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РИБАРСКО СДРУЖЕНИЕ БЛАГОЕВГРАД

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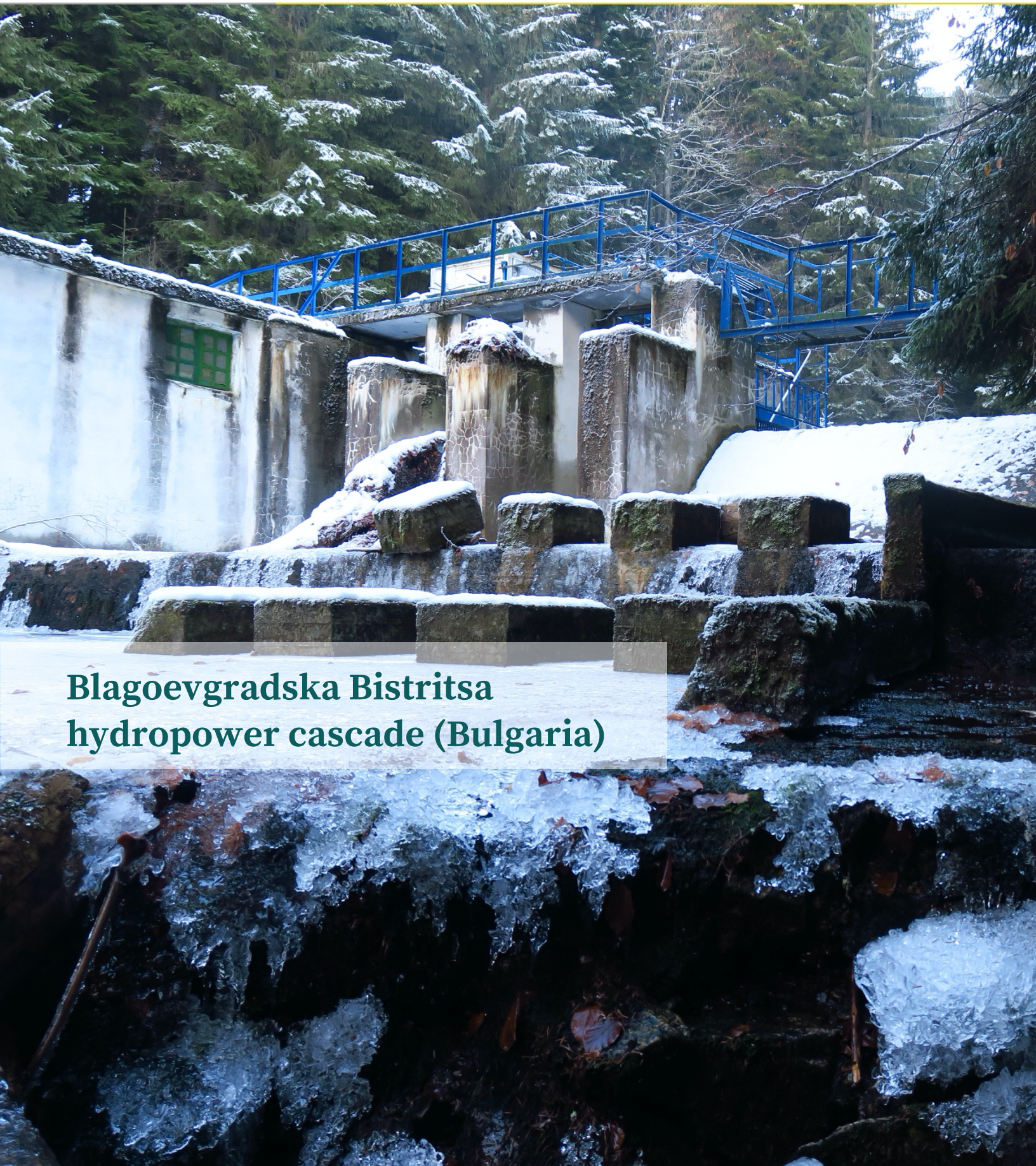

Blagoevgradska Bistritsa hydropower cascade (Bulgaria)

For more information

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Cover Photo: Kartala intake in Rila National Park, 21 December 2020, Photo: CEE Bankwatch Network

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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Overview

The Blagoevgradska Bistritsa hydropower cascade in Bulgaria consists of eight small hydropower plants installed on pipelines that supply the town of Blagoevgrad with drinking water. The plants were developed by the private company Blagoevgradska Bistritsa Ltd. and have been operational since 2012 with a total installed capacity of 6,375 kW.[1] Until 2013 the company was owned by Grisha Ganchev,[2] 'a known money launderer and organised crime figure', according to a cable from the US Embassy in Sofia.[3] Afterwards, Ganchev sold his hydropower business, and Blagoevgradska Bistritsa Ltd. is now the property of the Bulgarian company Union Group.

The project's construction was supported by a credit line for energy efficiency and renewable energy with a credit limit of EUR 5.7 million. This funding was provided by the European Bank for Reconstruction and Development (EBRD) through a financial intermediary – the commercial bank Allianz Bank Bulgaria PLC.[4] Later, in 2012, after the cascade was built, the European Investment Bank (EIB) provided a loan for the project company via the Allianz BG Loan for SMEs and Mid-Caps Bulgaria credit line.[5] The sub-project was worth EUR 6.1 million[6] and financed the company's trade receivables. As the company is a special purpose vehicle set up only to build and operate this project, whatever financing is provided to it by definition supports the operation of the hydropower cascade.

The hydropower cascade uses five water intakes to divert water from Blagoevgradska Bistritsa River (the Kartala intake) and four of its tributaries – Kriviya Uluk, Slavova, Predimer and Kovachitsa. The Kartala and Kriviya Uluk intakes are located in Rila National Park and the Natura 2000 site Rila (BG0000495).[7] The upper three hydropower plants and the upper stretch of the Blagoevgradska Bistritsa River were located within the area of the original Natura 2000 site Rila bufer (BG0001188) proposed in 2007. After the cascade was built, the borders of the Habitats Directive site changed, to exclude the

[1] Union Group, BLAGOEBGRADSKA BISTRITSA LTD, accessed 23 February 2021.

[2] Papagal.BG, БЛАГОЕВГРАДСКА БИСТРИЦА ООД, accessed 23 February 2021.

[3] Novinite.com, US Embassy Cables: Bulgarian Soccer Receives Red Card for Corruption, accessed 23 February 2021.

[4] EBRD financing was confirmed in the Contract between Allianz Bank Bulgaria and VEC Energia Ltd. for establishing collateral over the shares in the company Blagoevgradska Bistritsa Ltd. related to Framework Agreement for a credit line No. 36314/29.03.2010, page 3, art. 12

[5] European Investment Bank, Allianz BG Loan for SMEs and MIDCAPs, accessed 23 February 2021.

[6] EIB financing was confirmed in a response to an information request to the EIB by Bankwatch, dated 10 March 2020, and further explained in a response of 26 March 2021.

[7] Classified as a special protection area (SPA) and adopted as proposed site of Community Interest (pSCI) by Council of Ministers Decision No. 122/02.03.2007.

power plants, and the new site was adopted with the name Niska Rila (BG0000636). The Birds Directive site Rila bufer (BG0002129) was adopted within the initially proposed borders. Most intakes and pipelines for the water supply system were in place prior to the construction of the hydropower plants, but their purpose has been greatly extended to include hydropower without any significant rehabilitation or measures to ensure environmental compliance.

When the Blagoevgradska Bistritsa hydropower cascade was first proposed, it was not immediately obvious that it would have a serious environmental impact because it planned to use mostly existing infrastructure. No environmental impact assessment (EIA) was conducted, so there was no way for the public to understand in advance how it would impact the river. However, following the construction of the cascade, the river hydrology has largely changed to much more arid condition, suggesting that more water is being extracted than before. A resolution to this problem has been seriously delayed. The public did not know that the EBRD was involved at the time the plant was built, and that the EIB supported the project company once it was built. The Bulgarian institutions did not address environmental problems, e.g. excessive water extraction and the drying of the riverbeds, so the banks could have played a crucial role in ensuring the issues were addressed. However, because their involvement was not known, the issues could not be addressed to the banks in a timely manner.

No impact assessment

According to the screening decisions for the Environmental Impact Assessment (EIA) and Appropriate Assessment (AA) by the Regional Inspectorate of Environment and Water – Blagoevgrad, none of the eight hydropower plants interferes with protected areas or will have an impact on Natura 2000 sites. Thus, neither an EIA nor an AA were conducted.

We have identified three irregularities in the screening decisions' procedure:

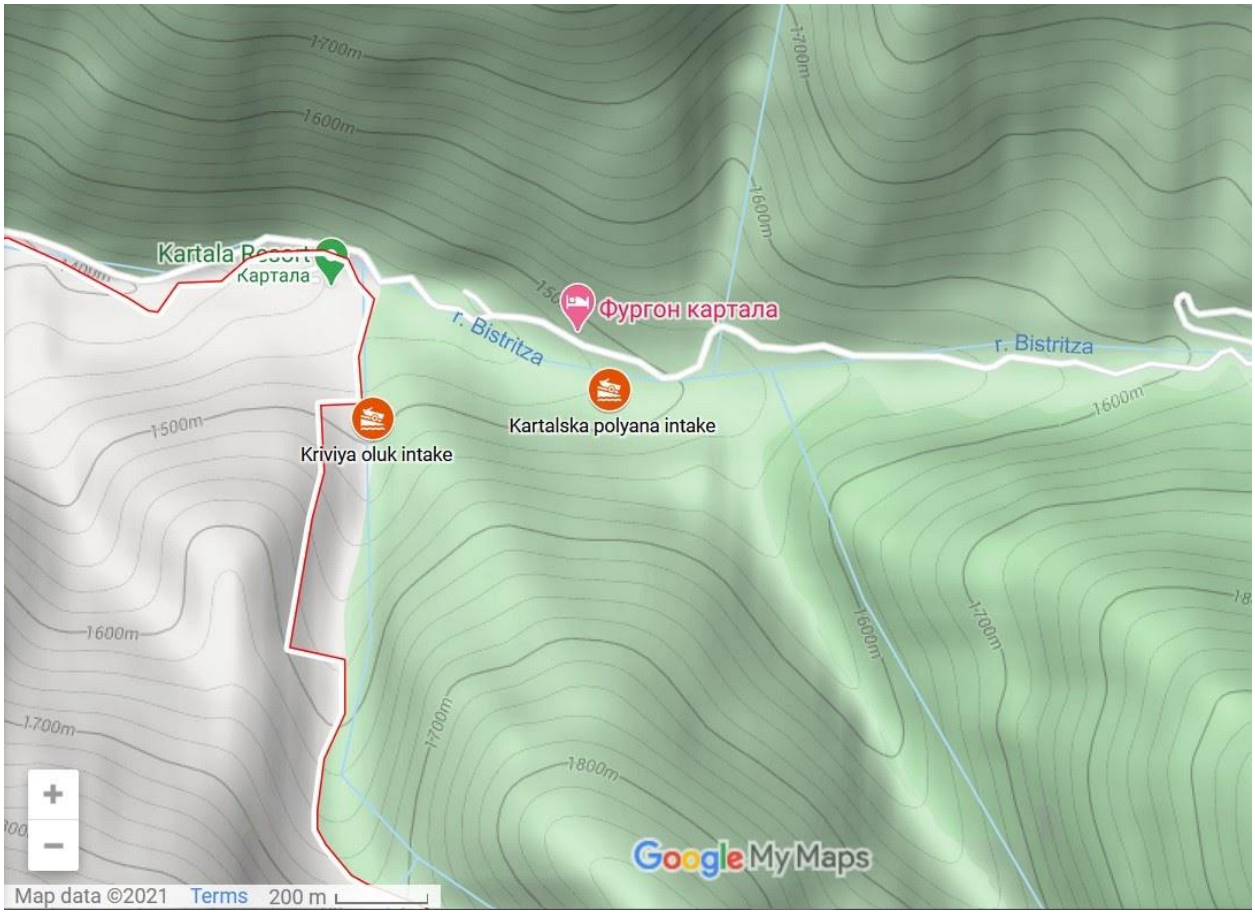
1. **A closer look at the GPS locations of the intakes of the cascade shows that two of them (Kartala and Kriviya Uluk) are actually situated within Rila National Park,[8] but the screening decisions do not mention this fact.** They only mention the location of Blagoevgradska Bistritsa-1, Blagoevgradska Bistritsa-2 and Blagoevgradska Bistritsa-3 within the boundaries of the Rila bufer Natura 2000 site.[9] The Slavova intake within the Niska Rila site is not mentioned either.

   Moreover, the Kartala and Kriviya Uluk intakes are situated close to the Parangalitsa Biosphere reserve, which has been designated as a strict nature reserve Category Ia according to the International Union for Conservation of Nature's (IUCN) protected area categories.10 This area should be subject to the highest level of environmental protection and the strictest implementation of all related procedures.

[8] The responsible West Aegean River Basin Directorate has provided GPS locations for the plants of the cascade, their water intakes and the rest of the plants on the same river upon our request.

[9] Rila bufer, code BG0002129, was classified as an SPA by Council of Ministers Decision No.177/03.04.2019. Niska Rila, code BG0000636, was adopted by Council of Ministers Decision No. 177/03.04.2019. Both sites were proposed to be included in the Natura 2000 network in 2007.

[10] UNESCO, Parangalitsa Biosphere Reserve, Bulgaria, accessed 23 February 2021.



Google map prepared with coordinates from WA Basin Directorate, red line - national park border. Source: http://bit.ly/2EYjtOz

Due to the nature of the investments and the location of the cascade within Rila National Park and Natura 2000 sites, the Bulgarian state authorities were obliged to require an EIA and an AA for each planned hydropower investment and for the cumulative effects with all existing and planned facilities placed on the Blagoevgradska Bistritsa River.

2. **The project was 'salami-sliced' and the realisation of all eight power plants from the Blagoevgradska Bistritsa cascade was authorised based on the assumption of no additional water used only for electricity production.** The cascade project was sliced into eight smaller projects so that their impact could appear marginal. The eight different decisions of the competent authority (the Regional Inspectorate of Environment and Water – Blagoevgrad) between October and November 2007[11] were motivated by the fact that the construction of each of the eight plants was not expected to have significant negative impacts on the environment, on the water balance of the river or on the habitats and species of the nearest protected areas. The cumulative effect of the eight power plants together with all of the other existing and planned hydropower units on the same river and its tributaries (see below) was not considered at all, even though the investment proposals for the eight plants were

[11] Ministry of Environment and Water, Official EIA register, accessed 23 February 2021

submitted to the Regional Inspectorate on almost the same dates[12] and the authority was aware that all of them would be processing water from the same source.

One of the eight powerhouses of the Blagoevgradska Bistritsa cascade, 21 December 2020, Photo: CEE Bankwatch Network

3. Additionally, the Regional Inspectorate was aware of eight other small hydropower investment proposals submitted between 2004 and 2007 that were planning to divert water from the Blagoevgradska Bistritsa River. All of them were authorised without an EIA or AA as well, which **boosts the overall number of energy installations exploiting the same water body without any measurement of their impact on the environment and protected areas to sixteen. Yet their cumulative impact was never assessed.**

[12] June 2007 and for SHPP Blagoevgradska Bistritsa 4,5,6,7 and 8 on 13 July 2007.

Table 1. Additional hydropower projects on Blagoevgradska Bistritsa River

Name of the plant	Project developer	Capacity	Date of lodging the investment proposal	Date of decision of the Regional Inspectorate
Ridina	Ridina Ltd.	3,200 kW reduced to 1,720	27.7.2007	26.11.2007
Bistritsa	KANA PLC	700 kW	04.09.2006	23.10.2006
Bistritsa 3	Monolitstroi – Chorbadzhijski, Bajkushev Ltd.	850 kW	18.08.2006	23.10.2006
Bistritsa 2	Monolitstroi – Chorbadzhijski, Bajkushev Ltd.	880 kW	18.08.2006	23.10.2006
Bistritsa 1	Monolitstroi – Chorbadzhijski, Bajkushev Ltd.	660 kW	18.08.2006	3.10.2006
SHPP on Bistritsa River	A i A Ltd.	650 kW	20.01.2006	12.04.2006
Slavova	Vodoelektroinvest Ltd.	700 kW	30.12.2004	13.04.2005
Kalishteto	ET Peter Tunev - Volta	750 kW	24.06.2004	07.12.2004

Source: Official EIA register of the Bulgarian Ministry of Environment and Water

Monitoring and documenting of environmental impacts

The hydropower cascade has significantly altered the water balance of the Blagoevgradska Bistritsa River and its ecosystem. Through consistent field monitoring, experts from the Sofia-based civil society organisation Balkanka Association have documented zero or close to zero environmental water flow discharge below two intakes (Kriviya Uluk and Kartala) and inadequate fish passes. This has resulted in a complete barrier for fish attempting to migrate upstream and downstream. The full extent of the damage and the consequences for Parangalitsa Reserve and Rila National Park can only be assessed through an extensive ecological study.

The water intakes were visited by Balkanka representatives 12 times between September 2015 and October 2020 and the monitoring results were made public[13] and sent to the relevant authorities. Additionally, experts from CEE Bankwatch Network visited the entire cascade in December 2020.

[13] Monitoring site of the existing HPPs / sHPPs in Bulgaria, accessed 23 February 2021.

These inspections happened during different seasons and hours of the day in order to compare the water flow in different weather conditions, as well as to relate the cascade regime to the water consumption needs of the town of Blagoevgrad.

The river below Kriviya Uluk intake was completely dry during all visits, while Kartala barely trickled. Balkanka estimates the water flow below Kartala intake to be between 2 and 15 l/s. The fish passes were blocked and made fish migration upstream impossible. Silt was filling up the reservoir behind the Kartala intake, which affects the quality of the water, and no regular cleaning was being done. Additionally, the design of the fish passes was completely inadequate for this types of mountain rivers.

The field visits also noted contradictions with the environmental permits. According to the Blagoevgrad Regional Inspectorate, the plants from the cascade should have hardly had any additional impact because their operational schedule would be tied to the already existing water supply system of the town of Blagoevgrad. '***The exploitation of the hydropower plant would not have its own impact on the water balance of the river, because it will work on a subordinate schedule compliant with the regime of drinking water consumption***' is written in the motives of all eight decisions to not carry out an EIA and AA. However, the field visits found the plants operating at full capacity at a time of presumably low water usage in the town (10 to 11 a.m.). The cascade uses a lot more water than necessary for the town.

We have obtained official data from the River Basin Directorate's Register of permits[14] on the amount of surface water taken from Blagoevgradska Bistritsa. For the eight hydropower plants of the cascade, the private owner Blagoevgradska Bistritsa Ltd. has permission to take between 20.03 and 23.37 million cubic metres per year (the largest amount corresponding to the lowest plant in the cascade). At the same time, the state-owned company V i K- Ltd., Blagoevgrad has permission to take 9.45 million cubic metres per year for drinking water that is then supplied to Blagoevgrad and eight nearby settlements. Part of this amount goes through smaller pipelines not used for electricity production.

In theory, since the plants use the drinking water for the turbines, once the water has passed the last plant, it should continue towards the town. But footage[15] from the lowest plant of the cascade shows **a large pipe which discharges water used in the hydropower production process directly back into the river, thus proving that the energy production is using water that is not carried further for the town's water consumption**. Apparently, the eight plants use all the water caught by the intakes and divert it from the river even when the town of Blagoevgrad does not need it. This directly contradicts the information from the investment proposal and EIA screening decisions which state that all the water will be returned back into the drinking water pipeline. It is not mentioned at all that extra water will be used and discharged into the river below that plant.[16] Thus, the plants were not built in line with the environmental permitting conditions from the EIA screening decision.

Field visits suggest that the hydropower cascade uses around twice as much water as the drinking water needed for Blagoevgrad and the nearby villages. Additional water is taken from the rivers year-round, and since 2012 this has had an important cumulative effect on the river habitats – dry riverbeds close to intakes and in longer river stretches in summer, and very low water levels in autumn and winter. Before the cascade was built, the ecosystem was already impacted by the drinking water intakes and

[14] West Aegean River Basin Directorate, Official register of surface water permits, accessed 23 February 2021.

[15] Dimiter Koumanov, 0358 - ВЕЦ Бл.Бистрица - 2016-06-24 - 7, accessed 23 February 2021.

[16] Ministry of Environment and Water, Official EIA register, accessed 23 February 2021.

the diversion of water for the Belmeken-Sestrimo cascade, but the increase in water diverted from the river has led to the disappearance in long stretches of the river of species like the Eurasian otter (*Lutra lutra*) and stone crayfish (*Austropotamobius torrentium*) (both protected under the Habitats Directive 92/43), as well as the brown trout (*Salmo trutta*), a key species for sport and subsistence fishing.

Discharge of water below Blagoevgradska Bistritsa-8 HPP not described in the EIA/AA screening decision, 21 December 2020, Photo: CEE Bankwatch Network

Survey with local people

To understand the impacts of the cascade on Blagoevgradska Bistritsa River and its tributaries, a survey was conducted between December 2020 and January 2021.

Thirty interviews were made between December 2020 and January 2021 with local people who have good knowledge of Blagoevgradska Bistritsa River before and after the construction of the hydropower cascade. Sixteen of them were from the town of Blagoevgrad and the rest from nearby settlements. Twenty-four of the interviewees were anglers and the others had knowledge of the river as farmers, hunters, rangers or foresters.

Almost all responded that before the cascade was built, there were brown trout (n=30), barbel (n=28), otter (n=30), stone crayfish (n=29) in the river. The barbel, found mostly downstream, is the Balkan endemic Struma barbel (*Barbus strumicae*) from Annex II of the Habitats Directive. Otter (*Lutra lutra*) and stone crayfish (*Austropotamobius torrentium*) are also from Annex II and the latter is a priority species.

All of the interviewees (n=30) responded that there has been less water in the river since the cascade was built, and most of them had seen the river completely dry.

In order to have a better overview of the impact, researchers divided the river into three stretches:

1. S1 - between the town of Blagoevgrad and the lowest plant of the cascade, Blagoevgradska Bistritsa-8 (400 - 614 masl)[17]. There are no hydropower plants built in this stretch.
2. S2 - between the lowest plant and the Slavova tributary (614 - 865 masl). This stretch includes four of the cascade's plants plus one additional in the riverbed not part of the cascade. This was the second best stretch for fishing before building the cascade.
3. S3 - between Slavova tributary and the national park borders (865-1451 masl)[18]. This stretch includes four of the cascade's plants. This was the best stretch for fishing before building the cascade.

The following quantitative data describing the changes in fish catches before and after the introduction of the cascade was taken from interviews with anglers (n=24).

Table 2. Survey results: changes to Blagoevgradska Bistrica River

Stretch	**S1 (400- 614 masl)**	**S2 (614 - 865 masl)**	**S3 (865-1451 masl)**
Best stretches for fishing ***before*** building the cascade[19]	n=2	n=15	n=22
Quantity of fish caught ***before*** building the cascade[20]	**1-2kg** on best days (n=19) **>2kg** on best days (n=5)		
Comments	Most commented that there were a lot of fish in the river. Some described having caught 30-40 fish per day, or a trout above 1 kg or up to 50 cm long.		
Quantity of fish caught ***after*** building the cascade	**300gr-1kg** on best days (n=20) **0-300gr** on best days (n=4)	**0-300gr** on best days (n=24)	**300gr-1kg** on best days (n=14) **0-300gr** on best days (n=10)
Comments	Most of the fish in this stretch is caught when there is high water in spring and the most common catch is barbel (not trout).	Most specified that it was 0 gr. They explained that there is almost never water in the river.	Only during high water in spring fishing was it possible to catch fish. Only small fish were in the river because of lack of food.

[17] Below the town, the river is too modified and polluted, so this section was not included in the questionnaires.

[18] Fishing is forbidden in the stretch of the river located in the national park, so this section was not included in the questionnaires.

[19] Interviewees were allowed to choose more than one stretch.

[20] There are no separate answers for the different stretches.

Impacts on fish ***after*** building the cascade	Brown trout either had a significantly reduced population (n=17) or disappeared (n=9). Most (n=24) also described reduced populations of barbel.	All (n=30) described the disappearance of trout and all other species of fish.	Some people indicated that trout had disappeared (n=8), but most (n=19) said that small-sized trout was still found there in very low numbers.
Impacts on otter and crayfish ***after*** building the cascade	Most (n=24) described reduced populations of otter and crayfish.	Almost everybody described the disappearance of otter (n=26). Most described the disappearance of crayfish (n=18).	Almost all said that there was no otter (n=25) and crayfish (n=17).

Based on the interviews, we can conclude that the upper stretches of the river were very attractive for fishermen before, but after the construction of the cascade they lost importance. Many people said that they have seen the river completely dry in stretch S2 and that there was 'no life at all, not even frogs'. In stretch S3, the impacts of the cascade were also very severe: only in spring can fishermen catch any fish, but mostly very small individuals. Even when there was restocking of trout in these two sections, it did not manage to survive due to low water levels – leading to freezing in winter and easy poaching in other seasons. In the two stretches directly impacted by the cascade, otter have disappeared and stone crayfish have either disappeared or are on the edge of extinction. There has been an impact on all aquatic species even in stretch S1 (below the cascade). We assume that this is because of the irregular discharge in the river from the lowest plant and because the river is dry upstream and cannot serve as a biocorridor for spawning fish. Two fishermen have seen fish getting to the fish passes and unsuccessfully trying to migrate upstream, which has occurred because the passes were improperly designed.

Summary of environmental breaches

In summary, field observation has provided initial evidence of several violations of national and EU legislation, namely:

1. *Art. 117, points 1) and 4) of the Bulgarian Water Act*[21] which require a minimum ecological water flow to be discharged with priority over any economic activity – whether that be drinking water, irrigation, hydropower or other – in order to ensure the protection of water ecosystems and wetlands.
2. *Art. 81, point 1), item 2 of the Bulgarian Act for Environmental Protection*[22] which requires an EIA to be carried out in relation to investment proposals for the construction of hydropower plants which may have a significant impact on the environment.

[21] Lex.bg, ЗАКОН ЗА ВОДИТЕ, accessed 23 February 2021.

[22] Lex.bg, ЗАКОН ЗА ОПАЗВАНЕ НА ОКОЛНАТА СРЕДА, accessed 23 February 2021.

3. *Art. 4, point 1) of the EU Water Framework Directive (2000/60/EC)*[23] which requires Bulgaria to implement measures to prevent the deterioration of the status of bodies of surface water and to achieve compliance with any standards and objectives related to protected areas.
4. *Art. 6, point 3) of the Habitats Directive (92/43/EEC)*[24] which requires Bulgaria to conduct an AA of projects likely to have a significant effect on special areas of conservation 'either individually or in combination with other plans or projects', i.e. Bulgaria was required to assess the cumulative effect of the eight plants together with the other eight hydropower plants on the same river, planned before the cascade was assessed.

Actions taken so far to remedy the breaches

Balkanka has repeatedly prompted the state authorities to take action – notifications were sent to the West Aegean River Basin Directorate after every field visit.[25] Two reports were additionally sent to the Ministry of Environment and Waters in 2015[26] and 2016.[27] Balkanka has also lodged a complaint[28] with DG Environment describing the case of Blagoevgradska Bistritsa, among many others, as symptomatic of uncontrolled hydropower construction in Bulgaria.

On 28 December 2018 the West Aegean River Basin Directorate finally confirmed that it had observed the Kriviya Uluk intake releasing no water at all.[29]

On 09 December 2020 after another notification from Balkanka, the Directorate confirmed[30] that there were no measuring devices for the water released below Kriviya Uluk and Kartala intakes, which should amount to 15 l/sec and 22 l/sec respectively. It also confirmed that no water was flowing through both fish passes. Because of these findings and the 'great public interest the river has' the Directorate obliged the state-owned company V i K Ltd. – Blagoevgrad, which manages the drinking water intakes, to carry out the following:

- To release continuously the 'ecological' amount of water in both rivers according to the water permits;
- To create conditions for these amounts to flow through the fish passes;
- To create conditions for measuring minimum water release within six months;
- To not allow larger water quantities in the drinking water pipeline connected to the HPPs of Blagoevgradska Bistritsa Ltd. above the limits for drinking water for the normal functioning of the river ecosystems according to Article 50 of the Water Act.

Blagoevgradska Bistritsa Ltd. has not been given any additional obligations related to the river. On 21 December 2020, Bankwatch confirmed that again no water was released in the river at the Kartala intake.

[23] EUR-Lex, Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, accessed 23 February 2021.

[24] EUR-Lex, COUNCIL DIRECTIVE 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora, accessed 23 February 2021.

[25] According to the author of the notifications, the West Aegean River Basin Directorate responded two or three times that their inspections did not find any irregularities.

[26] Balkanka Association, Report to the Ministry of Environment and Water 2015, accessed 23 February 2021.

[27] Balkanka Association, Report to the Ministry of Environment and Water 2016, accessed 23 February 2021.

[28] Annex 1 to DG Environment case file ID number CHAP(2015)02363, 05 January 2016.

[29] West Aegean River Basin Directorate, Report no. RD-11-7(66)/28.12.2018.

[30] West Aegean River Basin Directorate, Report no. RD-11-617(2)/09.12.2020.

Completely dry fish pass at Kartala Intake, 21 December 2020, Photo: CEE Bankwatch Network

Breaches of EIB and EBRD safeguard policies

As the original construction loan was provided via an EBRD credit line, it was the EBRD that would have overseen pre-construction due diligence for the project and which should have ensured that the permitting procedures were carried out in line with national legislation and the EBRD's Environmental and Social Policy. But the EIB, which provided a loan later, should have been able to carry out its due diligence more easily: the facility was built, and all permits were issued, thus it could inspect what had actually been built, as well as a much wider range of documentation.

EBRD Environmental and Social Policy

According to the EBRD's 2008 Environmental and Social Policy, in force at the time of the approval, financial intermediaries were obliged to notify the EBRD about investments in high-risk sectors listed in Annex II of Performance Requirement 9 (PR 9) such as small hydropower cascades, so that the EBRD could ensure that appropriate environmental and social due diligence was carried out and that projects met the EBRD's Eligibility Criteria for Small Hydro Projects. Yet in this case, it is not clear whether the EBRD was notified and whether it was included in the due diligence for the project.

A response from the EBRD on 21 December 2018 stated: *'Unfortunately we have not succeeded in retrieving the information for the Projects you were looking for. These Projects are just too old for us to still have active records with operational detail.'* This was very surprising for a project which started operating only in 2012, as the full impacts of such projects usually take some time to become clear, and we would expect all documentation to be available to ensure adequate monitoring.

According to PR 9, paragraph 15, of the 2008 policy, '*FIs* [Financial intermediaries] *will require all clients to comply with national regulations and standards related to (i) the environment, (ii) public consultation, and (iii) employment, including without limitation, occupational health and safety, child labour, forced labour; non-discrimination related to employment, and freedom of association and collective bargaining*.' As Bulgaria has been a Member State of the EU since 2007, this also means that EU legislation must be followed.

Additionally, paragraph 11 of PR 9 prescribed that:

- 'Where the EBRD is financing a credit line or other targeted finance facility, the requirements of this PR will apply to all subprojects financed using EBRD funds';
- 'FIs will require all clients to comply with national regulations and standards related to the environment among others'; and
- 'the FI will adopt and implement environmental and social due diligence and monitoring procedures commensurate with the level of environmental and social risks associated with its business activities and type of project with the EBRD'.

In this case, national/EU legislation was not followed in the EIA screening or in terms of the impact on the river's status. Any official monitoring that has been done has clearly not been effective, as the hydropower plants are still allowed to extract too much water. The case illustrates both the need for better pre-project due diligence of financial intermediary investments – even ones which appear relatively harmless – and the need to keep better records of completed projects. But it also shows the need to disclose the planned projects to be financed through intermediaries, so that concerns can be raised in time to prevent serious impacts, or to at least mitigate them in a timely manner. The EBRD has made positive changes to its Environmental and Social Policy in this regard, though it is still not clear whether financial intermediary sub-projects will be disclosed before signing or only afterwards.

EIB environmental standards

When the credit line for Allianz BG was signed in 2012, the EIB's 2010 Environmental and Social Handbook was the document that stipulated how the EIB would assess compliance with the EIB Statement.

The overarching requirement is that all projects, including FI sub-projects, need to comply with national and EU law.

Page 16:

> *22. The EIB applies a number of core environmental and social safeguard measures that reflect international good practice to all its lending activities. It requires that all its projects:*
>
> - *Apply the European Principles for the Environment, i.e. comply with EU environmental principles, standards and practices, if practical and feasible in some regions (...);*
> - *Comply with the EU environmental Acquis on environmental assessment as defined in the EIB Sourcebook on EU Environmental Law;*
> - *Comply with international conventions and agreements ratified by the EU;*
> - *(...)*

- *Apply good environmental management practices during project implementation and operation; and,*
- *Adhere to other specific international good environmental and social practices.*

Page 17:

> *23. According to its own policy requirements, the Bank shall satisfy itself that projects to be financed comply with its environmental and social standards and requirements, in particular that:*
>
> - *Projects to be financed within the EU, Candidate and potential Candidate countries comply with EU policy, principles, standards and practices, especially the requirements of EU legislation, for the protection of the environment; (...)*

Page 30:

> *B.2.5. Summary of Legislative Compliance*
>
> *(...) 52. The EIB requires that all projects in the EU, Candidate and potential Candidate countries, likely to have a significant effect on the environment be subject to an EIA (...)*
>
> *56. In the EU, as well as in the Candidate and potential Candidate countries, all projects financed by the EIB should comply with both national and EU environmental law. (...)*

However, the problem arises in the EIB's abdication of responsibility for due diligence and monitoring of Global Loans, such as the Allianz credit line that financed the Blagoevgradska Bistritsa plants. Under the 2010 Handbook, the Bank did not commit to carry out in-depth due diligence on intermediaries' sub-projects, only leaving it open as an option:

Page 44:

> *Global Loans*
>
> *120. Generally, the schemes to be financed under Global Loans are not known at the time of submission to the Board, and GLs are not normally appraised by PJ. The Board of Directors approves the GLs and/or global authorisations on the basis of the objectives sought (e.g. financing of SMEs, infrastructure, the environment, etc.) and the project selection criteria (e.g. regions concerned, sectors excluded, etc.), which are then reflected in the contract(s) signed.*
>
> *121. On the request of Ops, PJ may carry out an environmental and social assessment of a particular GL operation, including an assessment of the environmental risk management capacity of the promoter; it may also carry out an environmental and social assessment of a particular sub-project (allocation) when requested by Ops. All projects financed through financial intermediaries are covenanted to comply with appropriate environmental legislation; within the EU, EU legislation, outside the EU, national legislation, with reference where appropriate to EU legislation.*
>
> *122. The appraisal and approval of GL allocations is generally the responsibility of the intermediary institution. If PJ carries out an assessment of a particular sub-project then D1,*

> *D2 and D3 should be completed. A special purpose form has been established for this purpose outside the EU (Annex 10).*

Some screening of sub-projects regarding impacts on biodiversity was in fact required under section C.5.1. but left some loopholes:

Page 50:

> The requirements detailed in C.5.1. apply to all types of investments, including Framework and Global Loans (...)

However, the same page states:

> *157. A biodiversity assessment is also, in general, not required for: (...)*
>
> - *Small and medium investments, where the promoter/intermediary confirms that through the application of the planning/consent process, the Competent Authority has taken nature conservation issues into account; and,*
> - *Small and medium investments financed through a Global Loan, when the intermediary is judged by the EIB to follow an acceptable approach to nature conservation issues.*

It is not clear whether the EIB judged that the intermediary, Allianz BG, followed an acceptable approach to nature conservation issues, or how the EIB would have carried out its assessment on Allianz BG's capacity, as the Handbook gives no guidance on this. Information on the borrower's track record on environmental management was supposed to be posted on the EIB's website as part of the project information (page 36, 2010 Handbook); however, this was not done.[31]

Regarding the permitting processes led by the Bulgarian competent authority, anyone who did not check the project documentation carefully could believe that there would not be major impacts, but a closer look at the location of the plant in relation to protected areas and a visit to the location would have confirmed otherwise. It is not only important whether the competent authority took nature conservation issues into account, but also whether the project promoter respected the conditions set.

The division of the project into eight pieces for the purpose of EIA screening should also have been a clear red flag, indicating an attempt to play down the impacts. In the case of directly-financed EIB projects, the 2010 Handbook (page 39) specifies that for projects under Annex II of the EIA Directive which are screened out, the Bank must determine whether it agrees with the decision not to require an EIA. If not, the Bank must require an EIA to be carried out. However, in the case of intermediated financing, this requirement is not explicit and the situation is further complicated by the fact that the loan was for the company's trade receivables, not the construction of the plant itself. Since the company is a special-purpose vehicle set up for the sole purpose of building and operating the plant, the EIB loan must be seen as supporting the operation of the project, but its 2010 policy is not clear on what environmental due diligence the EIB must do in such cases.

The EIB's delegation of due diligence to the financial intermediary was misplaced. The EIB has informed Bankwatch, in a response of 12 March 2021, that: '*For the purposes of its loan to Allianz Bank Bulgaria*

[31] European Investment Bank, Allianz BG Loan for SMEs and MIDCAPs, accessed 23 February 2021.

AD, the EIB assessed Allianz Bank Bulgaria AD in line with applicable procedures.' This does not provide much information, and the question remains: given that the plant was already built when the EIB's FI sub-loan was approved, why did Allianz BG, and thus the EIB, fail to discover that the plants were extracting excessive amounts of water from the river? The banks did not have to estimate what the impacts would be – a visit to the site would have shown the riverbed running dry (unless the project promoter was informed in advance, and could adjust the operation of the plants to make sure enough water was left in the river bed).

Had the issues been identified, appropriate mitigation measures and a monitoring plan could have been set up. Indeed, a monitoring and remediation plan is still very much needed, as laid out on page 48 of the 2010 Handbook:

> *146. Where a significant impact is likely, the project should be monitored during implementation and operation, as appropriate. This monitoring plan should include a remediation plan for long term biodiversity stabilisation and promotion on the project site and importantly in the secondarily affected adjacent areas.*

Section C.5.2. on the appraisal of projects within the EU, Candidate and Potential Candidate Countries (page 48) of the 2010 Handbook is unclear about whether it applies to financial intermediary sub-projects, but it contains several provisions on the need to apply the Birds and Habitats Directives and to undertake Appropriate Assessments. The EIB confirmed in a response to Bankwatch dated 12 March 2021 that it had not undertaken environmental due diligence on the Blagoevgradska Bistritsa project and that it had not carried out any field visits.

Similarly it is not clear whether section D.1. of the Handbook on 'Follow-up during implementation and during operation' (page 68 ff) applies to financial intermediary sub-projects. Yet without detailed monitoring, including site visits, it is impossible to assess whether the permitting conditions and national and EU law have really been complied with.

Improvements in the EIB's policies since the project implementation

In 2019 the EIB published new Environmental, Climate and Social Guidelines on Hydropower Development[32] which include requirements for all hydropower plants financed through intermediaries to be referred to the EIB for due diligence, and also for the financial intermediary to publish information about any hydropower plants it finances. The guidelines also require regular reporting on the performance of the project to be sent to the EIB, including, among other things, periodic reporting to the regulatory authorities, self-monitoring reports prepared for submission to the EIB by the promoter and/or intermediary, and summaries of stakeholder engagement.

This is a very welcome step forward, but the status of this document is unclear, as it is not formally part of the EIB's Environmental and Social Statement or Standards. A formal reference to these provisions needs to be included in the EIB's safeguard policies in the upcoming revisions during 2021.

[32] European Investment Bank, Environmental, Climate and Social Guidelines on Hydropower Development, accessed 23 February 2021.

Another issue that is not clear is whether these provisions are included in the finance contracts of FIs that might use the funds for hydropower. This needs to happen in order for the provisions to be enforceable.

Recommendations on what still needs to be done

EIB and EBRD policy improvements

- The EIB and the EBRD need to make their lending through financial intermediaries fully transparent, at least for projects which may have significant negative impacts on the environment, such as hydropower plants.
- For higher-risk projects, such as those from Annex I or II of the EIA Directive, or any projects situated in sensitive areas, the EIB needs to require that the projects be referred to the EIB for environmental and social appraisal, and the Bank needs to be included in project monitoring.
- The EIB needs to make clearer the relationship between its Environmental and Social Standards and its Hydropower Guidelines and ensure that the provisions for FIs set in the Guidelines are included in loan contracts.
- The EBRD needs to keep long-term records on projects carried out through intermediaries.

Project-level remediation of damage

- In this case, the EIB needs to investigate how its client Allianz BG performed its due-diligence duties and publish its findings.
- To oblige its client, Allianz BG, to engage with the final beneficiary, with the relevant authorities and interested stakeholders in order to remedy the situation. The official information provided by the investor, stating that it would not use extra water, exceeding the quantities extracted for the city's needs, and the decisions made by the Regional Inspectorate on Environment and Water from 2007, need to be respected. The water permits of the plants should be modified to be identical with the water permits for the drinking water supplier. The water discharge pipe from Blagoevgradska Bistritsa-8 HPP should be removed.
- New fish passes on all intakes should be built to facilitate migration.

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