

## DFE Adriatic Metals Project, Bosnia and Herzegovina



Photo: Martina Vranić

The DFE Adriatic Metals Project is an EBRD category B mining equity project near the towns of Vareš and Kakanj in Bosnia and Herzegovina. The Bank's investment of EUR 6.84 million is supporting the company to transition its operation from pre-development and exploration to Vareš mine development.<sup>1</sup>

### Complaint to IPAM by local people alleges serious environmental damage

However, in August 2022, a group of 103 people from the nearby town of Kakanj who requested for their names to remain confidential, due to fear of retaliation, filed a complaint to the Independent Project Accountability Mechanism requesting a Compliance Review procedure. Allegations included serious damage to the area's natural resources (illegal cutting of forest planned to be protected on

<sup>1</sup> European Bank for Reconstruction and Development, [DFE Adriatic Metals](#), *European Bank for Reconstruction and Development*, accessed 21 April 2023.

For more information

**Martina Vranić**  
Human Rights and Gender  
Policy Coordinator  
CEE Bankwatch Network  
[martina.vranic@bankwatch.org](mailto:martina.vranic@bankwatch.org)

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both cantonal and municipal level, pollution of sources of drinkable water, damage to biodiversity and rivers, heavy machinery damaging to the environment, landslides, noises, vibrations and drillings) and the lack of community engagement in the process.

## **Bankwatch visit identifies unplanned access road and damage to mountain streams**

Having been contacted by local people, in November 2022 CEE Bankwatch Network visited Kakanj, the Mehorić plateau and a newly built project access road for the Vareš mine. Several issues of concern were identified and EBRD staff and IPAM were contacted regarding possible breaches of the EBRD's Environmental and Social Policy, first in December 2022 and later in January 2023.

The main issue that became apparent during the visit is that the access road to the mine has been built in a different location to the one examined in the EBRD's due diligence documentation (ESIA and Biodiversity Action Plan). Additionally, at that moment it was not clear whether the originally planned access road would be built in addition to the now existing one or not – though the EBRD later answered that it would.

### **Apparent breaches of the EBRD's Environmental and Social Policy**

Due to the construction work on the unplanned access road, the priority biodiversity features and critical habitat at nearby water streams have been seriously damaged. The fact that a completely unforeseen access road has been built effectively prevents several of the Banks' Performance Requirements from having been properly applied.

The environmental and social assessment did not consider all the environmental and social risks and impacts associated with the project, nor did it present baseline data for most of the area affected by the haul route that was actually built. The same issues apply at the biodiversity features of the project, as baseline research was hardly carried out for any of the road route that has actually been implemented.

Similarly, the fact that a road was built that was not mentioned in the ESIA means that the local public was not consulted about it, so the consultations cannot be considered meaningful or relevant.

Further, the way that the access road has been built may also cause increased flood and landslide risks. The pre-existing forest track has been considerably widened using dug-out stone material and the edge of the road in some places consists of relatively fine piled up rock waste. Local people stressed their concerns that it would only need one heavy downpour to wash much of this material downstream, potentially threatening community safety.

The environmental and social assessment shows that the project will affect critical habitats, but nevertheless, insufficient efforts to avoid damaging critical habitat – rather than compensating for it – were taken and the mitigation hierarchy with regards to biodiversity impacts was not applied correctly.

### **Fears about Kakanj's water supply**

Some residents stressed their concerns about the project's impact on Kakanj's water supply as well, which revealed several issues to be examined.

First, the impacts of climate change do not appear to have been examined in the environmental and social assessment in relation to ensuring Kakanj's water supply.

Second, there is a heavy reliance on a third party, the Vareš municipal utility (JKP Vareš) to balance user interests and ensure environmental flow remains adequate in the water courses. But the municipal utility is not the EBRD's client, so it remains unclear how the Bank can ensure that supply of water for the population and for maintaining environmental flow is privileged over supply for the mine in case of shortages.

Third, a second phase of the mine is planned, which has not been included in the due diligence documentation. So, it remains unclear whether adequate water supply can be maintained for both the mine and Kakanj also with this second phase.

## Questionable project categorisation

The project was categorised B by the EBRD. Only one small section of the Vareš project is a brownfield site where previous mining sector activities were carried out. However, most of it is a large new greenfield project with widespread impacts.

The EBRD's Project Summary Document states that: *'ERBD (sic) is not providing financing for the development of the Vareš mining project but is monitoring its development as part of its equity shareholding in Adriatic Metals.'*

This stance is confusing considering that Adriatic Metals' activities in Bosnia and Herzegovina appear to consist solely of developing this mine. At the time the project was approved, it was already clear that the mine development was planned, so it is unclear why it was not categorised A. Underground mining is not automatically an A category activity, but the scale of the impacts on forested areas, water courses and potentially on water supply, among others, was recognised by the EBRD as it did in the end require an ESIA. Therefore, it was not appropriate to categorise the project as B, especially taking into consideration the further planned mine expansion.

## Lack of consultation in Kakanj and among vulnerable groups

Local people pointed out that there had been a complete lack of stakeholder engagement in the Kakanj municipality about the mine development. These claims are supported by the data provided in the ESIA and Stakeholder Engagement Plan (SEP), which show that no disclosure of relevant project information took place there, nor were meaningful consultations carried out. Local residents stated that besides a few local community leaders in Kakanj, no other residents of the broader Kakanj community were made aware of the project.

IPAM is therefore advised to review whether the project Stakeholder Engagement Plan (SEP) meets all the criteria pertinent to the Bank's stakeholder engagement policies, as the SEP act appear to be related predominantly to the Vareš community, even though Kakanj is a much larger town, in close vicinity to the mine and potentially affected by the project.

There are 42 project-affected local communities in Kakanj, comprising 108 settlements and, as far as local residents are concerned, the few representatives of local villages who were contacted by the EBRD's client

have no capacity or authority to represent all the settlements affected by the mine development. While it was in theory possible for people from Kakanj to view the ESIA documentation in Vareš or attend public hearings elsewhere, this could only happen if they knew about them. Moreover, it is highly illogical to expect people from a larger affected settlement to travel to a smaller one, as this creates additional transport costs which are open mostly to those who own cars.

An additional issue is the lack of correct stakeholder identification. Although the Stakeholder Engagement Plan states the client's obligation to consult specifically with people representing potentially vulnerable groups, such as the elderly, women, young people, the sick and disabled, and ethnic minorities, data on vulnerable people are collected through only one NGO in Vareš, the Mother Theresa Foundation, which is not active anymore. The situation is even worse in Kakanj where there appears to be no data regarding potentially vulnerable groups. This highly sensitive and important issue is neither part of the SEP nor other documentation.

## The EBRD's reply

The Bank staff replied to Bankwatch's first letter on the project in December 2022, stating among other things, that it was aware of the additional access road and that the ESIA documentation would be updated accordingly. This is completely against the principles of the Aarhus Convention which require timely disclosure of environmental information and public participation in environmental decision-making at an early stage when all options are open. Updating the ESIA after the road is built serves no purpose other than to hide the fact that the ESIA was not complete in the first place.

After Bankwatch contacted the Bank again to point this out, staff replied on 18 January that they would be undertaking a site visit in early February and that *'After the visit, we will be able to provide you with a detailed response to your additional questions and comments.'* However, despite reminders, at the time of writing on 21 April we have not yet heard back.

## Phase 2 of the mine

In October 2022, the Government of the Zenica-Doboj Canton took a decision to start a procedure to issue a concession for the exploration and exploitation of lead, zinc and barites with accompanying precious metals at the Borovica Zapad-Rupice Istok-Tisovača-Droškovac-Veovača Istok-Bukovača locations in Vareš District. Although in theory, the call is open to all, Adriatic Metals was already presenting the expansion of concession to investors in April 2022, which suggests that the company was confident about its success.<sup>2</sup>

## Recommendations

The EBRD must in no way consider involvement in the second phase of the mine. Due to the poor environmental governance situation in the country, it must continue its efforts in Bosnia and Herzegovina solely by investments in no-regrets projects with little or no potential for significant environmental damage and harm to local communities.

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<sup>2</sup> Adriatic Metals, [Europe's new source of strategic metals](#), *Adriatic Metals*, April 2022.

More generally, in its projects the EBRD must:

- ensure that its clients take precautionary measures to avoid project risks, then minimize them, i.e., it must ensure the correct application of the mitigation hierarchy with regards to biodiversity impacts, especially critical habitats, where it must correctly apply its critical habitats criteria. Compensation/offsets cannot replace avoiding damage in the first place and are not recommended, even more so in countries with poor environmental governance.
- ensure the correct categorisation of its projects. In case of equity or working capital projects where its client only has one activity or project in the country, it must take responsibility and admit that it funds that activity.
- ensure the correct implementation of its Performance Requirements regarding public participation, stakeholder engagement, meaningful consultations and information disclosure
- ensure its clients identify all stakeholders correctly, including vulnerable groups – not according to administrative units, but to the likelihood of them being impacted.