

ENVIRONMENTAL and SOCIAL ADVISORY COUNCIL (ESAC) MEETING: 9 FEBRUARY 2012

The Environmental and Social Advisory Council (ESAC) met at EBRD's offices in London on 9th February 2012. The meeting was opened by Vice-President Jan Fischer, who welcomed the six ESAC members present (Marta Bonifert, Fiona Murie, Nick Robinson, Evgeny Shvarts, Dasa Silovic, Jan-Olaf Willums) and gave apologies on behalf of President Mirow, who had had to travel to Rome. Vice-President Fisher explained that the meeting was to be organised around a small number of topics of strategic importance to the Bank, which were:

- The Bank's expansion into the Southern and Eastern Mediterranean (SEMED)
- The Bank's new Municipal and Environmental Infrastructure Strategy
- The development of the third phase of the Bank's Sustainable Energy Initiative
- The continued development of the Bank's Mining Strategy

Session One: Expansion into the Southern & Eastern Mediterranean

This session was subdivided into parts: i) the political context, ii) EBRD's preparations for investments and iii) anticipated environmental and social issues and challenges.

In the first session, Alan Rousso (Managing Director, Stakeholder Relations) explained the political context of the Bank's expansion into the SEMED, and how this sets the scene for the Bank's engagement and operations. In the second session, Richard Jones (Director, Official Co-financing Unit) explained how the Bank is preparing for operations in SEMED through the development of Cooperation Funds to support preparatory and analytical work. Finally, Craig Davies (Senior Environmental Adviser) and Sarah Ruck (Principal Social Specialist) outlined some of the anticipated environmental and social challenges facing the Bank in the SEMED region.

ESAC member pointed out that there are important differences between SEMED and the Bank's 'traditional' region. SEMED countries have no real legacy of communism, and perhaps Turkey provides the nearest 'model' that could be relevant for SEMED countries. There is a lot of variability both between and within SEMED countries (e.g. levels of education, and it will be challenging for the Bank to reach remote/rural areas. Gender is an important issue, but again there are big variations (e.g. Tunis had a strong record of gender equality in the past. ESAC members noted the importance of coordinating with other agencies (e.g. UN). It will also be important for the Bank to engage with trade unions in SEMED. The Bank should consider engaging with and understanding Islamist perspectives (e.g. the Islamic Principles of Environmental Protection. The Bank could also explore ways of blending EBRD technical expertise and Islamic finance.

Session Two: Development of EBRD's new Municipal and Environmental Infrastructure Strategy

This session was introduced by Lin O'Grady, Deputy Director, Municipal and Environmental Infrastructure team. The MEI strategy is a fundamentally important policy for the Bank's environmental sustainability mandate, due to the high potential for

environmental improvements through investments in projects such as water supplies, sanitation and solid waste management.

ESAC members were invited to consider whether the ‘evolutionary’ progress from the 2004 MEI Policy is the correct approach for the Bank. The team also invited ESAC to suggest project structures or methods or technologies that have worked successfully elsewhere, and which could work successfully in the EBRD region, but which were not mentioned in the draft Strategy. ESAC members were also invited to provide recommendations on how the Bank should approach the MEI sector in the SEMED region. A further challenge for the new Strategy is to balance three over-arching priorities: (a) providing essential services in areas with very different demographics, (b) fostering transition to a market economy in order to create sustainable organisations, infrastructure and services, and (c) making more efficient use of energy and adapting to climate change.

ESAC members pointed out that small municipalities may be hard to reach, and that the Bank could consider using financial intermediaries in such cases. The MEI approach needs to be underpinned by the development of stronger institutional capacity, which in turn can be supported by grants where appropriate. The Bank’s involvement in municipal infrastructure is not just about the product but also the process (e.g. capacity building, better legal frameworks etc.) Local procurement should be used where possible, especially in middle-income countries.

Session Three: Update of the development of EBRD’s Mining Strategy

This session was presented by Riccardo Puliti, Managing Director, Energy & Natural Resources, and built upon the information session on the development of the Mining Strategy at the last ESAC meeting in April 2011.

The development of the Mining Strategy has been motivated by the transition and sustainability challenges remaining in the mining sector. The mining sector is an important contributor to economic development, particularly for development of dependent local communities. Its recent evolution creates new challenges for the sector, and there are opportunities for new standards and practices are improving sustainability. Therefore the Bank has the opportunity to address transition challenges and contribute decisively to promote sustainability and responsible mining. Mr Puliti explained that the Bank will undertake a comprehensive Stakeholder Engagement for the Mining Strategy to allow all stakeholders and the general public to contribute comments on the document, with Public Consultation events to be organised throughout May and June 2012.

ESAC members welcomed the fact that the comments made by ESAC in April 2011 have been reflected in the subsequent development of the Strategy. Mining is a sensitive subject so it is important to be transparent and place emphasis on consultation. ESAC members encouraged the Bank to include trade unions in stakeholder engagement on both the Strategy and on individual projects. ESAC members encouraged the team to give attention to the start-up and phase out of mining operations, and also to the re-opening of mines which may become a more significant issue as commodity prices continue to rise. ESAC members pointed out that mines can sometimes have

transboundary impacts, and the relevant legislation and international agreements such as the Espoo Convention should be reflected in the Strategy and in the Bank's operations. The Bank should encourage the use of Best Available Technology (BAT) in its mining operations and could also consider including a box on 'experience in Mongolia' in the Strategy.

Session Four: Update on the development of the Sustainable Energy Initiative Phase III

This session was introduced by Terry McCallion, Director, Energy Efficiency team. Mr McCallion explained how the third phase of the SEI would build upon SEI achievements to date, as well as introducing some new areas of activity such as climate change adaptation. ESAC members were invited to consider the future development directions of the SEI3, and how they could best support the broader environmental mandate of the Bank. It was pointed out that it will also be important for the Bank to find a way of balancing the need for monitoring and evaluation with the need to avoid imposing unacceptable transaction costs on clients. ESAC members were also invited to consider the Bank's approach to engaging the private sector in its SEI3 operations, and options for the Bank to contribute to scaling up both carbon market supply and international and domestic demand. The role of subsidies in supporting the transition to a low-carbon economy was also identified as an important issue.

ESAC members expressed their support for the SEI-3 approach, and pointed out that the Bank has achieved a lot through the SEI since its inception in 2006, and should share its experience more widely. The Bank's finance has been catalytic, which is what the Bank is meant to achieve. ESAC members supported the SEI's bottom-up approach, pointing out that this is especially relevant given the uncertainty over carbon finance. ESAC members supported the SEI's approach to residential energy efficiency, but added that the Bank will need different instruments for different regions (SEMED, Russia etc.) and will need to use targeted subsidies in order to develop new business products.

Session Five: The Future of ESAC

A special session was held on the evolving strategic focus of ESAC in the light of recent developments. This was facilitated by Alistair Clark, Managing Director, Environment and Sustainability and Craig Davies, Senior Environmental Adviser. The discussion helped to identify a number of future priorities for ESAC, including an expansion of its membership so that it has a wider range of geographical and thematic expertise.

A draft paper on the future of ESAC, and in particular its role in supporting the Bank's expansion into SEMED, will be drafted and circulated to ESAC members for comments before being finalised and submitted to the Bank's StratCom.