

## **Environmental Advisory Council of the European Bank (ENVAC)**

**Meeting in London, 4 April 2005**

### **MEETING SUMMARY**

The Environmental Advisory Council of the European Bank for Reconstruction and Development met in London on 4 April 2005. The morning sessions were chaired by Vice-President Fabrizio Saccomanni and the afternoon sessions were chaired by President Jean Lemierre. Representatives of the EBRD Board of Directors for the constituencies of Japan, Germany, Austria/Israel/Cyprus/Malta/Kazak/Bosnia, Sweden/Iceland/Estonia, Australia/Korea/New Zealand/Egypt, and Belgium/Luxembourg/Slovenia observed various sessions of the meeting. Representatives of EBRD management observed discussions throughout the day, and members of the Executive Committee of the Bank came to listen to the ENVAC members' summary during the final session. The following agenda items for the ENVAC meeting were discussed:

	<b>Topic</b>	<b>Background Documents</b>
1.	<b>EBRD NGO Liaison activities – interaction with civil society</b>	
2.	<b>EBRD Energy Policy Revision Update</b>	<ul style="list-style-type: none"><li>• Summary of consultation workshops on the proposed Energy Policy</li><li>• External paper titled “NGO’s Vision of the new EBRD Energy Policy 2005”</li></ul>
3.	<b>EBRD Sustainability Report</b>	<ul style="list-style-type: none"><li>• Annotated table of contents for the proposed EBRD Sustainability Report</li></ul>
4.	<b>Strategic Environmental Assessment</b>	<ul style="list-style-type: none"><li>• Summary of points on Strategic Environmental Assessments (SEA)</li><li>• WWF article, “Where are all the SEAs?”</li></ul>
5.	<b>Tourism Sector Issues</b>	<ul style="list-style-type: none"><li>• Summary of points on tourism challenges in region</li></ul>
6.	<b>EBRD Transport Policy</b>	<ul style="list-style-type: none"><li>• Staff summary of how ENVAC comments on EBRD Draft Transport Policy were taken into account.</li></ul>
7.	<b>Presentation by Achim Steiner on IUCN’s involvement in reviewing the Sakhalin 2 Phase 2 project impacts on Western Gray Whale population</b>	<ul style="list-style-type: none"><li>• Executive Summary IUCN study</li><li>• Link to full report on IUCN website.</li></ul>
8.	<b>Summary by ENVAC members of key points raised for EBRD senior management</b>	

## **Introduction**

Fabrizio Saccomanni, Vice President of Risk Management opened the meeting and welcomed the Council. He introduced a new format for the ENVAC session, which would have the President chairing the afternoon session, culminating in a summary by ENVAC members of the key issues and comments made in the meeting on each topic. For this final session, senior level management of the Bank were invited to attend and hear the summary. The change in format was in part, a response to ENVAC requests at the October 2004 meeting for more Bank participation in the ENVAC meetings, so that ENVAC comments were heard by a greater variety of departments within the Bank, and not just by those presenting an individual session.

### **Session One: EBRD NGO Liaison activities – interaction with civil society**

#### **Bank Staff:**

Doina Caloianu, Manager Outreach and NGO Relations, Communications Department

Doina Caloianu gave an introductory presentation on the Bank's extensive programme of communications with NGOs, both on both on projects, and in the development of institutional policies and meetings. She explained that the Bank has broadened its outreach beyond environmental groups to embrace a broader cross section of civil society. Examples were given of the engagement with civil society for the Bank's annual general meeting, for policy and strategy revision, and as part of the Board of Directors' routine trips to the region, to meet with civil society representatives from the countries visited. Other initiatives have included multi-stakeholder meetings on projects, meetings with think tanks, and external speakers to join breakfast meetings with the President and selected staff. The NGO database in the Communications Department currently has 1,100 entries. The public can request to be notified by e-mail with regard to press releases, new project summary documents, strategy reviews, and other events.

#### **ENVAC Comments**

ENVAC members welcomed the summary. Several ENVAC members questioned the lack of mention of partnerships, which is one of the Millenium Development Goals, and they encouraged the Bank to identify civil society partners to work with, particularly from the region.

ENVAC members noted that the Public Information Policy states that the "Bank is willing to listen" and that this is a passive construct; they encouraged the Bank to do more than listen, but to actively engage with civil society in a meaningful and pro-active way.

Several ENVAC members identified the concept of Community-Based Organisations, and the idea that local communities were critical to the success of projects. The Bank's policies (Environment and Public Information Policies) don't mention community-based organisations, but these are often more directly affected by projects, and by many aspects of projects, than environmental organisations. The Bank was encouraged to look for ways to engage on the community level and to ensure that adequate information on projects was released to local communities.

Several ENVACs member summarised the progress made by the Bank since 1991 with regard to civil engagement, but encouraged the Bank to be less defensive. Since EBRD

has a mandate with regard to transition impact, he challenged EBRD to work to help develop civil society in the region and make NGOs more effective. They gave examples of how World Bank and World Bank Institute have helped build NGO capacity in the region of central and eastern Europe and the former Soviet Union by engaging with NGOs in key sector areas and having joint discussions with government and civil society on sectoral reforms (transport, energy, finance, environment). EBRD was encouraged to have more workshops with civil society and think tanks on sectoral issues, which would enable civil society and government to work together on strategic planning issues.

Those who had attended the Bank's workshops on the Energy Policy welcomed the initiative. It was clear that more information is needed on the Bank's activities in the region, and the question of how Resident Offices were trained to engage with civil society was raised several times and encouraged to be more proactive in learning the needs of civil society in their country and how to engage with them.

ENVAC members noted that the Bank's focus on improved reporting on environment should include quantitative indicators for engagement with civil society, including number of meetings, NGOs attending the Bank's Annual Meeting, policy workshops and so forth.

### **Response from Staff**

Bank staff explained how NGOs were selected for the Annual Meeting, and how the Bank works with NGO networks and the Regional Environment Centre to identify local organisations and add to the database. Staff agreed that the Bank needed to do more intense training of Resident Offices (ROs) in the region and to build local relationships and improve communication between ROs and the public. The comments on improving the Bank's engagement with civil society on strategic issues were welcomed and will be taken into account in further sector policy and strategy reviews.

### **Session Two: Update on EBRD Energy Policy Revision**

#### **Bank Staff:**

Peter Reiniger, Energy Business Group Director  
Tony Marsh, Director Power & Energy Team  
Louis Borgo, Senior Banker, Power & Energy Team  
Lutz Blank, Environment Department

Staff from the Power & Energy Team summarised the results of the three public consultation meetings on the Energy Policy Revision (Moscow, Sofia, London), the report of which had been circulated to ENVAC members and was posted on the EBRD website ([www.ebrd.com](http://www.ebrd.com)). The consultation with industry was still in process and a draft policy would be developed for internal, and then external review in due course.

The major issues resulting from the consultation process were:

- had been the role of Strategic Environmental Assessment (SEA), the issue of setting targets for renewables;
- the role of the Bank in nuclear safety and nuclear energy (not only nuclear safety projects through donor fund administration, but also the question of if there is a role for EBRD in nuclear power generation projects which do not depend on leveraging the closure of old plants);
- the mainstreaming of environmental considerations in energy projects;

- the necessity of energy projects to link to more transparency and better governance;
- criticism on the focus on privatisation in the energy sector; and
- the request that the Bank report greenhouse gas emissions.

Staff elaborated that ENVAC members would be sent the draft Energy Policy for review and comment, and that there was a possibility of an additional ENVAC meeting devoted to energy issues.

### **ENVAC Comments**

ENVAC members who attended the workshops commended the Bank on holding them prior to the drafting of the policy, instead of waiting until the document had been prepared. While it was understood that government and industry might be reluctant to engage in the same fora as NGOs, some members felt that the participants would have benefited from having a diversity of perspectives at the meetings. The Bank was also encouraged to give timely feedback to the participants on the results of the workshops.

They encouraged the policy to include a monitoring programme, with indicators to report on the implementation and accountability. The Council felt that the policy should discuss “No-Go” zones, or types of projects in which the Bank would not invest. The Council felt that the Bank should establish methodologies for calculating externalities, and that this was a key area in which the Bank could be a leader. The Bank was also encouraged to look at the role of fiscal instruments in the energy sector.

The Energy Policy should have both short term and long term objectives, for example, over a ten year period. Energy policies should be long-term visions.

Several ENVAC members discussed the nuclear questions raised by the Bank and emphasized that not all NGOs were against the use of nuclear power as part of the power mix. A number of new technologies were mentioned, that the Bank should review. Cautions were raised, however, about nuclear waste solutions, the risk of terrorism, operating costs, long-term availability of feedstocks, the costs of insurances, and realistic costs being taken into account in the economic analyses without subsidies. Most ENVAC members felt that a strategic assessment should be done of some of the key questions, such as the role of nuclear power in the Bank’s portfolio/region.

ENVAC members welcomed the idea of an ENVAC meeting devoted to the topic of energy, and said it was the primary issue for the region. They would like to be involved in the discussions on priority setting and to review the draft policy before it is released for public comment.

### **Response from Staff**

The Chief Economist Office discussed the issue of subsidies and market distortions, and how these are taken into account in the Bank’s reviews. Staff also discussed the issue of tariff affordability, and how this needs to be factored into the discussion on the removal of subsidies, as the social impacts also need to be managed.

The Banking Department elaborated on the priorities in the Energy Policy need to focus on the number one priority as not using energy. The reduction in demand side and the increase in energy efficiency needs to be a key issue in all of the Bank’s projects that use energy, and this has been included in environmental due diligence and in energy efficiency projects.

The Bank stated that it was discussing approaches to energy indicators.

The Bank welcomes a specific proposal on the role of ENVAC in the policy development and agreed to release the draft policy to ENVAC members prior to the publication of the document.

### **Session Three: EBRD Sustainability Report (p. 7)**

#### Bank Staff:

Mark King, Group Head, Environment Department

Alke Schmidt, Principal Environmental Advisor, Environment Department

EBRD staff reminded ENVAC that the Bank has a policy commitment to regularly on its environmental work, and that the first EBRD Annual Environmental Report (AER) was released in 2004, which covered the year 2003.

Staff said that the comments regarding the first AER were mixed, with many people believing that the scope of the publication needed to be broader, encompassing more of the Bank's commitments; i.e., it needed to be a Sustainability Report rather than just an Environmental Report. This was important for increased information needs for bond issues, shareholders, and in line with the Global Reporting Initiative. The Environmental Department is working on developing a variety of indicators, some of which will be able to be included in the 2004 report, and others where information will need to be collected for reporting in subsequent years. The Sustainability Report is therefore seen as a dynamic document, which will evolve over time.

Three ENVAC members in particular, contributed to the development of a framework for the proposed Sustainability Report to cover 2004 and which will be issued in 2005. The anticipated publication date is summer 2005.

#### **ENVAC Comments**

The three ENVAC members who participated in the discussions on the Sustainability Report discussed the content and overall structure. The difficulty in measuring data and developing indicators was discussed at length, and the need for key indicators to collect the data in order to report on it.

The Bank was encouraged to reduce the amount of information on internal issues, such as staff travel and paper use, and to focus reporting on the primary issues of policies, tools, and portfolio impacts. The need to comment on topics such as poverty was mentioned.

Governance issues were discussed, such as bribery, corruption, money laundering, and whether these should be covered in the Sustainability Report or in other publications of the Bank. This was seen as a key issue in sustainability.

ENVAC members asked about the other investments the Bank makes with non-project funds, such as treasury funds and pension funds and how criteria, such as environment, social, and ethical issues, are factored into investment decisions. They requested to meet have this topic on a future ENVAC agenda and meet people from the Treasury Department.

Questions were raised about whether there would be any independent verification of the report and whether there would be consideration of including a stakeholder commentary.

## **Staff Responses**

Staff responded that there were not currently plans for independent verification, and that the primary focus was on getting the content right and developing indicators to collect the relevant information. Verification may be considered at some point, after the metrics are in place. With regard to governance issues, there will be a better description in the next draft of the report. The report will also be reviewed to remove inconsequential information.

The first Sustainability Report will try to paint a broad picture, including information on internal environmental impacts. In subsequent reports, some of the less important information may be removed, to allow more focus on the priority areas.

It was agreed to organise a meeting with Finance representatives at a future ENVAC meeting; this was seen to be important not only with regard to ENVAC questions, but also because of the interest with regard to bond purchase of the external finance community and the need for EBRD reporting on its portfolio with regard to environment, safety, and related issues.

### **Session Four: Strategic Environmental Assessment (SEA)**

#### **Bank Staff:**

Lutz Blank, Group Head, Environment Department

The Bank explained that the Environmental Policy and the Natural Resource Operations Policy reference the opportunity to undertake SEA, where appropriate, but the Bank has had limited experience with them and first attempts were not successful.

There is not a clear understanding among Bank staff how an SEA on an EBRD sectoral policy (Energy, Transport, etc.) would result in recommendations that would be under the Bank's control, as the Bank does not work on country energy policies and priority setting.

Staff stated that the Bank is under pressure to do more SEAs by NGOs and the donor community, yet in some situations, it was felt that the tool was not an appropriate one. This was particularly seen to be true if the decision-makers, such as regulatory authorities, do not want the study conducted—as there would be little benefit in creating a “wish list” of issues if neither the authorities nor other stakeholders were open to the possibilities, nor if there weren't financing mechanisms available for implementing the results.

The Bank's first Strategic Environmental Assessment was currently in draft form—in this case, the donor community was helping Russia to develop a strategic plan, and as donor funds were channelled through EBRD, we were in a position to develop a parallel SEA on the strategic plan.

#### **ENVAC Comments**

ENVAC members welcomed the policy statement on SEA and believe that the Bank could take more opportunities to use the tool. Not only was the Bank a project-based institution, but it also had policies and strategies and the SEA tool could be used for strategic review on certain Bank policies, plans and programmes, as well as for those projects that had the potential for regional-level impacts.

ENVAC members believed that the Bank should identify key geographic areas where future investment was likely in a particular sector (e.g., extractive industries, transport) and to work with the authorities now on strategic assessment so that when the project

line developed in a number of years, the background information on strategic options would be available.

It was felt that SEA was particularly important to precede pilot projects in a region, where those projects would open up areas to new development. The Bank was encouraged to urge governments to conduct SEA in certain areas and sectors, and to build capacity of governments to take environmental issues into account in strategic planning.

The SEA Directive under EU law and the SEA Protocol under the UNECE Espoo Convention were discussed, as well as other terms, such as Sustainable Development Impact Assessment, Strategic Impact Assessment (including social issues as well as environmental). It was noted that some countries and regions are developing SEA approaches, such as Russia and the Balkans.

### **Staff Responses**

Staff responded that the natural owner of an SEA is the decision maker—and that the decision-maker's involvement in the SEA and being open to the results of the SEA are critical to the success of the work. Otherwise, the output becomes a list of possibilities, without any support from authorities or finance. Without the support of decision-makers, it was also possible that the information needed for the assessment itself would not be made available. The Bank currently is involved with the DAC Task Force on SEA, but has not identified significant opportunities for conducting SEA related to current or future project development in the region.

The Bank did not want to raise unrealistic expectations about its capacity to conduct SEA, and would need further internal discussions on this issue. for public consultation.

### **Session Five: Tourism**

#### **Bank Staff:**

Ilaria Benucci, Head of the Property and Tourism

Henry Russell, Deputy Director of the Municipal Environmental Infrastructure

Sue Barrett, Deputy Director, Transport

Bank staff from the Property and Tourism, Municipal and Environmental Infrastructure, and Transport discussed the challenges and opportunities of tourism in the Bank's region of operations. Tourism is often viewed as an important engine for economic growth and countries with a "natural endowment" often make tourism a focus of national development strategies (e.g., Croatia, Serbia and Montenegro), however private sector sponsors are still reluctant to enter the market, foreign direct investment in the sector is disappointing, and consequently tourism projects are relatively few in EBRD's portfolio.

Examples were given of urban transport projects, airport upgrades, road upgrades, water quality and wastewater treatment projects, as well as hotel and private sector tourism projects.

### **ENVAC Comments**

ENVAC members commented on the strategically important nature of tourism for the Balkans and other regions of the Bank's activities. The Bank was encouraged to look at local development plans based on partnerships between municipalities or regions and the private sector. The Bank was asked if they consider only an individual project viability or the project in the context of the overall development plan for the region—not whether or not an urban transport project is good, but whether the region needs

urban transport development, for example. Or, not whether a chemical terminal is needed at a port, but whether the port development is consistent with the regional goal of increased tourism.

One ENVAC member stated that tourism is the largest legal business in the world, but projects need to be looked at over a very long term perspective, not just for the short term. Concerns were raised with regard to corporate governance, which is a known problem in the tourism sector.

The Bank was encouraged to look at financial intermediary projects where credit lines could go to small and medium sized tourism companies, as large international operators often can bring tourism to an area and crowd out local operators, yet the revenues do not remain locally.

Caution was urged on tourism impacts on biodiversity, and opening up protected areas in the region to tourism until more was done on conservation management and ensuring that it could be done in a sustainable way. The Bank was encouraged to look for opportunities where tourism could be combined with environmental protection of national parks and protected areas.

A question was raised regarding EBRD's additionality in the tourism sector.

### **Staff Responses**

Staff explained that private sector investment in tourism was often dependent on long-term finance, which was not available in many areas of the Bank's region of operations. The significant impact of corruption in the tourism industry in the region was stated to be the biggest hindrance to the Bank's expanding its portfolio in the sector. Extreme caution was necessary to ensure that money laundering was not associated with tourism projects during due diligence and throughout implementation.

The Bank has been trying to develop some credit lines through local banks for small and medium sized operations in Croatia and Bulgaria.

The Bank agreed to look at potential opportunities in eco-tourism.

Management explained that it would also be a failure if there were to be no change in the region in the tourism sector, but highlighted that it was also important not to over-invest in the tourism sector, or it would not be successful.

### **Session Six: Transport Policy Revision**

#### **Bank Staff:**

Sue Barrett, Deputy Director, Transport

The Transport Operations Policy was discussed at the ENVAC meeting on 18 October 2004. ENVAC's comments on the Transport Operations Policy were welcomed and Bank staff explained how they had been taken into account in the revising of the Policy.

For example, key issues were clarified:

- The Bank's guiding principles, strategic plans and regional trends
- How the Bank interacts with and complements the role of other IFIs
- How the Bank adds value and assists the transition process
- How the Bank seeks to support environmental and sustainable development
- The Bank's objectives with regard to Public Private Partnerships

The ENVAC discussion also highlighted fundamental distinctions between what the Bank can do as a project-oriented IFI and what has to be achieved by the broader IFI community in its over-arching policy dialogue with governments in the Bank's region of operations. For example, the Bank will align its projects with policy decisions in areas where the EU, World Bank and IMF have been working with the region on transport policy. Where available, Bank staff said that they would structure transport projects in accordance with the outcome of SEAs undertaken by governments, regional bodies and multilateral institutions most appropriately placed to use SEAs as a decision making tool, but will not have ownership of such strategic assessments. The Bank would also liaise with relevant organisations and support governments to implement mitigation measures, the Bank does not have the capacity or resources to address issues such as the spread of HIV/AIDs along major transport corridors through its transport projects.

### **ENVAC Comments**

ENVAC members discussed the environmental concerns related to the transport sector and the EBRD Transport Policy and elaborated on transport changes in the region and predictions for the next 20 years. The Bank was cautioned about reviewing an individual project and making it a little bit better, and not looking at the overall transport picture and the larger implications of the projects it finances. Bank staff were encouraged to cross-reference the Transport Policy in country strategies where automotive industry investments would be made, as to overlook the investments in the generation of new vehicles would be to neglect a large component of the environmental impacts of the transport sector.

The Bank was encouraged to work with governments on SEAs in the transport sector and not just align projects with SEAs, if identified as having been completed. ENVAC members challenged the Bank to be more proactive in policy dialogue with governments on issues, believing that the Bank has more influence on these discussions than it may be aware. It was thought that if the Bank comes in too late at the project level, it will only end up with a portfolio of projects that do not relate to the overall long-term needs of the region, and the Bank was urged caution in this regard.

The Bank was encouraged to do more rail projects and less road projects.

A suggestion was made that in future revisions of the Transport Policy, it would be helpful to have workshops in the region, as the Bank did with the Energy Policy revision.

### **Staff Responses**

The Bank agreed that there was opportunity for policy dialogue and that the Bank had some leverage, but that it was limited, as the Bank cannot do policy-based lending. Technical cooperation funds are quite restricted in their application, primarily to project preparation.

Many governments want to be seen to be doing large new projects, and do not want to borrow for rehabilitation or restructuring, which is a problem.

With regard to rail projects, the Bank commented on the sometimes significant social implications of restructuring railway networks, and that these needed to be taken into account before rail was automatically considered more feasible than road rehabilitation or by-pass projects.

The Bank agreed to discuss the added value of public workshops in future policy revisions for sectors of significant public interest.

### **Session Seven:**

**Achim Steiner, Executive Director IUCN**

#### **Presentation on Gray Whale (60 min)**

Note: ENVAC had previously discussed the Sakhalin 2 Oil and Gas project. One of the important issues associated with the project is the potential impact to the critically endangered Western Gray Whale population that feeds in the summer off the eastern side of the Island.

Achim Steiner gave a presentation regarding the IUCN's involvement in setting up an independent panel of experts to review the available information on the population of whales, the potential impacts from the project, and the proposed mitigation measures. The four main impact areas on which the panel focused were noise, collisions with vessels and physical disturbance, oil exposure (spills), and long term persistent impacts. A fifth area, which was not able to be considered due to lack of information was the context of the Sakhalin 2 project with regard to other existing and planned projects, and the need for a strategic overall development plan.

The report and its summary can be found on the IUCN website [www.iucn.org](http://www.iucn.org).

### **Session Eight:**

ENVAC members summarised the key issues of the day's meeting for senior Bank management.

#### **Logistic Issues and Next Meeting**

The timing and location of the next meeting of ENVAC are still being discussed.

As it was their last meeting, Drs Popovski, Moldran, and Grishin and Sir Crispin Tickell were thanked for their contribution to ENVAC over their term. Suggestions for new members were requested by the Bank.

Future topics for meetings were also requested.