

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

### Meeting in London, 3<sup>rd</sup> May 2007 Meeting Summary

The Environmental Advisory Council of the European Bank for Reconstruction and Development (EBRD or “the Bank”) met in London on 3rd May 2007. The morning sessions were chaired by the Vice President for Environment, Procurement & Administration, Ms Brigita Schmognerova, and the afternoon session was chaired by President Jean Lemierre. Observers and representatives of the EBRD Board of Directors for the following constituencies observed the meeting: Austria/Cyprus/Israel/Malta/Kazakhstan/Bosnia & Herzegovina, European Investment Bank, Japan, and the USA.

ENVAC members present: Urkhan Alakbarov (Azerbaijan), Andrzej Kassenberg (Poland), Andjelka Mihajlov (Serbia), Nick Robinson (USA), Roustam Sagitov (Russia), Marko Slokar (Serbia), Jan-Olaf Willums (Norway).

The following topics were covered at the meeting:

1.	<i>Results of the 2005 Environmental Study by the EBRD Evaluation Department on Financial Intermediaries</i>
2.	<i>Policy Issues: Public Health and Occupational Health and Safety</i>
3.	<i>Changes in Russian EIA legislation &amp; implications for the EBRD and the investment process</i>
4.	<i>EBRD Environmental Policy Revision: Issues Paper and Stakeholder Consultation Plan</i>

### Introduction

Alistair Clark, Director of the Environment and Sustainability Department (ESD) opened the meeting and welcomed the Council members. He explained a restructuring process in the EBRD and introduced Brigita Schmognerova in her new role as Vice President for Environment, Procurement & Administration. Ms Schmognerova welcomed ENVAC members to a fruitful day of discussions, outlined her own personal experience with the environmental and social agenda, and emphasised that these issues are becoming ever more important for the Bank and this will therefore be reflected in the revision of the current Environmental Policy. Suggestions for new members with experience in social issues were requested to be sent to the Secretariat to increase the breadth of issues that the Advisory Council addresses. A comment was made that the current name, Environmental Advisory Council, should be reconsidered, given the additional remit. Alistair Clark outlined that the Bank is setting itself new strategic targets on the environmental and social side, and therefore timely for ENVAC’s input.

### Session One: Financial Intermediary (FI) Environment Study

Bank Staff: Dennis Long, Senior Environmental Evaluation Manager  
\_\_\_\_\_ Fredrik Korfker, Chief Evaluator, Evaluation Department

Dennis Long gave an outline of the key points and recommendations from the 2006 Environment Study of the Bank's financial intermediaries (FIs). The study looking at how the Bank achieves its Environmental Mandate through its investments in FIs in the region of operations through provision of funds in various categories such as bank lending / SMEs, bank equity, equity funds and non-bank projects. This document was circulated to the ENVAC members for discussion.

### **ENVAC Comments**

ENVAC members welcomed the study as a very useful piece of work. ENVAC members agreed that it was important to encourage economic incentives in FI environmental and social compliance. The members welcomed training and experience sharing (perhaps through a "knowledge bank" or best practices guidance) for FIs to improve their awareness of issues that indicate potential risks to investment.

A discussion was held on the difference in standards between direct investments (European Union, national standards, and good international practice) and indirect investments (national standards). Some ENVAC members felt that the Bank should not compromise and must promote its own challenging 'quality standards' when dealing with FIs, not going below that standard even if the requirements seem overly strict for the local situation. They suggested that these projects, held to high standards, would be seen as demonstration projects, particularly when dealing with small and medium-sized enterprises (SMEs). ENVAC members encouraged a stronger EBRD role in promoting best FI standards and enforcing environmental and social commitments during implementation and monitoring, with particular focus on non-EU countries. ( The Bank's equity projects were seen as the most challenging, where the Bank often has a small holding and less leverage.

Several ENVAC members elaborated that even in FI projects, greenfield investments in particular should require the highest possible standards to be in line with the Bank's commitment to sustainable development. The Bank must avoid applying "double standards" and should use good international practice for all projects across the region of operations.

ENVAC members noted the number of Financial Intermediary projects in the Bank's portfolio and questioned how the resources within the Environmental and Sustainability Department could adequately cover the whole scope of FI operations effectively, not only during due diligence, but also during implementation, monitoring, and evaluation. A concern was raised that resources may be deployed to large scale infrastructure direct investment projects, leaving inadequate resources to deal with the large number of FI projects, where a significant amount of the Bank's funding goes.

### **Bank Response**

The staff confirmed that many of the recommendations coming out of the Evaluation Department study have already been implemented.

The Bank agreed that in many cases, FIs do approach environmental compliance issues somewhat superficially, considering that a permit from the regulator is sufficient. It was also recognised as a difficult challenge getting credit officers within FIs to play a role of an environmental regulator within their institution, as turnover of FI staff can be high, and it is difficult to ensure that each institution understands the requirements.

However, the Bank stated that it is continually applying stronger environmental and social requirements to its FIs. To date, over 5.8 Million Euros were spent on FI training, with over 300 FIs across the region having been trained. The Bank acknowledged that the current capacity of the Environmental and Sustainability Department to deal with the extensive FI portfolio is rather limited, and ongoing efforts are being made to increase it. Recognising the need for more accountability on FI matters inclusive, the Bank has improved its monitoring efforts and now has staff dedicated specifically to this. FIs are encouraged by the Bank to inform the public about the environmental and social impacts of their activities.

## **Session 2: Public Health / Occupational Health and Safety**

Bank Staff: Liz Smith, Senior Environmental Advisor  
Polina Pimenova, Environmental Specialist

Staff from the Environment and Sustainability Department introduced the topic of Public Health and Safety issues and summarised other institutions' initiatives in these areas. Consideration of the standards to be applied by the Bank must be given in the current policy revision. They also presented the results of the review of occupational health and safety (OHS) standards recently carried out by the Bank with some help from independent experts. A brief paper on Public Health and a summary of the key recommendations of the OHS study was circulated to the ENVAC members for information and discussion.

### **ENVAC Comments**

ENVAC members welcomed efforts of the Bank in making a stronger emphasis on public health and occupational health and safety issues within its due diligence process. Members encouraged the Bank to apply and promote the highest possible public health standards in all of its projects across the region. They recognised, however, in some instances in the Early Transition Countries (ETC) that municipalities cannot often afford upgrades to a whole water/wastewater system to meet EU standards, that making significant improvements to water quality and the resulting public health impacts would be more beneficial than not approaching the project if it cannot meet EU standards.

One ENVAC member suggested that the approach "better something than nothing" may not be the best one. Another ENVAC member proposed that in those situations where high environmental standards are not achievable within the scope of the proposed investments (e.g. in water/wastewater projects), the Bank could aim to agree with clients a progressive plan of action over a much longer period of time (e.g. 10 years) to reach higher environmental standards and get the Client's longer-term commitment for continuous improvement to reach higher standards. It was acknowledged that significant health improvements are possible with incremental investment, and the Policy should reflect this, but this would not necessarily mean holding ETC countries to a lower standard. Conducting a cost-benefit analysis for the best allocation of the available resources was proposed as another solution. In addition, the standards used for each project should be disclosed by the Bank, particularly if they do not meet Bank standards.

Some ENVAC members urged the Bank to take a broader view of public health and OHS issues and consider working closely with local authorities on their preparedness

for flooding, terrorist attacks or release of GMO and developing some guidelines and indicators on these complex issues.

Some ENVAC members highlighted the issue of internal resource implications for the Environment and Sustainability Department to keep up with all the commitments under discussion on the revised policy, and suggested a detailed implementation plan to outline resources needed to implement the new policy.

### **Bank Response**

The Bank welcomed the comments and agreed to continue discussion with ENVAC members on their suggestions regarding public health and occupational health and safety standards. It was noted that the choice between EU and other IFI standards is an issue of political sensitivity, and both groups of standards may be applied in the region, and this depends on the Board of Directors.

It was noted that, currently, Environmental Action Plans are normally required for the existing facilities, but the Bank may need to embed this practice for new facilities too, particularly to track implementation of management systems and other over-arching commitments. The Bank's staff clarified that a number of efforts are being embedded within the EBRD's project due diligence to address issues related to accidents and emergencies, such as, compliance with EU Seveso II Directive.

### **Session 3: Changes in Russian EIA legislation & implications for the EBRD and investment process**

ENVAC member: Roustam Sagitov, St. Petersburg State University

The Bank is facing challenges with its environmental due diligence and enforcing good international EIA practices in Russia, following the changes in the Russian EIA (OVOS) legislation that have come in force as of 1 January this year and that effectively abolishes the need for EIA (OVOS) for many types of civil infrastructure projects.

In accordance with the EBRD Environmental Policy (2003) "the EBRD operates in countries which generally have enacted environmental and health and safety legislation consistent with good international practice. Therefore, the EBRD will require that projects be structured so as to meet: (i) applicable national environmental law; and (ii) EU environmental standards, insofar as these can be applied to a specific project." In light of the changes in the Russian environmental legislation, the EBRD will conceivably have to rely more on the assessment against EU EIA legislation and other international standards than national requirements for investment projects in Russia.

International finance institutions, like the EBRD, are trying to figure out how the recent changes in the Russian environmental legislation will affect their investment process in Russia. Given that the Bank does not do primarily policy-based work, should there be an institutional response when a country materially downgrades its environmental legislation?

Roustam Sagitov provided an update on the latest situation with these issues in Russia and opened the floor for discussion on how IFIs can deal with these new challenges in their environmental due diligence and investment process.

## **ENVAC Comments**

One ENVAC member expressed belief that the changes in the Russian EIA legislation will not necessarily have a big impact on the EBRD's operations in Russia, as other IFIs and Equator Banks will pursue similar strict standards and requirements, assessing environmental and social impact properly as part of a decision-making process on large operations.

Several ENVAC members acknowledged that what happened in Russian legislation is a reflection of a common trend in a number of CEE countries where increasingly and the environment is being recognised as something that impedes development and political discussion on "streamlining" the approval system is being held.

ENVAC members encouraged the Bank to take the lead and apply a visionary approach, promoting advanced ideas and requirements as examples of what can be achieved in environmental and social standards that can be good business decisions. The Members also encouraged the Bank to work towards enforcing Russia's commitments under the international conventions, where they applied to projects under consideration.

Some ENVAC members suggested that the revised Policy should make a strong statement that the more stringent of EU, national, and good international practice would be used to evaluate the project and set requirements.

## **Bank Response**

The staff responded that the Bank will need to bring more clarity into the applicable standards during its Environmental Policy revision, and that if the Bank pursues local/national requirements and standards as the bottom line for its projects, in Russia this may present a problem to many of the Bank's investments.

It was also noted that Russia is not a party to Espoo convention yet (only signed, but did not ratify), although the revised Policy will take this situation into account and will require for transboundary projects that if one of the countries influenced by the project is an Espoo signatory, then notification will have to take place anyway.

## **Session 4: Environmental Policy Revision**

Bank Staff: Mark King, Group Head, Environment and Sustainability Department  
Alke Schmidt, Senior Environmental and Social Advisor

The EBRD's current Environmental Policy and Procedures were approved by the Board on 29 April 2003. There is a requirement in the Policy that it 'be subject to review by the Board of Directors every three years'. The review process was started in 2006, and as a result of this review the Bank concluded that a revision of the current Policy will be necessary. The revision process is taking place in 2007 with the aim of presenting a revised Policy to the Board for approval by the end of 2007.

The revision will involve a two-stage stakeholder consultation process: First, the Bank will solicit comments on the issues outlined in an Issues Paper. Second, there will be consultation on the draft revised policy later in the year. Details of the consultation process will be set out in a Stakeholder Consultation and Disclosure Plan (SCDP). A background document on key issues to be addressed within the framework of the Policy

revision as well as the proposed SCDP was provided to ENVAC members for discussion.

Bank staff provided a brief update on where the Bank stands in its Environmental Policy revision process and what key challenges it is facing, including a broader expansion on the social agenda and climate change related issues.

### **ENVAC Comments**

ENVAC members welcomed the broad scope of issues presented in the draft Issues Paper and praised the Bank for addressing the key challenges and issues of concern such as climate change and adaptation, biodiversity and renewables, gender, indigenous peoples and vulnerable groups, and others. Some ENVAC members suggested a change of the title to ‘Sustainability Policy’ or ‘Environmental & Social Policy’ to reflect the scope of issues presented in the revised document and to reflect the proactive approach proposed by the Bank.

ENVAC members urged the Bank to critically review the issue of renewables, such as biofuels, and their potential environmental and social impact if applied on a large scale. They emphasised that climate change and adaptation issues should be placed upfront, stating that ‘business as usual’ is no longer possible or feasible. Some ENVAC members proposed to include ‘mini-Stern report’ on climate change issues in the EBRD countries of operation into Country Strategies in the future.

Discussions included suggestions on developing guidelines on how to set project boundaries that explain approach to supply chain issues, contractor management, social issues, and other complex issues outside the direct legal boundaries of the project.

One ENVAC member suggested that the revised Policy should stress the need to preserve and support traditional livelihoods of indigenous people, and other vulnerable people and groups. Other members raised the issue of financial intermediaries and the critical need to apply the Bank’s standards wherever Bank funds were involved.

ENVAC welcomed the extensive stakeholder consultation plan. Some members suggested introducing an interim revision of the Policy. One ENVAC member suggested that policy changes should be tailored to the fact that the EBRD region is rapidly changing, some countries of operations are leaving, and some new are joining, so the reality of the Bank’s work is changing too. A discussion was held on how people in the region are impacted by the transition process, and the increasing social inequalities.

ENVAC members acknowledged perceived resource constraints for Environment and Sustainability Department in accomplishing the breadth of topics being proposed for the Policy revision. ENVAC members expressed their willingness to provide comments and recommendations, and to be actively involved throughout the policy revision process during the coming months.

### **Bank Response**

The President of the EBRD welcomed the input of ENVAC on the policy revision. He then led a discussion on one of the subjects raised – carbon credits – that is linked to the strategic shift of the Bank’s focus in the Region on the climate change agenda and the ongoing internal and external processes and initiatives that underpin this. The President

invited ENVAC to share information with the Bank on carbon credits and where they see the role of the Bank.

The discussion continued about transition and the role of the Bank as viewed from the Region (referring to the recent survey on these issues conducted by the Office of Chief Economist for 15 years anniversary of being involved with the Region).

Bank staff welcomed the comments of ENVAC on policy revision issues and agreed to keep in contact with the members throughout the policy review period, and to circulate draft papers to them, when prepared, for their information and comments.

### **Issues for the next ENVAC meeting**

The following issues were requested by ENVAC members to be considered during the next meeting in autumn 2007:

- Climate Change & Adaptation
- Analysis of transition process (OCE)
- Procurement policy rules (green procurement)
- Environmental Policy revision progress/issues