

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

Meeting in London, 13 December 2007

### Meeting Summary

The Environmental Advisory Council of the European Bank for Reconstruction and Development (EBRD or “the Bank”) met in London on 13th December 2007. The morning sessions were chaired by the Vice President for Environment, Procurement & Administration, Ms Brigita Schmögnerová, 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: European Investment Bank, Canada, Germany, Italy, United Kingdom and the USA.

ENVAC Members present: Urkhan Alakbarov (Azerbaijan), Marta Szigeti-Bonifert (Hungary), Lea Kauppi (Finland), Jacqueline McGlade (United Kingdom) Andjelka Mihajlov (Serbia), Nick Robinson (USA), Marko Slokar (Slovenia), Jan-Olaf Willums (Norway).

The following topics were covered at the meeting:

1.	<i>Environmental and Social Policy Progress Update</i>
2.	<i>Environmental and Social Policy and Performance Requirements</i>
3.	<i>Climate Change and Adaptation</i>
4.	<i>Promoting Sustainability Across the EBRD’s Operations</i>
5.	<i>Sustainable Energy Initiative – an update on recent developments</i>

### Introduction

Ms Brigita Schmögnerová, the EBRD Vice President for Environment, Procurement & Administration opened the meeting and welcomed two new ENVAC Members: Mrs. Marta Szigeti-Bonifert – Director of the Regional Environmental Centre for Central and Eastern Europe (REC), and Dr. Lea Kauppi – Director of the Finnish Environmental Institute. Ms Schmögnerová outlined key elements of the Agenda and updated ENVAC Members on the recent developments at the EBRD with regard to environment and sustainability issues. In particular, she mentioned a possibility to allocate part of the EBRD’s net income to finance sustainability initiatives through technical assistance and grant allocation.

### Session One: Environmental and Social Policy Progress Update

Bank Staff: Alistair Clark – Corporate Director of the Environment and Sustainability Department (ESD)

Alistair Clark updated ENVAC on the progress in the development of a new Environmental and Social Policy. Alistair stressed that original 1991 Environmental Policy was the first operational policy of the EBRD. Alistair also reminded ENVAC Members that the Policy, once approved, will govern the whole Bank and not only the activities of the Environment and Sustainability Department. A draft Environmental

and Social Policy was presented to ENVAC for their input prior to submitting it to the Senior Management of the Bank and then to the public for comments on the draft document. Alistair outlined the EBRD policy approval process as well as the importance of the consultation that fed into the drafting process, which included other international financial institutions, export credit agencies, UN agencies, the European Environmental Agency, the European Commission, bilateral discussions with the Bank's shareholders, and above all extensive consultation with the civil society including NGOs and indigenous people. Alistair also stressed the importance of the EBRD's Evaluation Department's special study on the implementation of the 2003 Environmental Policy.

### **ENVAC Comments**

ENVAC Members commended the Bank for a very thorough approach and an extensive review and revision process. They stressed that the EBRD was at the forefront of the environmental agenda in Central and Eastern Europe and at this stage, the Bank needed to reflect on the current global needs and how to best address environmental and social challenges in the Region of its Operations.

## **Session 2: 2008 Draft Environmental and Social Policy and Performance Requirements**

Bank Staff: Mark King, Head, Operational Support  
Alke Schmidt, Senior Environmental and Social Advisor  
Michaela Bergman, Senior Social Advisor

Staff from the Environment and Sustainability Department introduced the topic. Mark King said that the new Environmental and Social Policy follows the general structure of the EBRD's sister organisation, IFC, but also reflects specific European issues resulting from the Bank's commitment to the European Principles for the Environment as well as specific issues of the Bank's countries of operations. The EBRD's draft Policy includes two additional performance requirements, one on Financial Intermediaries, and another on Stakeholder Engagement. Mark highlighted several changes and clarifications in comparison with the 2003 Environmental Policy. In particular, Mark stressed that the 2008 Draft structure separated the roles of the EBRD and the Clients: the Policy clarified the obligations of the Bank while Performance Requirements (PRs) specified the obligations of EBRD's Clients. Mark mentioned that the new Draft Policy puts more emphasis on sustainability initiatives and transparency. The Policy also brings more clarity on projects boundaries and management of change. The PRs reflect the Bank's experience gained during the appraisal of many recent projects including the BTC and the Sakhalin II projects.

### **ENVAC Comments**

ENVAC Members welcomed efforts of the Bank to bring more clarity and to address contemporary challenges in the Bank's countries of operations. The Members believed that the Policy was written at the right level and addressed all key issues. The Bank was encouraged to provide maximum clarity and be as specific as possible in PRs. Some ENVAC Members believed that environmental liability could be better reflected at a

Policy level. Many ENVAC Members stressed the importance of building appropriate mechanisms to evaluate the Policy effectiveness in the long term. Many Members also highlighted the importance of addressing the issues of climate change and climate adaptation and wanted to see more text in the draft Policy on these issues. Some ENVAC Members mentioned the importance of ensuring adequate resources for implementation, including training in the new Policy provisions, not only internally in the Bank, but also for various stakeholders of the Policy at a project level.

Subsequently, ENVAC Members provided detailed comments relating to specific PRs which were taken into account in further drafting of the PRs. ENVAC Members encouraged the Bank to further expand in the Policy implementation guidelines on best management practices, project boundaries, Client's social responsibilities, evaluation criteria and supply chain management.

### **Session 3: Climate Change and Adaptation**

Bank Staff: Alistair Clark – Corporate Director of the Environment and Sustainability Department (ESD)

ENVAC member: Jacqueline McGlade, Director of the European Environmental Agency

Alistair Clark introduced the topic. Alistair said that the the Intergovernmental Panel on Climate Change (IPCC) defines adaptation as “adjustment in ecological, social or economic systems in response to actual or expected climate stimuli and their effects or impacts”. He added that adaptation has the potential to substantially reduce many of the adverse impacts of climate change and to enhance beneficial impacts, though neither without cost nor without leaving residual damage. Alistair outlined challenges facing the key sectors of the economy due to climate change and how institutions like EBRD can play their role addressing these challenges. In particular, in addition to the integration of adaptation action into sustainable development initiatives, policies and planning at the governmental level, Alistair stressed the importance of “climate-proofing” at a project level, which is of key importance for a project-driven organisation like the EBRD.

#### **ENVAC Comments**

ENVAC Members welcomed the introduction of this important topic. Most ENVAC Members believed that climate adaptation should be further addressed in order to be adequately reflected in the new Environmental and Social Policy. Some Members stressed that a clear signal from the Bank that climate adaptation issues were important, would help to accelerate the development of adaptation measures. The Bank was advised to include a review of climate adaptation measures as part of the EIA process and to liaise with other institutions involved in tracking developments at the stage of project structuring.

One ENVAC Member cautioned the Bank that investing in the old infrastructure, such as existing power plants, could be risky from the climate change point of view. At the same time this risk could be an investment opportunity to invest in climate adaptation

and mitigation measures. Many ENVAC Members stressed that a key element of climate adaptation is resource efficiency which is already high on the Bank's agenda.

### **Bank Response**

President Lemierre stated that the Bank was willing to take on the adaptation agenda, however the Bank, as a project-driven institution, needed to know what practical measures could be undertaken. Imposing additional constraints on private sector clients usually means Clients bearing short-term costs. Therefore, the Bank needed to base its approach on sound principles and adequate norms. The President agreed with the need to strengthen resource efficiency as part of the climate adaptation agenda. He also welcomed the suggestion of a continued dialogue with specialised agencies involved in the topic to further progress the policy development and elaborate practical measures which could be implemented at a project level.

### **Session 4: Promoting Sustainability Across the EBRD's Operations**

Bank Staff: Craig Davies, Principal Environmental Adviser

Craig Davies introduced the topic. Craig said that environmental sustainability presents new opportunities for the Bank, particularly as the environmental and sustainability agenda in the region is maturing, clients shift from a purely compliance-based approach to a more proactive one moving beyond 'business as usual'. Craig mentioned examples of several projects currently under implementation which embark on the sustainability agenda and outlined key opportunities for the future involvement by the Bank, which can include: (i) add-on technical assistance to complement investments; (ii) credit lines and financing facilities to support smaller projects; (iii) improving the enabling environment for environmentally and socially beneficial investments; and (iv) pilot projects to break new ground and develop new markets. As potential sources of financing these activities Craig mentioned: (i) net income allocation – subject to Board approval; (ii) Multi-donor funds (such as ETCF, WBF); (iii) specific contributions from donors; (iv) foundations/private sector; and (v) Global Environment Facility. Craig stressed that promoting sustainability can only be achieved through partnerships and collaboration with donors, other IFIs, private sector, NGOs and international agencies.

### **ENVAC Comments**

ENVAC Members welcomed the proposed initiative and encouraged the Bank to explore opportunities to promote the sustainability agenda further. Some suggestions were made to include these principles in legal transition initiatives or to target one or two sectors such as "green chemistry" as pilot cases. Some ENVAC Members suggested that the Bank may explore opportunities of getting involved in promoting "green products."

## **Session 5: Sustainable Energy Initiative – an update on recent developments**

Bank Staff: Josue Tanaka - Corporate Director, Strategic and Corporate Planning

Josue Tanaka provided an update on the Bank's Strategic Energy Initiative. He reminded ENVAC Members of the key SEI's objectives which include: (i) scaling up target of EBRD SEI investments over 2006 – 2008 to €1.5 billion (doubling from the previous period); (ii) achieving diversification across SEI sectoral areas; (iii) ensuring appropriate geographic distribution of SEI activities; (iv) strengthening organisation set up to scale up delivery; and (v) "mainstreaming" climate change mitigation activities in the Bank's operations. Josue said that further development and implementation of the SEI will allow for better responding to the increased and evolving needs of the Bank's countries of operations. He stressed that key target areas will include: (i) buildings energy efficiency; (ii) power generation energy efficiency; (iii) renewable energy project development facility; (iv) biomass and solar development; (v) clean tech venture capital fund; (vi) energy efficiency institutional development; and (vii) carbon capture and storage.

### **ENVAC Comments**

ENVAC Members took a note of the presentation and encouraged the Bank to further progress the SEI.

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

ENVAC Members were asked to provide suggestion on potential issues to be discussed at the next meeting, which is planned for Autumn 2008, given the policy revision schedule for Spring 2008.

The new name of ENVAC is potentially proposed to be "ESAC", the Environmental and Social Advisory Council to reflect the new policy and additional members will be recruited to cover some of the relevant social issues.