or weak EBRD policy requirements. The current Environmental and Social Policy Performance Requirement 9, only "encourages" financial intermediaries to publish their corporate environmental and social policy or a summary of their ESMS on their web site and, where possible, list on their website the link to any Environmental and Social Impact Assessment (ESIA) reports for Category A sub-projects which they finance. This allows FIs to choose not to publish the information, which jeopardises the EBRD's intention to have harmonised standards both for direct investments and intermediated ones.

Banking secrecy rules can be easily resolved, as the final beneficiaries' consent can be obtained as an integral part of the contract with the financial intermediary, withholding information that might be considered private but enabling the financial intermediary to publish environmental information.

### How:

- The EBRD should update its Environmental and Social Policy so that it is clear that the Financial Intermediary is obliged to disclose environmental information on all its subprojects. This includes blended finance facilities such as the Green for Growth Fund.
- Contracts with FIs should include a requirement to publish environmental information and a comprehensive definition of environmental information in line with the EBRD's commitment to promote the spirit and principle of the Aarhus Convention. This should go beyond environmental impact assessments and include also eg. investors' requests to Ministries for decisions on whether environmental impact assessments are needed and the accompanying decisions, as well as any studies carried out and

<sup>5</sup> Correspondence with Green for Growth Fund 2 November 2017 as well as <http://www.ggf.lu/downloads/es-performance-requirements/>

<sup>6</sup> <https://bankwatch.org/dabrova-dolina-croatia-why-not-build->

[small-hydropower](#)

<sup>7</sup> <https://www.youtube.com/watch?v=fToC-pXgyPk>

decisions subsequently taken<sup>8</sup>.

- Contracts with final beneficiaries should require the residual flow level to be displayed constantly on the internet, as already stipulated by the Environmental and Social Guidance Note for Hydropower Projects. Also, to make monitoring more robust, energy production could also be published as this also indicates the water quantity taken.

## STEP 2 No hydropower plants in critical habitats, priority biodiversity features, protected areas and internationally recognised areas of biodiversity value

**Why:** There are several examples in the EBRD's portfolio of how financing hydropower in protected areas has caused problems. For instance, the Brajcinska reka 1 and 2 hydropower plants in Macedonia have been built in the middle of the habitat of the endemic Prespa Trout's habitat in the Pelister National Park. The presence of the species should have triggered a critical habitat assessment. The Brajcinska reka 2 ESIA did not capture this feature of the area while the EIA for Brajcinska reka 1 is not available to the public. To add insult to injury, upon visiting the plant in September 2017<sup>9</sup>, neither intake of Brajcinska 1 was releasing any water, in an area that was during previous research<sup>10</sup> shown to be among the most sensitive habitats.

This is not just one bad apple, as shown by the examples of Tresonecka hydropower plant in Mavrovo National Park, where hydrobiological research<sup>11</sup> showed a significant drop in biodiversity between the intake and powerhouse, and Rapuni 1 & 2 in the Shebenik-Jabllanice National Park in Albania where the EBRD itself has acknowledged several issues<sup>12</sup>.



*Weir just above the powerhouse of Tresonecka hydropower plant, in September 2017 (natural flow) and November 2017 (water diverted)*

The Precautionary Approach is embedded in PR 6 of the EBRD Environmental and Social Policy, but is not always built into practice. Given the difficulty of monitoring numerous dispersed small hydropower plants in remote areas, the small amount of electricity generated for the large amount of damage, and the poor environmental governance in most of the EBRD's countries of operation, the most effective move would be for the EBRD to refrain from financing what amounts to industrial infrastructure inside of protected areas.

Also, the EBRD's policy includes much stricter criteria for protected areas that exhibit priority biodiversity features or are considered critical habitats. The problem is that in the Western Balkans, environmental

<sup>8</sup> Ideally governments would be publishing this information and financial intermediaries would only have to publish the name of the project and project promoter. However in the Western Balkans this is very often simply not the case. Most of the countries do not have a properly updated register of environmental processes and where they do, they are often erased when a new government comes to power and changes the Ministerial set-up.

<sup>9</sup> [https://bankwatch.org/wp-content/uploads/2017/12/broken-](https://bankwatch.org/wp-content/uploads/2017/12/broken-rivers.pdf)

[rivers.pdf](https://bankwatch.org/wp-content/uploads/2017/12/broken-rivers.pdf)

<sup>10</sup> [http://www.spp.gr/trout%20sap\\_eng.pdf](http://www.spp.gr/trout%20sap_eng.pdf)

<sup>11</sup> <https://bankwatch.org/publication/ecological-integrity-assessment-of-four-rivers-in-macedonia-affected-by-derivation-hydropower-schemes-based-on-aquatic-macroinvertebrates>

<sup>12</sup> <https://bankwatch.org/wp-content/uploads/2017/09/response-EBRD-RapuniTernoveAL-Aug2017.pdf>

baseline studies are very often non-existent or low quality. This can lead to missing out priority biodiversity features and hence lower protection, only depending on the national laws.

**How:**

The EBRD should update its Environmental and Social Exclusion List to:

- Integrate IUCN Motion no.26<sup>13</sup>, which among other things urges “...financial institutions (including development banks), ... not to conduct, invest in or fund environmentally damaging industrial activities and infrastructure development within, or that negatively impact protected areas or any areas of particular importance for biodiversity and ecosystem services.”
- Exclude hydropower projects in critical habitats, priority biodiversity features, protected areas and internationally recognised areas of biodiversity value, due to the low likelihood of being able to ensure that they are built and operated as planned.

### STEP 3 All hydropower plants need be subject to Environmental and Social Impact Assessment

**Why:** The same body of evidence above shows that small hydropower projects too often escape the E(S)IA process.

Combined with weak governance at the local level, this enables projects that are potentially problematic to pass through all the procedures without any public consultation. This means that local affected communities learn about the project once the construction machines appear at their doorstep, sometimes triggering protests and actually increasing the project costs.

For instance during the construction of the EBRD-financed Ternove plant in Albania, because the local communities were not properly consulted, the project

created a rift, with some of the villagers turning to protests and alleged violence<sup>14</sup>. The last noted conflicts were in 2016 around the Sopa lake, where the company allegedly started works without the proper permits. Also, the Rapuni 1 & 2 projects in Albania have deprived a cornflour mill downstream from operating by not releasing enough water in the river – which has also been acknowledged by the EBRD<sup>15</sup>. The Bank recommended that the operator “*compensate the owner for past lost incomes.*” Both projects “*were categorised B and hence were not subject to environmental and social impact assessment under EBRD requirements.*”

Also, lack of EIA or similar processes for hydropower plants can lead to underestimation of cumulative effects. Suddenly, a local community may end up with 14 plants in an area of 40 km<sup>2</sup>, as in Josanicka banja, Serbia where the EBRD participated by financing 4 of the plants, and contributed to putting 27 km of rivers in pipes.<sup>16</sup>

**How:**

- Add “hydropower plants of all designs and electrical capacities” to item 11 of the Annex II of the Environmental and Social Policy; effectively assigning all hydropower projects as Category A

Or

- Clarify that for the Category B hydropower projects ESIA has to be done in all cases and that it has to include genuine public consultation in line with PR 10 of the Environmental and Social Policy.

### Conclusion

The EBRD is moving in the right direction. Our research from December 2017 shows a general increase of the renewable energy portfolio during the last few years, but it is important to be sure that all these investments bring real environmental benefits, not only greenhouse gas reductions.

It is also important to assess the costs and benefits.

<sup>13</sup> <https://portals.iucn.org/congress/motion/026>

<sup>14</sup> [http://www.ecoalbania.org/wp-content/uploads/2017/04/Water\\_conflict\\_study-2017-1.pdf](http://www.ecoalbania.org/wp-content/uploads/2017/04/Water_conflict_study-2017-1.pdf)

<sup>15</sup> <https://bankwatch.org/wp-content/uploads/2017/09/response-EBRD-RapuniTernoveAL-Aug2017.pdf>

<sup>16</sup> <https://bankwatch.org/blog/money-flows-rivers-dry>

One EBRD investment in Serbia – the Čibuk 1 wind farm – will have planned electricity generation (380.3 GWh<sup>17</sup>) more than twice that of all the small hydropower plants during 2017 in Serbia (183.2 GWh<sup>18</sup>). This is also one location compared to around 100 locations. The potential damage for such a high number of locations – and usually those in mountainous, inaccessible and therefore unspoilt areas – compared to the benefits of electricity production is too high.

The EBRD now has a chance to redirect its path of supporting green transition, one that will bring more benefits for a lower cost to biodiversity.

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<sup>17</sup> <http://www.mre.gov.rs/doc/efikasnost-izvori/PROGRAM%20FOR%20THE%20IMPLEMENTATION%20ENERGY%20STRATEGY%20for%20the%20period%20from%202017%20until%202023.pdf>

<sup>18</sup> <http://eps-snabdevanje.rs/obnovljivi-izvori/Documents/Izve%C5%A1ta%C4%8Dinama%20i%20struktur%C4%8Dne%20energije%20proizvedene%20u%20sistemu%20podsticaja%20u%202017.%20godini.pdf>