

**ENVIRONMENTAL AND SOCIAL ADVISORY COUNCIL (ESAC) MEETING:  
Friday, 11<sup>th</sup> December 2009**

**Meeting Summary**

The Environmental and Social Advisory Council (ESAC) of the European Bank for Reconstruction and Development (EBRD or “the Bank”) met in London on 12th December 2009. The morning sessions were chaired by the Vice President for Environment, Procurement & Administration, Ms Brigita Schmögnerová, and the first hour of the afternoon session was chaired by President Thomas Mirow, before reverting to Brigita Schmögnerová for the final sessions. Observers and representatives of the EBRD Board of Directors for the following constituencies observed the meeting: Austria/Korea/New Zealand/Egypt, European Investment Bank and the USA.

ESAC Members present: Professor Urkhan K. Alakbarov (Azerbaijan), Dr. Andrzej Kassenberg (Poland), Professor Dr Andjelka Mihajlov (Serbia), Professor Nicholas Robinson (USA), Dr. Roustam A Sagitov (Russia), Mr. Marko Slokar (Slovenia), Dr. Jan-Olaf Willums (Norway). Ms Marta Szigeti Bonifert (Regional Environmental Center for Central and Eastern Europe/Hungary).

The following topics were covered at the meeting:

1. *Supply chain management*
2. *Evolving transition priorities (information session)*
3. *Update on the Bank’s climate change agenda (information session)*
4. *Projects Complaint Mechanism (information session)*
5. *EBRD’s Draft Agribusiness Operations Policy*
6. *Progress with implementing the Gender Action Plan (information session)*
7. *Progress with the Sustainability Initiatives Programme (information session)*

**Introduction**

Brigita Schmögnerová opened the meeting and welcomed the ESAC members to the Bank. She set the scene for the discussion by explaining that this is an important time for EBRD. The financial crisis has redefined the Bank’s role in the region, and the Bank is in the process of developing a strategy to guide its approach over the next five years.

**Session One: Supply Chain Management**

Bank staff: Mikko Venermo, Senior Environmental Adviser (ESD) and Ms Alke Schmidt, Senior Environmental and Social Adviser (ESD).

Mikko Venermo and Alke Schmidt gave a presentation on “Managing Sustainability Risks in Supply Chains”. They explained how the EBRD’s Environmental and Social Policy recognises that, at times, clients’ ability to achieve social or environmental outcomes will be dependent on third party activities, such as suppliers. While it would be preferable only to work with suppliers who follow high environmental and social standards, it may not always be possible. Therefore, it is imperative to identify and incorporate environmental and social considerations, standards and requirements in the procurement cycle from planning to evaluation of offers, as well as to ensure that appropriate requirements are included in supply contracts of goods, works and services. Therefore, the Bank’s Performance Requirements include certain formalised requirements to the clients for managing their supply chain. The key requirements include:

- Eradicating the use of child and forced labour in the supply chain (PR 2)
- In supply of living natural resources, ensure only resources of a legal and sustainable origin are procured and give preference to resources certified to sustainable management standards (PR 6)

In addition to the above Performance Requirements, the Bank recognises that systematic consideration of environmental and social sustainability, energy and resource efficiency, labour standards and working conditions throughout the supply chain will help ensure obtaining the best value and achieving sustainable outcomes and is promoting good practice in this area. However, the Bank also acknowledges there are a number of constraints in terms of supply chain management, such as the client’s leverage over the suppliers, traceability of the supplied items (commodities), supplier capacity, availability of sustainable items and cost.

### **Discussion and ESAC comments**

The discussion focused on whether EBRD requirements strike the right balance between the need to do more (e.g. on other labour issues such as OHS) and the need to stay focused on the Bank’s clients (e.g. limiting requirements to first tier suppliers). It also covered the unintended effect of excluding small local suppliers from supply chains due to higher standards, options for the Bank in addressing this issue. ESAC members also considered the approach that the Bank take with respect to goods that are supplied from countries outside the EBRD region, and its role in promoting the sustainability of globally traded commodities, given that it can only apply its standards to projects in its Countries of Operations.

ESAC members asked whether the Bank should consider the whole life cycle analysis of a project and specify which parts need to be addressed. Eco-labelling could be a very important part of this approach. It was also pointed out that a focus on supply chains could have a multiplying effect far beyond the scope of the actual project. However, care may need to be taken to ensure that the approach taken matches the challenges of specific sub-regions (for example, EU Member States compared to Central Asia).

## **Session Two: information sessions**

### ***Evolving Transition Priorities: environmental and sustainable energy aspects***

The first information session was opened with a presentation by Mr. Erik Berglof, Chief Economist. Mr Berglof gave an update on how EBRD is considering environmental issues in its assessment of the transition impact of projects, following on from the presentation made at the last ESAC meeting in April 2009. Mr Berglof argued that the EBRD, and the region that it covers, need to be part of the global debate on low-carbon development. The EBRD region is a comparative laggard in this respect and needs to catch up. There is an enormous potential role for EBRD in supporting this. This would require a slight reassessment of a traditional view of the Bank's transition mandate, making the transition to a low-carbon economy an integral part of the transition process. This will require institutional and regulatory reforms, as well as market reforms. Climate change adaptation also needs to be part of this discussion as climate change may have significant economic impacts, especially in more southerly countries.

ESAC members commented that the Bank needs to devote more attention to climate change adaptation, perhaps including through developing the insurance sector to cover natural disasters etc. The Bank also needs to counter political scepticism about energy efficiency in some of its Countries of Operations. ESAC members also pointed out that EBRD may have to confront the difficult issue of its financing for coal and other natural resources.

### ***Update on progress with the climate change within EBRD***

The second information session was presented by Mr Terry McCallion, Director, Energy Efficiency and Climate Change Team. Mr McCallion gave ESAC members an update on the energy efficiency and climate change agenda at the EBRD, including the Bank's participation in the COP 15 United Nations Climate Change Conference in Copenhagen. Mr McCallion gave details of the outcomes so far of the Bank's Sustainable Energy Initiative (SEI), which between 2006 and 2009 has led to €3.8 billion of investment through 218 projects, with a total project value reached €8.2 billion. The focus has been on industrial energy efficiency in large industries in energy intensive sectors, energy efficiency for small energy users, cleaner energy supplies, renewable energy, energy efficiency in municipal infrastructure, and carbon market development. Phase 2 of the SEI (2009 – 2011) has targets of €3.5 billion of financing (total project value of €15 billion), carbon emissions reduction of 25 to 30 million tonnes CO<sub>2</sub>/annum, technical assistance grant funding mobilisation of €100 million, and investment grant funding mobilisation of €250 million. New areas of activity under SEI-2 include energy efficiency in building, biomass use, climate change mitigation investments in natural resources sector, energy efficiency in transport systems, and the development of carbon markets.

In discussion, ESAC members emphasised the need to take into account the sustainability of renewables such as biomass and wind. They also opined that the Bank's original transition mandate may well be completed within 10-15 years, in which

case the Bank may wish to consider the role that it might like to have beyond that period, and whether energy and climate could be a central part of any such future role.

### ***Projects Complaint Mechanism***

The third information session was presented by Ms Judith Shenker, Deputy Chief Compliance Officer, Office of the Chief Compliance Officer, who provided an update on progress with the implementation of the Project Complaints Mechanism, which was introduced to them at the last ESAC meeting in April 2009.

### **ESAC members' discussions with President Mirow**

At the end of the morning session, Jan-Olof Willums provided a summary of the morning's discussions for President Mirow. Mr Willums set out three key issues to frame the discussion:

- i) Is there a demand for a new transition role for the Bank, based on supporting the transition to a low-carbon economy in its countries of operations?
- ii) While recognising the need for the Bank to consider supply chain issues, is there a risk that smaller suppliers might be forced out as standards are raised?
- iii) ESAC members had been impressed by the work of the SEI, and wondered how this initiative could further exploit new opportunities, for example by identifying one country as a pilot for supporting the development of a low-carbon economy.

In his response, Mr Mirow pointed out that the recent financial crisis has added five to ten years to the traditional mandate of the Bank, as transition has been set back across the region. It would therefore be more appropriate to keep separate the discussion on a possible 'new transition' from the discussion on extending the traditional role, including through a capital increase. However, Mr Mirow explained that what the Bank does on climate change still has to be part of its traditional transition role. Changing the transition mandate would mean changing the fundamental articles of the Bank and would require the approval of all the Bank's shareholders.

ESAC members reflected on the relationship between the Bank's traditional mandate and the emerging challenge of shifting to a low-carbon economy. Central to this are questions around how an economy with a legacy of central planning can adapt to the low-carbon agenda, and how more climate-resilient market economies can be developed.

ESAC members thanked Mr Mirow for the very open discussion and expressed their hope that this could be repeated in future ESAC meetings. President Mirow agreed and asked the format of his involvement in ESAC meetings be changed in the future. Instead of sitting in on a particular session, Mr Mirow would like to have a dedicated hour with ESAC members in which they would be able to discuss with him the main issues raised during the day. This request will be reflected in the organisation of subsequent ESAC meetings.

### **Session Three: EBRD's Draft Agribusiness Operations Policy**

This session was opened with a presentation by Gilles Mettetal, Director, Agribusiness team. Mr Mettetal pointed out that the current financial crisis was preceded by a food crisis. In response, the Bank held a food crisis conference in 2008 that was followed up by a regional event in Kiev. This led to an evaluation of the Bank's existing policies in the sector which, in turn, led to the development of the new Agribusiness Operations Policy. The Bank's involvement in this sector has changed a lot since 2002, when the last policy was prepared. The Bank now has a much larger portfolio of investments and the Agribusiness team has a presence in a large number of Resident Offices. The Agribusiness portfolio has grown from €1,046 million to €1,978 million or 8% of the Bank's total portfolio in 2009. With 45% of the corporate sector's annual business volume, it is the largest investor in the sector in the region.

Mr Mettetal explained that global food security is a persistent, long-term problem. The financial crisis has only temporarily suppressed the food crisis. Underlying economic and demographic fundamentals clearly point towards increased and sustained pressure on global food security and hence on prices. The major challenge for coming period will be to address food security in a sustainable manner. The UN FAO estimates that food production demand will increase by about 70 percent by 2050. This equates to 1 billion additional tonnes of cereals and 200 million tons of meat. The EBRD region has huge potential to help meet this challenge. It contains 13% of the world's arable land but produces only 6% of its crops. The potential for output and efficiency gains is clear. Russia alone is already the 4<sup>th</sup> exporter of grains in the world and has considerable potential to significantly increase production. Besides global food security, the Bank has identified continued challenges in domestic food supply and access to food particularly in the more remote areas of the EBRD region.

Mr Mettetal set out the Bank's four new strategic priorities in the sector:

1. **Food Security** - to maximise the Region's production potential and address global food imbalances by targeting transition gaps throughout the food value chain.
2. **Regional Differentiation** - to maximise transition impact by adopting a focused investment approach tailored to the differentiated investment needs within the region, with an emphasis on Early Transition Countries and the Western Balkans.
3. **Sustainable Investments** - to promote an investment approach that addresses environmental and social issues, energy efficiency and climate change adaptation more systematically.
4. **Continued Policy Dialogue** - to pursue further its policy dialogue agenda, as suggested in the Bank's 2008 Evaluation of the Agribusiness Operations Policy.

### **ESAC members' discussion**

In their discussion, ESAC members considered how the Bank should respond to the ongoing food crisis and contribute towards improved food security in its countries of operations and beyond. They also discussed the further actions that the Bank should

take to promote environmental sustainability in the agribusiness sector. ESAC members stressed the importance of mobilising traditional knowledge to increase agricultural output, which could also bring environmental benefits. The Bank needs to be sure that it is financing an industry that is going to be sustainable. ESAC members also raised the issue of GM foods and suggested that sector policy should reflect what the Bank's Environmental and Social Policy already says on this issue. ESAC members also raised the issue of the role of collective farms in providing social infrastructure for rural communities, and asked whether it is necessary to put this infrastructure back in place in order to get people back living and working in agricultural areas. ESAC members also raised the need for the agriculture sector to help address the challenges of climate change, including climate change adaptation which has important consequences for water consumption. Other issues to be considered include biodiversity protection, local food security and the application of carbon footprinting as a benchmark for evaluating projects.

In response, Mr Mettetal acknowledged that there are often many political and even 'emotional' issues connected with the agriculture sector, so one cannot always apply a pure market philosophy. The Bank focuses on food processing instead of primary agriculture as it believes that it can maximise its transition impact on the sector overall by channelling investment into the top of the value chain, resulting in a flow of benefits to downstream producers including primary agriculture. We need to be pragmatic about the benefits that modern food processing and marketing can bring: for example, supermarkets can increase the availability of cheap food for poorer people. Mr Mettetal acknowledged that the point made about social infrastructure is an important one. The EBRD region contains enormous farms (up to 1 million hectares in the case of Kazakhstan) and increasing agricultural production will not be possible unless social infrastructure is in place.

#### **Session Four: information sessions**

##### ***Progress with Implementing the Gender Action Plan***

Ms. Biljana Radonjic Ker-Lindsay, Gender Action Plan Coordinator, provided an update on the implementation of the Bank's Gender Action Plan, which was approved by the Board in 2008. In the following discussion session, ESAC members suggested that EBRD should learn from progress made by other institutions, such as the gender checklists developed by Canadian CIDA and Swedish SIDA, and the gender programmes that some commercial banks such as ING have put in place. EBRD could also consider factoring in age as it implements the Plan, as older women are often doubly disadvantaged.

##### ***Progress with the Sustainability Initiatives Programme***

Dr. Craig Davies, Principal Environmental Adviser, Environment and Sustainability Department, gave an update on progress with ESD's programme of technical assistance activities designed to promote environmental and social benefits throughout the Bank's operations. Over the past two years, this programme has grown to cover issues including climate change adaptation, carbon finance in the forest sector, sustainable forestry and agriculture, road and pedestrian safety and environmental management in

sectors such as manufacturing and maritime transport. The team has accessed more than €3 million of funding from a wide range of sources including bilateral donors and EBRD's own multilateral funds to support technical cooperation initiatives that have been designed and implemented in close collaboration with Banking teams from across the Bank.