

## **ENVIRONMENTAL and SOCIAL ADVISORY COUNCIL (ESAC) MEETING: 14 APRIL 2011**

### **Opening session**

The meeting was opened by Vice-President Jan Fischer, who welcomed ESAC members including new members who were not able to attend the last meeting (Zaal Lomtadze from Georgia and Fiona Murie from the UK). Mr Fischer pointed out that the EBRD continues to face fresh challenges, including combating climate change and responding to the historic events in North Africa. In order to have a more focused agenda, the meeting focussed on three topics of strategic importance to the EBRD: i) the development of the Bank's new mining strategy, ii) the revision of the Bank's Public Information Policy, and iii) the development of the climate change adaptation agenda at EBRD.

### **Session One: Development of the EBRD's new Mining Strategy**

This session was introduced by Michael Green, Senior Banker, and Ulmas Musaliev, Principal Banker, from the Bank's Natural Resources team. The Bank's new Mining Strategy is expected to attract external attention with a number of issues likely to be the subject of particular scrutiny. Mr Green explained the rationale for developing a new dedicated mining strategy. The paper presented to ESAC does not set out an EBRD strategy position – it is simply a discussion paper intended to help shape the process. Although mining activities may often be controversial and entail significant environmental and social risks, there is a lot of pressure for the Bank to invest in projects that offer significant opportunities for the development of certain countries. Furthermore, these projects may well go ahead but with less robust environmental and social safeguards if EBRD stands aside.

Mr Green highlighted that there are often issues around the transparency of mining revenues. However, some of the Bank's past projects have shown that progress can be made in this respect and contribute towards the overall transition process. The Bank's projects can also help to meet environmental and social standards, as well as health and safety standards (especially in coal mining, which has a very bad safety record. More broadly, coal mining has become a more prominent issue due to the impact on emissions and global warming from the burning of coal. Some of the Bank's CoO have a choice of continuing to exploit indigenous coal reserves for their energy needs or increasing imports of gas from a monopoly supplier meaning that realistically coal will continue to be an important part of their energy mix.

It is therefore the case that consideration of support for coal projects should be undertaken as part of a wider debate on energy use which addresses issues such as energy security and more sustainable alternatives. The Bank is still weighing up the merits of having this debate within the confines of the Mining Strategy or whether it should wait for the next revision of the Energy Policy in 2012. In the case of the latter the Mining Strategy would still address issues related to the mining process such as health and safety in coal mines, social impacts on nearby populations, environmental remediation etc.. Other more general issues related to investment in coal include the following:

- Can we differentiate between different types of coal: coking coal, lignite etc, greenfield vs. brownfield?
- How should we treat coking coal used in the production of steel, given that there are no alternative methods for steel production?

- What could be used to justify Bank investment – e.g. significant environmental improvement?

Gold mining is also a controversial area, with much attention given to the use of cyanide. Although only 6% of global cyanide is used in mining, it attracts a lot of public attention. Many gold mines are located in extremely remote areas where there are few other opportunities for economic activity.

ESAC members made a number of points in response to the presentation by the Natural Resources team:

- Transparency and reporting are very important for a transition bank – the mining sector is behind other sectors (e.g. finance) in this area. The Bank should encourage adoption of the EITI at the national level, as well as voluntary mechanisms such as Kimberley Standards etc.
- More attention is needed to impacts on natural habitats and the environment - many mining operations are in pristine environments and the Bank may face NGO criticism on this topic.
- The Bank should be aware of the clean coal campaign. In countries such as Australia, courts are beginning to take into account where the coal is going to be used/burned at the point of environmental permitting for the mine.
- Optimum size of operations should be considered – large mines with few employees may be more efficient, but less effective at sharing economic and social benefits. Labour/social issues must be given adequate consideration, given the large numbers employed by mining in e.g. Poland.
- The policy should also cover quarrying and hydro-fracking for natural gas, which entail significant environmental risks/impacts.
- In the longer-term, Bank investments should aim to facilitate transition away from dependency on fossil fuels towards the development of low-carbon economies. The Bank should emphasise the transition impacts and the introduction of new technologies and approaches, and resource efficiency.

Next steps:

This was a very useful and timely discussion that will feed into the development of the draft Strategy. ESAC will also be given the opportunity to review the draft Strategy when it goes out for public consultation.

## **Session Two: Revision of EBRD's Public Information Policy**

The next session focused on the revision of EBRD's Public Information Policy (PIP). This topic was introduced by Nikola Milushev, Senior Adviser, Office of the Secretary General. The PIP is a fundamentally important governance policy that, amongst other things, sets out how information about the Bank's projects (including information about their environmental and social impacts) is disclosed to the public.

Environmental and social issues have come to the fore in discussions with stakeholders so far. Mr Milushev confirmed that the Aarhus Convention will be reflected in the new PIP. The release of project information via Project Summary Documents is important for NGOs and yet imposes costs in terms of time and resources on the Bank. It is important for us to get the right balance. The right balance must also be found between NGO calls for extension of the

disclosure period beyond 60 days and bankers' concerns that this would be too burdensome for clients. The Bank also needs to consider how to handle NGO calls for ESAs to be posted on the Bank's website (as opposed to building clients' capacity to do this) and for project information on Category B projects to be disclosed after the first management review as opposed to the final management review (prior to the submission to the Board of Directors for consideration). Mr Milushev also explained that some NGOs would like information on how Board members vote and issues raised at Board meetings, but there are concerns that this approach could lead to unhelpful 'beauty contests' between Directors.

ESAC members raised a number of issues in response to Mr Milushev's presentation:

- ESAC members welcomed the PIP revision and congratulated the Bank on its approach to transparency and consultation. This is relevant to the wider international debate around aid effectiveness, and the Bank could consider linking in to OECD work on development aid effectiveness forum, with heavy CSO and IFI involvement. The Bank is following this debate although strictly speaking it does not do aid, but rather project finance on a commercial basis.
- The Bank should consider the cost implications of compliance with the measures set out in the revised PIP. This should balance costs and benefits. Demand-driven disclosure could be one way of achieving this, as could the improved use of information technology (e.g. webcasting etc).
- 60 days disclosure should be adequate, and NGOs should be encouraged to organise themselves to provide feedback during this period.

### **Session Three: Development of EBRD's Climate Change Adaptation Strategy**

This session was introduced by Dr Craig Davies, Senior Environmental Adviser, Environment and Sustainability Department. This session built upon the information session on climate change adaptation at the July 2010 ESAC meeting. Since then important progress has been made in piloting innovative approaches to adaptation. Dr Davies explained that, in order to scale up these approaches and mainstream them across the Bank's operations, a number of issues need to be explored more fully. The relevance of climate change adaptation to EBRD's transition mandate needs to be more fully understood. Also, a way needs to be found of reconciling the conflict between the shorter timescale of EBRD investments (5-10 years) with the longer timescale of climate change impacts (10 years plus). In order to scale up work on adaptation, the Bank also needs to address concerns that the perceived high costs of adaptation measures may deter investment.

Dr Davies added that uncertainty and incomplete information also present challenges towards taking action on adaptation. EBRD needs to find ways of dealing with the high degree of uncertainty around future impacts, and of managing uncertainty when making investment decisions. Another important challenge that needs to be addressed is the low awareness of climate change impacts in the EBRD region, which can create barriers to action.

ESAC members raised a number of issues in response to Dr Davies' presentation:

- ESAC members welcomed the development of the Bank's adaptation agenda and noted that the Bank cannot afford a business-as-usual approach. The Bank should pursue an approach that promotes opportunities for pro-adaptation investment, as well as managing risks to investments.

- Water efficiency/security should be considered in a joined-up manner together with energy efficiency and food security.
- The Bank should seek opportunities to make use of emerging climate finance mechanisms, although access may be limited for the mainly middle-income countries of the Bank's region.
- Adaptation can be part of the Bank's transition mandate in the sense that appropriate interventions can prevent or manage climate-related market disruptions.
- The Bank should consider the role that insurance can play, especially in managing climate risks in vulnerable regions.