

# The European Bank for Reconstruction and Development

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The European Bank for Reconstruction and Development was established in 1991 in London. The EBRD was the first multilateral development bank with an explicit environmental mandate built into its charter. That mandate requires the Bank to promote “environmentally sound and sustainable development” in “the full range of its activities.” The charter also commits the Bank to fostering democracy and democratic institutions, rule of law, and respect for human rights in helping the countries of Central and Eastern Europe make the transition from centrally planned to market economies. The EBRD is the largest single investor in Central and Eastern Europe, and the Commonwealth of Independent States. The EBRD has signed 2636 projects for around 37 billion euro in 29 countries in the region since its establishment in 1991<sup>97</sup>. Since 2006 the Bank have increased its lending up to 5 billions euro annually.

Currently the EBRD has 63 members (61 countries, the European Community and the European Investment Bank), with a total of 27 countries of operations. The Bank’s subscribed capital is 20 billion euro (5 billions is paid and 15 billions is callable). The EBRD has credit rating of AAA from Standard & Poor’s and Aaa from Moody’s. The Bank does not directly utilise shareholders’ capital to finance its loans. Instead, the AAA/Aaa rating enables the Bank to borrow funds in the international markets by issuing bonds and other debt instruments at highly cost-effective market rates.

The Bank provides loans, equity investments and guarantees for private and public sector projects in the areas of finance, infrastructure, industry and commerce in these countries. Its activities include the promotion of the private sector, the strengthening of financial institutions and legal systems, and the development of infrastructure needed to support the private sector. The EBRD works in close cooperation with other international financial institutions such as the World Bank and the European Investment Bank.

Unfortunately, during the years of its operation, the EBRD has become involved in a number of problematic projects. The EBRD is the only development bank currently opting to finance the construction of nuclear power plants, such as Mochovce in Slovakia and Khmel-nitsky 2 and Rivne 4 (K2/R4)<sup>98</sup> in Ukraine. Through its funding of oil projects, the EBRD not only contributes to climate change but also causes a number of local problems. Such projects, of course, mainly involve high profits for oil companies rather than bringing benefits to

<sup>97</sup> Data EBRD fact sheets updated January 2008 <http://www.ebrd.com/pubs/factsh/themes/introe.pdf>.

<sup>98</sup> Read more for K2/R4 projects on CEE Bankwatch Network web site <http://bankwatch.ecn.cz/project.shtml?s=153988>.

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local inhabitants. The most recent case of this is the BP-led Baku-Tbilisi-Ceyhan oil pipeline<sup>99</sup>, which will export vast amounts of Caspian oil to western markets. The EBRD is currently considering financing the second phase of Shell's controversial Sakhalin 2 oil and gas project<sup>100</sup> in the Russian far east. The EBRD has also been one of the key investors in gold mining in the region. One such notorious project backed by the EBRD is the Kumtor Gold Mine in Kyrgyzstan where a string of accidents have taken place, including a cyanide spill that seriously affected several hundred people.

Civil society organizations (CSOs) are involved in campaigning on a number of EBRD projects and also devotes attention and resources to improving the EBRD's safeguard policies such as its Environmental Policy, Public Information Policy and the Independent Recourse Mechanism, and the EBRD's sectoral policies such as the Energy Policy, the Natural Resources Policy and the Transport Policy.

The primary **civil society concerns** with the EBRD include:

- weaknesses in environmental and social policies;
- lack of transparency;
- insufficient access and influence for local communities to projects that affect them, and
- the lending priorities of the Bank;

### EBRD Environmental Policy review in 2008

In line with its founding mandate, the EBRD is required to adhere to the political, economic and environmental dimensions of sustainable development in all of its operations. However, the EBRD often fails to implement the policy requirements of this mandate in its operations, especially for projects to which it lends. The review of the EBRD's Environmental policy will be finalized in the second half of 2008. The CSOs see the EBRD plans to expand the Environmental Policy into an Environmental and Social Policy which as a positive step. However the Bank should do more to improve the sustainable footprint of its investments.

Given the real and increasing negative impacts to the environment and global economy caused by climate change, the EBRD needs to follow other international financial institutions by adding **a fifth strategic direction to the Policy that specifically directs/commits the EBRD to focus its overall investment portfolio on the transition to a low carbon/low GHG economy**, i.e. primarily phasing out the use of fossil fuels.

Additionally, project information available under the Environmental policy remains limited. The Environmental Impact Assessment for private-sector projects is released only 60 days prior to Board approval, leaving little leeway for the public to present any thoughtful feedback during project planning. While the Environmental policy references the Aarhus convention, which guarantees the right of every citizen to environmental information, the Policy does

<sup>99</sup> Read more for Baku-Tbilisi-Ceyhan oil pipeline project on CEE Bankwatch Network web site <http://bankwatch.ecn.cz/project.shtml?apc=-153988-1&s=153907>.

<sup>100</sup> Read more for Sakhalin 2 oil and gas project on CEE Bankwatch Network web site <http://bankwatch.ecn.cz/project.shtml?apc=-153978-1&s=166066>.

not grant full access to project documentation, as initial project discussion papers, loan agreements between the EBRD and project sponsors, Environmental Action Plans and loan contracts, and all implementation and supervision documents are kept confidential. In this way, the Policy prevents citizens from engaging effectively in the decision-making processes regarding project design, mitigation of negative environmental and social impacts, and quality of implementation.

Other demands of the CSOs towards Environmental Policy review are that the Bank:

- Draft and include in the new policy strategies for gender, labour and poverty impact of its investments;
- Accept broad definition of project boundaries according to the project areas of influence and make it subject to public consultation;
- Require its loan beneficiaries to meet EBRD environmental and social standards for all its operations.