

ENVIRONMENTAL AND SOCIAL ADVISORY COUNCIL (ESAC) MEETING:

Thursday, 15th July 2010

Meeting minutes

The Environmental and Social Advisory Council (ESAC) of the European Bank for Reconstruction and Development (EBRD or “the Bank”) met in London on 15th July 2010. The meeting was chaired by the Vice President for Environment, Procurement & Administration, Ms Brigita Schmögnerová, with President Mirow joining the meeting for a summary discussion at the end of the day. ESAC Members present were Professor Urkhan K. Alakbarov (Azerbaijan), Dr. Andrzej Kassenberg (Poland), Professor Jacqueline McGlade (UK), 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), Dr. Evgeny Shvarts (Russia) and Ms Dasa Silovic (Croatia/Serbia). Unfortunately Mr Zaal Lomtadze (Georgia) and Ms Fiona Murie (UK) were unable to attend on this occasion.

The following topics were covered at the meeting:

- 1) Update on the capital increase and CRR4
- 2) Managing sustainability risks in contracted works on EBRD projects (information session)
- 3) Development of the new Municipal and Environmental Infrastructure Strategy
- 4) Adapting to climate change: implications for EBRD (information session)
- 5) Update on the implementation of the Project Complaints Mechanism (information session)
- 6) Financing for biodiversity (information session)

In addition, the meeting concluded with an open discussion session with President Mirow.

Ms Schmognerova 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. Ms Schmognerova pointed out that this creates exciting opportunities to work with the ESAC on building environmental and social sustainability into our responses to these new challenges.

Ms Schmognerova welcomed the new members of the ESAC who were attending for the first time, Dr Shvarts and Ms Silovic, as well as two other new ESAC members, Mr Lomtadze and Ms Murie, who unfortunately were not able to attend on this occasion. In addition, Ms Schmognerova also thanked the outgoing ESAC members who have reached the end of their term of office (Dr Alakbarov, Dr Kassenberg, Dr Mihajlov, and Dr Sagitov). Ms Schmognerova thanked them for their valuable service to the EBRD over the past years.

Session One: Update on the capital increase and the CRR4

This topic was introduced by Josué Tanaka, Corporate Director responsible for strategic planning and for the Bank's energy efficiency and climate change activities. Mr Tanaka explained that a major outcome of the 2010 Annual Meeting of the EBRD in Zagreb was the unanimous approval of the medium term strategy of the EBRD contained in Fourth Capital Resources Review (CRR4) and of the capital increase.

The CRR4 has taken place in the context of the region's fragile recovery from the financial and economic crisis. The Bank's strong response to the crisis has complemented continued strong performance on transition impact. In this difficult context, demand for the Bank's funding is likely to remain high. Mr Tanaka identified the guiding objectives behind the CRR4 as building stable financial sectors, diversifying economies, tackling climate change and energy security, accelerating transition in infrastructure, and applying the lessons of the crisis. These priorities will be pursued alongside the Bank's continued commitment to shifting its operations East and South. Mr Tanaka added that an important element of the CRR4 is the internalisation of the energy efficiency and climate change area within the medium term corporate strategic objectives of the EBRD.

Mr Tanaka explained that the Bank's shareholders were prompted to approve the capital increase by the urgent need to respond to the financial crisis. ESAC members asked about the political arguments for pushing the energy efficiency agenda. Mr Tanaka explained that Russia was not always receptive to the argument that energy efficiency mitigates climate change, but that they are much more willing to listen when we stress energy security and competitiveness. It was agreed that the next ESAC meeting will go into more detail on the new dimension of the Bank's transition impact – energy efficiency and climate change.

Session Two: Managing Sustainability Risks in Contracted Works on EBRD Projects

This information session was presented by Mr. Mikko Venermo, Senior Environmental Adviser, EBRD, and Ms. Alke Schmidt, Senior Environmental and Social Adviser, EBRD. This presentation was a sequel to the ESD information session on *Managing Sustainability Risks in Supply Chains*, which was presented at the previous ESAC meeting in December 2009

Mr Venermo and Ms Schmidt explained that environmental or social outcomes often depend on the activities of third parties such as contractors. EBRD's Environmental and Social Performance Requirements (under the Environmental and Social Policy), and its Procurement Policy and Rules, address contractor risks. Procurement, contractor management and supervision process and tools, such as standardised tender documents, help Clients to implement Performance Requirements systematically and effectively. ESAC members considered the adequacy of the Bank's approach and challenges, such

as supervising and enforcing sub-contractors and addressing non-compliance. ESAC members stressed that effective policies and procedures can present a powerful opportunity to influence, by changing market behaviour. However, there are areas where further improvements could be made, such as requiring the recycling of materials.

Session Three: Development of the new Municipal and Environmental Infrastructure (MEI) Strategy

This topic was presented by Mr. Jean-Patrick Marquet – Director, Municipal & Environmental Infrastructure team. Mr Marquet explained that the development of a new strategy for the Bank’s work in the area of Municipal and Environmental Infrastructure is very timely. The last MEI strategy dates back to 2004, and the MEI team’s business has doubled over the last strategy period both in terms of number of projects signed and business volume (139 projects for EUR 2.3 billion in additional volume).

Earlier this year (May), the Bank’s Evaluation Department conducted a review of the last MEI strategy. The review’s findings were broadly positive and recommended fine tuning the strategy rather than radically changing it. Mr Marquet described the new policy, which will have the same drivers as the previous policy (decentralisation, commercialisation and environmental standards), but there will be additional focuses on regionalisation, energy efficiency, low carbon and social and gender issues where possible.

ESAC members enquired whether the MEI strategy could move towards financing the green economy and green infrastructure, including building in measures to decrease consumption into planning, integrating health issues, waste separation & recycling and integrated water supply and wastewater systems. There is an opportunity to promote resource efficiency (thus keeping up with new EU legislation) as well as creating green jobs.

Session Four: Adapting to climate change: implications for EBRD

This information session was presented by Dr. Craig Davies, Principal Environmental Adviser, EBRD. Dr Davies opened the session by reminding the ESAC that EBRD has become a leader in the field of climate change mitigation over the last decade. As a result, energy efficiency and emissions reductions have become an integral part of the Bank’s operations. However, as the international climate change debate continues to evolve, it is clear that attention also needs to be paid to climate change adaptation – i.e. coping with the expected consequences of climate change. The challenge for EBRD is to develop an approach towards climate change adaptation that is consistent with its transition mandate, its project-based approach and its private sector focus.

ESAC member welcomed this emerging area of work. Some members pointed out that the Bank should not be focusing exclusively on the risks of climate change, but should consider opportunities too. The Bank should also consider the social dimension of adaptation to climate change. Finally, it will be important for the Bank to consider cascades of climate risks, from the strategic level, through the sector-level, to the

project-level, and not just the direct impacts on projects. ESAC members also urged the Bank to consider the role of the insurance industry in managing climate risks.

Session Five(a): Update on the implementation of the Project Complaints Mechanism

This information session was introduced by Ms. Judith Shenker and Ms. Anoush Begoyan, Office of the Chief Compliance Officer. Ms Shenker and Ms Begoyan explained that the Project Complaints Mechanism (PCM) has been functional since 16th of March 2010, when the PCM Officer and four PCM Experts were appointed. An outreach programme has been developed and is currently being implemented. It includes publications, meetings and presentation to the staff of the Bank both in the bank's headquarters and in Resident Offices, as well as to civil society organisations. The first PCM complaint was received from the Slovakia CEE Bankwatch Network regarding D1 motorway Phase I. This complaint, which was registered on 11 June 2010, involves a demand for a compliance review, and is currently undergoing an Eligibility Assessment.

Session Five(b): Financing for biodiversity

The final information session was introduced by Mr. Mark Hughes, Senior Environmental Adviser, EBRD. Mr Hughes explained that The Bank is required by its Environmental and Social Policy to address biodiversity issues both in the projects it finances and through the development of stand-alone projects that protect and conserve biodiversity. With regard to the latter, the Bank has been involved, for a number of years, in various initiatives exploring the development of financial instruments dedicated to biodiversity restoration and conservation. ESAC members welcomed this development but pointed out that there are challenges for the Bank in developing biodiversity as a business area.

Session Six: discussion session with President Mirow

The meeting concluded with an open discussion session with President Mirow. A summary of the key issues raised during the day's discussions was provided by Jan-Olaf Willums on behalf of the ESAC.