

ENVIRONMENTAL AND SOCIAL ADVISORY COUNCIL (ESAC) MEETING:

31st March 2021

The Environmental and Social Advisory Council (ESAC) had a virtual meeting 31st March 2021. The meeting was chaired and opened by Vice President Annemarie Straathof and Managing Director, Environment and Sustainability Department Dr Alistair Clark, who welcomed the participating ESAC members present:

- Peter Bakvis, Director, ITUC/Global Unions – Washington Office
- George Kremlis, Honorary Director, European Commission
- Jacqueline McGlade, Former Chief Scientist and Director of UNEP's Division of Early Warning and Assessment
- John Morrison, CEO of the Institute for Human Rights and Business (IHRB)
- Fiona Murie, Global Director Health and Safety and Construction Building and Woodworkers International
- Nilufer Oral, Member of the Law Faculty at Istanbul Bilgi University and Deputy Director of the Marine Research Center for the Law of the Sea
- Nicholas Robinson, University Professor, Pace University and Gilbert & Sarah Kerlin Distinguished Professor of Environmental Law, Pace University School of Law
- Marko Slokar, Management Board of the Environmental Fund, Slovenia
- David Wheeler, President and Vice Chancellor, Cape Breton University, Nova Scotia, Canada
- Jan-Olaf Willums, InSpire, Høvik, Norway

Agenda of the ESAC meeting is provided in Annex 1.

Opening remarks by Managing Director, Environment and Sustainability Department Dr Alistair Clark Update on Bank's activities and issues discussed during last ESAC meeting in February 2020

Alistair Clark welcomed the participants and introduced the agenda and opened the meeting. He shared highlights from the last year and challenges related to COVID and Bank's response to the crisis and how approach for project appraisal was adjusted to reflect requirements for remote working. Some key challenging projects of last year were also mentioned in relation to cotton production in Uzbekistan and Nensrka HPP project in Georgia and that links with additional information to the projects can be provided if required. Other highlights were related to the Green Cities programme and increased financing; first TCFD report – first time publishing year based on recommendations on Climate change and governance; introduction of Just Transition Initiative linking the transition to a low-carbon economy with inclusive economic development and others. Last year was also a remarkable year in terms of the knowledge products developed, including Handbook on GBVH, Road Safety Management and Risk tools and engineering e-learning, annual reports on H&S, E5P and NDEP.

Alistair Clark also introduced the sessions of the meeting.

Session One, "Information Session on Changes in EBRD Management and European Development Finance Architecture", Annemarie Straathof, Vice President, Risk & Compliance CRO

Annemarie Straathof welcomed everyone to the virtual meeting and to continue an ongoing dialogue to help us ensure that the Bank meets its challenging environmental and social goals

Ms Straathof provided ESAC with a recap of the Bank's accomplishments since the last ESAC meeting in 2020 and highlighted some of the geopolitical, financial and COVID related challenges from the last year:

- The global Covid-19 pandemic and consequent economic crisis represented the most significant challenge yet to the Bank and its countries of operations. The Bank moved quickly to respond in full solidarity with its countries of operations to address the immediate effects of the crisis. The bank was the first international financial institution to adopt emergency measures to address the economic impact of the pandemic in March and by April had resolved to dedicate the entirety of our operations in the period 2020-21 to the fight against the virus.
- The Bank COVID-19 Solidarity Package including: Resilience Framework and Vital Infrastructure Support Programme (VISP) and throughout the year, the Bank focused on supporting our existing clients with the provision of short-term liquidity and working capital to protect viable companies and safeguard hard-won progress towards sustainable, fair and open market economies in its countries of operations;
- Adoption of the next five-year Strategic and Capital Framework 2021-2025, where the Bank will focus on three strategic themes that respond to major forces shaping transition opportunities in countries of operations;
- After approval of our 2021-25 Strategic and Capital Framework the new Green Economy Transition (GET) approach is now effective. It sets new and clear commitments: increasing the share of green finance in the Bank's annual business investments to more than 50 per cent by 2025 and reducing emissions by at least 25 million tons over the same period.
- Facilitating the transition from fossil fuels to renewable sources of energy the Bank launched a Just Transition Initiative linking the transition to a low-carbon economy with inclusive economic development.
- Continuous support to provide trainings and raise the skills of women, young people and refugees in Egypt, Jordan and Turkey. In Ukraine, the EBRD supported Gender Inclusion in Ukraine Development Agenda and financial and road-sector reforms and better governance for state-owned banks.
- The EBRD Green Cities programme continued to grow rapidly and reached 44 participants by the end of the year across our countries of operations and aims to expand to 100 by 2024. Responding to high demand, our Board of Directors approved a doubling of financing so that the programme now commands over €2 billion of funding. The EBRD Green Cities has also mobilised significant co-finance, including €87 million from the Green Climate Fund (GCF) for concessional funding, as well as technical cooperation from the GCF and several bilateral donors.
- And lastly the EBRD became a signatory of the UNEP-FI's Blue Economy Financing Principles which are the gold standard for investing in the sustainable ocean economy and scale up action to promote the implementation of the UN's Sustainable Development Goal 14: Life Below Water. This is yet another milestone in the Bank's mission to promote environmental sustainability and a blue future for our common marine natural capital.

Annemarie also highlighted the following operational results:

- A record level of impact to our regions in 2020 with more than €11 billion of investment, 411 operations, disbursement reaching €7.8 billion honouring a pledge to raise both the quality and quantity of our investments in 38 economies across three continents. The Bank continued to concentrate our support on the private sector, which accounted for 72 per cent of total investment last year.

- Trade financing had also reached a new record with 2,090 transactions worth €3.3 billion supported by our Trade Facilitation Programme, involving 90 issuing and 140 confirming banks across 40 countries worldwide. Examples of transactions financed include the import of medicines from Spain, Turkey and Switzerland into Lebanon, Georgia and Jordan or the export of solar power technologies from Greece to Spain and the United Kingdom.
- The Bank achieved new records in economic inclusion, where we work to tackle inequality of opportunity and reach out to members of society who are excluded from economic progress, often women, or young people or those living in more remote areas. We financed a record 47 Inclusion Transition Impact projects, compared with 38 in 2019, with a record 62 projects specifically addressing gender issues achieving 15% of total investments, compared with a previous 56 gender projects and 12% of total investments.
- Through the Bank's investments, we provided financing and advisory services to more than 62,000 women, created training opportunities for more than 20,000 women and men. supported over 20 equal opportunities programmes with clients. With our help labour market restrictions for women in relation to over 70 types of jobs in Kazakhstan were removed.
- Because of the urgency of addressing the Covid-19 crisis, the share of green investment in 2020 fell to 28 per cent. However, the Bank reaffirmed its commitment in this area with the adoption of a new five-year strategy, which aims to make the EBRD a majority green bank by 2025.

Ms Straathof also updated on European Development Finance Architecture and recent considerations after the UK leaving EU and subsequent changes in the shareholder structure of the Bank that triggered discussions in EU on financial architecture options and developed recommendations. As a result of that discussion a status quo+ option was proposed to better coordinate EBRD and EIB activities with particular focus on 6 working streams. On-going communication and cooperation between EBRD and EIB is taking place.

Jacqueline McGlade raised a question that given the track record and proactive status that the EBRD holds among other MDBs in particular on Natural Capital and Blue Economy where the Bank is well ahead of others, do you envisage EBRD to lead on those areas and enhance the expertise and knowledge and add more projects that will enhance your status quo to ++? The EBRD is well recognised for its achievements and could set up a benchmark and also motivate other MDBs.

Annemarie replied that we very much appreciate that recognition on our achievements and with our strong presence in Resident Offices we have strong ground in CoOs.

Alistair Clark also added that EIB is very strong on many topics within EU, when outside the EU the EBRD is better placed to push sustainability agenda on the grounds; and there is a mutual co-operation to address the needs and therefore this status quo is the best possible option.

George Kremlis praised the Bank for the results. He raised the importance of Climate Change and EU Green deal and that with US coming back, it is becoming a very important topic. He also referred to the previous meeting when the question was raised on who will be a Climate Bank.

Marko Slokar added that there is a need of a sharper division between areas of EIB and EBRD to promote co-operation, but not competition. He noted that it would be better to explore opportunities to work together and policy dialogue under the current architecture and how to better finance achievement of sustainable development goals.

David Wheeler added a comment on how to scale additional funding from EIB towards more EBRD's projects and initiatives at the same time, adhering to the EBRD's standards and requirements.

Session Two, "EBRD's response to COVID", Dr Alistair Clark, MD, Environment & Sustainability

Alistair Clark presented EBRD's response to COVID pandemic and focused on COVID response related ESDD tools and also highlighted importance of remote working, digitalisation but also importance of personal data protection. He also highlighted that the EBRD undertook necessary steps to address internal challenges with remote and virtual operations and our staff needs. He shared information on COVID -19 Stakeholder Engagement Tools and approach to use digital remote tools and also provided some examples of remote working. It was also noted that the EBRD is not subject to GDPR, but is developing internal similar approach and standards. Alistair highlighted the importance of MDB cooperation and creation of EBRD's COVID related hublet for information sharing.

Nicholas Robinson shared the observation in regards to COVID that it is recognised as a normal practice to assess also zoonotic diseases as in the project, we can cause a spill-over and spreading of diseases and therefore we need a new approach to control of epidemics and that analysis of zoonotic risks should be a part of the environmental assessment. He shared another example of protecting the areas with high risk of wildlife and zoonotic diseases.

Alistair Clark replied that it is not the first time when that happened referring to the previous cases of "swine flu" and others. He noted that animal welfare practices and AMR is also an important area, where the Bank is playing a proactive role.

Debbie Cousins also referred to Epidemiological and Pandemic Resistance TC in Transport Sector that has been recently launched and once developed, the results can be shared.

Nilufer Oral praised quick response from the EBRD in relation to COVID and also raised a concern on on-going projects and potential labour issues related to redundancies and people affected.

Alistair Clark replied that the Bank was actively engaged with the Clients reminding them on their commitments on ESP requirements, but also on material financial support that the Bank provided as an emergency response to municipalities and clients through the developed emergency and VISP frameworks.

Debbie Cousins also added that PR2 requirements were reinforced and also dialogue with the clients was enhanced to address the situation and find resolution under this challenging environment.

George Kremlis noted that digital tools are applicable for public consultation and engagement. As part of ESDD, also social assessment should be undertaken where part of the population may not have access to the digital tools and information, and therefore can be left out of the consultation process. Specific consideration should be paid to these cases when comprehensive consultation with all stakeholders cannot be arranged.

Alistair replied that the EBRD is utilising all available tools and that all conventional and traditional tools are fully used so that standards and requirements are not undercut.

John Morrison raised a question: "Does Covid experience permanently change EBRD's risk register and risk appetite? Thinking about our greater awareness of vulnerable workers and communities as well as the overreach of the state with coercive measures?"

Alistair Clark replied that our concerns have indeed increased about vulnerable workers and coercive measures. This is a subject of discussion and knowledge sharing amongst the IFIs. A week before the meeting the IADB and IFC brought out a very good guidance note on this issue which in itself is a recognition of the changing and shrinking safe space for CSOs and project affected people.

Session Three, “The Strategic and Capital Framework (SCF) 2021 – 2025”, Jonathan Ockenden, Associate Director, Corporate Strategy

Jonathan Ockenden presented the Strategic and Capital Framework (SCF) 2021 – 2025 and among others provided details on three strategic themes that respond to major forces shaping transition opportunities in countries of operations:

- Supporting Transition to a Green, Low-carbon Economy
- Promoting Equality of Opportunity, and
- Accelerating the Digital Transition

Peter Bakvis raised a question in regards to geographical expansion to Sub-Saharan Africa and that from the presentation it is understood that it will be more modest. What will be the criteria and what kind of cooperation will you put in cooperation with AfDB?

Jonathan Ockenden replied that the Strategic Plan was done in coordination with governments to reflect gradual approach to the area. Some screening work has been done in relation to potential countries and their needs and effectiveness of the EBRD’s involvement and available opportunities. The EBRD will build additional capacity and consider opportunities with other FIs and with AfDB the EBRD is maintaining good relationships.

Nicholas Robinson commended the EBRD for the work done and made an observation on the digital tools and applications in particular on ethical and social issues related to further digitalisation. He added that during the next 5 years of strategy we can bring back the committee on E&S issues and how ethical questions will be handled in the Bank’s operations on COOs and on a broader level, and provide a guidance that the Bank should follow on the use of data and analytics.

Jonathan Ockenden replied that we are looking forward to the next revision of ESP, which should capture that and that he agrees with the observation that it is an important question of people’s life and privacy and ethical standards.

Session Four, “Green Economy Transition Approach 2.1”, Harry Boyd-Carpenter, Managing Director, Green Economy and Climate Action / Gianpiero Nacci, Acting Director, Green Economy and Climate Action

Alistair Clark introduced new Managing Director for GECA - Harry Boyd-Carpenter and welcomed him to the session. Harry Boyd-Carpenter briefly presented himself, his background and experience in the Bank and handed over to Gianpiero Nacci to provide the presentation.

Gianpiero Nacci provided detailed presentation on the Green Economy Transition Approach 2.1 and new and clear commitments: increasing the share of green finance in the Bank’s annual business investments to more than 50 per cent by 2025 and reducing emissions by at least 25 million tons over the same period. He also provided a particular focus on Paris Alignment requirements and suggested approach.

Nilufer Oral thanked him for an interesting and informative presentation and praised a transformation to a very critical role the EBRD is playing and asked to better explain the Paris Alignment methodology and criteria.

Gianpiero confirmed acknowledgment of the limitations on the Paris Alignment approach and provided details on MDBs methodology and approach, which addresses through two steps: 1. Screening of all projects irrespective of the country context on a subject of compliance with Paris Climate Agreement requirements; 2. Analysis of the projects irrespective to the country context including staggered assessment of NDCs, and also assessment of the climate strategy or global sectoral strategies and low carbon locking risks and pathways, CBA and shadow pricing.

Nicholas Robinson congratulated him on cutting-edge approach and raised questions on eco-system capital approach, which should be reflected in natural capital theme. Biodiversity loss should be also addressed in the vulnerability analysis and also we should use a complementary human or social capital, which is essential and can be placed as a thematic analysis.

David Wheeler highly praised the Bank for the GET programme and success, and raised concerns about the needs for a systematic change and the tiny fraction of MDBs investment in the global financial market, and asked a question if the EBRD and other MDBs can have more significant impact globally?

Marko Slokar also noted the Banks transition to systematic approach addressing climate change and that GET is very ambitious for a 5 year plan and praised the plan to increase of the impact through operations and also through support to the CoOs on developing standards, strategies and developing green financial systems. However, latest McKinsey analysis for the Energy sector suggests the world is en-route to 3 degrees warming. The IPCC says we burn through our carbon budget by 2030. He raised a question about the system-wide theory of change and given the above, plus the fact that the MDBs collectively are a tiny fraction of the global economy, how realistic is the theory of change?

Harry Boyd-Carpenter replied that it is in the EBRDs DNA to focus on transition and systematic change and rewiring the way, how the companies and economies think and act, and the Bank pushes how to change mentality and behaviour.

Peter Bakvis commented on the impact of COVID on the switch of public transport use more to private cars and if it has been addressed.

Gianpiero responded that it is an important questions on how the cities will address the infrastructure needs and adopt to the new changes. He also noted that it can be taken into consideration through the Green Cities programme, where this question can be specifically addressed through GC Action Plans. This question is under consideration and should be more integrated into our analysis including remote working electric vehicles, digitalisation, etc.

George Kremlis asked to what extent the Bank takes into consideration EU taxonomy regulation. EU is promoting the external dimension of EU Green Deal, which includes Green Economy Diplomacy and policy consideration and if EBRD considers intervention into non-EU countries.

Harry replied that EU is a key partner and we leverage in our countries and projects, wherever we can. He referred to an example of Western Balkans, where imposing of a border tax can trigger changes without additional public funding. The EBRD are contributors to EU taxonomy working process and is working internally on how the approach can be applied and considers EU taxonomy as a robust approach and that the Bank will also use do-no-significant harm additional complementary analysis.

Jacqueline McGlade shared information about new bio based construction materials and examples of bio-economy, which are emerging around the world and taking place in some EU countries. Gianpiero confirmed the Bank's interest and also referred to the project in Ukraine on production of materials from hemp, but also warned about potential sustainability supply chain concerns.

Session Five, "Information Session on EBRD, Natural Capital and the Blue Economy Financing Principles", Adonai Herrera-Martinez, Director, Environmental Funds

Adonai Herrera-Martinez presented Information Session on EBRD, Natural Capital and the Blue Economy Financing Principles and also focused on the topics:

- How to scale up investment in Biodiversity, Natural Capital and the Blue Economy?
- What are the business models the EBRD needs to develop?
- Who should the EBRD be partnering with (clients, co-financiers, donors)?
- What kind of resources are needed for this (financial, human)?

He also proposed the following questions for the ESAC member to advise on:

- What should be the natural capital (including blue economy) financing target for the EBRD, and how should the ESD incentivise and verify this?
- Does the Bank need to strengthen its ESP and guidance notes?
- What kind of products and sectors will make sense in our CoOs? How to engage the private sector?
- What ESG disclosure requirements will encourage corporates to do more?
- What kind of partnerships and resources are required to achieve these objectives?
- What additional analytical work and market research is required?
- Ultimately, how ambitious should we be?

David Wheeler praised for very powerful presentation. He shared thoughts that the presented approach is excellent early stage thinking, but conceptually very strong and comprehensive. He noted that it is very important as we approach the 6th great extinction. In terms of action it would be great if it is inclined to align with the nature-based services commitments of COO governments in their post-pandemic 'build back better' strategies. However, it is unknown how many COOs have such strategies. If they don't it would be suggested to provide them with TA to develop such strategies. In terms of partnerships he also suggested to reach out to the Global Ecological Footprint Network (Mathis Wackernagel) for some country level comparative benchmarking. He will be happy to connect if that would be helpful.

Nicholas Robinson shared thoughts that horizon and goals for NC and BE will need to be continuously reviewed and changed as the topic will be also evolving. He added that adaptive management and rapidly updating policy and operations is essential. In Singapore, there is no more "waste water" and all such flows are recycled to produce "NeWater" and harvest a resource while protecting the environment. The Blue economy is evolving with new goals.

George Kremlis noted that when it comes to protection marine environment, EU Habitat and Born conventions should be taken in consideration in the context of the blue economy. He also referred to the 2020 report of EC on Blue Economy activities and asked about eligibility criteria for BE projects and especially gas pipeline projects and if any hydrogen projects are in the pipeline.

Adonai thanked everyone for comments and confirmed acknowledgment of the EC BE 2020 report and also interest in the hydrogen projects to be followed up if there are any in the pipeline.

Jan-Olaf Willums confirmed his full alignment with comments from David and also shared thought how to get more active private investors. He noted that the concept of Impact Measurements is key for a growing number of impact investors organized in the GIIN and TONIIC networks.

Adonai confirmed the importance of involvement of the private sector and the Bank's constant interest to that.

Session Six, Human Rights, Debbie Cousins, Associate Director, Head ESD Operations/ Sukran Caglayan Mumcu, Associate Director, Social Adviser

Debbie Cousins and Sukran Caglayan Mumcu presented approach for addressing Human Rights in the EBRD's projects and Applying a Human Rights-Based Approach to E&S appraisal and monitoring and covered the following topics:

- Current and emerging Human Rights issues being raised or identified by the Bank
- Overview of EBRD governance framework related to human rights issues
- How the ESP/PRs cover human rights and how the ESD has integrated human rights into existing E&S Appraisal and Monitoring Procedures
- How the Bank handles complaints that are related to human rights

Nicholas Robinson praised the team for the great guidance note and added that the right to Water is now clearly a human rights priority. UNECE has an equitable access to water score card process. UNGA Res 64/292 (2010) confirms water as a human right so this Internal Guidance should include the human right to water. Observing this right would advance both Human Rights and the nature based solutions and sustainable development and the green transition. He asked that the Human Right to water explicitly be reflected in the Internal Guidance documents.

David Wheeler agreed with Nicholas on the raised point and added that this also includes right to sanitary facilities, these rights are mentioned in the document but only briefly. He also added that digital transition and automation can have positive and negative outcomes re growth of the gig economy, precarious work, increasing difficulty of TU organisation, and other major global trends.

Jacqueline McGlade and Fiona Murie highly praised the team and completed work on addressing this important topic and providing a practical steer to Clients and also highlighting opportunities in the new SCF.

Peter Bakvis also praised the team and all work and noted that suggestions from ITUC are incorporated. He also raised few comments that countries should maintain pluralism and freedom of choice and asked what happens if the countries violate these principles, and specifically in Belarus where the EBRD has over 100 projects? How the Human Rights approach deals with that? He provided a second comment on a category of the project which requires supplementary monitoring and reporting. Almost all projects in the Policy are categorised for the environmental reasons and would be helpful to have a list of HR issues, which can justify category of the project and develop sector based vulnerability analysis and supply chain specific risks. His last comment was in relation to the Annex on developing of the HR TOR and that there are no references on the labour issues or trade unions. He asked to revisit these areas in the document.

Alistair Clark replied on the thorough scrutiny from the EBRD on every project in Belarus and that no sovereign projects are supported currently. He also confirmed that suggestions on the categorisation approach and revisiting the Annex will be taken into account.

David Wheeler shared another comment that it is needed to be explained in a little more detail why EBRD has not endorsed UNGPs especially if the Equator Principles revision now reflects them.

Nicholas Robinson raised a question for future: How to reflect the right of the environment, and even the rights of nature, in the context of EBRD's examination of rights?

Remarks by EBRD Vice-President, Risk, Annemarie Straathof

Annemarie provided feedback on the main highlights and overview of the ESAC 2021 meeting including importance of digitalisation and ethical standards, GET systematic and sustainable change, Natural Capital and Blue Economy themes and others where engagement of ESAC members is very valuable and important. She also expressed her hopes to have a real meeting next year.

Alistair Clark thanked the ESAC members for their active participation in the day's sessions and invited them to send written questions and comments on any issues that they want answered further.