

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR THE RUSSIAN FEDERATION

**REPORT ON THE INVITATION TO THE PUBLIC
TO COMMENT**

1. INTRODUCTION

In accordance with the EBRD Public Information Policy (PIP), the draft Strategy for the Russian Federation was posted on the EBRD web site in English and Russian for 45 calendar days from 18 October 2012. The public was invited to submit comments on the draft Strategy no later than 3 December 2012. For information, the previous Strategy was also made available on the web site in English and Russian:

<http://www.ebrd.com/pages/country/russia/strategy.shtml>.

Information about the public consultation process was posted on the EBRD's dedicated "Have your say" webpage, which highlights the latest opportunities for public to comment on the Bank's policies and strategies under review. In addition, targeted notifications of the consultation process were sent to local and international civil society organisations (CSOs) that have expressed interest in the Bank's work in the country. The review process was also advertised through social media tools.

In the course of the Strategy preparation, a delegation of the EBRD Board Directors met representatives of CSOs in St Petersburg on 5 July 2012. The European University at St Petersburg, Citizen's Watch, Center for Social and Economic Research "Leontief Center" and Public Environmental Movement "Save Yuntolovo" attended the meeting and engaged in discussion focused on the overall socio-economic and political situation in the country, including civil society development and human rights issues. Citizens' participation in decision-making on planning and implementation of the large infrastructure projects in Russia as well as key environmental challenges in St Petersburg from the perspective of civil society were also discussed.

As part of the public consultation process, the EBRD held a consultation workshop on 14 November in Moscow with local civil society organisations with an aim to proactively solicit comments on the draft Strategy from the CSOs active in the country and those that closely follow the work of the Bank.

The list of CSOs and members of public who participated in the consultation process is provided in the Annex 1.

This report captures the key themes and views received during the consultation process. It summarises feedback from the meetings with civil society held in Moscow, as well as comments received through the Bank's web site as of 3 December 2012; it also provides management responses to these comments.

2. SUMMARY OF PUBLIC COMMENTS

CSOs welcomed the opportunity to comment on the draft Strategy for Russia and provided their feedback on the EBRD's planned activities in a variety of sectors covered by the Bank's operations for the next strategy period.

Civil society representatives commended the EBRD's efforts in promoting diversification through support to the non-resource economy in Russia and increasing economic opportunities in Russian regions. It was stressed, however, that while diversification will bring economic benefits to the country, the development of the extractive industry sector should remain a priority in the medium term as it generates sustainable budget income and contributes to the development of other sectors of economic activity in some Russian regions.

CSOs welcomed the Bank's increased focus on the energy efficiency and sustainable renewable energy. It was stressed that energy efficiency is one of the areas where the EBRD has a potential to become a key source of finance to the market in Russia and provide a positive demonstration effect for the sector through its investment projects. CSOs also encouraged the Bank to concentrate its efforts on improving energy efficiency in housing and industry sectors and energy recovery.

The EBRD's plans to deepen support for the innovation driven economy was strongly supported. The suggestion was made that the Bank could provide assistance to the government in stimulating innovation process in Russia through developing PPP projects aimed at fostering linkages in the national innovation system and interaction between science/higher education and industry. The need for training and support for innovative SMEs in Russia was also emphasized.

A number of environmental organisations emphasized the need to clearly outline the EBRD's criteria for selection of investment projects in Russia, including a "no-go zones" principle. It was raised that the Bank should refrain from considering financing projects in the protected areas and the Arctic shelf.

CSOs also urged the Bank to use the strategy review to provide an objective and thorough assessment of Russia's commitment to the Bank's Article 1 principles and articulate the reform steps the Russian authorities would need to take to address the human rights violations in the country. It was recommended that the country strategy indicates how the political assessment for Russia will condition the level of involvement the EBRD has in the country. Some civil society representatives, however, felt that the Strategy should be more focused on the recent socio-economic development in the country as opposed to the political situation.

3. PUBLIC COMMENTS AND STAFF RESPONSES

Reference	Comment	EBRD Response
Operational environment		
1. Political Context	<p>1.1. The statement in the draft Strategy that Russia has a more pluralistic Duma is questionable. The political parties, which are currently represented in the Russian parliament, were registered under the previous restrictive version of the law on the political parties. They are considered by Russian authorities as so-called “systemic” parties. Many participants of the opposition rallies in 2011-2012 do not support the political parties which are present in the Duma.</p>	<p>The current (Sixth seating) State Duma of the Russian Federation is more pluralistic in so far as the share of the ruling party (United Russia) seats has decreased from 315 to 238 and the share of two opposition parties – Communist party and Just Russia party – has increased from 95 to 156 seats, as compared with the previous Duma (Fifth seating). The ruling party lost the constitutional majority and needs cooperation from other parties in order to pass laws which require two thirds majority of votes. However, the strategy does contain clear references to the obstacles for non-systemic opposition parties that prevented them from participating in the elections or winning more votes. We also highlight changes in the law on political parties which allowed a number of non-systemic opposition parties to register, which is an important first step for their participation in future elections.</p>
	<p>1.2. The draft Strategy contains information about Russian parliamentary and presidential elections. Also, the analysis of the regional elections, which took place in summer and autumn 2012, should be added to the Strategy. In some regions Russian independent observers noticed many violations during the regional elections. There were some additional restrictions of the rights of the independent observers in comparison with the presidential elections (restrictions on the rights of the observers to choose their place in the polling</p>	<p>Strategy was updated and information about October 2012 regional elections was added to Annex 1 - Political Assessment and section 2.1. – Political Context. In the Political Annex the following text was added to highlight concerns of domestic election observers at the regional elections: <i>According to the Central Electoral Commission, over 300,000 domestic observers participated in the October 2012 regional elections, which included gubernatorial, regional legislative, mayoral and municipal elections in 77 regions of the Russian Federation. The authorities introduced restrictions on filming voting violations by the observers, while web-cameras were not operating in many polling stations for the local and municipal elections.</i></p>

	<p>station and make photos and videos; web cameras installed at the polling stations were not in use in some of the regions; practice of multiple votes).</p>	
	<p>1.3. The draft Strategy contains several examples of the new restrictive laws adopted in Russia. The Strategy should also outline the recent amendments to the Criminal Code related to the treason against the state. In October 2012 the parliament adopted a broad, expanded legal definition of the crime of treason that could lead to criminal action against those who conduct international advocacy on human rights issues.</p>	<p>Section 2.1. on Political Context and Annex 1 were updated in regard to the law on treason. The following text was added: <i>This was followed by amendments to the legislation on treason, which attaches criminal liability not only to the disclosure of state secrets, but also any assistance to a foreign state, international or foreign organisation if their activity is directed against Russia's security. Several opposition MPs and the Presidential Council on civil society development and human rights expressed concerns that this law could be used to silence opposition and civil society activists, including those who conduct international advocacy on human rights issues.</i></p>
	<p>1.4. The draft Strategy does not pay sufficient attention to the impact of the new law requiring NGOs to register as "foreign agents", probably due to the fact that the law only came into effect in November. The final Strategy should further elaborate on this issue.</p>	<p>The Strategy already contained reference to a statement by the UN Special Rapporteur who warned that the new NGO law could have "vast negative consequences for civil society in Russia." More information was added in Annex 1 - Political Assessment following the publication of the modalities for the registration of NGOs as foreign agents by the Russian Ministry of Justice on November 30, 2012. The following text was added: <i>The law also contains harsh penalties in case an NCO fails to of non-compliance with the new requirements including 6 months suspension of its activity fines for up to 300,000 roubles, and up to 2 years of imprisonment.A number of prominent Russian NCOs announced their intentions to boycott the law.</i></p>
	<p>1.5. It is stated in the draft Strategy that the situation is difficult when the courts examine politically charged cases. Some examples of such cases could be given in the Strategy (for example, the criminal charges against the participants of the opposition's rally in Moscow and criminal charges against the environmental activist Suren Gazaryan).</p>	<p>Pressure on opposition activists, including those who took part in the recent demonstrations and environmental activists, has been explicitly noted in the Civil and Political Rights Section of the Annex 1 under the heading of Freedom from harassment, intimidation and torture.</p>

	<p>1.6. It is stated in the draft Strategy that the implementation of the domestic courts' judgments remains a critical issue in Russia. Also, it should be noted that access to the documents needed for investigation of the crimes committed by Russian military during the Chechen war remains difficult. Despite the rulings of the Russian courts to provide an access to the necessary documents, the investigators are denied the access to the documents by Russian military and security forces. There is also no considerable progress on the implementation of the judgments of the European Court of Human Rights. The Strategy should underscore the importance of Russia's full implementation of the decision and rulings on Chechnya cases by the European Court as an important demonstration of its commitment to the rule of law.</p>	<p>The Strategy was updated and more information on Russia's attitudes towards ECHR ruling on Chechnya was added in Annex 1 - Political Assessment. The following text was added to the strategy: <i>While Russian authorities generally paid the compensation and legal fees awarded by the ECHR in a timely manner, it failed to meaningfully implement the core of these judgements and to hold perpetrators accountable.</i></p>
	<p>1.7. Serious concerns remain about the treatment of women in the Chechen Republic in the context of the campaign by the regional authorities to force women and girls to wear headscarf and "modest" clothing in government buildings, including schools. Human rights organisations in Russia link these policies to the rise of honour killings which are often remain unpunished.</p>	<p>The Strategy was updated and the following sentence was added to Annex 1 – Political Assessment: <i>"Rights monitors have raised concerns regarding the treatment of women in the Chechen Republic in connection with the campaign by regional authorities to force women and girls to wear headscarves and "modest" clothing in government buildings, including schools. Human rights organisations in Russia link these policies to the rise of honour killings which often remain unpunished."</i></p>
	<p>1.9. Laws banning "homosexual propaganda" have been brought into force in nine Russian provinces. The "propaganda" bans could be applied for such things as displaying a rainbow flag or a gay-friendly logo. A bill banning</p>	<p>The Strategy was updated and information on LGBT community rights was included in the section on "Civil and political rights" (political inclusiveness) in Annex 1. The following text was added in response to the comments received during the public consultation process: <i>A PACE resolution stated that "continuing attacks on the rights of lesbian, gay, bisexual and transgender persons remain a serious concern". Laws</i></p>

	<p>“homosexual propaganda” at the federal level is currently awaiting consideration by the Duma with the first reading schedules for 19 December.</p>	<p><i>banning homosexual propaganda among minors have been brought into force in nine Russian provinces. Any individual who violates the law can be fined up to 500,000 roubles for an administrative offense. A draft law extending the ban at the federal level is currently awaiting consideration by the State Duma.</i></p>
	<p>1.10. The draft Strategy contains a reasonable assessment of the situation, however it does not lay out what impact the political and democratic situation has had and will have on its investments in the coming period, and how the Bank intends to ensure that its investments contribute to a deepening of democracy and human rights and avoid strengthening those who threaten the process. It is particularly important to indicate how the political assessment for Russia will condition the level of involvement the EBRD has in the country.</p>	<p>The purpose of the political assessment is to report on compliance with the criteria for implementing the political aspects of the Bank’s Article 1 mandate, and not to associate these developments directly to the Bank’s investment operations. Although the political context will shape the overall operating environment and the ability to generate projects that meet our strict investment criteria, the Bank does not make an explicit linkage between its operations and progress in democratic reform.</p>
	<p>1.11. The draft Strategy distorts the facts about the current political and socio-economic situation in the country. The Strategy is aimed at destabilising the socio-political situation in Russia, interfering into the country’s internal affairs and putting pressure on the authorities. The Bank’s assessment of the current situation in relation to the position and work of NGOs in Russia is not accurate and discredits the work of Russian NGOs in the eyes of the public and Russian authorities.</p>	<p>The Bank conducts the political assessment of all its countries of operations in accordance with the Article 1 of the Agreement Establishing the EBRD which was endorsed by the Russian Federation when it joined EBRD.</p>
	<p>1.12. The Strategy should include information about the work of NGOs, which are not connected to political opposition movements and are dealing with social issues in Russia.</p>	<p>Annex 1 - Political Assessment includes information on socially oriented NGOs in the section entitled “Scale and Independence of civil society”. We acknowledge the important role that they play and welcomed the support that they received from the Russian authorities.</p>

	<p>1.13. The draft strategy points to serious issues of corruption in Russia. It needs to elaborate on what impact this is having on the EBRD’s decision about making investments in the country and what are the minimal conditions under which it will get involved with certain companies and institutions. Also, it needs to be explained how the Bank will make more visible efforts to push for greater transparency and the fight against corruption in Russia.</p>	<p>The Strategy mentions in several places that the Bank will only finance enterprises that have a strong commitment to high standards of corporate governance and transparency. In the new version of the strategy, section 3.3.2 states that, as part of its policy dialogue on improving the overall business climate, the Bank will continue its efforts to improve corporate governance and transparency standards in Russia, including by assisting the regulator with improving the Russian Corporate Governance Code.</p>
<p>2. Social context</p>	<p>2.1. The draft Strategy is too focused on the political situation in Russia. Although this is an important aspect, which affects the investment climate and the life of people in the country, the Strategy should be more focused on the economic and social aspects of the EBRD’s activities in Russia during the strategy period. In particular, the chapters “Operational environment” and “Strategic orientations” should include information about the latest developments in healthcare and education sectors.</p>	<p>Although EBRD sees education and health care as very important sectors that need to be supported and promoted to foster economic development, the EBRD’s ability to finance projects in these sectors is currently limited given that education and health institutions tend to be state-owned while EBRD focuses on private sector development. For this reason, these sectors are not extensively discussed in the Strategy, although Section 2.5 on “social context” contains two paragraphs on education and life expectancy. While other institutions, such as the World Bank, are better equipped to analyse and support the development of health and education, EBRD will be exploring ways to increase its support to these sectors in the future.</p>
	<p>2.2. In cooperation with social NCOs, the Bank should consider supporting the “Sustainable education” project in Kaliningrad aimed at providing environmental awareness and business skills trainings for people with disabilities.</p>	<p>The Bank welcomes initiatives by authorities and the NCOs to support environmental awareness and business skills training for people with disabilities to enhance their inclusion in economic and business activity. The Bank promotes environmental awareness, business skills transfer and inclusion through its investment projects and is seeking to invest in projects in Russian regions, including Kaliningrad.</p>

<p>Strategic orientations</p> <p>Sectoral challenges and the Bank's operational response</p>		
<p>3. General</p>	<p>3.1. The draft Strategy just provides a vague description of the Bank's operational responses, which could have various interpretation and implementation in the future. The Strategy should include examples of concrete projects, which will be implemented by the Bank in the next strategy period.</p>	<p>EBRD Strategies are designed to assess the operating environment, the progress a country has made in transition and where remaining challenges lie and set out an orientation and strategic priorities for the coming three-year period. As a market-led institution that operates according to principles of sound banking, not crowding out the private sector and delivering transition impact, the EBRD does not indicate in its strategies specific projects but rather the types of projects it may finance that meet its strategic objectives and its investment criteria, depending on market conditions.</p>
	<p>3.2. In section "Strategic Orientations", it should be outlined in which areas the EBRD will be supporting "the Government's reform intentions" (p.27). In section "Sectoral Challenges and Bank Operational Response", it is stated that the Bank will support "<i>localisation of production in <u>sectors</u> where Russia could effectively compete with imports</i>" (page 29). These sectors should be named. The Strategy should also provide a rationale for choosing the infrastructure, energy supplies and utilities, banking and agribusiness sectors as strategic priorities for the Bank and outline what are competitive advantages for Russian economy in these sectors.</p>	<p>The reference to "sectors where Russia could effectively compete with imports" has been deleted. Instead, the text now reads "<i>Focus on private sector investments in the non-resource sector that increase competition, develop value added manufacturing and services and support suppliers seeking to meet international standards.</i>" Rather than ex ante selecting specific sectors as strategic priorities, the EBRD will focus on supporting the Government's efforts to improve the "rules of the game" (investment climate, competition, private sector development) such that the market itself will determine which sectors are the most competitive.</p>
<p>4. Promoting diversification through support to the non-</p>	<p>4.1. In agribusiness sector, the EBRD should refrain from financing the projects in genetic engineering.</p>	<p>The Bank recognises the risks associated with the use of GMOs particularly in relation to the licensing and labelling of GMOs and products containing GMOs. The key policy requirements on GMOs can be found in Paragraph 17 of Performance Requirement 6 on Biodiversity Conservation and Sustainable Management of Living</p>

<p>resource economy</p>		<p>Natural Resources (PR6) in the EBRD Environmental and Social Policy. This references the key EU Directives governing GMOs and requires that if any GMOs is to be used in Bank-funded projects within EU Member States and candidate countries clients comply with applicable national and local requirements and policy. No GMOs should be used or released to the environment without approval being given by the competent authorities, or where the relevant local authority has declared itself as GMO free. In other EBRD countries of operation, clients must adopt the precautionary approach and conduct risk assessment in line with EU requirements and PR6.</p>
	<p>4.2. The Strategy should outline how the Bank will support smaller-scale agricultural producers in Russia.</p>	<p>The Bank aims to contribute to the availability of more financing to the farming sector through the support of development of suitable financing instruments such as the Warehouse Receipt or Crop receipts Programmes. These programmes aim to allow farmers to pledge grain in certified warehouses or future crops to access to credit. The Bank also extends and will continue to extend credit lines to local banks making financing accessible to SMEs, including small farms.</p>
	<p>4.3. The Strategy should outline if the EBRD considers supporting projects in the fishing industry in Russia. If it does, it should only support companies that are certified by the Marine Stewardship Council (or in the process of receiving a fishery certification) or companies that are implementing the Fishery Improvement Plan.</p> <p>If the Bank considers financing the aquaculture operations, it should only support companies certified by the Aquaculture Stewardship Council. It is recommended to refrain from financing salmon breeding programmes.</p>	<p>Bank involvement in fisheries / aquaculture projects has been extremely limited to date, in part because of the challenges of ensuring sustainable harvesting of stocks. Under PR6, clients involved in the harvesting of fish or other aquatic species must be able to demonstrate to the Bank that all their activities (from harvesting through to processing) are being undertaken in a sustainable way. This can be achieved through attaining independent certification (such as the Marine Stewardship Council's Principles and Criteria for Sustainable Fishing) or through the studies undertaken as part of due diligence. If a client is involved in the re-population or introduction of different species or populations (especially in closed environments such as lakes) they must demonstrate that the new stock will not destroy or displace existing local fish species.</p>
	<p>4.4. In financing renewal of shipping fleets, the EBRD should refrain from financing trawls and drift gillnet fleets due to their negative impact on the marine ecosystem. In addition, the Bank should carry out an assessment of overcapacity</p>	<p>All of the projects financed by the Bank are required to promote environmental soundness and sustainable development in compliance with the EBRD's Environmental and Social Policy (2008), which addresses impacts on ecosystems. In addition, projects financed by the Bank are required to be financially viable and assessment of viability will typically include, among others, supply-side factors.</p>

	<p>in the fleet. As a priority area, the EBRD should consider supporting the construction of vessels with low energy consumption, which use fishing gear designs that are less damaging.</p>	<p>Improving energy efficiency is one of the core transition impact objectives of the Bank's shipping finance activities due to the impact on CO2 emissions of shipping, which globally is increasing by 3-4 % per annum. Therefore, the Bank pays particular attention to ensuring that any financing for construction of new ships will improve energy efficiency and contribute to lower carbon emissions.</p>
<p>5. Supporting privatisation and private sector development</p>	<p>5.1. In view of the level of corruption and the current political situation, the EBRD should concentrate on promoting strong safeguards against corruption, strengthening the capacity of public sector officials in project development and management, negotiation skills and should avoid financing PPPs projects until the situation is improved considerably.</p>	<p>The Bank considers that PPPs must be promoted in Russia without delay in order to facilitate the development of necessary infrastructure. In that context, the EBRD aims to assist in strengthening public officials' capacity to handle PPPs through various educational measures. It has for example issued, as co-publisher, two collections (in 2009 and 2011) of articles and normative documents reflecting best practices, which were widely distributed to officials throughout the country. See http://www.ebrd.com/downloads/legal/concessions/book2011.pdf</p>
	<p>5.2. The draft Strategy highlights the Bank's intention to support private equity funds. This proposal should be better justified on the basis of concrete evidence that private equity funds consistently lead to positive development outcomes. The Strategy should outline the Bank's approach to the use of offshore jurisdictions by Russian companies and how it will act to minimize these and ensure public disclosure of ultimate beneficiaries of projects.</p>	<p>During the fifth Business Environment and Enterprise Performance Survey (BEEPS) implemented by EBRD in 2011/2012 private enterprises identified access to funding among the top three constraints in doing business in Russia. Therefore, EBRD support for private equity industry has long been an integral part of the Bank's objective to develop sustainable sources of long-term financing primarily for small and mid-cap corporates. To date, EBRD sponsored private equity funds have invested into more than 300 mid-sized private companies in Russia. Given the scarcity of long-term institutional equity capital, funds play a critical role in mobilising commercial sources of such international institutional capital, leveraging the impact of EBRD investment. In addition, private equity funds provide a credible and commercially viable mechanism to deploy this capital to support sustainable growth and development of portfolio companies. The development outcomes of private equity funds projects go hand-in-hand with the commercial success of the funds, because i) only transparent and well run companies can ultimately realise the return objectives of the private equity funds, and ii) only those managers who have delivered consistent returns to their investors are able to raise subsequent generations of funds and develop sustainable fund management platforms. Accordingly, fund managers typically take an active part in improving corporate governance processes and assisting their portfolio companies in various other aspects of their development. In addition, all EBRD-supported private equity funds have to comply with a number of EBRD policies, including</p>

		<p>Environmental and Social Policy requirements.</p> <p>The use of offshore jurisdictions in any EBRD project is governed by the Bank’s policy on the Use of Offshore Jurisdictions in EBRD Projects Domiciliation Policy which is designed to promote transparency with a view to countering tax evasion, money laundering and terrorism financing. The policy requires that where offshore jurisdictions are used in EBRD-supported projects, the following principles shall be generally applied: i) there should exist sound business reasons for use of such jurisdictions in the context of the project being financed; ii) the Bank shall not provide financing where the offshore jurisdiction has not substantially implemented the internationally agreed tax standards (endorsed by the UN Committee of Experts on International Cooperation in Tax Matters in 2008) and ; iii) the Bank shall not provide financing where the offshore jurisdiction is not effectively implementing the internationally agreed tax standard; and iv) the Bank shall not provide financing where the offshore jurisdiction is not cooperating in the international efforts to combat money laundering and terrorism activities (determined by reference to the work of FATF) . Generally, the Bank identifies the ultimate beneficiaries or controlling shareholders in all of the projects it finances. In the case of private equity funds in which it invests, the Bank requires that the fund manager apply a set of integrity due diligence and monitoring guidelines which include, among other things, a requirement to know the ultimate beneficiaries of any project financed by the fund.</p>
<p>6. Increasing economic opportunities in Russian regions</p>	<p>6.1. While diversification will indeed bring economic benefits, it must however be taken into account that for some regions (such as Kamchatka) the development of the extractive sector will remain a priority in the medium term as it generates sustainable budget income and thereby contributes to the development of other sectors of economic activity.</p>	<p>Strategy highlights this issue in section 3.3.4 by stating that in “the remote and frontier regions that are rich in mineral resources, stimulating regional development could require the complex development of these resource sectors and related transport infrastructure, even if this is not in line with the diversification objective”. The Strategy further says in section 3.3.2 that the Bank will “consider, on a selective basis, projects in the natural resources extraction and processing sectors with significant transition impact potential and with private companies that have a strong commitment to high standards of corporate governance and transparency. The Bank will prioritise projects in this area with a strong SEI component including reduction in gas flaring and increase in gas utilisation and projects that have strong regional impact.”</p>
	<p>6.2. Taking into account the difficulties of investing beyond Moscow and St. Petersburg, the decision to extend infrastructure investments</p>	<p>The section on Regional Development now emphasises the importance of increasing interregional labour mobility, addressing regionals skills gaps, and supporting MSMEs</p>

	<p>and consider that support for medium-sized companies in the regions has to remain among investment priorities. Resource redistribution is not only a concern in industrial sectors in the regions but also for urban construction and communal activities. Equally, investments in the field of education, in particular pre-school and secondary education, can help attract qualified personnel with families, increasing the industrial potential of regions.</p>	<p>in underserved regions.</p>
<p>7. Modernising infrastructure, energy and utilities</p>	<p>7.1. The Bank should refrain from considering financing projects in the Arctic shelf. These territories should be excluded from extraction of mineral resources and fossil fuels.</p>	<p>The EBRD Environmental and Social Policy (ESP) has strict requirements regarding impacts on critical habitat and protected areas (specifically, Performance Requirement 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources). Please refer to the response on comment 10.1.</p>
	<p>7.2. It is stated in the Strategy that the EBRD will “<i>provide support to independent oil and gas companies as well as to private mining and ore processing companies that are committed to high standards of corporate governance and transparency, especially in cases where they have a strong impact on regional development</i>”, in particular in energy and natural resources sectors the Bank will “<i>consider on a selective basis projects with private companies that have a strong SEI component and significant demonstration effects in the areas of advanced technologies application, corporate governance or environmental remediation and protection, or that will have a strong impact on regional development...</i>” It is unclear what the Bank means by “high standards of corporate governance” and “significant demonstration effects in the areas of environmental remediation</p>	<p>All projects financed by the Bank have to meet environmental and social standards set by the Environmental and Social Policy. Moreover, one of the strategic priorities of the Bank will be to finance companies and projects that are implementing best international EHS&S and corporate governance practices. The latter depend on the activities and assets considered and are assessed at the appraisal stage for each project under consideration.</p> <p>With respect to natural resources projects the Bank will continue to focus on minimising footprint, sound practices for hazardous materials use, handling and storage, including tailings, water resources efficiency and early development for reclamation of the sites. Additionally, the Bank encourages each of its clients to follow international best practice with regard to transparency and disclosure and minimisation of gas flaring and increased utilisation in oil and gas projects.</p> <p>As to standards in mining projects, please note the 2012 EBRD Mining Operations Policy. Specific standards are difficult to put in a strategy or policy document, as they change routinely. For example, with EBRD requirements, we note that in 2013, the 2008 EBRD Environmental and Social Policy, 2011 EBRD Public Information Policy, the Project Complaint Mechanism, and the EBRD Energy Policy will all be</p>

	and protection". The references to the concrete international and national standards should be provided in the Strategy.	undergoing review and revision, including public consultation.
	7.3. In the nuclear energy sector, the Bank should only support projects aimed at the decommissioning of old nuclear reactors. The EBRD is urged not to support lifetime extension of nuclear reactors in Russia.	The Bank is not currently considering any project in the nuclear energy sector in Russia. In general, according to the EBRD's Energy Operations Policy the Bank "...may provide financing to an operating facility in relation to nuclear safety improvements, or for the safe and secure management of radioactive waste and spent nuclear fuel, as well as for decommissioning, without a direct link to the closure of high risk reactors" (www.ebrd.com/pages/sector/powerenergy/policy.shtml). This allows the Bank to address the pressing concern with safety at the numerous nuclear power plants and other nuclear facilities that will continue to operate in the Region.
	7.4. In the energy sector, fossil fuels, including power station renovations or replacements that prolong the plants' lifetimes should not be financed.	According to the EBRD's Energy Operations Policy in the fossil-fuel-based power generation "...the Bank will continue, where feasible, to prioritise projects that will introduce advance technology for increased efficiency and reduced emissions..." (www.ebrd.com/pages/sector/powerenergy/policy.shtml). In practice the Bank focuses its efforts and resources in thermal power generation and co-generation on financing projects which normally achieve significantly improved overall energy resource efficiency to the Best Available Technique (BAT) levels, implement switch to less-carbon intensive fuels and meet over time the EU standards for environmental performance.
	7.5. In the natural resources sector, the EBRD should not support new mining operations in Russia.	Select mining projects can be important for the development of certain regions of Russia (please see 6 above). The EBRD has outlined the conditions by which it will finance mining projects in its new Mining Operations Policy approved in October 2012. The document outlines the Bank's priority to support responsible mining which requires the application of the best international standards for mining operations.
	7.6. In the MEI sector, the Bank should consider investing in urban waste management, including waste processing facilities. Waste management bears huge potential but remains a highly problematic issue in Russia, also because of containing a criminal component. Support for programmes developing industrial and	In solid waste, EBRD is potentially interested to intervene at all stages in the waste management cycle, including upgrading of existing dumpsites, improvement of supply chains/logistics and/or building new landfills subject to the results of appropriate feasibility studies. Activities could also include energy recovery from waste, dealing with fugitive methane emissions, and biogas capture and use. In Russia, certain prospects are under consideration by the Bank in various regions and will hopefully progress in the course of the next couple of years. However, solid waste projects tend

	<p>infrastructure complexes for recycling and waste treatment (including the introduction and enforcement of waste separation), as well as investing into the re-cultivation and modernisation of existing landfills, are particularly important from environmental considerations.</p>	<p>to be complex, contentious and resource-intensive, and therefore a wide roll-out of solid waste investments is not very likely. The EBRD will therefore focus on the demonstration effect to be afforded by well-structured projects.</p>
	<p>7.7. In the housing sector, it is recommended that the EBRD considers supporting the following measures through its policy dialogue with the government:</p> <ul style="list-style-type: none"> • improving the quality of urban planning; • creating a legal basis for the development of the rental market, offering living space by the private housing fund through a long-term leasing agreement and by a public-private housing fund through a long-term agreement on non-commercial leasing, also in the cooperative housing sector; • setting up mechanisms for the modernisation and substantial refurbishment of housing blocs, restructuring of residential areas, improving the effectiveness apartment bloc management and the sense of responsibility of property owners; • creating conditions favourable to the establishment of PPPs for the construction and modernisation of engineering and technical infrastructure; • improving the quality of materials, introducing innovative and energy efficient technologies in the housing sector, and supporting the introduction of better architectural planning and project design in 	<p>It should be noted that EBRD involvement in projects that have a strong demonstration effect in the housing sector is included in the proposed Country Strategy. As the Bank's project pipeline in the housing sector develops, it may engage in policy dialogue with Russian authorities on improving some aspects of the legal and institutional framework in the housing sector.</p> <p><u>Improving the quality of urban planning and construction.</u> As part of housing projects financed by EBRD or currently under consideration, the Bank takes into account the importance of urban planning priorities, such as a uniform architectural concept of housing developments and an adequate provision of educational and commercial infrastructure (schools, kindergartens, retail facilities), as well as transport accessibility.</p> <p><u>Improving energy efficiency.</u> EBRD-financed residential developments promote energy efficiency and renewable energy features, including superinsulation of the building envelope, installation of heat pumps to meet heating and hot water needs, high efficiency lighting and the installation of photovoltaic panels.</p> <p><u>Setting up mechanisms for the modernisation and substantial refurbishment of housing blocs, improving the effectiveness of apartment bloc management and the sense of responsibility of property owners.</u> As part of project structuring, the Bank would aim to address deeply rooted constraints typical to the housing sector in Russia stemming from the lack of an enabling legal framework, lack of adequate housing management arrangements based on self-organization of flat owners, non-cost-reflective tariffs, lack of metering of utilities consumption which have a knock-on effect on building management and utility investment. Creating favourable conditions for the establishment of PPPs for the construction and modernisation of engineering and technical infrastructure. Any large-scale housing development would not be</p>

	housing construction.	commercially viable without acceptable arrangements in place between the investor and public / municipal authorities in terms of connections to municipal utility networks (electricity, water and waste water, gas, etc.) and provision of social infrastructure. The Bank will consider financing the development of such utility networks, possibly on a PPP basis. <u>Rental housing projects.</u> The Bank would be interested to consider financing projects in the rentable housing segment, if such projects could be structured on a commercial basis, and is looking for strong private investors who could sponsor such projects.□
	7.8. In the financial sector, it should be outlined in the Strategy that the Bank will only support local banks that adhere to the requirements of the EBRD's Environmental and Social Policy. The Bank should also promote its environmental and social standards among the leading Russian state banks.	The Bank will continue ensuring and requiring the local banks financed by EBRD to adhere to the requirements of the EBRD's Environmental and Social Policy. Please refer to section 3.4 Environmental and Social Implications of Bank Proposed Activities. In light of the Bank's private sector focus no major direct financing of the state-owned banks is envisaged within the proposed Strategy. However when co-operating on co-financing projects in Russia, the EBRD will also promote its environmental and social standards among the leading Russian state banks.
8. Promoting energy efficiency and low-carbon growth	8.1. It should be noted in the Strategy that wood-based bioenergy is the most promising renewable energy source in Russia.	EBRD is working on developing biomass as a sustainable resource, and has financed projects in this area (e.g. Mondi Syktyvkar http://www.ebrd.com/pages/project/psd/2010/42021.shtml). We are clearly very keen to pursue this in Russia, and we recognise the substantial technical potential.
	8.2. Demand side energy efficiency, in particular residential energy efficiency should be prioritised, along with sustainable renewable energy.	The Bank is already prioritising this, with a GEF project (http://www.thegef.org/gef/node/3634) trying to put housing refurbishment on a long-term sustainable footing, while also engaging in policy dialogue with the government.
	8.3. In the forestry sector, it should be noted that Russia's carbon trading efforts are insufficient. The Bank should consider supporting and implementing projects in carbon trading.	The Bank has in place a Carbon Project and Asset Development Facility through which it is able to support emission reduction projects in Russia (to be) financed by the Bank provided a regulatory or voluntary carbon market framework will come in place.

<p>9. Supporting modernisation and innovation</p>	<p>9.1. It is suggested that the Bank cooperates with the government in stimulating the innovation process in Russia through developing PPP projects aimed at fostering linkages in the national innovation system and interaction between science/higher education and industry.</p>	<p>Public spending dominate Research & Development (R&D) in Russia, accounting for nearly 75 per cent of all R&D, but Russian’s publicly funded institutions continue to supply only very limited amount of high quality research which is suitable for commercial application. A key element in fostering of more effective R&D and closer links between science/higher education and industry will be the improvement of incentives for innovators, notably with regard to their ability to appropriate returns from innovation and invention. Stimulating innovations through a variety of channels is an important element of the Strategy. The PPP approach may have a role to play in stimulating innovation in appropriate circumstances but the development of a national innovation system is also influenced by several factors such as overall investment climate, intellectual property rights protection and institutional arrangements through which innovators are able to achieve returns.</p>
	<p>9.2. It should be noted in the Strategy that innovation science is an underfunded area, therefore more financial support should be provided to the scientific research and development in Russia.</p>	<p>Russia currently spends about 1 per cent of its national income on Research and Development (R&D). This is below the average for countries belonging to the Organisation for Economic Cooperation and Development (OECD) and the levels seen in certain European and Asian economies. This largely reflects the country’s income level, as well as its current output structure and the R&D intensity of economic activity. Overall success of innovations is determined by three factors such as business environment, supply of finance and skills and demand for innovative products and services. The Strategy targets these factors by 1) supporting private sector investments that create demand for innovations and R&D; 2) partnering with international and domestic technology players, technology parks and equity funds to support the growth of firms, which create supply of innovative products to the markets; and 3) by assisting the government in improving business environment through policy dialogue and participation in various working expert groups and investment promotion bodies at federal and regional levels.</p>
	<p>9.3. It should be noted that the innovative SME’s access to the long-term finance is limited. There is also a lack of special trainings for innovative SMEs in Russia on how to gain access to the international market. The EBRD should consider providing support to the innovative SMEs in these areas.</p>	<p>The Strategy calls for support of SMEs including those working in innovation sector in the regions of Russia through dedicated credit lines to EBRD partner banks, Russia Small Business Fund, venture and private equity funds, and through direct engagement combining investments with advisory services under the Enterprise Growth Program and Business Advisory Services programs. The Bank will rely on technical assistance funds from the Russian government to support the above advisory services.</p>

<p>10. Environmental and Social Implications of Bank Proposed Activities</p>	<p>10.1. EBRD’s criteria for selection of projects should be based on the following principles:</p> <ul style="list-style-type: none"> • geographic - “no go zones” (the Bank should refrain from considering financing projects in the protected areas and the Arctic shelf); • technological -financing of projects in genetic engineering, nuclear energy and fossil fuels. <p>Such criteria should be clearly outlined in the Strategy. Companies, including affiliated structures, and projects that do not comply with these principles, should not be financed by the Bank. It is crucial to include the reference to the “no-go zones principle” in the Strategy as it will come into force before the review of the EBRD’s Environmental and Social Policy in 2013.</p>	<p>The EBRD Environmental and Social Policy (ESP) has strict requirements regarding impacts on critical habitat and protected areas (specifically, Performance Requirement 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources). The Appendix 2 to the ESP contains the E&S Exclusion List, related to the activities that the Bank will not knowingly finance, including activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources (e.g. Ramsar, Bonn, and Bern Conventions), cultural heritage, and other activities banned by international law.</p> <p>Further, the ESP requires compliance with national legislation and therefore, if working in a certain area is prohibited by national legislation, this would also be prohibited by the EBRD’s ESP.</p> <p>The comments on “no-go zones” principle would be more appropriately submitted for consideration during the Environmental and Social Policy review in 2013. The Country Strategy documents rely on broader framework of Bank’s Policies and Strategies, thus, future changes to the ESP will apply to future projects in all sectors.</p>
	<p>10.2. Particular attention must be paid to the legal framework and law enforcement practices in effect in Russia for conducting Environmental Impact Assessments and ecological expert’s reports. They require critical analysis and sustainable and structural development.</p>	<p>As described in section 3.4 ‘large greenfield projects or high risk operations that are eligible under Appendix 1: Category A projects of EBRD’s Environmental and Social Policy (ESP) will require international ESIA’. The Bank’s requirements for its Projects’ ESIA draw on EU EIA Directive requirements, which are broader in scope than Russian local EIA (OVOS), particularly with respect to the engagement of affected public and consultation process. Local EIAs are reviewed for the E&S due diligence purposes, and a critical gap analysis is carried out to assess the existing document against EBRD requirements, including EU environmental standards and best international practice. EBRD, as an international finance institution, is not an enforcement agency of any country; however, projects it finances need to comply with applicable legal requirements, and clients must therefore identify environmental and social requirements under national legislation and demonstrate how the project will comply with the requirements.</p>

	<p>10.3. The requirement that EBRD projects must be in accordance with the EU’s ecological requirements as well as with national legislation faces substantial practical implementation problems, which are partly related to different reporting structures for the results of environmental and social assessments within the EBRD on the one hand, and for national supervisory authorities on the other. For a more effective employment of international standards a single ESIA document, including national as well as international requirements, will be helpful for facilitating clients’ coordination processes and economising expenses for the elaboration of different versions of environmental protection documentation.</p> <p>The wording changes were proposed to the section 3.4 of the Strategy.</p>	<p>The possibility to combine in one document an international and local ESIA depends on the stage of project development when it comes to the EBRD for financing consideration. Often, the projects come to the Bank in an advanced stage of design and a local EIA carried out, and sometimes permits have already been obtained. Consultation at this stage is for the purposes of advising the Bank’s proposed investment and mitigation measures, not necessarily whether or not the project proceeds. However, when it is possible for the Bank to get involved at earlier stages the international ESIA is prepared with the feasibility study in line with both national and IFI’s requirements.</p> <p>The suggested wording changes to the Strategy text in Russian are welcomed as they provide better interpretation of the English version text that is not always easily translated. The wording will be incorporated with relevant minor adjustments. The English version text in section 3.4 was amended.</p>
	<p>10.4. The EBRD should ensure that Bank’s clients and recipient clients of bank funding in the construction sector (including those who receive funding through financial intermediaries) and their sub-contractors adhere to the requirements set out in PR2 of the EBRD Environmental and Social Policy in order to prevent and remedy abuses against workers, including migrant workers. In addition to the requirement that the Bank’s clients establish a grievance mechanism for workers, the EBRD should establish a complaint mechanism in the ROs in Russia to deal promptly with the complaints by workers engaged in the projects financed by the Bank. It should also establish a</p>	<p>The section 3.4 is updated and includes now specific to the sector requirements that the Bank sets out for its Clients. Thus, for projects involving construction and property development such issues as planning permits, traffic impacts, public consultation, resettlement and economic displacement, grievance mechanism and construction worker issues will be addressed through the environmental and social due diligence process. PR2 requirements are applicable to Client’s workforce and sub-contractors. The Bank is monitoring its Clients’ compliance with PR2 via review of annual E&S reporting and monitoring site visit by its specialists or independent experts based on the identified risk level.</p> <p>Each client is required to have Grievance Mechanisms, both for workers and for the public. In addition, if grievances cannot be resolved with the client, and if the matter deals with an issue covered in the EBRD’s requirements, the Bank can be contacted via the Resident Office or cso@ebrd.com. If Bank staff are not able to resolve the issue or take it further, or if someone believes there is harm caused by a violation of EBRD policy, there is a well-established grievance mechanism at the Bank for Projects for</p>

	<p>post of a labour liaison in the ROs in Russia to ensure regular, on-site monitoring of adherence to PR2 commitments by the Bank's clients through unannounced site visits and other measures. Reliance on client's self-regulation or auditors hired by the client may be insufficient to ensure that the Bank's clients and projects are not benefiting from exploitive labour practices.</p>	<p>either problem-solving or compliance matters, operating via the Project Complaint Mechanism (PCM@ebrd.com).</p> <p>In addition Annex 1 - Political Assessment was updated to include specific references to concerns raised by Russian human rights groups about cases of discrimination against migrant workers, including those employed at the construction of Sochi Olympic Games facilities.</p>
11. Annex 3 – Development of capital markets	<p>11. 1. The Bank should consider supporting the development of carbon trading on the Moscow Stock Exchange as well as the development of relevant market-based greenhouse instruments (loans, quotas, "green" certificates) aimed at reducing greenhouse gas emissions and promoting access to other greenhouse gas reduction and trading systems, such as ChicagoClimateExchange (Chicago, US), EuropeanClimateExchange (London , UK), NordPool (Oslo, Norway), PowerNext (Paris, France), EuropeanEnergyExchange (Leipzig, Germany), TexasClimate & CarbonExchange (Austin, US).</p>	<p>The Bank is already contemplating to support the Moscow Stock Exchange through its Carbon Project and Asset Development Facility. It is also liaising with the Ministry of Economic Development in particular in support of its interest in establishing a domestic emissions trading scheme. In addition the Bank is developing a carbon market capacity building project with Russian stakeholders at the request by the Ministry of Economic Development.</p>
12. General remarks	<p>12.1. It is suggested that the EBRD considers supporting the establishment of the Russia's first "green investment" fund, which is planned to be set up by WWF Russia. The Fund is likely to be a share investment fund or a private equity fund that invests in specific projects such as venture projects in order to promote sustainable development in Russia.</p>	<p>The Bank in its Strategy prioritises projects that promote sustainable development in Russia and is interested to consider such fund proposals if they comply with sound banking principles and private equity industry best practice.</p>
	<p>12.2. It is recommended that the time limits are introduced for initial assessment process of the projects that are of interest to the EBRD in</p>	<p>EBRD's Business Development team is responsible for the project enquiries that are received directly during business meetings with FDI clients or via "project enquiries" and "business enquiries" designated area on the EBRD.com. Official timing for</p>

	<p>Russia and other major stages of the project cycle in order to avoid delays in project preparation and losing perspective clients. These time limits should be made public.</p>	<p>providing the Bank's clients with the response is 7 working days. The time required for a project to progress through the major stages of the project cycle depends on the complexity of the individual projects, the availability of the necessary project and market information and the responsiveness of the potential client.</p>
	<p>12.3. The EBRD should consider financing a pilot project aimed at providing restructuring of the core enterprise and development of small and medium business in the Russian mono-cities. Such project could be implemented in Kondopoga in Karelia (the largest newsprint producer in Russia and Europe with about 35,000 inhabitants) in cooperation with Vnesheconombank, which receives the government funding to support mono-cities, VTB – Kondopoga and other commercial banks.</p>	<p>The Bank recognises the challenges of diversifying Russian monocities and the need to restructure and modernise town-forming enterprises. The Bank is ready to consider enterprise restructuring projects driven by strong committed private sector sponsors when such projects are commercially viable and adhere to sound banking principles.</p>

List of civil society organisations and members of public who participated in the consultation process

14 November 2012, Moscow RO

1. Greenpeace Russia
2. WWF Russia
3. HRC Memorial
4. Institute for Urban Economics
5. Institute for the Study of Science

3 December 2012, written comments submitted by:

1. Greenpeace Russia
2. Institute for Urban Economics
3. AIDS Infoshare
4. NCO “Doverie”, Kaliningrad
5. Center for Business Ethics and Corporate Governance
6. Shaneco
7. A member of public
8. A member of public
9. WWF Russia
10. CEE Bankwatch
11. Human Rights Watch
12. Association of Russian Banks