EBRD requirements and lessons to date

Robert Adamczyk

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Why do Environmental and Social Issues Matter

Why does EBRD place emphasis on environment and social issues?

The *Agreement Establishing the EBRD* commits the Bank:

"to promote in the full range of its activities environmentally sound and sustainable development."

Environmental and social due diligence

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- Environmental and (increasingly) social issues pose substantial reputational and financial risk to Lenders
    - Project delay/cancelation, overruns, Public protest
- IFI’s do environmental and social due diligence on all projects
- Due diligence designed proportional to risk
- Projects ultimately required to meet national standards and IFI requirements and EU;
    - Why EU standards: EU accession process, European Energy Community, EBRD requirements…
- Results of due diligence and E&S compliance considered by Bank management and Board of Directors during project approval process

Environmental and Social Policy (2014)

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- E&S Policy applies to Bank
    - Categorization of Project based on risk and EU EIA requirements (Annex 1 projects)
- 10 Performance Requirements (PRs) apply to all clients and projects
- EBRD PRs have same titles and are broadly equivalent to IFC Performance Standards
    - broadly equivalent to Equator Principles
- Reference to EU environmental standards
- World Bank has new Policy

Stakeholder engagement and consultation

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- Always important
- All projects are disclosed for meaningful engagement, prior to Bank approval:
  - A vs B category
  - public (120 days) vs private (60 days)
- May (often) require more than national EIA
  - The developer should ensure appropriate public consultations done in line with best practice.
- Category A projects require participatory engagement (meetings)
- Engagement with local stakeholders needed, including NGOs (CSOs)

The risk is real

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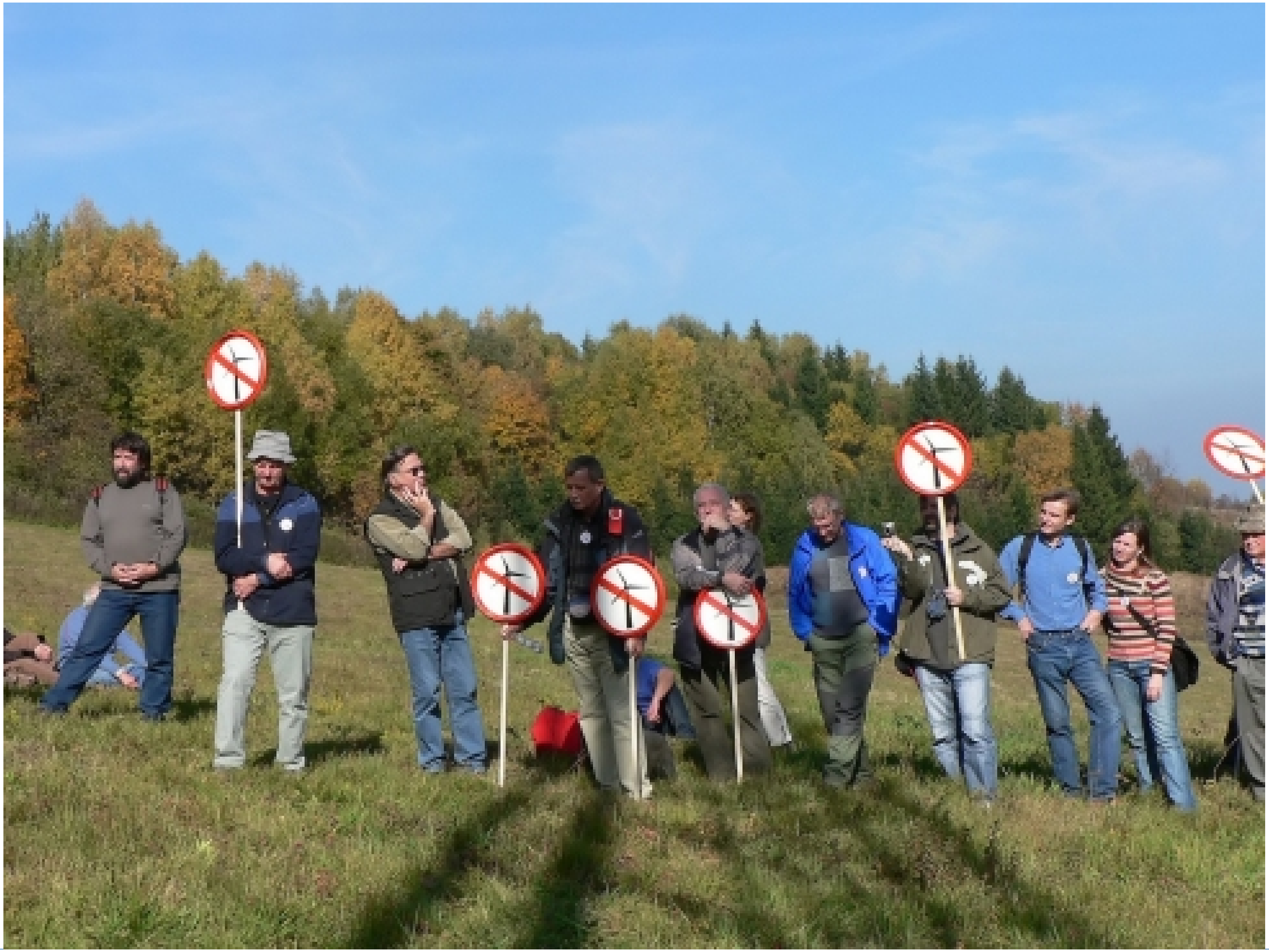

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EBRD approach

EBRD and IFI due diligence Requirements

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- Each project different
- Assessment of cumulative issues and site sensitivity
- Need to develop Stakeholder Engagement Plan (SEP) and stand alone Non Technical Summary (NTS) to ensure **meaningful public consultation** on all projects
  - Consideration to local languages.
- IFI's unlikely to finance projects that are in sensitive bird areas (inclusive Natura 2000 etc).
  - We will not finance projects where appropriate assessments conclude there are significant unavoidable adverse impacts
- Major projects: ESIA, SEP, NTS, FLRP disclosed for at least 60 days (private sector, 120 public sector)

PR1: Appraisal (1)

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- All EBRD projects are subject to appraisal of potential environmental and social impacts
- A-Category projects undergo “special formalised and participatory assessment processes”, generally a “comprehensive environmental and/or social impact assessment.”
    - Greenfield and major expansions that can cause significant adverse effects are Category A.
- B-Category projects also undergo due diligence process to identify and assess potential future impacts.

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LCP and IED

IED is now required
LCP is now Strengthened by BAT

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Old LCP and IPPC

- BAT a general principle
- Often widely ignored
- Emission limits set in the LCP Directive

IED

- BAT is a legal requirement
- Annex V emission values for LCP's
- Derogations allowed but following a specific procedure
- Emission limits must not exceed limits defined as BAT – i.e. moving target

BATs and BREFs

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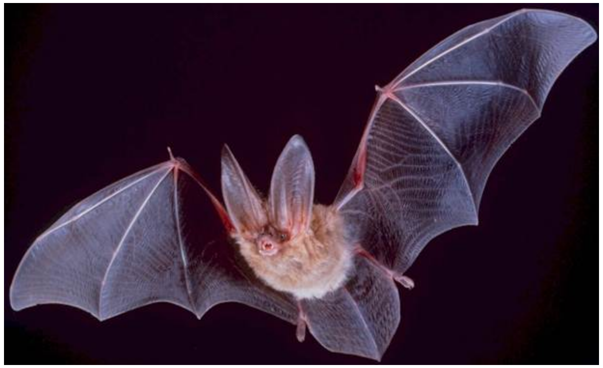
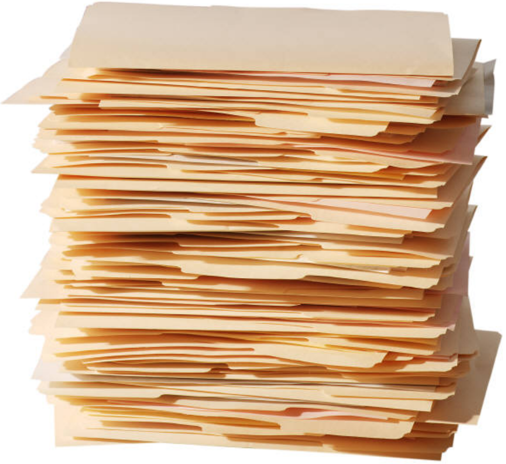


The standard – Best Available Techniques



The details – BAT Reference document

The most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing the basis for emission limit values and other permit conditions designed to prevent and, where that is not practicable, to reduce emissions and the impact on the environment as a whole:

(a) ‘**techniques**’ includes both the technology used and the way in which the installation is designed, built, maintained, operated and decommissioned

(b) ‘**available**’ techniques means those developed on a scale which allows implementation in the relevant industrial sector, under economically and technically viable conditions, taking into consideration the costs and advantages, whether or not the techniques are used or produced inside the Member State in question, as long as they are reasonably accessible to the operator

(c) '**best**’ means most effective in achieving a high general level of protection of the environment as a whole.

The detail of what this means is in the BREF

Emission limits – main challenges in Accession Countries (also EU)

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- Definition of installation not boiler but stack
- Lower limits for smaller plants (less than 300 MWth)
- Dust limits reduced for smaller plants.
- NOX and SOX for larger plants unchanged but many CHPs (including industrial) now need investments and 17.500 hour derogation quickly remove.
- BUT – bear in mind limits imposed by BAT and what the future emission and Carbon emission will be
- Also note alternative desulphurisation rates for indigenous solid fuel

New Medium Combustion Plant Directive (2015/2193) to address combustion plants less than 50 MWth. Will impact smaller heating plants.

Gas CCGT has been a key focus of development as well as renewables.

Timeline for implementation

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2012 – IED come into force, all new plants

2016 – Limits take effect

– different for pre-2012 permits and post

2020 – Expiry of Transitional National Plan

local derogations for some plants

2023 – Expiry of limited lifetime derogation

2023 – Expiry of CHP exemption

IED Impact

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- **New investment plans beyond minimal standards**
- **Existing plants struggling to meet LCP and IED**
  - E.g. large coal fired plant in Non EU Member States
  - Current emissions of 2000 mg/Nm3 dust
  - 50 mg/Nm3 by 2020
  - Sox not considered!.
- **Need to Plan for new more efficient FGD and ESPs/Bag filters**
- **Equity of Power Companies impacted by IED and Carbon prices**
  - IED, more CAPEX
  - Carbon price – OPEX
- All stock exchange companies need to disclosure non financial information (EU Directive 2014/75)- in essence requirements for CSR. This will put further pressure on disclosure and can affect value of companies
  - Do rating agencies take this into account

What it means for financing

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- Overall, EU owned institutions will not longer directly finance coal fired Projects!.
- Many International Commercial Banks will no longer finance new or major coal fired Projects.
- Any Project needs to demonstrate a carbon reduction and be future proofed and climate change and adaptation measure need to be integrated into project and risk assessment
- Some exemptions to CHPs under specific circumstance (EBRD coal policy)
- Gas conversion and renewables main focus of IFI's
- Climate Change is a fact and will need to be considered.

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Summary and Conclusion

Key issues:
IFI's will only finance best projects.

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- Coal projects difficult to finance by IFI's and International Lenders.
- EU law, such as IED is the new benchmark for all Projects
- Energy Efficiency is a key driver in Project appraisals.
- Practice shows:
  - Project delays due to late consideration of Environmental and Social impacts and Permitting not structured for international financing
  - Biodiversity baseline and impact assessment not adequate. Eg. on renewable projects,
  - Associated infrastructure not always assessed
  - Social impact Assessment and inclusion of local populations not always considered. Need for robust consulation
    - Global context of growing social tensions
    - Will the local community benefit- any local taxes to local community ?
    - Loss of land use ? Loss of livelihoods ?
    - Is this a long term risk ? Operational risks ?

Contacts

For all further enquiries, please contact:

Robert Adamczyk
Senior Environmental Advisor
Sector Leader for Power and Heavy Industry Sectors
Environment and Sustainability Department

Tel: + 44 207 338 6785
Email: adamczyk@ebrd.com

EBRD, One Exchange Square
London, EC2A 2JN UK
www.ebrd.com