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State Commission warns of corruption and illegality at Šoštanj

Fresh controversy hit the proposed 600 MW lignite power plant at Šoštanj in Slovenia in late February when the Slovenian State Commission for the Prevention of Corruption issued a report in which it says corruption conditions existed at the time of the awarding of the construction contract to French company Alstom and continue to exist today. The Commission report also states that Slovenian lobbying legislation has been breached by the goings-on at Šoštanj.

These findings confirm warnings that Bankwatch and Focus, our partner in Slovenia, gave to the EBRD and the EIB, the international public banks helping to finance Šoštanj, almost one year ago.

Piotr Trzaskowski, Bankwatch's Energy and Climate Coordinator, commented: “In our long-term monitoring of the investments of the EIB and EBRD in central and eastern Europe, one of our main concerns has been that the banks rush into what seem to be profitable projects in the region, without properly assessing their social and environmental costs and also without conducting proper due diligence to make sure that they work with reliable partners in the region. Šoštanj is a case in point.

“We have repeatedly informed the banks about the problematic aspects of the project, both when it comes to its climate impact as well as the inappropriateness of putting European public money into a project tainted by allegations of corruption. To no avail thus far.”

Having signed off contracts for Šoštanj financing, the two banks are looking to provide EUR 750 million of the EUR 1.3 billion cost of the plant: EUR 550 million is the EIB's contribution (and it has already disbursed EUR 110 million), while the EBRD's share is EUR 200 million, half from its own resources and half from a syndicated loan from five western European commercial banks.

If and when it becomes operational, the new block at Šoštanj will prevent Slovenia from meeting 2050 climate targets set by the EU (when they are extrapolated from the EU level to Slovenia). The project is being pushed without a proper assessment of alternative investments into renewables and energy efficiency. Allegations of corruption within the management of the plant have been widely circulated in Slovenia for some time now, with members of the government calling for an investigation and the police opening a case to examine the accusations.

The controversy surrounding the proposed sixth block at Šoštanj has been in the public eye in Slovenia for over two years. Doubts about its high environmental costs, uncertain economic viability as well as the corruption allegations have repeatedly hit the headlines in the national media and many in the country do not support the construction of the new block.

Even the authorities in the country have expressed reservations, the most prominent perhaps being the former minister of the economy, who in the beginning of 2011 openly questioned the economic viability of the project to construct the new block and called for a police investigation into corruption.

The concerns raised by the Slovenian State Commission for the Prevention of Corruption should compel the EBRD and the EIB to reassess their investment plans. In its report, the Commission concluded that “the project (the new block at Šoštanj) is designed and implemented in a non-transparent manner, lacks supervision and is burdened with political and lobbying

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Polish energy companies' black propaganda threatens EU climate ambitions again

Poland is on course to place further large roadblocks in the way of the European Commission's Roadmap 2050 towards a low-carbon economy unless certain demands being insisted on by Warsaw are met. These include the granting of free allowances for all 16 power plants that Poland has asked to be supported under the EU's Emissions Trading Scheme system.

Following its blocking of EU emission cuts in June last year, at last week's EU Environment Council meeting in Brussels Poland once again was the only member state that refused to accept a proposal to adopt indicative long-term targets of 40 percent emission cuts by 2030 (based on 1990 levels) and 60 percent by 2040.

In Poland itself, such is the strength of the Polish energy lobby that propaganda about the potential threat to the country posed by the EU climate and energy package permeates public debate and the national media.

The most recent example of these lobby efforts came in February with the publication of a report from the Polish Chamber of Commerce (Krajowa Izba Gospodarcza), together with the biggest Polish energy companies Tauron Polska Energia S.A. and PGE (Polska Grupa Energetyczna) S.A., that claimed that the costs of implementing the EU climate and energy package would be four times higher than estimations made by the World Bank and the European Commission.

However, as pointed out by 22 environmental groups – including Bankwatch – in a press statement released in late February, the report authors have conveniently left out a few details, allowing them to arrive at their magic number.

Left out altogether of the calculations in the industry report are the externalities of industrial energy production, the costs of coal subsidies and imports of coal, that reaching 15 million tonnes of CO_2. Hence, the baseline scenario against which the costs of the EU package are compared is grossly underestimated.

The business as usual scenario presented in the report includes investments in new coal-fired and gas-fired power plants that amount to over EUR 14 billion, representing one tenth of all energy investments

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influences, and as a result there has been (and still is) a high risk of corruption and conflict of interest."

The Commission noted that both the technical commission implementing the public procurement for the plant and the group negotiating the contract included employees of CEE Inženiring za energetiko in ekologijo d.o.o., which has close business links with Alstom. As a consequence, "conditions for corruption" were created, as Alstom "could have had access to complete information about the offer of the competitive supplier".

In addition, the official body declared that national lobbying legislation was breached as the law for state guarantee, required to be passed for the biggest chunk of the EIB loan to be cashed, was drafted by members of HSE, the owner of the Šoštanj complex. The Commission also noted that at the moment it cannot reveal any more details about the case as pre-trial processes have been initiated for the offenses described above.

The Commission went on further by calling on the Slovenian government to ensure that corruption allegations be properly checked before moving on with promoting the project. Unfortunately, this call fell on deaf ears: just two days after the Commission report was published, the Slovenian government confirmed that it supports the offering of a state guarantee for four fifths of the EIB loan.

Lidija Živčič, from the Slovenian NGO Focus, commented: "The Commission for the Prevention of Corruption sent a strong signal to our government not to continue promoting Šoštanj Block 6 until corruption and unlawful lobbying allegations are cleared up and proper safeguards are in place to avoid such practices in the future. If our government has acted disappointingly on this occasion, we at least hope that our parliament, expected to vote on the state guarantee law later this month, will act more responsibly and withhold the state guarantee law until the open investigations into corruption are completed.

"Regardless of what Slovenian authorities decide, though, we demand that the the EBRD and the EIB halt their loans for the project until the police completes the corruption investigation. As public banks of the EU, they could serve as examplars of transparency and responsibility for our political leaders. The two banks have been informed about the recent findings of the Commission, so they have no excuse not to look into these concerns and respond properly to them.

"Not deferring their loans at this moment would mean that the EBRD and the EIB are not interested in checking whether the allegations of corruption are true. In fact, the two banks should use this opportunity to withdraw from a project that, apart from being based on possible unlawful actions, also stands squarely in contradiction to the EU's long-term climate policy that both banks are supposed to support."

Activists in Slovenia are planning to call for a referendum vote on the project if the parliament also chooses to support the state guarantee loan. The prospect of confrontation with the public should give the two European public banks further pause for thought when it comes to their troubled involvement in Šoštanj.

Polish energy... from page 1

required to be made by Poland by 2030 if the country is to be in line with the 450 ppm scenario set out in an International Energy Agency study dedicated to Poland from March 2011.

Yet what the report fails to include in this scenario is the EUR 10-19 billion in external costs passed to society every year by the Polish energy sector. It also fails to take into account the negative consequences of Poland's growing dependency on imported coal – in 2011 the country imported over EUR 1.5 billion worth of coal. Also not included in the report calculatios are the subsidies paid by the Polish government to energy companies – these totalled in excess of EUR 650 million in 2010.

Were these costs to be included in the baseline scenario, it would be found that supporting Poland's current fossil fuel based energy system costs the Polish government and society at least EUR 15-22 billion every year. These are the costs that the Polish energy companies who bankrolled last month's report issued do not want to speak about.

In fact, the true costs of Poland's dependence on coal run much deeper: the dominant position of coal companies in Polish society weakens public debate, ensures that information about alternatives to coal fails to reach the general public, and thus in fact prevents the country from developing a green economy with new jobs and opportunities. Furthermore, Poles are paying for this coal dependency with their lives: pollution coming from coal lowers the life expectancy of the average Polish citizen by at least eight months, according to estimates by the World Health Organisation for the year 2000.

Ultimately this dependency is affecting the lives of future generations, whose quality of life looks set to become much worse if Poland continues down this dirty route that the industry profiting from it is intent on keeping open for as long as possible.

EU funds for Czech incinerators in the balance thanks to local opposition

The European Commission is considering financial support for three new major municipal waste incinerator projects in the Czech Republic. The total cost for these projects is EUR 520 million and the projects have also requested a subsidy from the current Operational Programme for Environment (OPE) totalling EUR 184 million.

Legal background

In preparing its national waste management plan (WMP), in 2002 the Czech Ministry of Environment commissioned economic analyses of two possible solutions. One solution permitted the construction of municipal waste incinerators and the second was based on a combination of waste prevention, a high degree of sorting, recycling, composting and mechanical biological treatment of residual mixed municipal waste. A study prepared at Charles University in Prague concluded that the recycling option would require between EUR 64-260 million more than the investment proposal based on the construction of incinerators (EUR 400-596 million).

The eventual 2003 WMP aimed at increasing the Czech Republic's recycling rate and featured the intention to no longer invest in municipal waste incinerators. However, the necessary changes in national waste legislation to ensure meeting these targets in the WMP have not been realised over the last nine years. In 2009, indeed, the caretaker Czech government updated the WMP without debate or assessment of the environmental impacts. The main reason for doing so was to cancel point No. 4.i.: "not to support construction of new municipal waste incinerators from state funds." The aim was to allow the regions to apply for EU grants for municipal waste incinerator projects.

Projects

They may now be legitimately seeking EU funding assistance, but three major incinerator projects are facing strong local opposition and a range of problems.

The territorial permission for the Karvina incinerator published by the Moravian-Silesian Regional office has already been judicially challenged by the municipality in Horní Suchá and environmental groups. Under a preliminary court decision the territorial permission has been deemed to be non-valid until the final decision of the court. In the Czech legal system, an outcome could take years, and the project is legally halted until the final decision of the court. Thus it is most likely that there will be no chance for the Karvina incinerator project to be financed for construction from the current 2007-2013 EU funds programming period.

The territorial permission for the Chotíkov incinerator, provided by the Touškov municipality, has been stopped by the investor. The granting of the permission has been deemed to be biased by the Region office in Plzen, though the investor is thought to be preparing to obtain another territorial permission in the near future. Whether the Chotikov incinerator project will be able to rely on EU funds from the current programming period is still up in the air.

The project to build an incinerator in Most is currently undergoing an appeal related to territorial proceedings. The proposed incinerator is located in the Ustecký region that has the highest ratio of municipal waste production in the Czech Republic. Environmentalists argue that decreasing the region's waste generation to the level of the national average could prevent the same capacity of waste as the planned incinerator.

What next?

Politicians in the Czech Republic appear intent on seeking out the 'easiest' solution to fulfil EU waste directives, namely mass burning without prior sorting. What this means of course is that full waste bins will be emptied not in landfills but instead in incinerators.

If these plans are realised the waste system will essentially stay the same, with waste prevention taking a back seat. In fact, current predictions foresee a two percent rise in waste volumes per year. The target of a 50 percent recycling ratio of municipal waste, as included in the WPM, appears to have been overly ambitious.

The decisive factor for the future of these incineration plans remains the financing, and the European Commission surely has some serious thinking to do about whether it will green light Czech landfilling in the sky, also known as incineration.

New EU funds map **adds** to **calls** for sustainable **EU budget**

Now in its fourth edition, Bankwatch and Friends of the Earth Europe's map of environmentally and socially harmful projects in central and eastern Europe being paid for by – or in line for – billions of euros of EU money has been launched at a crucial moment.

According to Markus Trilling, EU Funds coordinator for Bankwatch and Friends of the Earth Europe: "As we wait for the European Council and Parliament to have their say on the next European budget, this map shows that controversial projects are unfortunately not limited to a few isolated exceptions. EU money has the potential to bring lots of benefits to central and eastern European countries but if nothing changes it will bring substantial environmental and social harm throughout the region. These projects are mistakes Europe cannot afford to make. Future legislation must specifically prohibit the use of Cohesion Policy funds for detrimental projects."

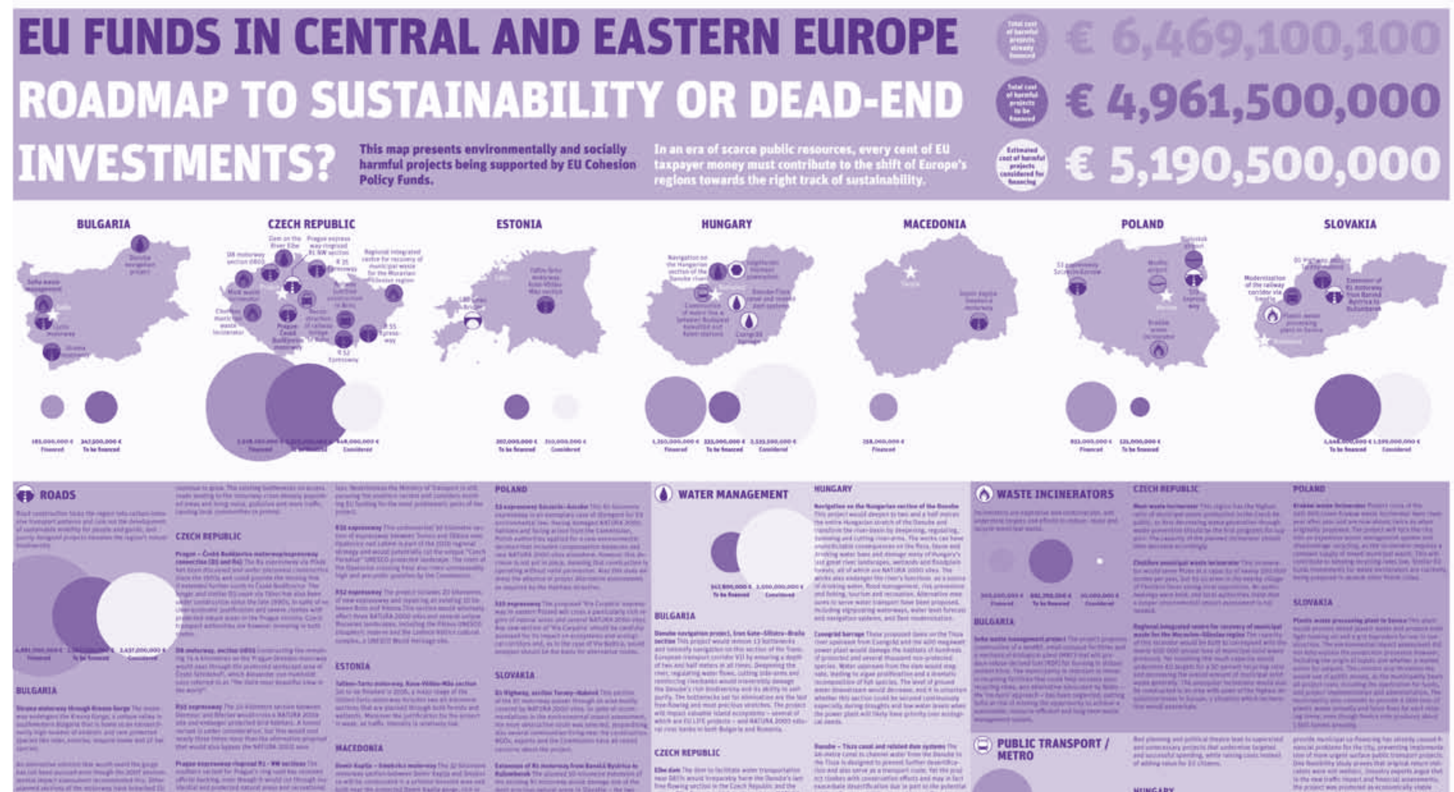
The research underpinning the map shows that almost EUR 6.5 billion has been spent on detrimental projects, including highways passing through protected nature sites, waste incinerators and airports. Almost EUR 5 billion is set to go the same route, and projects totalling another 5 billion are currently being considered for financing in the seven member states of central and eastern European.

"Money must no longer be squandered on such foolish investments," adds Trilling.

"It is vital that the next one trillion euro EU budget offers possibilities for overcoming the current recession and de-carbonising economies. Courageous action is needed to overturn the legacy of bad planning and realise the beneficial potential of EU funds."

Find out more The online version of the map 'Roadmap to sustainability or dead-end investments' is available at: http://bankwatch.org/billions/

The new look map offers the possibility to view the data by country, type of project, or size of investment. Bankwatch and Friends of the Earth Europe have been monitoring EU Structural and Cohesions fund spending on the ground in central and eastern Europe since 1997.



EU Funds delivering domestic energy efficiency in Latvia – concerted facilitation and promotion is the key

Encouraging developments related to the deployment of EU funds in Latvia for improving household energy efficiency have reached Bankwatch Mail from Latvian Green Movement, our member group based in Riga.

The following description of how the Latvian "Heat insulation for multi–apartment buildings" programme has been implemented and encouraged can stand as an inspiration for other new member states to better channel EU money into a sector that is still crying out for funds and action.

The "Heat insulation for multi–apartment buildings" programme, financed through the European Regional Development Fund (ERDF), was seen by the Latvian government as a way to tackle the economic crisis by stimulating employment and local economic activity. Thus in April 2009 the Cabinet of Ministers took the decision to increase allocations for this programme from EUR 20 million to roughly EUR 63 million.

Such has been the success of the programme (as we will see below), delivering real economic and quality of life benefits, that in fact just last month Latvia's Cabinet of Ministers took the decision to increase allocations for the scheme from EUR 63.09 million to EUR 67.96 million.

Initially, though, the implementation of the programme was sluggish. It was opened for applications from the beginning of April 2009, however applicant interest was very low. Applying for funding could be done within several rounds of applications. The Ministry of Economics had reserved around EUR 6 million for each round, yet for the first round only 14 applications were received for approximately 30 percent of available funding, an experience repeated in the subsequent round.

The Ministry of Economics (and its agency responsible for housing at the time) decided to act by simplifying the programme and application procedure, reducing bureaucracy and extending the scope of potential beneficiaries. This was done on a few occasions – in August 2009, again in 2010 and in April 2011 – the result being that by 2011 the programme had become very popular.

The key steps taken to boost interest and, ultimately, applicant uptake were:

1. The introduction of a simplified energy audit tailored to standard multi–apartment buildings – those 'Soviet blocks' where average annual heat consumption in the previous three years exceeded 180 kWh/m2).

2. Extending the scope of potential beneficiaries, through for instance making older buildings eligible, i.e. those built before the Second World War; also increasing the maximum amount of co–financing to make bigger houses (12 and 16 floor buildings) also eligible for funding.

3. Extending the categories of eligible costs, including making eligible the costs for professional building experts to make the budget for heat insulation work, as well as making VAT eligible.

4. Reducing the minimum number of flat owners within a building required for giving consent to renovation work; previously at least 75 percent consent was necessary, which was then reduced to 50 percent +1, thus making it easier to obtain agreement from people.

5. Reducing the level of required documentation necessary – some papers were no longer needed such as a statement from the State Revenue Service or bank account statements.

6. Reducing the compliance threshold – previously it was difficult for multi–apartment buildings located in economically more developed municipalities with smaller amount of flats (i.e. 8–12) to apply as they would not comply with the criteria of minimum of points in the initial quality assessment, but this requirement was lifted.

7. Cancelling separate calls for applications – initially, as described above, the applications could be submitted in several rounds, but this was proving to be confusing for potential beneficiaries; moreover the demand for money was so much lower than what was actually available, thus starting in the end of 2009, the rounds were cancelled and now applications are submitted as long as the allocated funding is not exhausted.

8. Finally, and perhaps most significantly, the Ministry of Economics and its various agencies engaged in extensive advertising and promotion of the scheme with a campaign called "Live warmer". They refused to give in to the scepticism about the initial slow implementation as they remained confident about the eventual added value for local economies, employment and energy security. The authorities showcased positive examples, produced a range of explanatory materials and brochures, took part in various exhibitions, and organised countless seminars where they invited all stakeholders. Social media has also played a role with a twitter account established where news about heat insulation is posted at www.twitter.com/siltinam

And the numbers have gone up

When the "Heat insulation for multi–apartment buildings" programme began in April 2009, the Latvian authorities estimated that around 1000 multi–apartment buildings in total could benefit from co–financing. The actual number of contracts by the end of 2011, including both projects completed and in progress, was 419. However, the year by year breakdown demonstrates what the concerted governmental efforts have reaped in terms of increased applications:

– Number of applications in 2009 (starting from May): 117
– Number of applications in 2010: 169
– Number of submitted applications in 2011 (as of August 2011): 367

It is worth clarifying the meaning of co–financing within the programme. The costs break down in the main at a rate of 50:50, i.e. 50 percent is covered by ERDF, and flat owners have

to cover the other 50 percent (usually via bank loans or where possible via a mix of savings and bank loan). If at least 10 percent of the residents in a particular multi–apartment building are registered as low–income or poor persons living, then eligible co–financing from the ERDF

increases to 60 percent. Moreover, the usual approach applied is that monthly payments for residents would not increase, i.e. the combined lower costs for district heating + the bank loan and interest should equal or be lower than what was paid previously.

This win–win strategy – no increase of monthly payments and a warmer, renovated building – has worked well to convince those who were initially sceptical. The payback period is usually 10–12 years.

What of the climate benefits? Alas, real data is not yet available and may take some years to compile. However, when the average energy savings being achieved are at the level of 40–50 percent (with some buildings even exceeding 60 percent energy savings), an excellent climate success story is clearly well underway in Latvia.

Find out more You can visit an e-map posted in September 2011 that displays all projects under the programme either implementated or being implemented. All projects are briefly described (in Latvian) here: http://bit.ly/w3sSjr

Strategic thinking needs to win out in the future Cohesion Policy debate

As the Polish Presidency ended at the turn of the year and the last formal meetings were over, the Polish government decided it was time to speak out more openly about its own position concerning the future of Cohesion Policy, as it was no longer obliged to remain neutral in the negotiations. This EU budget item had been the priority for the Presidency, as Poland is hoping to receive as much as EUR 80 billion in the forthcoming 2014-2020 period.

Publishing a set of detailed positions on seven regulations published by the European Commission in October 2010, and requesting comments from local authorities, social partners including NGOs and all interested stakeholders, may have appeared to be good practice. Unfortunately, though, the consultations were short and the timing was far from ideal, falling over the nine working days around Christmas and New Year. As a result the public consultation was rather symbolic and only those parties who were really concerned and determined were able to submit comments – including the coalition of environmental NGOs working on the EU funds in Poland, led by Bankwatch member group Polish Green Network.

The coalition's summing up of the content of these official positions was mixed: very progressive in the declarations, very business-as-usual in the details.

Poland has been trying to defend the Cohesion Policy from budget cuts (very probable as a result of recession and the lingering crisis atmosphere across Europe, with the EU budget's net payers looking to cut expenditures wherever possible) and to promote it as a development policy that can serve the entire EU and also contribute to achieving Europe's strategic goals, particularly those included in the Europe 2020 strategy. In line with this logic, Cohesion Policy investments should be concentrated on what is good and strategic for the entire EU.

One of these strategic priorities is fighting climate change and building a low-carbon economy through supporting energy efficiency and renewable energy. The European Commission has proposed in the draft regulations some modest 'ring-fencing' of funds for the low-carbon priority area: six percent of the European Regional Development Fund in the poorest regions and 20 percent in the richer ones. Such a commitment is not fully satisfactory if the EU's plans to move away from dependence on fossil fuels are to be taken seriously, but at least it's a sign that energy efficiency and renewable energy, unlike in the 2007-2013 budget period, are becoming a priority for EU funding.

This 'ring-fencing' mechanism is nevertheless being strongly opposed by the Polish government on the grounds that it is not flexible enough. Yet how can the thematic concentration of funds be achieved otherwise? There is no answer in the Polish position. Most likely, the money would be spread again over many priorities and areas, in an attempt to satisfy all political interests. The consequences would see a repeat of the failure to reach a critical mass of investments addressing the biggest challenges facing Europe, including climate change.

Moreover, the most astonishing example of sticking to business as usual is the Polish government's push to be able to continue using EU funds for 'domestic energy security and energy distribution' – which translates as EU subsidies for fossil fuels.

Poland is not the only country battling to maintain the status quo and use EU funding for national, regional and local political priorities that may be out of kilter with wider EU strategic goals. In the coming months of tough negotiations in the European Parliament and Council we will see whether or not strategic thinking about Europe's future is completely abandoned as regards the future EU Cohesion Policy.

EBRD plans for Egypt slammed by human rights group

An independent Egyptian human rights organisation, the Egyptian Initiative for Personal Rights (EIPR), published in early March a scathing assessment of the EBRD's plans for its future investment activities in Egypt. Based on an EBRD Technical Assessment document, EIPR takes issue with the EBRD analysis on three main counts:

First, what EIPR describes as EBRD's "aggressive privatization agenda", that the group asserts, "simply ignores the social turmoil that was caused by far milder versions of privatization", with EBRD privatization intentions for sectors such as fresh water, roads and electricity particularly questioned;

Second, EIPR calls into question the EBRD's very commitment to 'development', predicated as it is on a strong private sector emphasis as well as infrastructure and energy projects, with, EIPR says, "no mention at all of human development areas such as poverty eradication and gender equality", and;

Third, according to EIPR, "even though the assessment does bring up terms such as 'good governance', the rule of law and contract enforcement, it fails to address the institutional deficit from which Egypt suffers."

Citing the current difficult Egyptian conditions for building institutions, including the enduring legacy of corrupt and crony capitalism from the Mubarak era, EIPR questions why the EBRD's political assessment of Egypt's transition offers nothing in regard to "prospective labor rights and the freedom to establish independent unions".

Running through the EIPR critique is a sense of grievance that, despite EBRD claims to have consulted widely in the country, the bank is offering little that differs from the 'old mindset' of top-down prescriptions and intentions for the future.

EIPR states witheringly: "The EBRD seems to replicate the same old priorities set by the ousted regime and supported by IFIs (international financial institutions). In summation, the EBRD's vision of development through the unconditional support of the private sector becomes a new version of the mythical 'trickle-down effect' that simply never takes place. The revolution was the end result of failed development that exacerbated income inequality and excluded the majority from the economy's high growth rates."

The process

As set out by the EBRD, it expects to follow a three-phase process in becoming active in Egypt. In the first phase, the EBRD's Board of Directors would consider the use of cooperation funds; in the second phase, once an amendment of one of the EBRD's founding articles has been accepted by members, the EBRD's Board of Governors would consider the use of Special Fund resources for special operations; in the third phase, once the amendment of a further founding article has been accepted by members, the Board of Governors would consider granting recipient country status to Egypt and therefore allow the use of ordinary capital resources for ordinary operations. The Technical Assessment commented on by EIPR has been prepared in order to allow the Board of Directors to make an informed decision at the first stage of the process.

Find out more The EIPR analysis can be viewed via this press release: http://www.eipr.org/en/pressrelease/2012/03/07/1390

Watch Mark Fodor, Bankwatch's Executive director, speak to Egyptian civil society about the EBRD's plans for Egypt during a Bankwatch mission to Cairo in December 2011: http://www.youtube.com/watch?v=LBsVNhrariA

Infrastructure in the **developing world:** does it need **PPPs?**

As covered in Bankwatch Mail 50, the G20 countries, in tandem with the World Bank and other multi-lateral development banks, are pushing forward with proposals for 'exemplary regional' infrastructure projects in the developing world – with public-private partnerships (PPPs) expected to be a central method for delivering these multi-billion dollar investments.

PPPs have garnered a lot of criticism, especially in the UK that has seen the greatest use of them in Europe over the last two decades. Bankwatch has also analysed the shortcomings of PPP projects in central and eastern Europe, projects that have received substantial backing from the development banks – and this backing for PPPs in our region continues today.

However, since the onset of the economic crisis, across Europe fewer PPP deals have been done. A recent European Investment Bank paper notes that: "The PPP market contracted considerably during the 2008–09 financial crisis. In 2010 a slow recovery started and continued in the first half of 2011. Having said this, the number and total value of PPPs remain well below their pre-crisis peak levels."

The EIB paper points out too that: "According to Moody's, the outlook for and fundamentals of the PPP market in Europe are stable. Deteriorating public finances have created unprecedented volatility in the cost of borrowing, but also have increased the attractiveness of PPPs as an alternative way to finance infrastructure in some countries." It goes on to say that: "Since 2007 the total PPP market contracted and the EIB expanded its funding (of PPPs)."

Clearly PPPs remain very much on the agenda at the development banks, both in central and eastern Europe and in Africa, Asia and Latin America. Bankwatch Mail invited two specialists, Matt Bull of the World Bank's Public Private Infrastructure Advisory Facility and David Price of the Centre for Primary Care and Public Health, Queen Mary, University of London, to debate the issue of PPPs in the developing world.

Matt Bull:

Firstly, to kick things off, I think we need to address why development institutions such as the World Bank are engaging in PPP projects. The primary reason is that there is a very large infrastructure funding requirement in the developing world that cannot solely be met through constrained government and Official Development Aid (ODA) budgets. Let me explain further.

> "The PPP option places enormous financial burdens on governments and users of essential services. In the interests of the PPP industry, it cultivates larger rather than smaller schemes. It exposes poorer countries to financial market risks in ways in which they have not been exposed before."

In developed economies, the debate on whether to engage private sector capital in the delivery of infrastructure primarily revolves around whether the assets should be privately financed or publicly funded with the direction of the debate hinging on how you value the risk transfer benefits of private finance relative to its costs. However, in developing economies, there is often no such luxury, governments often do not have the option of publicly funding their infrastructure because their fiscal positions are weak, there is little or no sovereign bond market for them to raise public finance and the ODA funding available is finite and must be shared amongst numerous 'competing' recipients.

As a result, governments find it difficult to genuinely 'invest' in their economy and instead often choose to offer the private sector the 'rights' to develop the assets on their behalf and in doing so are inviting the private sector to share in (or assume) the risks and rewards of the venture. They do this because the counter-factual is sub-optimal – i.e. without the private participation the asset may never be delivered or may come at such a high opportunity cost (e.g. reduced spending on other priorities) that to do so would be detrimental both socially and economically. Put simply, private risk capital is in some circumstances the only viable funding source.

I think this is important context because the World Bank and other multilaterals are not necessarily pursuing PPPs along ideological lines but instead are viewing them as a necessary part of the funding mix if infrastructure is to be developed and economic and social benefits realised.

This is a very different situation for example to the UK's Private Finance Initiative where there are clearly alternative procurement and funding arrangements other than PFI. So to start the debate I want to set it off on the trajectory of the developing world and not get caught up in some of the arguments that have greater relevance and validity to the developed world.

Of course, PPPs of any sort are a delicate transaction and they have to be done carefully so that the infrastructure is efficiently delivered and value for money achieved. I can go into some of the safeguards necessary to achieve this but will give David a chance to respond first.

David Price:

Let me start with Matt's key argument that whereas developed countries can choose among various financing methods, in developing economies PPPs are an economic necessity. He writes: "private risk capital is in some circumstances the only viable funding source." The there-is-no-alternative claim has been used repeatedly to support PPPs in the UK. Ministers have insisted that investment would not take place except through PPPs and almost all new hospitals built in the last ten years have been delivered through private finance. Several of these hospitals are now in huge debt because of PPP and only three weeks ago the government had to announce a GBP 1.7 billion bail-out for seven of them.

But familiar as the argument of necessity is, I am struck by the World Bank's reliance on it. After all, it was the World Bank which pointed out that from the public debt angle the UK government's private finance initiative (our special variant on the PPP model) was essentially an accounting trick used to get round debt level targets. PPP debt is still public debt only it doesn't register in the same way as straight public financing.

It's important to be clear about this: PPP is debt underpinned by public guarantees and ultimately paid back from public funds and user charges sometimes enforced by government.

If that is the case, how can it be claimed that PPP is a necessity and public financing an impossibility in developing economies?

If PPP is a policy choice and not an act of God we need to know more before we can assess the grounds for multilateral agency support for the policy. Specifically, what are these circumstances in which private risk capital is the only viable alternative? Or to put this another way, what causes of developing counties' "weak fiscal position" has the World Bank determined can only be addressed by increased reliance on private equity and in no other way?

And the answer is important because there is nothing self-evidently "developmental" about the private risk capital option. On the contrary, there are known development costs. The PPP option places enormous financial burdens on governments and users of essential services. In the interests of the PPP industry, it cultivates larger rather than smaller schemes. It exposes poorer countries to financial market risks in ways in which they have not been exposed before. It is associated in the water sector with serious social, political and operational problems and with huge price hikes and burgeoning operating expenses.

So the policy is contentious and we need to hear more than that it is unavoidable.

Matt Bull:

Thanks for your response, but there are a few clarifications needed in what you put forth.

First and foremost, the 'there-is-no-alternative' argument (as you put it) is not the sole basis of the debate. What I was saying was that there are various differences in the models of PPPs used in the developing world compared to that of UK PFI. We should not, therefore, frame the discussion solely around a critique of UK PFI as this is only partially relevant given that it is one very narrow form of PPP.

In accounting and monetary terms, there is, frankly, a big difference between PFI and many of the deal structures in the developing world to date. This difference is important.

I do not necessarily disagree with all of your comments on UK PFI – clearly mistakes were made in the structuring of some of the projects and in some cases the risk transfer under the project has proved illusory and government has been left with large contingent liabilities and relatively little contractual flexibility. However, a lot of this is unique to the PFI model. There are other models in use across a spectrum.

For example, a greenfield concession PPP funded by the private sector with the majority of revenue risk transferred to the private sector has a very different set of liabilities to a 'government-pays' PFI. This is exactly why Eurostat (via ESA95) offers a different accounting treatment for PPP projects depending on the deal structure in question to reflect the relative financial risk exposure of the public sector.

> "PPPs are a range of procurement options for governments to be considered alongside traditional methods, and all approaches have different trade-offs. There is no 'one-size fits all' approach but instead a menu of options that responds to the growing realisation across the world that traditional procurement methods are not always the best way of maximising 'whole-life' asset value."

The financial burden on government is simply not the same as under PFI because the private sector is taking much more of the risk on the asset's finance, construction and use. Moreover, the asset will typically pass back to the public sector with a residual value at the end of the contract. There is a trade-off, of course, because the burden passes to users and this needs to be carefully considered in line with willingness and ability to pay, and effective regulation – all things we help governments with in deciding whether PPPs are appropriate.

From the opposite end of the spectrum, various PPPs have been launched which use just performance-based management contracts. In this case, there is no private funding requirement, there is greater flexibility and probably smaller contractual liabilities for the procuring authority than under PFI, but significantly less potential for transfer of key risks such as construction risk and these may have to publicly financed with often a very high effective cost of capital.

So, the point I am making is that PPPs are a range of procurement options for governments to be considered alongside traditional methods, and all approaches have different trade-offs. There is no 'one-size fits all' approach but instead a menu of options that responds to the growing realisation across the world that traditional procurement methods are not always the best way of maximising 'whole-life' asset value. There are other options and governments should be free to explore and make the relevant value judgment on their use.

The World Bank has no dogmatic approach to PPP and is not 'nailed to its mast'. We merely recognise that private sector participation and/or investment can be both necessary and, in some cases, desirable. We will help governments find whatever solution works best for the country and project in question. Perhaps a conventional non-PPP approach will be taken, or it may be the opposite – e.g. a large concession.

The decision to pursue a PPP is, and always will be, a value judgment from politicians and decision-makers because you do not have the luxury of knowing what the exact counter-factual situation would be. Because of this, there will always need to be self-determination on the part of governments to adopt PPP with no dogmatic imposition of any particular approach by institutions such as the World Bank. Remember: institutions like the World Bank are dedicated to poverty alleviation and recognise that infrastructure can play a key role in that. These are the first-order priorities; how to procure the assets and pay for them are ensuing issues.

I do need some clarity on your position. I am intrigued to know whether you dismiss all PPPs out of hand and whether you acknowledge the different risk profiles for government of different models of PPP beyond that of PFI.

I also am intrigued to know whether you acknowledge the infrastructure funding gap in the developing world and that developing countries do not have the budget headroom to deal with the gap and must use other tools.

I take your point about likening PFI to debt, and IFRS (for example) agrees with you, but let's imagine PFI was the only model (it is not as discussed). Do you believe it is not normal business for governments to use leverage (within reason) as a tool for investment if you estimate its value for money and the government has a high discounted time value of money as a government?

David Price:

It's significant that you acknowledge "mistakes were made" in the UK's PPP policy. PFI deals in the UK were and are still masterminded by financial and management consultancies such as KPMG, PwC, Anderson Consulting and Mott MacDonald. These companies often act for the private and public sectors and their staff have populated PPP units in the UK Treasury and the health service.

In fact, there has been a revolving door between

the companies and the civil service. For example, the former head of the Treasury's PFI Taskforce, the body responsible for designing PPP policy, is now chairman of a large private equity company.

Reliance on consultancy firms is a consequence of the financial and legal complexities of PPP, which are beyond the competence of traditional public administrators. But this dependency means that the policy "weaknesses" to which you refer are largely the responsibility of commercial companies that have advised government, devised and signed off the deals, and produced deeply misleading reports about the policy's achievements (details of which I would be happy to supply). These companies aggressively market their PPP expertise internationally and I think it's fair to regard the policy as, in itself, the commercial product of firms that stand to benefit from its adoption by governments around the world. In my view this puts PPPs in a different light and it raises important questions about democratic accountability.

The esoteric nature of PPP fundamentals is highlighted in your paragraph three in which you refer to international guidelines for determining when a PPP is regarded as a government liability and when it is regarded as private.

Whilst I do not think this is the place to discuss accounting standards in general, I would make two points. The first concerns the purpose served by distinctions of this type, namely, whether or not PPPs bring in extra resources: if a PPP is classed as a public debt it is said not to involve extra resources; if it is classed as a private debt it is said to involve extra resources. But as my colleague Mark Hellowell has pointed out, the distinction is largely illusory because all PPP projects "require a commitment of future resources in much the same way as conventional borrowing and cannot provide governments with any 'additional' resources."

As you rightly point out, and this is my second point, this interpretation only applies where PPPs are reliant on tax financing alone, which is PFI's chief characteristic. In the UK's national health service, PFI is paid for entirely from the public health care budget and so the crucial question is whether the budget is big enough (that is, whether the PPP is affordable).

This is not the main issue where PPPs are financed from payments made by users, for example, water PPPs. Here PPPs could generate extra resources, but only by increasing user charges. Economists generally refer to users' "willingness to pay" in this context (as you do too). But this term does not convey the potentially acute social stresses that can arise from higher bills.

Many essential services only reach the poor because of hidden threads of cross-subsidy that make up a sort of social contract. These are exactly the type of arrangements that PPP companies operating concessions are likely to seek to eradicate. You may argue that removal of hidden taxes of this type is right and proper. But then I think the onus would be on you to devise an alternative system of support for access to essential services.

Moreover, the international nature of PPPs and their duration exposes users to new cost pressures. When payments cross borders, payers may be exposed to exchange rate risks. When concession contracts last for years, they may be exposed to inflation or indexation risks. How these matters are arranged in concessions is often not completely clear or the arrangements are insufficiently scrutinised because contracts are confidential. So the financing model may bring risks and costs that would not otherwise bear on users, including some of the poorest in society.

You finish by asking, first, whether I dismiss all PPPs out of hand even though different PPP models involve "different risk profiles for government" and, secondly, whether I accept that it is "normal business for governments to use leverage (within reason)". It would be unscientific to dismiss all PPPs out of hand because little is known about operational PPPs or indeed about the actual transfer of risk which you say distinguishes PPPs.

This, however, is one of the policy's most tantalising aspects, for despite in excess of GBP 50 billion PPP investment in the UK, the policy remains unevaluated by government. We simply do not know whether risks have been transferred and at what cost.

If private finance is part of "normal business" of government I do not accept that it should be. In the UK, a presumption against private finance (enshrined in a civil service code known as the Ryrie Rules) was only lifted in the late 1980s as a prelude to PPPs. What exactly is the case for project finance and leverage? I am still not sure.

Matt Bull joined the World Bank in October 2011 and he oversees a portfolio of trust fund activities in Africa. Before joining the World Bank, Matt worked for PricewaterhouseCoopers and Steer Davies Gleave in their respective project finance businesses where he advised and structured a range of project financings in infrastructure in a number of countries and sectors.

David Price is senior research fellow at the Centre for Primary Care and Public Health, Barts and The London School of Medicine and Dentistry, Queen Mary, University of London. He has been involved in research into public private partnerships for 16 years and has also published widely in the likes of The Lancet and The Guardian on the impact of international economic law on public health policy and on health care reform.

EIB's clean energy credentials continue to be compromised, policy review offers clean break from fossil fuels

'Carbon Rising', a new study from Bankwatch, catalogues the EIB's energy lending for the period 2007-2010 during which time the bank loaned EUR 40 billion to energy projects across the EU and EUR 8 billion outside the EU. This lending was guided by the EIB's first energy policy 'Clean Energy for Europe: A Reinforced EIB Contribution', adopted by the bank in 2007

The Bankwatch study shows that since then the EIB has significantly increased its lending for renewable energy, with commitments totaling EUR 13 billion for 2007-2010. Yet, over the same period, the bank compromised this performance by lending EUR 16 billion for fossil fuel projects, one third of the institution's total energy lending. While the EIB's renewable energy lending more than tripled in the researched period its fossil fuel lending almost doubled from EUR 2.8 billion in 2007 to EUR 5 billion in 2010.

Breaking down these energy lending volumes further, there is further cause for alarm especially in central and eastern Europe. In the new member states the EIB supported mostly high-carbon energy sources (64 percent of new installed capacity), that of course traps these countries in unsustainable energy systems.

When it comes to EIB support for fossil fuels based energy generation in the EU, this sector is dominated by financing for natural gas, considered to be a 'transition fuel' as it has a much lower carbon footprint than other fossil fuels such as coal and oil. However, again in the new member states, EIB lending for electricity generation has been focused on coal power plants which received more than double the level of funding support received by natural gas power plants, and only marginally less than renewable energy and large hydro power plants counted together. These figures includes support for such projects as the Šoštanj lignite power plant in Slovenia, that will almost account for the country's entire carbon budget for all sectors, and the Bielsko Biala power plant in Poland that will have a capacity of 2000 megawatts, almost as much as all renewable sources in Poland combined.

The EIB's justification for investments into coal power plants is based on the "security of supply consideration", however this should be approached with caution. Adopted in 2007 by EU heads of state, an action plan entitled 'An Energy Policy for Europe' provided guidance on actions for ensuring security of energy supply in the EU. This joint EU strategy, however, does not mention investments in coal power plants as a way of promoting energy security. Where coal is still considered by the EU strategy as part of the energy mix involves the development of international research for much cleaner coal and carbon capture and storage technologies to be fitted at power plants. None of the EIB's coal power plant projects meet these common policy objectives. On the contrary these projects may undermine the remaining EU energy policy pillars: sustainability and competitiveness that both emphasise investment in energy efficiency, renewable energy and new technologies as the common EU response to energy and climate challenges.

While they can be said to support the energy strategies of individual states, the EIB's loans to coal power plants fly in the face of the EU's common energy policy ambitions.

An opportunity to address this conflict will come later this year with the revision of the EIB's energy lending policy: how can the EIB's financial clout be used to financially support an EU energy policy that is now setting even more challenging objectives to tackle climate and decarbonise the EU's economy. One thing is for sure: the new policy must include much clearer priorities for the EIB and make projects such as Šoštanj absolutely off limits for the EIB.

Find out more about the EIB's energy lending by accessing the Carbon Rising report at: http://bankwatch.org/publications/carbon-rising-european-investment-bank-energy-lending-2007-2010

See also a new Bankwatch map that vividly illustrates how fossil fuel and renewable energy lending compare at both the EIB and the EBRD: http://bankwatch.org/ifi-energy-lending

A civil society 'Hello' to the EIB's new president

The 'Counter Balance: Challenging the EIB' coalition has written to Werner Hoyer, the new president of the EIB, welcoming him to his new post. Hoyer, formerly state secretary in Germany's foreign office and a member of the Free Democrats, the junior partner in Chancellor Angela Merkel's government, becomes the EIB's seventh president, succeeding Philippe Maystadt.

Noting some welcome changes made by the EIB in recent years, including "the strengthening of the bank's environmental policy, improvement of access to information from the EIB, the establishment of an internal accountability mechanism and the opening of public consultations on the EIB's lending policies", the Counter Balance letter flags four specific issues that it believes should be firmly on the new president's radar:

1. EIB lending outside the EU – Counter Balance emphasises the recent ruling of the European Court of Justice that confirmed the EIB's responsibilities to sustainable development, poverty alleviation and the promotion of the rule of law in its activities in developing countries. A specific recommendation is for the EIB to develop "alternative and more appropriate measures of growth and development that capture critical perspectives such as inclusiveness and sustainability and mainstreams development concerns at the investment selection phase".

2. The EIB and climate change efforts – Counter Balance calls on President Hoyer to turn the EIB into a climate positive institution, "one that is not only investing in climate-friendly projects but literally phasing out all climate-damaging projects, especially in the energy and transport sectors in accordance with the EU's 2050 policy goals."

3. The EIB's engagement with financial intermediaries – in what is an increasingly problematic and very grey area of the EIB's business, Counter Balance recommends "the need to improve the transparency of this type of lending by making available aggregated data on sectoral breakdown, the level of disbursement by financial intermediary to beneficiaries and information on the environmental impact assessments of all benefiting projects. In particular we believe that there are serious and well documented reasons for avoiding channeling EIB support through private equity funds."

4. The EIB's public-private partnership investments – another growing area of EIB business is flagged by Counter Balance, concerned that "with more and more EIB financing taking place through PPP mechanisms, the EIB does not sufficiently engage in ensuring that the public sector obtains value for money in proposed PPP deals."

EIB lending figures in 2011: Germany 6 – Greece 1

For a bank tasked to contribute to the 'balanced and steady' development of the internal market in the interest of the EU, the EIB's figures for its financing operations in 2011 (released last month at its annual press conference) induced a certain amount of head-scratching here at Bankwatch Mail.

To look at the numbers given for the geographical breakdown of finance contracts signed by the 'EU bank' in 2011, you could be forgiven for wondering which European countries are most in need of vital investment support at a time like this. While Germany received 10 percent (or over EUR 6 billion) of the EIB pie in 2011, Greece scraped by on 1.6 percent, a mere EUR 958 million.

During a recent visit to Greece, new EIB president Werner Hoyer described the EIB's record lending of some EUR 2 billion to Greece in 2011. But this calls into question the large discrepancy between actual lending (Hoyer's EUR 2 billion in disbursements in 2011) and signed contract volumes in 2011 (EUR 958 million according to the latest EIB press pack) – surely the EIB is not going to pull back its support for Greece now just as the country is being bled dry by the Troika's austerity measures and the financial markets?

Looking further at the EIB figures, it's striking how little investment is being lined up for struggling central and eastern European economies, with the exception of relatively comfortable Poland that received 8.7 percent of the EIB total in 2011.

Bulgaria (0.3 percent, Estonia (0.3 percent), Latvia (0.1 percent), Lithuania (0.o percent, though actually EUR 11 million in signed commitments), Romania (1.5 percent) and Slovakia (0.7 percent) clearly don't have enough major shovel-ready road projects or large fossil fuel power plants in the pipeline to attract EIB interest.

Silence is golden for some – the **strange case** of the EBRD's **mining policy**

It is coming up for three years since the EBRD's 2009 Annual Evaluation Overview Report "alerted Management to develop a new Operation Policy to cover all forms of non-energy related extraction of natural resources (mining policy)". The EBRD does not appear to have been in any great rush with the preparation of this policy, and one has to wonder how long the bank will allow for the new policy to be consulted with the interested public. More importantly, how influential will public input be in setting the policy objectives and requirements?

The formal approach of consulting the public that the EBRD usually employs includes providing the public with the opportunity to comment on a draft text of the new policy in question, and the organisation of consultation meetings (for example, in London and Moscow), where NGOs and interested individuals can raise in person their concerns and recommendations. The result of these consultations can be fairly limited with sometimes minimal, if any, input taken on board after the policy has been pre-decided conceptually at several levels of decision-making within the EBRD.

On the mooted mining policy, Bankwatch has instead attempted on a number of occasions to engage into preliminary dialogue with staff and the board of directors of the EBRD in order to put forward some proposals on how the policy can address environmental and social concerns. The result so far has been discouraging – our questions and suggestions have met with silence.

The need for transparent monitoring and communication of results

Bankwatch has raised several issues with the EBRD in relation to its mining investments, and first and foremost are those examples of investments into mining projects that carry immense risks or have severe impacts on the environment and local communities.

Recent reports by Bankwarch, its partners and an independent commission from the Kyrgyz parliament (see sidebar) describe how gold mining and the inadequate management of mining waste at the Kumtor mine has already polluted water resources, caused long-term health damage to local people and accelerated the melting of glaciers. A report from Mongolia's Gobi desert has voiced the concerns of local people who are marginalised in decision-making and who receive piecemeal information that cannot dispel their fears over ever-worsening water scarcity and air pollution from coal and gold mining operations.

The feedback from the bank on such projects rarely clarifies or resolves the questions raised. More often than not the EBRD is convinced that its assessment of the projects is impeccable and often replies with information provided by clients. Clearly mining companies have more information on their own operations than do local communities or NGOs, and access to up-to-date and accurate data is not easily obtainable by the public.

However, the EBRD's over-reliance on information from the businesses it finances results in a lot of contradictions with independent accounts. At the same time the EBRD does not publish much in the way of results from monitoring that it carries out – an area that should be given due attention in the new mining policy, if the bank is to demonstrate the positive results of public money spent on mining.

To diversify or not to diversify – where should public money be prioritised?

The second question that Bankwatch has raised with the EBRD concerns the insufficient effort the bank puts into helping resource-rich countries to diversify their economies. The EBRD's previous experience of periods of slumping commodity prices affecting resource-rich countries such as Azerbaijan, Kazakhstan and Russia should have duly taught the bank a lesson.

Yet the glitter of gold is particularly tempting nowadays in times of unstable financial markets and ever increasing interest in investments in the ancient currency, gold. But how long until this particular bubble bursts, and how confident is the EBRD of blowing more air into it? The bank will no doubt see enough return on its investments, but the long term impact for commodity export dependent countries will be painful.

Mongolia is a case in point, where the EBRD's investments in the non-mining sector are insignificant. Although in its 2011 Transition Report the bank acknowledged the "key risk is a possible renewed downturn in global commodity prices", the EBRD justifies the bias in its portfolio because of a lack of opportunities in other sectors and, ultimately, the role that states must take in deciding their own strategies for sectoral and macroeconomic development. While indeed it is up to a country and its people to choose its own development path, why should the public money of European taxpayers myopically follow the mining spree instead of being prioritised to help deliver stable and sustainable development.

How about the climate? The integrity of the EBRD's climate action finance

Finally, since it includes coal mining, the new mining policy of the EBRD is linked to climate change. The problem here is that fossil fuels – and coal in particular – are the subject of several other EBRD policies and initiatives, namely the Environmental and Social Policy, the Energy Policy, as well as part of the Sustainable Energy Initiative.

The result is a lack of policy coherence and clear guidance on investments in energy and mining projects, especially ones involving fossil fuels. It has been suggested that this is a convenient approach, allowing the EBRD to legitimise the widest possible range of investments.

For example, while the EBRD boasts of achieving a record level of sustainable energy investments in 2011 of almost 30 per cent of the EBRD's total investments of EUR 9 billion, part of this total includes controversial projects for energy efficiency in coal mines and coal-fired thermal power plants. These projects may increase efficiency and decrease CO2 emissions per unit of production, but often lead to further locking of countries into coal energy infrastructure, as well as to lifetime increases of emissions which, tellingly, the EBRD is not so keen to measure.

It is clear that the EBRD's approach to climate action finance lacks integrity and hence the increasing calls for a genuine policy response in line with climate science and the climate policies of the EBRD shareholder's countries and the EU. Bankwatch has suggested the development of a climate policy and a temporary ban on investments in coal mining projects in the EBRD mining policy. Like practically every one of our proposals that would instil meaningful, positive change in the EBRD's mining related activities, this one has not met with much enthusiasm at the bank.

BANKWATCH DIGGING: FOR DATA, ABUSES AND SOLUTIONS

A report by the independent US-based expert Robert Moran (published January 31 this year) into the Kumtor Mine in Kyrgyzstan, the largest gold mine in Central Asia managed by a western company, has found a wide range of abuses carried out and tolerated by the mine's owner and operator, the Canadian company Centerra Gold.

The EBRD has been providing debt and equity financing to Centerra Gold since 1995, yet the bank has been unable to reassure critics of the Kumtor mine by failing to provide transparent information about the mine's impacts or the company's performance and compliance with environmental and social standards.

Included in hydrogeologist and geochemist Moran's report is evidence that:

– Kumtor Gold has mined out parts of two local glaciers (Davidov and Lysyi) to access the ores.

– The company has been disposing waste rock on the glaciers, aggravating their melting and thus threatening the entire local water system whose main source are the glaciers.

– Mining uses roughly 4.38 billion litres of water per year, seriously increasing competition for this scarce resource in Central Asia.

– Petrov Lake, at the same time the biggest regional contributor to the trans-boundary Naryn River and the mine's main water source, is being polluted.

– The water returned to the hydrological system after mining is polluted: water testing has shown that numerous chemical pollutants have high concentrations around the mine area, sometimes exceeding international water quality standards; local fish populations have been decreasing.

– Since mining began, Kumtor Gold has produced 89 million tons of tailings, some of which are deposited in unstable conditions, potentially causing a hazard in case of an earthquake; yearly, the company uses about 3650 tons of cyanide whose concentration in the waters released from the mine is unstudied.

– Access to information for the public is restricted while state authorities do not have the means to properly monitor the company.

The report is available in English at: http://bankwatch.org/sites/default/files/Kumtor-MoranReport-31Jan2012.pdf

See a photo gallery from the Bankwatch visit to Kumtor: http://www.flickr.com/photos/martsynka/sets/72157628221718463/

Mongolia

A new report from CEE Bankwatch Network, urgewald and OT Watch, entitled "Spirited Away – Mongolia's mining boom and the people that development left behind", accompanied by an original video produced by Bankwatch, sheds light on the forgotten aspects of one of the biggest business stories of today: Mongolia's planned public offering of the state-owned Erdenes Tavan Tolgoi and the rights to one of the world's largest untapped coal reserves.

The EBRD is a special focus of the report as the bank is currently preparing its new Mining Operations Policy. The bank has already invested in the development of the Tavan Tolgoi coal deposit and is considering investment in the Oyu Tolgoi gold mine, as well as in several other mining projects in Mongolia.

Regine Richter, a co-author of the report and finance institutions campaigner at urgewald, offers some sobering thoughts about the global impacts of Mongolian coal mining and the role being played by banks like the EBRD: "Mongolia possesses 12 billion tons of proven coal reserves, while the carbon content of globally known fossil fuel reserves is already five times more than the amount that must be adhered to over the coming decades, if we are to limit climate change to manageable levels. Therefore the climate impacts of coal mining in Mongolia should be given serious consideration, if not by the Mongolian government, then definitely by international public banks financing these mining projects, who should be using taxpayers' money to prevent climate change, not exacerbate it."

The 'Spirited Away' report is available online at: http://bankwatch.org/sites/default/files/spirited-away-mongolia-mining.pdf

The Bankwatch video is available at: http://bankwatch.org/news-media/blog/video-spirited-away-mongolias-mining-boom-and-people-development-left-behind

Spirited away – Mongolia's mining boom and the people that development left behind

Formal complaints lodged against **questionable** EBRD energy loans

Early in the new year Bankwatch and partner groups lodged two complaints with the EBRD's Public Complaint Mechanism (PCM): one concerning the loan agreement for the Rivne-Kyiv High Voltage Line project in Ukraine, the other concerning the EBRD's Šoštanj lignite thermal power plant loan in Slovenia.

Bankwatch's Ukrainian member group NECU contends that the loan agreement between Ukraine and the EBRD for the Rivne-Kyiv High Voltage Line project (connected to the controversial "Second Backbone Corridor") included significant parts of the project that were not assessed in the obligatory environmental and social impact assessment prior to project approval. The complaint requests an investigation into the circumstances of the loan decision.

In the case of Šoštanj, Bankwatch, the Slovenian NGO Focus and the Czech-based Environmental Legal Service have asked the EBRD's PCM to undertake a compliance review of whether the bank has complied with its own Environmental and Social Policy in relation to two aspects of the power plant deal:

1. Claims by the EBRD that the project is "CCS (carbon capture and storage) ready"; and

2. The EBRD's assessment of whether Slovenia can fulfil its obligations in meeting the EU's long-term 2050 climate goals if it undertakes the project.

On both points the groups presented the PCM with evidence to suggest that the EBRD's assessments were of insufficient rigour.

Read more

The complaint regarding the Rivne-Kyiv High Voltage Line project is available at: http://bankwatch.org/sites/default/files/complaint-EBRD-RivneKyivTL-10Jan2012.pdf

The complaint regarding the Šoštanj thermal power plant project is available at: http://bankwatch.org/sites/default/files/complaint-EBRD-Sostanj-17Jan2012.pdf

Round and round they go, what they finance next ... nobody knows

There is more or less consensus among various stakeholders that developing decentralised renewable energy sources (RES) to feed local energy demand is the only way to build a long-term, truly sustainable, effective and fair way to satisfy Europe's energy needs.

Realising such a decentralised RES-based system is indeed a challenging task. It requires a major shift in thinking, a shift away from modes of living based on constantly increasing energy consumption. Meanwhile, time is running out for irreversible climate changes to be prevented, and financial resources are arguably more limited now than ever before. Thus, any steps taken along the well-trodden path of conventional energy sector development, such as investing in fossil fuels or nuclear power, should be viewed as diverting attention and – crucially – funding away from accomplishing this task.

In this context, what to make of the EU's investments – already underway and planned – in the energy sectors of the neighbouring states? Backing the production of unsustainable electricity elsewhere and importing it to cover the EU's own gap between demand and internal production is no contribution to a sustainable energy future.

An unfortunately clear example of the type of investment tendencies that should be avoided has been provided by EBRD and EIB 'support' for Ukraine's energy sector in recent years. EUR 650 million has been provided by the European public banks to enable the construction of sections of a 1500 kilometre high-voltage transmission corridor in Ukraine that will deliver nuclear and coal derived electricity to the EU.

Now another EUR 300 million loan has appeared in the EBRD's project pipeline (in tandem with a Euratom loan) to upgrade old Ukrainian nuclear units. The EBRD describes the aim of the program as "safety upgrades only, at all 15 operating nuclear power units in Ukraine to bring them in line with internationally accepted safety standards and the Ukrainian requirements." This seven year program, however, will enable Energoatom, Ukraine's state-run nuclear operator, to prepare old reactors for lifetime extension so that they can run for another two decades and provide electricity for export. Given the widespread unpopularity of nuclear power in western Europe, it's perhaps no surprise that these kind of deals, backed moreover by EU taxpayers' money, are being justified on the back of some very slippery logic.

The contrast with much more straightforward announcements of RES investments is palpable. The EBRD's recently announced intention to support the Novoazovskiy Wind Park, the first direct EBRD loan for the Ukrainian RES sector, is to be welcomed. The project's success, of course, will still depend on the quality of the bank's due diligence and the actual implementation. But it clearly supports the EU objectives of tackling climate change and promoting the shift among the EU's neighbouring countries to more sustainable energy sectors.

More's the pity, then, that it would be naive and premature to hail this kind of promising news as a 'new dawn'. In central and eastern Europe, fossil fuel projects in need of a lift up (read 'major project finance support to get off the ground') will keep on coming, and if they are deemed to be 'bankable' then at least for now the EBRD and the EIB will continue to be ready with a very familiar list of reasons to justify their involvement.

Read more

Quick facts and analysis of the proposed nuclear power plant safety upgrades in Ukraine are available at: http://bankwatch.org/our-work projects/nuclear-power-plant-safety-upgrades-ukraine

Bankwatch has also just published an expert report examining how the EU is supporting nuclear life time expansion in Ukraine, see: http://bankwatch.org/sites/default/files/Ukraine-SUP-review.pdf

Electing the World Bank President: Open, merit-based process not torpedoed yet

No sooner had rumours started circulating in January that Robert Zoellick would be stepping down as president of the World Bank than our friends at the Bretton Woods Project fished out their administrator passwords and fired up the World Bank President website once again.

Providing daily coverage, analysis and occasional insider gossip, the World Bank President site may have been witness to much disappointment and frustration in the past but it continues to advocate for an open, merit-based process for electing a new Bank president. And, without getting ahead of ourselves too much, check out the site for some of the latest indications that the next president of the World Bank may be chosen without recourse to the usual drawing of straws exercise in the Oval Office.

World Bank President on Twitter too at: http://twitter.com/worldbankpres/

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