



To: The President and Executive Directors of the EBRD

CC: Hildegard Gacek, Managing Director, Southern and Eastern Mediterranean (SEMED), Philip ter Woort, Director Egypt, Biljana Radonjic Ker-Lindsay, Head of Civil Society Engagement Unit, Luisa Balbi, Civil Society Adviser

24 May, 2013

Subject: EBRD support to the KEC Gas Flaring Reduction Project

Dear President Chakrabarti and Executive Directors of the EBRD,

We are writing to you in your capacity as Directors of the EBRD to express our serious concerns regarding the USD 40 million loan proposal for the KEC Gas Flaring Reduction Project currently being considered by the EBRD.

Given the serious flaws in the project assessment, the lack of additionality of the EBRD and the current violation of the basic principles of democracy and pluralism set out in Article 1 of the Agreement Establishing the Bank in Egypt, we urge you to reject the loan at the next Board meeting on the 29th of May.

At a minimum, we demand you to delay your decision to allow a stabilization of the political situation in Egypt. The project also needs to be thoroughly reassessed to address a number of issues we detail in the briefing paper attached:

- **The EBRD failed to properly identify the beneficiary of the loan.** The Bank is using outdated names for the company and fails to identify the country where it is incorporated (i.e. Jersey).
- **The “gas flaring” part of the project is unclear.** Documents produced by Kuwait Energy and existing financiers make no references whatsoever to any plans to reduce flaring in Ukraine, whereas in Egypt, actual action to reduce flaring still depends on negotiations with the Egyptian government. It is also unclear which portion of the \$40 million EBRD loan would go towards reducing gas flaring beyond the €65,000 Technical Co-operation funding to assess potential reductions in gas flaring.
- **The project was miscategorized as B** on the basis of a supposed focus on a reduction of gas flaring and “environmental improvements” whereas it is likely that the “field development” element will be the real focus of Kuwait Energy activities in Egypt.
- **The additionality of the EBRD is dubious.** First, IFC Project Documentation disclosed in April 2012 shows Kuwait Energy already committing under Performance Standard 3 to a

process of negotiating with the Egyptian government over reducing gas flaring, regardless of EBRD financing. Secondly, it appears that the EBRD's proposed loan will contribute to a refinancing of Kuwait Energy's previous debts, and thus to previous Kuwait Energy activities that were not assessed by the EBRD.

- **There is no additional transition impact.** The Transition Impacts listed in the PSD are almost all either already taking place in Egypt [(i) Competition in the oil sector in Egypt], or taking place through Kuwait Energy's existing plans [(ii) (1) exploring flaring reductions,; (2) promoting equal opportunities for women; (iv) Policy dialogue with Egyptian government over flaring reduction.]. The only potential additional Transition Impact would be increasing disclosure of payments. However, in the oil sector, the best practice is broader than merely disclosure of payments to authorities and also includes online publishing of contracts signed. Therefore, EBRD demand is a *weakening* - not a strengthening - of international best practices on transparency.
- **The politically situation in Egypt is extremely violent, and the government is moving away from compliance with Article I.** The EBRD's financing of this project will not create any move towards the principles of Article I, but instead assure the government that it can get away with continuing the current trend of increased repression and authoritarianism.
- **The nature of the project conflicts with the stated objectives of the EBRD in the SEMED region.** The Bank claims to be prioritizing renewable energy in its new countries of intervention. Its support to an oil & gas projects in Egypt, which is one of few sectors that do not have difficulty in attracting investment, is seriously undermining this claim and the reputation of the Bank.

With so much at stake, we hope that you will reject the loan to the KEC project, or at least postpone your decision on the project and address the issues we have raised. We look forward to hearing from you at your earliest convenience and we count on your utmost attention to the project.

Yours Sincerely,

Egyptian Association for Collective Rights (EACR)
Egyptian Center for Economic & Social Rights (ECESR)
Egyptian Initiative for Personal Rights (EIPR)
Habitat International Coalition
Arab NGO Network for Development (ANND)
CEE Bankwatch Network
Platform-London
Both Ends Netherlands

Attachment: Briefing - Concerns over the EBRD's proposed loan to Kuwait Energy, May 2013