ENVIRONMENTAL AND SOCIAL ADVISORY COUNCIL (ESAC) MEETING: 22nd May 2018

The Environmental and Social Advisory Council (ESAC) met at EBRD's offices in London on 22nd May 2018. The meeting was opened by Alistair Clark, Managing Director, Environment and Sustainability Department who welcomed the ESAC members present:

Nicholas Robinson
Evgeny Shvarts
Peter Bakvis
Mihail Dimovski
Marko Slokar
David Wheeler

Betsy Nelson, Vice President and Chief Risk Officer also provided ESAC with a recap of the Bank's accomplishments since the last ESAC meeting in 2017 and highlighted some of the geopolitical and financial challenges that lay ahead.

Sessions One: Revision of the Environmental and Social Policy

This session was presented by Dariusz Prasek, Operations Director, Environment and Sustainability Department. 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. Dr. Prasek stated that the ESP review has two crucial stages in the consultation process where ESAC's input is of essential value. The first stage was the public consultation which took place in the first quarter of 2018. The second window of opportunity will occur by the end of 2018 when the draft revised text of the Policy will be released for 45 days for public consultation. Public comments received, ESD's internal review, lessons learned from 4 years of implementation of 2014 ESP, PCM cases and feedback from peer IFIs indicate that ESP has nearly plateaued in terms of issues and complexity of implementation. A key issue will be effective implementation and focus on clarifying language and addressing lessons learned. No major change of architecture or fundamental revision of approach or standards is expected. Alistair Clark talked about the potential introduction of an aspirational sustainability management "chapeau" to describe the overall aspirations of the Policy, similar to what the World Bank has done in its Environmental and Social Framework.
ESAC members were invited to discuss any current or emerging sustainability issues to be added, sections that need further clarification or parts that would benefit from omitting.

The ESAC members voiced their agreement that the ESP requires no major overhaul. They discussed the idea of introducing aspirational language and how it would reflect on the implementation of the Policy. ESAC members pointed out several issues to be further considered such as appropriate disclosure on projects, stronger reference to Paris agreement; protection of biodiversity in the wider context of sustainable development; linking the Policy with SDGs, recognizing the principle to right to environment and going beyond pollution prevention and control to fully integrating resource reuse. They urged the Bank to separate its mission and vision and cautioned against including particular managerial approaches into the Policy.

Session Two: Revision of the Public Information Policy

This session was introduced by Colm Lincoln, Director, Deputy Secretary General, Board & Institutional Affairs. The Public Information Policy is undergoing review in parallel with ESP. Mr Lincoln underlined that, unlike ESP, the PIP will require substantial change of architecture and fundamental revision of certain provisions. The current mixture of policy and procedures will be addressed. Key areas for review include: alignment with revisions to the ESP in context of the environmental and social information disclosure; revision of the scope of disclosure of institutional information; pre-approval disclosure changes, for example on the scope of PSD coverage and provision of Board documents for public sector projects. The Bank is required to release PSDs on projects that go for Board approval.
The ESAC members congratulated the Bank on the improvements it has achieved in terms of information disclosure and has noted the challenges faced by all IFIs. However, the members pointed out the issue with current EBRD disclosure on certain projects: (i) IFI projects and (ii) framework projects, in particular including projects where labour issues are prominent, which leads to perceptions of substandard reporting by EBRD. They consider this is a gap that needs to be addressed. The members also touched upon the various shareholders disclosure legislation and its impacts on the Bank's disclosure policy, in particular to Board-related documents. Finally, the ESAC encouraged the Bank to further increase information disclosure on projects.

Session Three: Revision of the Project Complaint Mechanism

This session was opened by Sarah Hanes, Principal PCM Adviser, Project Complaint Mechanism. Ms Hanes talked about the PCM process and organizational structure of PCM, and provided an overview of PCM complaints and outcomes in 2017. The PCM is currently under review together with ESP and PIP, and the consultation feedback has identified six key issues of concern: consistency of complaint processing; lack of confidence of the PCM's independence and impartiality, ambiguity of PCM reporting lines; seniority of the PCM Officer; complainant security; and complaint timeframes. The Bank has put in place interim steps to address stakeholder concerns regarding PCM independence and effectiveness prior to the review: direct reporting on PCM activities to the Board Audit Committee by PCM Officer; direct stakeholder feedback to Rostered Experts during Annual Expert Training; use of ad hoc Experts for complaint processing; enhancement of internal systems and tools; and PCM Officer assumed lead drafting of Eligibility Assessment Reports. Given the substantive changes to PCM to address the underlying issues, a six-month grace period will be applied before beginning implementation of the 2019 PCM.

ESAC members expressed their opinion that emerging trends of higher volume of complaints and their source directly from impacted communities, gives testimony to the effective outreach activities carried out by the Bank in previous years. ESAC voiced their support for the PCM process and the internal improvements of the process to assure effectiveness and independence. EASC discussed the ways the PCM could consider going forward in terms of organization and reporting mechanisms to ensure harmonization with other IFIs but at the same time to maintain in-house knowledge on the process.

Session Four: Shadow carbon pricing in EBRD, information session

This session was presented by Isabel Blanco, Lead Sector Economist, Economics, Policy & Governance. Ms. Blanco spoke about the rationale for introducing shadow carbon pricing. EBRD has made public commitments to use shadow pricing (e.g. joint MDB statements on climate action in 2014 and 2017). This approach would encourage consistency in how EBRD measures the impact of projects related to carbon pricing (currently only for MEI and coal projects). She spoke about the approaches taken by other MDBs and their shadow prices. EBRD carbon price is currently aligned with the lower end of prices used by other MDBs Ms. Blanco introduced the new approach being piloted by the EBRD – application of a range of prices to high-emitting projects and their relevant emissions to be tested on 10 select projects. It would include two complementary approaches: modified IRR using potential future market carbon prices, to understand risk for EBRD and client; and CBA leading to ERR, to have a balanced view of the merits of a project where the main externalities are included, to be used internally by the Bank. ERR would not replace ETI rating based on qualities. Both approaches are to be included as an additional component of due diligence. The pilot project will be carried throughout 2018 and its implementation is expected in 2019 following interdepartmental discussions and method finalisation. A Paper will be circulated to the ESAC once the team compiles the full outcomes of the pilot project.

ESAC welcomed the Bank's work done on shadow carbon pricing and stressed that it reinforces EBRD's direction to drive GET investments. Members discussed the prices presented during the session and expressed their concerns about carbon-locked economies and the potential impacts driven by EBRD's commitment not to fund coal-fired power plants. Finally the members encouraged the EBRD to include this emerging tool in the decision making processes on whether to consider a project for funding.

Session Five: EBRD Energy Sector Strategy 2014-2018, information session

This session was presented by Kevin Bortz, Director, Strategy, Energy and Natural Resources. Mr. Bortz stressed that the Energy and Natural Resources team is very early in the revision process of the Strategy which is on its regular 5 year review cycle. The new Strategy, for the period 2019-2023 will cover all of the Bank's countries of operation (COOs), taking into account their specific transition gaps and will include all industries involved in Power and Energy Utilities such as electricity generation, transmission, distribution, storage and supply and industries including hydrocarbon extraction, processing, transportation, distribution, storage and supply. Mr. Bortz also provided an overview of the Bank's operations during the previous Strategy implementation period by region and subsector. New priority areas to be considered include decarbonising power generation, and shift to electrification with cleaner fuels; improving standards and energy efficiency in the oil and gas value chain; development of energy markets; and promoting energy efficient and inclusive economies. The timeline for development of the new Strategy is anticipated to last between May and December 2018, when Board approval will be sought. Areas under review are thermal coal and upstream oil and gas and Mr. Bortz has encouraged ESAC members to comment on the Bank's role in these sectors.

ESAC members commented on the social implications of phasing out certain types of fuel. The Strategy has to deal not only with providing sustainable energy to communities but also to promote reduction of climate change implications and GHG emissions. They recognized the challenge of transitioning from coal – locked economies to renewable energy in the Bank's countries of operation and suggested that gas and other fuels can play a significant role to help in the de-carbonisation process. They also acknowledged that the countries' energy strategies are not always in synergy with their environmental strategies which is an additional challenge for the governments. The members also opined on the future funding of coal projects, and while the 2014-2018 Strategy leaves an open door for such projects, they suggested it would be difficult to maintain this view in the new Strategy.

Dariusz Prasek thanked ESAC members for their active participation during the meeting and called for their feedback regarding the ongoing Governance Policy Reviews.