

EBRD response to the *Save the Blue Heart of Europe* campaign

The following documents aims at clarifying the EBRD's position towards the petition received on 20 June 2018 by the campaign group [Save the Blue Heart of Europe](#) which asks international financial institutions to stop financing hydropower projects in the Western Balkans. The petition follows a joint report by the civil society organisations (CSOs) CEE Bankwatch, RiverWatch and EuroNatur.

The EBRD has analysed the statements made in the report entitled '*Financing for hydropower in protected areas in Southeast Europe: 2018 update*' and responds as follows.

- **The EBRD has directly invested in 27 small hydropower plants (sHPPs) in the Balkans and a further 42 have received indirect financing through partner financial intermediaries, the majority of which (34) are located in Bulgaria.**
- **The total number of greenfield small hydro projects in the region (built since 2005 or now planned) that are identified in the report is 2,112. Around 97 per cent of these projects are planned by national governments, built by national and regional companies and financed by private investors from the region.**
- **Approximately 1 per cent of the total number of projects have received direct EBRD financing and a further 2 per cent of the total are associated with partner financial intermediaries.**
- **Since 2015 the EBRD has not invested in any sHPPs located in protected areas.**
- **The EBRD has strengthened its procedures following the 2015 CSO report, but a new review acknowledges that further improvements should be made in project implementation.**
- **A new EBRD guidance note to partner financial intermediaries is about to be issued to safeguard standards.**

The EBRD response in full:

1. The report

The March 2018 report by CEE Bankwatch, RiverWatch and EuroNatur titled *Financing for hydropower in protected areas in Southeast Europe: 2018 update* is an update of the report by the same authors in 2015, primarily focusing on small hydropower plant projects in the Western Balkans. As the 2018 report indicates, a small minority of projects planned or implemented in the region have received funding from the EBRD, and other international financial institutions (IFIs), either directly or by way of credit lines administered by partner financial intermediaries or under facility arrangements.

The figures quoted in the report are as follows.

- Total number of greenfield projects built since 2005 or now planned: 2,112
- Number of greenfield projects in protected areas or internationally recognised areas of high biodiversity value: 767
- Number of projects financed by multilateral development banks (MDBs): 82 (<4 per cent of the total)
- Of the projects financed by MBDs, those in protected areas or internationally recognised areas of high biodiversity value: 37 (<2 per cent of the total).

The report claims that the EBRD and its partner financial intermediaries have financed a total of 61 projects, 29 of which are located in protected areas.

The EBRD can confirm that 27 sHPPs have received financing directly from the EBRD and a further 42 through partner financial intermediaries, with the majority of these plants (34) located in Bulgaria. As a result, the EBRD can confirm that approximately 1 per cent of the total number of projects identified

in the report have received EBRD financing directly and a further 2 per cent of the total are associated with partner financial institutions.

The 2018 report is accompanied by a film titled *Save The Blue Heart of Europe*, sponsored by Patagonia (an outdoor clothing and equipment company), and the associated petition to the EBRD and others to cease the financing of all sHPPs in the region.

2. EBRD environmental and social policies

The EBRD aims to continuously develop and improve its environmental and social policies and procedures and to mainstream sustainable development throughout its operations and investments. The EBRD promotes EU environmental standards and good international practice. It is also fully committed to receiving stakeholder concerns and the report has been discussed at the highest levels of the EBRD.

The cornerstone of these efforts is set out in the EBRD's founding articles and implemented by its *Environmental and Social Policy* (ESP). The policy was last updated in 2014 and is currently under review, consultation and update. The 2003 and 2008 ESPs were in place when many of the sHPP projects identified in the report were appraised and implemented. Since then, the EBRD's approach to project appraisal and implementation has already evolved considerably since the 2015 report and the 2018 update were published.

3. EBRD investments in the sHPP sector in the Western Balkans

The EBRD supports sustainable development in the hydropower sector and investment in sHPPs aligns with individual EBRD country strategies for the Western Balkans countries, the Bank's Energy Sector Strategy and the ESP, all of which are subject to public consultation. Furthermore, the EBRD supports the transition from carbon-intensive energy sources to renewables under its Green Economy Transition approach.

Following the 2015 report, the EBRD commissioned an independent review of the status of each sHPP project that has received direct EBRD financing. The findings of the independent review have been revised in 2018 and EBRD can confirm that:

- one of the 27 sHPPs was for rehabilitation, four have been cancelled and three have been pre-paid.
- of the remaining, six sHPPs are located in existing legally protected areas
- three sHPPs are located in formally proposed protected areas (one of these HPP projects was approved by the EBRD before the area was formally proposed to be protected)
- three sHPPs are located in other areas of interest, which are currently not legally protected and have not been formally proposed to be protected
- five sHPPs are located in areas that are currently not protected or proposed to be protected and for which no biodiversity importance was identified, and
- the remainder have been approved post-2016 and are not located in protected areas.

In accordance with national law, the EU Habitats Directive and the Bank's ESP and Performance Requirements (PRs), projects can be implemented in protected areas if an appropriate level of assessment of the impacts on the sites concludes that a project would have no significant impact on the integrity and conservation objectives of the protected area.

The EBRD has reviewed each of the above operations and can confirm that they are operating in line with the EBRD's requirements, national law and international obligations or, where improvements are required, that additional corrective measures are being implemented by the project developers.

4. Mainstreaming sustainability into the EBRD's hydropower plant investments

The EBRD has strengthened its approach to the appraisal of projects in the sector and the region that involve direct investments or financial intermediaries. Since the introduction of this more robust approach, the EBRD has not directly or indirectly financed any new sHPPs in protected or proposed protected areas.

The actions the EBRD has already taken include, among others, early pre-screening of all geographical locations of sHPP projects, including those financed under frameworks, facilities or by financial intermediaries, and the Bank requests information about the location of proposed HPPs in relation to existing, and proposed, protected areas.

In addition, the EBRD's 2014 *Environmental and Social Policy* amended Performance Requirement 6 on biodiversity conservation following public consultation and comments from CSOs to recognise formally proposed protected areas as requiring the same level of protection as legally protected areas. The Bank has introduced additional procedures for making the screening and assessment of sHPP projects more robust and to ensure that all EBRD projects will meet the Bank's ESP.

The eligibility criteria for sHPPs have been strengthened and a new initial environmental and social examination tool specifically for sHPPs has been introduced. Furthermore, the EBRD was the first IFI to issue a guidance note for the sustainable development of hydropower projects. The EBRD has also issued a number of guidance notes on biodiversity conservation and protection in project development.

The Bank routinely applies these tools and guidance in combination, and where a project cannot be structured to meet the EBRD's requirements the Bank will discontinue the project. Examples of such cases have been sHPPs located within or in the close vicinity of proposed protected areas, such as Emerald sites, where adequate information on biodiversity is not available.

The EBRD's due diligence for sHPPs is undertaken by an independent consultant in accordance with the requirements of the Bank's ESP. The independent consultant reviews the potential impact on existing protected areas as well as on areas important for local biodiversity or threatened or endangered species.

5. Technical cooperation, policy engagement and capacity-building

The EBRD is routinely involved in technical cooperation projects with key stakeholders, policy engagement with governments and international conventions and supports local capacity-building.

The Bank has prepared a technical cooperation project for a Small Hydropower Project Environmental and Social Assessment Framework to ensure that an appropriate level of environmental and social due diligence is undertaken of projects financed under frameworks.

The EBRD will continue to organise capacity-building workshops for financial intermediaries and for due-diligence consultants working under credit lines to sensitise them to the concerns and introduce to them the new sustainability guidelines and tools.

The Bank was also actively involved in an EU-led project about "master planning of hydropower projects in South Eastern Europe". It has offered technical cooperation support for capacity-building to government agencies in assessing the impacts of these projects on existing and proposed protected areas, in line with their obligations under international conventions and the EU accession process. These obligations include compliance with international conventions relating to the protection of biodiversity.

Other technical cooperation projects currently under way include capacity-building for biodiversity-inclusive environmental and social impact assessments in the HPP sector; the incorporation of sustainable development into sHPP tendering; climate resilience in the HPP sector of the Western Balkans; and capacity-building for the administration of Emerald sites.

6. Areas for improvement in the sHPP sector

The March 2018 report triggered a further review of the EBRD's policies and procedures in the sector and region to assess whether further improvements can be made. While it has confirmed that adequate project appraisal tools are in place, it is acknowledged that project implementation arrangements could be improved.

Under the EBRD Performance Requirement 9 (PR9) for financial intermediaries, the responsibility for project appraisal and monitoring is delegated to the partner bank and national law is the benchmark standard. Similarly, for credit lines and EBRD direct investments under frameworks, facilities or by way of the Bank's Small Business Investment Committee, project monitoring often relies on client disclosures and on regulators enforcing national and international obligations. Through the current review it is apparent that neither of these approaches is best suited to the sHPP sector in the Western Balkans.

As part of the ongoing review of the ESP, PR9 will be subject to revision and the possibility of including a referral list for high-risk projects – such as sHPPs – is currently being discussed. A referral list of this kind would require partner financial intermediaries to consult the EBRD regarding any future potential sHPPs. In addition, the arrangements for post-approval project implementation will require additional oversight, and

reliance on national law will no longer be considered as sufficient. A guidance note for sHPP project implementation arrangements has been developed and will be disseminated to all partner financial institutions.

It is important to note that the EBRD will not assume the responsibilities delegated to financial intermediaries. However, closer consultation will be required in the future. Furthermore, financial intermediaries are encouraged to engage with civil society in a transparent way regarding their investments in the sector.

A new EBRD guidance note for project implementation and monitoring requirements will be issued in parallel to this response. The guidance will apply to all sHPP projects and investments in the sector by the EBRD and partner intermediaries.

7. Additional tools and revised approaches

The new guidance note for sHPP project implementation arrangements is structured as follows:

Minimum requirements during the pre-construction phase:

- Conduct an appropriate level of assessment of environmental and social sensitivities specific to the location of the sHPP under consideration, in line with national law, good international practice and EU requirements.
- Assess the adequacy of hydrological information available and determine the minimum biological or environmental flow based on the specific characteristics of the river in question.
- Confirm that the basic design is aligned with the permitted project.
- Incorporate appropriate mitigation measures into the detailed design.

Minimum requirements during the construction phase:

- Prior to contract award, ensure that contractors are adequately managed and resourced to implement the proposed mitigation measures.
- Incorporate appropriate and failsafe environmental and social mitigation measures into HPP structures.
- Construct only at appropriate times, with adequate monitoring measures in place.
- Minimise the construction footprint wherever possible.

Minimum requirements post construction:

- Complete all rehabilitation and remediation works necessary.
- Test the functioning of mitigation by design during wet testing.
- Maintain the riverbed in depleted reach to ensure adequate environmental flow and fish passage.

Minimum requirements during operation:

- Develop a monitoring and reporting plan for the first two years of full operation.
- The plan will include measures for reporting environmental flow in a transparent way.
- Biodiversity surveys will be required during operation to confirm the effectiveness of mitigation measures.
- Adaptive management techniques will be required to modify mitigation measures wherever necessary.

The additional guidance has been designed to address the common areas for improvement that were identified during the EBRD's review in 2018 and in addition to its existing policies and guidance.

8. Conclusion

The report *Financing for hydropower in protected areas in Southeast Europe: 2018 update* and the subsequent *Save the Blue Heart of Europe* campaign have been received at the highest levels at the EBRD, and the content has been carefully reviewed. Analysing the study will help to inform the Bank's ongoing review of its own approach and procedures in the sHPP sector. While there are some factual inaccuracies in the 2018 report, the EBRD acknowledges that the Bank is engaged in the sHPP sector in the Western Balkans, albeit only in a very small minority of the total projects identified in the publication.

Following the initial 2015 report, the EBRD reviewed its internal procedures and portfolio of projects, with the assistance of an independent consultant, and strengthened its project appraisal. This process has since been revisited and project implementation arrangements have now been revised.

The EBRD can confirm that its environmental and social policy procedures were strengthened in 2015 and it has been concluded that all necessary pre-approval measures are in place and fit for purpose. In addition, it can be confirmed that the EBRD has not invested in any sHPPs located in protected areas since the 2015 report.

It is, however, acknowledged that additional guidance is required for minimum project implementation requirements and that the delegation of responsibilities to partner financial intermediaries and small business investments under framework and facility agreements where there is a reliance on enforcement of national and international law is not adequate for the sector at this time.

As a result, the EBRD is planning to modify PR9 (for financial intermediaries) under the current ESP review and has issued a new guidance note on the incorporation of minimum environmental and social policy requirements during project implementation.

While the EBRD's direct and indirect financing of sHPPs in the Western Balkans is a very small minority of the total in the report, the Bank will continue to work to improve the governance and performance of the sector and key stakeholders in the region. The EBRD remains fully committed to receiving feedback on all operations and suggestions on how to improve its policies and processes.