

## **ENVIRONMENTAL AND SOCIAL ADVISORY COUNCIL (ESAC) MEETING:**

***04<sup>th</sup> February 2020***

The Environmental and Social Advisory Council (ESAC) met at EBRD's offices in London on 04<sup>th</sup> February 2020. The meeting was chaired and opened by the Vice President, Annemarie Straathof and the Managing Director, Environment and Sustainability Department, Dr Alistair Clark, who welcomed ESAC members present:

- Peter Bakvis
- Nicholas Robinson
- Jacqueline McGlade
- Jan-Olaf Willums
- George Kremlis
- John Morrison
- David Wheeler
- Marko Slokar

Agenda of the ESAC meeting is provided in Annex 1.

Annemarie Straathof expressed her pleasure to welcome all ESAC members as the new VP for Risk and Compliance and to continue an ongoing dialogue to help ensure that the Bank meets its challenging environmental and social goals.

Ms Straathof and Dr Clark provided ESAC with a recap of the Bank's accomplishments since the last ESAC meeting in 2019 and highlighted some of the geopolitical and financial challenges that lay ahead.

Unlike the previous two meetings where the majority of focus was on advising EBRD on the revision of three major Bank's governance policies: the Environmental and Social Policy, the Public Information Policy, and the Project Complaint Mechanism Rules of Procedure, this year's meeting covered other interesting topics, all heavily tied to promoting the Bank's mandate.

Since the last meeting in January 2019, the EBRD has been particularly busy with the following highlights:

- Adoption of the Good Governance Policies in May 2019: Environmental and Social Policy, Access to Information Policy and Independent Project Accountability Mechanism which came into effect on 1<sup>st</sup> January 2020.
- Launch of a new Transport Sector Strategy for the five years 2019-2024, refining the previous period's strategy to work in a more focussed way on emerging global green economy and climate targets in a sector that, while slow to change, is a catalyst for economic and inclusive growth.
- The EBRD's financial investments in 2019 were complimented by a strong level of support for reforms that helped improve the business climate across our regions, including reforms to procurement processes to boost investment in renewable energy in Armenia, Kazakhstan, Kosovo, North Macedonia, Poland and Tunisia.
- The Bank helped strengthen the investment climate in Central Asia, with support for a Business Ombudsman in the Kyrgyz Republic and a Foreign Investors' Council in Uzbekistan.

- Improved policies and institutions helped raise the skills of women, young people and refugees in Egypt, Jordan and Turkey. In Ukraine, the EBRD supported financial, road-sector reforms, and better governance for state-owned banks.
- The EBRD's Green profile has been raised substantially in 2019. The number of municipalities signed up to our EBRD Green Cities programme rose to 37 by year-end.
- The Annual Meeting, which took place in May in Sarajevo, found strong local, regional and international recognition.
- The following operational results were highlighted:
  - A record level of impact to our regions in 2019 with more than €10 billion of investment, 452 operations, disbursement reaching €7.2 billion honouring a pledge to raise both the quality and quantity of our investments in 38 economies across three continents;
  - A Green Economy Transition ratio of 46 per cent with financing that hit a record of €4.6 billion underscoring our very strong support for the global climate agenda;
  - Our work last year to make economies more resilient by supporting the development of local currency markets and local currency lending. The number of local currency and local capital market projects increased to 157 from 134 in 2018;
  - The Bank hit a record of investments of €1.4 billion across 194 projects targeting the development of small and medium-sized enterprises, which have a strong potential to promote sustainable job creation.
  - The Bank achieved new records in economic inclusion, where we work to tackle inequality of opportunity and reach out to members of society who are excluded from economic progress, often women, or young people or those living in more remote areas. We financed a record 71 projects with an inclusion element, compared with 51 in 2018, with a record 55 projects specifically addressing gender issues compared with a previous 40.
  - The Bank is currently in the process of preparing our next five-year strategy. As part of that preparation, it was agreed to scale up financing in our existing regions while ensuring even greater support for positive economic transformation.
  - The Bank is also focusing on further possible engagement in the southern and eastern Mediterranean region and analysing potential options for expansion in new areas such as sub-Saharan Africa.
  - The EBRD continued to expand its membership base in 2019. San Marino became a member and Libya became a shareholder with a view to becoming a recipient of EBRD support.

Dr Alistair Clark provided an Update on the Bank's activities and issues discussed during last ESAC meeting in January 2019 and talked about the Bank focusing more on climate resilience. He briefed members on the funds we are operating, including E5P, which was ending, but shareholders decided to extend to 2029 and provided 50mIn EUR extra for investment grants for municipal projects particularly in Ukraine and other countries. Some highlights of our achievements include better safeguards on GBVH and we became the first IFI to have introduced into the ES policy framework, safeguards relating to AMR, and use of antibiotics in the food chain. When negotiating our position on GMO, we had a challenging time with the USA treasury regarding EU standards being

incompatible with US standards, demanding relaxation of our standards, which we did not relent. Dr Clark spoke about ESD's ongoing reorganising and recruiting process, beginning of the new ES Policy implementation, and introduction of the updated PCM approach, now called the IPAM, and that a new IPAM head will be announced shortly and a new mechanism will come into force.

Alistair Clark also confirmed that last year, a lot was put into climate adaptation and GET categorization. The big development was that EIB is announcing they are a Green Bank, while EBRD is a bit different.

Prof. Nicholas Robinson congratulated the Bank on the climate resilient adaptation, which is a strong message to the market sector, and praised the pragmatic approach for doing an effective work, and 46% green is more powerful than saying whose mandate is greener.

Dr Jan-Olaf Willums raised a comment that 25 years ago, the climate topic was more enlightened by people than businesses, and now the young generation are going on school strikes re climate change. He asked if we think young people are pushing harder than established professionals are. Alistair Clark replied that he thinks that our employees are pushing the Bank to up its game in sustainability; we deeply care about walking the talk.

Mr George Kremlis congratulated the bank and Annemarie for her new appointed. He also said that in November 2019 he became a chief advisor to the Greek minister of energy and proposed the Bank to do more. Greek PM is extremely ambitious re climate change and in Greek national strategy on climate change (communicated to EC in Dec 2019); they are phasing out lignite in 2028 way ahead of Germany. He said that he keeps his post on circular economy in the EU and will chair in December 2020, the meeting of the parties of the Espoo convention with important events on circular economy and will be happy to have EBRD represented on one of the panels.

Annemarie provided information on the Bank's upcoming TCFD event, so the Bank is moving to standardization on how the institute report on climate financing and climate resilience and regulators are noticing this. She also discussed how we might fuel the role of ESAC now and into the future as we are touching a world where E&S is changing, but now that we have that framework, we need ambassadors in the world and how ESAC can promote and explain what we are doing.

**Session One and Two on Climate Resilience and Climate Adaptation** were presented by Craig Davies, E2C2 Associate Director.

Craig presented on the approach to climate resilient infrastructure and said that he will be going to the OECD meeting of Environmental ministries to discuss how to develop the adaptation plans effectively to be more resilient. This needs to go beyond traditional environmental ministries and needs cross cutting engagement of different authorities, planning, etc., a wider stage of stakeholders, which would be a helpful step forward.

Ms Isabelle Laurent raised questions about the framework produced initially and Climate Resilience Bond with clear use of proceeds. The dialog when setting this up was very important; CBI has now listed it. We are always concerned to ensure that we do what investors want but we need to guide them. With CBI, we still should have very active dialogue, e.g. on road projects, under climate resilience principles, there should be no GHG increase so, trade-offs need to be explained. They said road projects need to be taken out, which we did not agree with.

Ms Jacqueline McGlade talked about Ukraine and said challenging force is what is happening at the wider landscape, and management of land was leading to massive losses, storage was a critical issue.

Interesting how conversations are going when you are probing deeper into the context where these projects are emerging and when you are entering a policy phase, which is challenging. Global assessment of risk for disasters has a new framework, where she is working and where they are trying to understand the chain effect. She was curious how the words, resilience, adaptation, and mitigation are linking to disaster risk reduction.

Mr George Kremlis stated that EU legal obligation is to adopt climate change adaptation plans at national and regional level and he is pushing Greece to have it also at island level as he thinks they are much more vulnerable to climate change. What kind of support can the Bank provide to this, shaping the adaptation and resilience plans and implementation?

Prof. Nicholas Robinson pointed out that the Bank is making an important step in integrating social aspects, but sees mostly economists; how does the Bank bring the social dimension of the stakeholders and people affected by the projects? Scientists are not integrated at this stage with the economists, which tends to disappear in the products that you publish. Triple bottom line is missing (e.g. what do businesses want). It also seems you are masters of your own EIA procedure, but you can still be better, EIA databases gives us information on how we can measure change; capturing past EIA and future EIA and putting it online so the world can see it.

Craig responded to Ms McGlade that when it comes to corporate financing, which cover 10 to 15 % of our financing, we think on how we approach corporates through corporate climate finance people in EBRD. We need to think about changing the business model of clients. TCFD have thought many financial institutions how they can improve their business models. We are working with an Agri client that will develop tools and governance to be able to identify climate related risks to their businesses to inform their decision-making. He does not have a good answer on what the EBRD is doing about climate related disasters, it depends on our mandate and the funding that is available, and it is difficult to provide financial instruments for disasters.

Mr John Morrison raised a question on whether there will be a social component in resilience bonds.

Isabelle Laurent said that there are more green funds than green bonds. When we started doing metrics for projects, e.g. water, and some people commented that these are social metrics; so we have six main categories for green projects and are doing our seventh. It is not an issue of segregation of bonds, even though I think monies will still be segregated as well as Funds. SDGs is an issue for me, as they do not fit into projects we do. We will evolve and are evolving but hard to fit into SDG metrics.

Ms Jacqueline McGlade asked if you could score a hit in SDG reporting if you use goal 17 (environmental technologies), but enabling issues are also covered by the target so this could be a real innovation?

Alistair Clark responded that EBRD is moving ahead of the EU; we started using social requirements and we require more to be done on the social side. We have commissioned studies about climate resilience and impact on societies.

Prof. Nicholas Robinson stated that it does not show in reporting on climate risk metric, as it is economic. He wants to see two more dimensions to these themes (e.g. not in the outcome report) but in the TCFD report we are implementing.

Craig replied that the climate message is in the ESP and we have a functioning mechanism. EU sustainable finance approach is a good instrument, they are developing their taxonomy, and perhaps this could evolve to include gender and social issues.

Mr David Wheeler raised a point that we need new form of accounting for climate risk exposure and climate accounting. This is now a very business driven process and needs to change. Alistair replied that through decision to do TCFD we are trying to create something and apply it systematically to our portfolio. We need to step up and scale up from doing individual projects and this is a challenge to us how to fully participate in the Paris alignment concept.

Robert Adamczyk added that we are trying to set out best practice on ESG on non-financial disclosure. CSI used to be greenwashing, but that has evolved into ESG more concrete data. We have EU guidelines based on TCFD and reporting is getting better. We are trying to help develop best practices under the non-financial disclosure. This is still voluntary, however we do include it in our ESAPs, it is more ad hoc as some corporates are not able to do it yet and are struggling with much more basic issues such as EHS. I think that by 2022 many requirements under EU taxonomy will become our standard.

***Session Three on Just Transition was presented by Isabel Blanco, AD, Lead Sector Economist***

Mr George Kremlis pointed out that Just Transition is a much wider conversation than EBRD and revolves around policy shifts around decarbonisation – what happens to societies that are heavily dependent on coal. We are working with Isabel’s team and I see it as just transition to policy change rather than just JT to physical climate adaptation, so I think policies are most important and these do have social implications, take for example water pricing. He also said that at EU level we are developing JT fund, which is the new architecture of the new period. What is the role of the bank in the complementarity when the JT fund intervenes?

Mr John Morrison added that ESG framework seems to be missing from JTI, it is written in a developmental way, which is appropriate and responsible.

Mr Peter Bakvis added that trade unions came up with a concept of JTI and thinks the approach will be developed further in the paper, which can be broadened and enhanced. A lot of emphasis is on coal, as a priority, which is appropriate. Improvements can be made in the role of stakeholders, which were not identified but should include CSOs, TU. Emphasis on access to finance and entrepreneurship which is a good thing but there is a need. JT and business guide available (Canada) and EBRD could develop a joint approach.

Mr Marko Slokar added that he is assisting the government of Serbia in developing strategic documents and has just finished climate change strategy draft. What we are doing is necessary but not enough; we need to do this across different sectors. If this is presented as an opportunity, then it can be viewed as something positive.

Mr David Wheeler stated that it is important that EBRD is doing this and supports the focus on coal; however, he thinks it is important to get the technology right because JT comes with a lot of baggage. What you are describing is JT for fossil fuel intensive industry in your CoOs. You also need to include all chains in the market to come because of modernisation and automation. Where does EBRD play in the transformation of the labour market, where coal is only the tip of the iceberg? It is great that EBRD is doing this but this is just the tip of the iceberg and work that is a lot more precarious is coming along, what is EBRD’s approach there. Whatever you do will be a small but important contribution so the key players will be local authorities and they need more money than you can put in, so do not be limited by sectors of operation but rather by regions; catalyse other investments and just focus on the regions where you operate.

Prof. Nicholas Robinson said that he agreed with Isabel, it is very important and the most important step the EBRD is taking since adding social to the environmental. There are resource economists

thinking that needs to be fitted in this policy. There are three constituencies: workers, wider community and ecological aspects and significantly future generations. If we do not think about how the policy will enable future generations then it is an incomplete picture. If you want the Bank to be interdisciplinary, there are universities working on JT and how it can be equitable for the present generation; do policy need to take into account jurisprudential discussions already taking place? You have a great legal potential in the Bank so use it. I commend you for what you have done.

Isabel Blanco replied that the role of EBRD is unclear and she would like to discuss our role in Brussels. We are aligned on the key issues; I see EBRD in the investment facility set up by the EU. We have gone to Western Macedonia to do diagnostics to determine how we can help and where we fit and are open to exploring more. We will do a similar mission in North Macedonia, which will be interesting because it is outside of the EU. She thanked George for his support in Western Macedonia and suggested a similar support to Peloponnese, which has lignite lands so we can have an integrated approach.

She also provided a response to Mr John Morrison on ILO standards, which is missing, we have spoken to the ILO on what jobs should be created, and we would like to incorporate their views; I take your comments on board and on precarious work. Private sector impact cannot be maximised until SDG is included.

Isabel responded to Mr Peter Bakvis on why we are focusing on coal, there is much more happening, and we need to start somewhere; working with social actors – depends on where we go, they are sometimes undeveloped and especially in Kazakhstan, there is not much awareness of the issue. We have defined some stakeholders and should focus more on the wider community, not only the immediate workers. We need to be promoting mobility and work with CSOs.

Alistair Clark thanked the ESAC members for their active participation in the day's sessions and invited them to send written questions and comments on any issues that they want answered further.

## ANNEX 1

## ENVIRONMENTAL AND SOCIAL ADVISORY COUNCIL (ESAC) MEETING

on 04<sup>th</sup> February 2020, Rooms 2.04/2.05 – 2<sup>nd</sup> Floor, EBRD, LONDONAGENDA

08:45	Assemble
<b>Morning Sessions</b>	<b>Chaired by EBRD Managing Director, Environment and Sustainability Department Dr Alistair Clark</b>
9:00 -9.30	Opening remarks by Managing Director, Environment and Sustainability Department Dr Alistair Clark Update on Bank's activities and issues discussed during last ESAC meeting in January 2019
9.30-10.15	<b>Session One</b> Climate Resilience and Climate Adaptation Craig Davies, E2C2 Associate Director, Lead
10:15 – 11.00	<b>Session Two</b> Climate Resilience and Climate Adaptation (continued) Craig Davies, E2C2 Associate Director, Lead
11:00 – 11:15	Tea/Coffee Break
11:15 – 12:00	<b>Session Three</b> Just Transition Isabel Blanco, AD, Lead Sector Economist
12:00 – 13:00	Lunch – 7 <sup>th</sup> Floor Atrium
<b>Afternoon Sessions</b>	<b>Chaired by Vice President Annemarie Straathof and Managing Director, Environment and Sustainability Department Dr Alistair Clark</b>
13:00 -14:00	<b>Session Four</b> Impact Investing Alan Rousso, MD, External Relations & Partnerships
14.00 – 15.00	<b>Session Five</b> EBRD Transport Sector Strategy 2019 – 2024 Sue Barrett, Director, Head of Infra TMEA, SIG
15:00 – 15:15	Tea/Coffee Break
15:15 – 16:00	<b>Session Six</b> Information session on the European Development Architecture Alistair Clark, MD, Environment & Sustainability
16:00– 16:30	Remarks by EBRD Vice-President, Risk, Annemarie Straathof Wrap up

*Feedback and overview of the ESAC 2020 meeting*

*19:00 onwards*

*Dinner – venue tba*