

ENVIRONMENTAL and SOCIAL ADVISORY COUNCIL (ESAC) MEETING: 26th and 27th June 2013

The Environmental and Social Advisory Council (ESAC) met at EBRD's offices in London on 26th and 27th June 2013. The meeting was opened by Vice-President Betsy Nelson and Managing Director, Environment and Sustainability Department Alistair Clark, who welcomed the seven ESAC members present (Jacqueline McGlade, Marta Bonifert, Fiona Murie, Evgeny Shvarts, Dasa Silovic, Jan-Olaf Willums and David Wheeler). Vice-President Nelson explained 2 days long meeting is a reflection of a comprehensive list of policies and strategies under revision and development of strategic importance to the Bank, which were:

- The revision of three major Bank's governance policies, namely: the 2008 Environmental and Social Policy, the 2011 Public Information Policy, and the 2009 Project Complaint Mechanism Rules of Procedure;
- The revision of the Bank's Transport Strategy;
- The revision of the Bank's Energy Policy;
- The development of the Banks's Knowledge Economy Strategy.

In addition to consultation sessions on the above topics, ESAC were also presented with two information sessions, one on the Bank's Sustainable Energy Initiative, and second one on the Bank's Strategic Gender Initiative.

ESD Managing Director Alistair Clark underlined that EBRD is considered an institution with a long term agenda in the expanding region of its operations and summarised internal changes within EBRD, which include appointment of new Bank's President Sir Suma Chakrabarti in July 2012 and the on-going inclusive modernisation process of the institution.

Dr Clark addressed briefly main points of 2012 ESAC meeting and updated members on: (i) staged expansion of EBRD operations into Southern & Eastern Mediterranean, where Morocco, Tunisia, Egypt and Jordan still in the process of ratification as countries of operation by EBRD shareholders, in the meantime the Bank has commenced projects approval under a special designated fund and is carrying out specific country assessments to improve our understanding of the new region and to recognise risks, opportunities and competitive advantages related among others to environmental and social issues; (ii) approval in June 2012 and implementation of the Municipal and Environmental Infrastructure Strategy, which was the first Bank's sector strategy to introduce key performance indicators; (iii) approval in October 2012 and implementation of the Mining Operations Policy; (iv) on-going operations under Sustainable Energy Initiative accounting in 2012 for 26% of the EBRD's activities.

Sessions One and Two: Revision of 2008 Environmental and Social Policy

The E&S Policy is one of the key governance policies of the institution. It is on the regular 5 year review cycle in order to reaffirm and strengthen Bank's commitments to promotion of environmentally sound and sustainable development, social issues and good governance. Mark King, Director Policy and Project Oversight, ESD presented the inclusive review process for the ESP review during 2013-2014. Mr King outlined results of benchmark study which analyses the strengths and gaps of the ESP compared to the environmental and social policies of other MDBs. . The gaps identified are already addressed under current ESD practices, the only additional requirement being the codification of the missing elements. ESD believes that the ESP should be made more explicit and more user friendly from the perspective of Clients.

ESAC members addressed the importance the ESP should have within EBRD. They recommended that there should be a conceptual framework in the ESP identifying the overarching philosophy and Bank's objectives. In addition, they suggested that other Bank's policies should take into account and reference the ESP. The Bank should use its political leverage and credibility it has established in the region for policy dialogue and to pursue long term planning and sustainable development past 2050. The ESP may serve as a vehicle for achieving such goal, rather than just acting as a compliance tool. ESAC members welcomed recently approved by the Board of Directors economic inclusion indicator and suggested that term "transformation," not "transition" would be more adequate to capture contemporary and future mandate of the Bank.

ESAC members felt that further emphasis on social impacts of the projects should be reflected in the Policy and the appraisal process for the project. Specifically focusing on new countries of operations, the Bank should address with specific attention, youth and gender issues.

In relation to the ESP format and wording, ESAC members noted the importance of reviewing models followed by other IFIs, but the emphasis of the Policy should be on effectiveness in achieving goals. Current format of policy and instruments (PRs) may be retained, but an abridged policy to be easily understood by the public should be considered. ESAC members suggested that references to "good practice" should be replaced with "best practise" and significance of management systems and certifications shifted towards designation of responsibilities within Client's organisations, specifically when carrying our projects with small and medium enterprises.

Regarding further stakeholder engagements in the ESP revision and as a general advice ESAC proposed usage of social networks to disclose information and reach relevant stakeholders. ESAC members listed numerous organisations (including philanthropist foundations) and programmes with which EBRD could cooperate and share experiences in the future.

Session Three: Revision of Public Information Policy

This session was introduced by Mr Nik Milushev, Senior Advisor Board & Institutional. The Bank's Public Information Policy (PIP) was last revised and approved in 2011. Despite the fact that regular PIP review cycle is five years, the Board of Directors decided in 2011 that timing of PIP reviews would be aligned with that for the

Environmental and Social Policy. Given the relatively recent policy review, the Bank would not normally suggest or expect major revisions to the Policy. However, there were issues raised by CSOs, EBRD shareholders and other stakeholders in previous PIP reviews, which the Bank and its Board of Directors decided not to incorporate for various reasons. Many of these issues are expected to be raised again at the occasion of this review for Banks consideration. Mr. Milushev summarised key issues raised by CSO's, which among others included: changes in project categorisation for environmentally and socially sensitive projects and consultation on environment and social action plan (ESAP) drafts with interested public stakeholders, more stringent requirements in loan agreements regarding disclosure of environmental and social information, routine updates of project-level information and disclosure of monitoring results throughout a project's lifetime, disclosure of transition impact ratings of projects. Nik outlined also issues raised by Bank's shareholders, which to some extent are aligned with CSOs, and presented in detail issues related to the Bank subscribing to the International Aid Transparency Initiative (IATI). The Bank is broadly supportive to IATI although the current IATI standard was developed for aid organisations and not an IFI such as EBRD.

ESAC members felt that issues of disclosure is highly contentious and Bank will always be subject to some level of critique, therefore revision of PIP should be evolutionary and should take into consideration practical changes and resources required. Some solutions, such as allocating publicly available PCs in Resident Offices for access to electronically stored project impact assessments were suggested. ESAC members pointed out that IATI has not been designed for the IFIs and subscription to the standard should be considered in cooperation with IATI to develop IFI-specific requirements, or application of the current one with mutually agreed exceptions where disclosure is not possible, given the nature of the transaction or negotiation.

Meeting with EBRD President Sir Suma Chakrabarti

ESAC members summarised the meetings' discussions for the President and ESAC views on long term agenda for the group, the strong position of the Bank in the current region and role and expectations from EBRD in the new region of operations.

The President (i) reaffirmed his support for environmental, social and gender issues; (ii) stated that he would like to engage more often with civil society and other development organisations, not only on the occasion of the Annual Meeting; (iii) said that changes are planned in the institutional scorecard – an internal document linking Bank's objectives with departmental performance], (iv) showed support for the idea of the ESAC Members that SMEs play a fundamental role in development, and (iv) said that more policy related work is needed, especially in the context of regional integration.

Session Four: Revision of Transport Strategy

The session was presented by Ms Sue Barrett, Director of the Transport Department and discussed the document setting out the Strategy which will guide the Bank's operations in the transport sector. The Transport Strategy [date] builds on the achievements under the previous EBRD Transport Operations Policy dated 2005, and describes how the Bank will respond to the new challenges which have emerged. Ms Barrett outlined the

Bank's vision for safe, secure and sustainable integrated transport systems across the region and summarised strategic focus topics, namely: (i) working towards market-based transport through improving efficiency, market-orientation and financial sustainability, developing the private market for transport services and increasing private sector participation in the provision of transport infrastructure; (ii) development of sustainable transport networks, (iii) broadening the sector to include intermodal and logistics, intercity bus and coach services, auxiliary road and rail services and effectively moving down the road and rail supply chain. Ms Barrett and her team discussed in detail operational approach through, among others, actively seeking opportunities to introduce innovative sustainability components into investments, including energy efficiency (transport being second largest contributor to EBRD's Sustainable Energy Initiative projects) and road safety, further diversifying the product range and strengthened cooperation with other IFIs and the EU, as well as through technical cooperation and policy dialogue. The Transport Strategy also sets up Strategic Performance Indicators related to policy dialogue engagement, commercial orientation, port sustainability initiative and road safety. Ms Barrett thanked the ESAC members for the input already submitted following the circulation of the draft strategy earlier in the year.

ESAC members welcomed the fact that the sustainability issues have been strongly incorporated into the Transport Strategy, given the significant share of greenhouse gas emissions worldwide coming from transportation, direct ability to influence social and environmental standards applied to transportation infrastructure projects. ESAC members encouraged the Bank to include carbon emissions in the Strategic Performance Indicators and also to align CO₂ emissions thresholds project reporting requirements and carbon savings reporting methodologies with other MDB's. Another suggestion for Strategic Performance Indicators was increasing maintenance budgets, as directly promoting suitable resources use and road safety. ESAC members proposed that the strategy includes references to creation of jobs in the construction sector, with particular benefit of raising capacities of small subcontractors and promoting appropriate labour and transparency standards in construction across the region.

Session Five: Information session on Sustainable Resources Initiative

This session was introduced by Terry McCallion, Director, Energy Efficiency team and Gianpiero Nacci, Senior Engineer, Energy Efficiency. Resource efficiency has risen as a global priority over the past decade reflecting rapid growth in resource demand, increasingly volatile resource prices, and growing environmental concerns. All this imposes additional costs on businesses. The Bank, with its transition and environmental mandate, has recently approved a Sustainable Resource Initiative (in February 2013) to support businesses to improve their resource efficiency.

The SRI draws on the well-tested Sustainable Energy Initiative operational approach combining financing, technical assistance and policy dialogue which has proven effective at achieving transition impact and meaningful operational results in the EBRD region of operations. Reflecting the EBRD mandate, experience and business model, the SRI builds up on a strong set of operating principles including: the deployment of the proven EBRD business model; differentiation across SRI activities reflecting transition gaps; the roll-out of scalable and replicable products; a sharp results orientation; full

compliance with EBRD's operational policies; linking project work with policy work; mainstreaming SRI activities across the Bank; and leveraging partnerships.

ESAC members congratulated the Energy Efficiency and Climate Change team and pointed out that the Bank has achieved a lot through the SEI since its inception in 2006, and SRI is a natural evolution of the philosophy. The Bank's finance has been catalytic, which is what the Bank is meant to achieve and that case studies should be used to encourage similar investments. ESAC members commented on the significance of appropriate CO₂ savings reporting methodology and suggested that in the future the Bank should set up KPI's regarding the percentage of projects with SRI or SEI component.

Session Six: Revision of Projects Complaints Mechanism

The purpose of this session was to provide the ESAC members with an opportunity to give feedback on the functionality and effectiveness of the Projects Complaints Mechanism (PCM), which, combined with comments from other key stakeholders, will form the basis for the review of the current PCM Rules of Procedure. PCM Officer Ms Anoush Begoyan Schliesing delivered a short presentation about the review process and shared main themes that have emerged so far within the information gathering stage of the review. These include: (i) the differences between the PCM and accountability mechanisms of other IFIs (Bank policies being subject to PCM, reporting to the Board, advisory role of the PCM); (ii) issues related to PCM outreach and accessibility to affected communities, not only international NGOs especially due to the challenges in the expansion of the Bank's operations in the SEMED region, incentivising of problem solving role instead of strictly compliance review; (iii) eligibility criteria and eligibility review process. Anoush opened the floor for discussion and comments from the ESAC members as key stakeholders who possess extensive knowledge of the EBRD's work and its governance policies.

During the discussion ESAC members requested and analysed data regarding the number of cases, geographical locations, increase in case numbers since inception, number of non-eligible claims and causes. ESAC members discussed also EBRD and Clients mechanisms for resolution of issues which do not escalate to PCM. ESAC members concluded that there is a correlation of submitted PCM claims with strong geographical presence of international NGOs, which as ESAC members pointed out brings even more importance to outreach activities. ESAC members suggested use of social media and tailored surveys in deepening accessibility.

Session Seven: Revision of Energy Strategy

Eric Rasmussen, Director Natural Resources and Harry Boyd-Carpenter, Senior Banker, Power and Energy introduced the topic and highlight the main themes and operational approaches. The Energy Strategy builds on the 2006 Energy Operations Policy, which has guided the Bank's operations in the sector from 2006 to 2013. The team highlighted how the Strategy develops the Bank's approach from that set out in the 2006 Policy in the areas of energy efficiency, renewable energy, in building deeper and more liquid energy markets and in the area of cleaner energy production.

The Bank's transition mandate remains the guiding principle and consequently the Strategy restates the importance of markets, private participation and cost-reflective pricing in achieving the optimal outcomes for society. The Bank identifies its role in promoting the structural shift towards a market-oriented model for the sector. Often energy security is defined as energy 'self-reliance'. The path to energy security is often seen at the governmental level as requiring extensive state intervention to ensure that a country has access on its own territory to all the energy supplies it needs. The Bank seeks to take an alternative view of energy security, recognising that diversification of sources, in particular through better integration into regional markets can deliver it more effectively and efficiently. The Strategy has been developed in close correlation with SEI, SRI to promote the climate change and energy efficiency agendas, and Mining Strategy and in anticipation of ESP review. In addition the Strategy reflects Bank's strengthened focus on all aspects of sustainability, including Bank's support for the Global Gas Flaring Reduction Partnerships, the Extractive Industries Transparency Initiative and enabling frameworks for Carbon Capture and Storage. Strategy outlines Bank's approach to "Cleaner Energy Production", in particular the tripartite test in assessing any future coal generation investments and continued approach to nuclear safety projects.

ESAC members commented on the importance of balance between market oriented model and energy affordability and related social issues. ESAC members agreed with the team that political risks and energy prices volatility are still major aspects shaping country and regional energy supply landscape and recognised the difficulty of shaping a business strategy in these circumstances. ESAC members suggested that based on Western Europe experience CCS is an unlikely to develop in EBRD region in the near future and should be replaced with Carbon Capture and Usage. Main discussion was focused around the issue of "green jobs" creation, especially for the SMEs and EBRD's position to support that through the Strategy and cooperation with other international organisations. ESAC members felt that despite the Strategy outlining directions for the next 5 years, the long term goal supporting carbon free energy systems should be spelled out as an overarching vision. ESAC members pointed out that the current Strategy does not set out strategic KPI's and that these should be considered, in particular in relation to reporting on carbon emissions and job creation in SMEs.

Session Eight: Knowledge Economy Strategy

This session, dedicated to the development of the Knowledge Economy Strategy, was presented by Frederic Lucenet, Director Manufacturing and Services, Anne Fossemalle, Director Equity Funds, Pavel Dvorak, Principal Economist, Bakhrom Ibragimov, Senior Banker, Information & Communications Technologies. The presentation focusing on defining knowledge economy strategy, reasons for Bank's engagement, previous ad hoc engagement and need for joined up strategic approach. Recognising that Knowledge Economy cuts across many sectors, the Strategy, now at its early stage, will outline how EBRD will support capital investment in technologies new to the country/region and information infrastructure/networks, financing of innovation (through private equity and venture capital), while promoting good 'innovation business environment', appropriate education and skills framework, linkages between publicly/privately funded R&D and application/commercialisation of the research.

ESAC members congratulated the diverse team representing various backgrounds and EBRD focuses on developing a cross cutting strategy with strong linkages to other teams, strategies and policies within the Bank. ESAC members highlighted a number of issues which should be taken into consideration in further works on the Strategy, these included: (i) competence training for businesses, (ii) cross linkages with energy efficiency, (iii) ability to support work outside the institutional siloes.

Session Nine: Information Session on Strategic Gender Initiative

The topic was introduced by Michaela Bergman, Chief Counsellor for Social Issues and Elena Ferreras Carreras, Senior Gender Adviser, Gender Team.

They explained that gender is one of the principal factors that can both determine or impede a person's economic opportunities. The EBRD's Strategic Gender Initiative sets out how the Bank will continue to work to prevent gender discrimination and mitigate the negative effects of lack of equality of opportunity. It also details how the Bank can best play a role in addressing the gender gaps identified in prioritized countries at country level and facilitate and promote women's socio-economic empowerment, equality of opportunity and full and sustainable participation in the labour market. These aims will be achieved principally through the design and implementation of the Bank's investments and projects, the development of new products, communication and awareness raising, policy dialogue, and through engagement in the international debate on the promotion of gender equality such as via the MDB Working Group on Gender, which it currently chairs. The presentation included specific project case studies to illustrate achievements to date and near future plans for projects with a Gender Component or with Gender Focus.

ESAC members congratulated Gender Team on great presentation and on the Initiative. ESAC members enquired how gender issues were approached internally, within the EBRD, and what role the institutional scorecard plays in relation to promoting equal opportunities within EBRD. ESAC members referred to their respective experiences of gender training for businesses organised by other institutions, but pointed out that EBRD has the capacity to upscale such activities through its economic involvement, but also through dialogue with civil societies and enabling wider access to gender specific products. ESAC members suggested that in addition to chairing the MDB Working Group on Gender and other established cooperation, the Team considers close work with ILO on gender issues in workforce relationships and organisations such as Global Entrepreneurship Monitor on measuring female entrepreneurs' feelings about possibilities in the region.

Session Ten: Wrap up

Dr Clark thanked ESAC members for active work throughout the two days and many useful perspectives from outside the Banks environment. Further communication on specific strategies was agreed. It was also suggested that next ESAC meeting includes, among others, the following specific sessions: (i) summary of the development of

discussed Strategies; (ii) development of Bank's activities and challenges in SEMED; (iii) Bank's work and strategy for SMEs; (iv) Bank's KPIs.