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Revealed: EBRD climate crimes rising

EBRD efforts to clean up its energy lending in central and eastern Europe are being undermined by extensive fossil fuel investments, with astonishing increases in the EBRD's backing for coal and oil projects in 2011.

These are the findings of a new Bankwatch analysis of the EBRD's energy lending since the bank's current Energy Policy was approved in 2006. Bankwatch's research, based on the bank's own lending figures, found that of the EUR 6.7 billion in EBRD support for the energy sector between 2006 and 2011 there were some positive developments such as a large increase in the bank's energy efficiency and new renewables investments. However, the good news is spoiled by the bank's continued financing of fossil fuels which made up almost half (48 percent, or EUR 3.26 billion) of its overall energy lending in the period.

In particular the EBRD's increasing financing of coal and oil projects is problematic, each receiving investments equal to the amount of new renewables financed in 2011.

The new report should come as a wake-up call at a time when the EBRD is developing a new Mining Strategy. A draft of the new mining strategy, released in late April, looks set to allow the EBRD to continue financing coal mining, a highly climate damaging sector.

The draft strategy appeared just a day after the latest stern climate warnings from the International Energy Agency (IEA) that most of the carbon emissions allowed to be emitted during the next few decades are already locked in by existing carbon-based infrastructure. Maria van der Hoeven, executive director of the IEA, noted, “Our addiction to fossil fuels grows stronger each year. Many clean energy technologies are available but they are not being deployed quickly enough to avert potentially disastrous consequences.”

Graham Saul, Canadian climate activist and long-time IFI-watcher, commented, “The IEA has come round to taking on board the unmistakeable climate realities, and is now calling attention to some of the most acute absurdities of our day such as fossil fuel subsidies. Coming just a day after the IEA warning, the EBRD's latest intention to provide public subsidies for coal extraction shows an institution displaying almost sociopathic tendencies. That draft strategy needs to be rapidly rewritten to prevent it helping to pump more carbon dioxide into our atmosphere."

Bankwatch is also calling for the EBRD's energy policy to be urgently revised in order to halt the bank's support for fossil fuels, starting with an immediate halt in support for the extraction and combustion of the most carbon intensive-energy source, coal.

Pippa Gallop, Bankwatch's Research co-ordinator and main author of the new analysis, comments, “While the EBRD energy policy brought a much-needed emphasis on sustainability and laid the ground for increased lending for energy efficiency and renewables, it allows the bank to finance almost anything except nuclear reactors. This is not good enough for a public institution that is supposed to lead new markets and promote sustainability, not just follow national governments' often old-school approach to energy provision.”

If the EBRD's energy policy was relatively ambitious when it was written, since its implementation a host of other issues have arisen, such as the bank's expansion to the southern and eastern Mediterranean region, rising oil prices, the death of the so-called nuclear 'renaissance', and the emergence of uncertain technologies and resources such as carbon capture and storage and shale gas, all requiring a new approach.

A further issue revealed by the Bankwatch analysis is that the increase in re-

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The medium-sized EIB bazooka – Europe's people and environment must benefit this time around

As it begins to dawn on Europe's elite that fiscal austerity is not working after all, the European Investment Bank is once again the talk of the EU as decision-makers scramble to stimulate national economies that are hemhorraging jobs and living standards – and hope – across the continent.

A EUR 10 billion capital boost for the EIB, that could see resulting investments of five times that sum, is the current clamour across Europe, though at the time of going to press little detail has emerged as to how to make this cash injection work in practice.

Big numbers and not enough details is something of an EIB hallmark. Josef Stalin, whose mantra was that “Quantity has a quality all of its own”, may well have been an admirer of the EU's bank if he'd been around to witness its operations and reporting on such – thankfully quality versus quantity concerns related to the EIB's investments and performance are beginning to register at the European parliament. But if EU finance ministers are intent on signing off on this capital increase for the EIB at the bank's annual meeting in Brussels this week (and perhaps Stalinist measures will be required to persuade austerity-philes such as the UK's George Osborne to sign up to increased EIB capital), the 'quality of EIB investment' issue has to be addressed, rather urgently. The European Commission's chief Jose Manuel Barroso may now be talking about 'targeted investments' via the EIB to ensure growth, but we have been here before.

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newables lending by the EBRD brings with it new challenges that need to be addressed if renewable energy is to retain its integrity as an environmentally acceptable means of energy production.

According to Pippa Gallop, "The example of Bulgaria, outlined in the study, shows that the rapid but poorly planned expansion of renewable energy can be environmentally damaging. The fact that the EBRD has also recommenced its support for large hydropower plants in 2011 after many years is a concern given the high environmental impact of the three projects approved – in Georgia, Macedonia and Croatia. The EBRD needs to adopt strict sustainability criteria for renewable energy and to contribute to careful planning of these technologies with national and local authorities."

Read more: The new Bankwatch analysis is available in pdf via: http://bankwatch.org/publications/tug-of-war-ebrd-energy

OMBLA HYDROPOWER PROJECT UNDER FIRE IN THE EUROPEAN PARLIAMENT

The 68 MW Ombla underground hydropower project, for which the EBRD approved a EUR 123.2 loan in 22 November 2011, is once again under fire, this time in the European Parliament. Both the project itself and its approval process have attracted widespread criticism from civil society and biodiversity experts as the project location forms part of a future Natura 2000 site. In 2008 the Croatian State Institute for Nature Protection declared the project "unacceptable for nature".

The Environmental Impact Assessment study dates from 1999, however the current Croatian law on EIA stipulates that EIA studies are valid only for a period of two years. In order to attempt to make up for this deficiency, the EBRD made its loan approval conditional on a Natura 2000 assessment study being carried out.

In mid-April MEP Rebecca Harms asked the European Commission to give its views on how the project could have been approved at the EBRD before it satisfied European law, as well as asking what the Commission will now do to ensure that further projects are not approved at the EBRD before EU legal requirements are fulfilled.

The Commission is obliged to answer within six weeks, by which time it may also finally become clear what the new Croatian government's view on on the project is. Earlier this year the new Minister of Environment and Nature, Mirela Holy, announced that an independent review of the project's EIA would take place. However after several indications that the results would soon be announced, at the time of publication there is still no news on the findings of the review.

Read more: Background information about the Ombla hydropower project is available at: http://bankwatch.org/our-work/projects/ombla-hydropower-plant

EIB bazooka... from page 1

Following the outbreak of the current crisis of capitalism in autumn 2008, the EIB was quickly given a ramped up investment role by EU decision-makers. An additional EUR 3.5 billion in both 2009 and 2010 for EIB investments to support European SMEs and "mid-cap" companies was mandated, with the lending to take place via on-lending from private banks. A "Clean transport facility", aimed primarily at the European automotive industry, also included an extra EUR 6 billion worth of support in both 2009 and 2010 via the EIB. An extra EUR 2.5 billion in both 2009 and 2010 was also mandated via the EIB to benefit central and eastern European countries.

How this additional EIB crisis lending has worked out is open to question, although without it – its proponents argue rather tendentiously – things may be a lot worse than they are now. On vital SME lending provided by private banks via initial EIB funding, very little is known about how the EIB financing has benefitted the European economy generally. With next to no information on specific benficiaries – and what they have done – available, the EIB nonetheless notes that 105,000 SMEs received its support in 2009 and another 115,000 in 2010. It also provided some EUR 13 billion of finance to 120,000 SMEs in 2011.

Bankwatch's research has shown meanwhile that EIB crisis loans to SMEs were more helpful to the commercial banks disbursing them than to the cash-strapped SMEs they were supposed to help. Bankwatch found that the EIB's 'global loans', designed to benefit SMEs via lending from commercial banks, had a very poor penetration rate of 0.001 percent of all SMEs in the central and eastern European countries that were surveyed.

Any increased EIB investment potential, therefore, should not be directed willy-nilly at the SME sector given the problematic 'intermediated finance' model that the bank continues to insist on for this sector. The European private banking sector has just recently had a massive, temporary bailout known as LTRO (the long term refinancing operation), and it has had limited results despite its scale. EUR 489 billion flooded out of the European Central Bank in December 2011, yet bank lending to the real economy is still in negative territory.

These underlying issues have been acknowledged by a European Parliament report on the EIB's own Annual Report for 2010. The rapporteur for this report, Bulgarian MEP Ilana Ivanova, told Bankwatch Mail: "We need clear performance indicators such as penetration rate but also target values for these indicators which could be used for assessment of the activities. I would like to stress that the SME support programs should be based upon explicit intervention logic and should be linked to expected results and impacts. It is clear that the final result could not be assessed when we do not have any explicit targets."

As a further indication of how serious the gaps in the EIB's support for SMEs are being viewed, Ivanova also revealed that: "The European Court of Auditors prepared a Special report on the SME guarantee facility which is managed by the EIB group. Within this report there have been identified weaknesses which are valid not only for this concrete program but for most of the Bank's support programs for SMEs. I believe that we should continue our efforts and push the EIB to improve further on these points."

In terms of the transparency of such investments, Ivanova was also clear: "A lot has been done by the EIB these last years for improving transparency in the intermediated loans for SMEs. However, in my view, there are still points to be improved in order to achieve better accountability to the European citizens."

Accountability generally to European citizens, and awareness of environmental considerations, needs to be paramount if major infrastructure projects are to be part of any EIB sponsored growth package. A new 'EIB rush' may be upon us, but it is essential that new finance projects are based on needs assessments, especially in those countries and regions of Europe where the needs are greatest.

A thorough assessment of needs that considers not only climate and environmental limits but also the optimal options for satisfying these needs has to take place. Mere energy and transport growth should not be regarded as unlimited in the current scenario – needs should be assessed locally, country by country (with emphasis on the most needy countries) in order to identify the best way for the EIB to help fight the crisis and create jobs.

Following her study of all things EIB, Ilana Ivanova maintains: "I believe that in these times of austerity measures we need to reallocate and to concentrate money where its added value is the highest. In this regard the EIB should establish a clear link between inputs and outputs. We need clear objectives not only in terms of quantity but also in terms of quality in order to assess the efficiency and the effectiveness of the different programs. Therefore, I believe the bank needs to be lending better taking into account specific and measurable objectives."

Read more: A factsheet on the EIB and the economic crisis is available at: http://www.counterbalance-eib.org/?p=301

Vienna Initiative: regulatory capture and policy confusion

In February 2009 the European Bank for Reconstruction and Development, together with the European Investment Bank and the World Bank Group launched a series of meetings with commercial banks, coordinated with the European Commission and the International Monetary Fund, to shore up a weak link in the financial systems of the European Union. The weak link is in so-called 'emerging Europe', the countries of central and eastern Europe that are in the EU, but are outside the European Monetary Union, the Euro-zone. These are mostly ex-Communist countries whose financial systems had remained undeveloped under communism.

Subsequently, with bank privatisation, their financial systems came to be dominated by large western and northern-European banks, that had expanded aggressively to gain critical mass in the Single European Market for financial services that was inaugurated by the Lisbon Agenda agreed in 2000.

This has distorted banking systems in central and eastern Europe, making them heavily focused on lending to unstable asset markets (real estate, local stock markets), and with weak money markets. In the wake of the financial crisis of 2008, it was feared that the large western and northern European commercial banks would withdraw from lending to central and eastern Europe, creating a 'credit crunch', as companies and individuals seeking to roll over their debt find that they are unable to do so, and are forced to reduce spending and sell assets.

The Vienna Initiative resulted in an agreement between the EU, the World Bank, the EBRD, the EIB and commercial bank groups (Italy's Unicredit, France's Société Générale, Austria's Raiffeisen International) under which the commercial banks were given 'financial support packages' in return for commitments not to reduce their lending in central and eastern Europe. Close to EUR 33bn in public funds was mobilised, with support for lending supposedly aimed at the real economy (small and medium-sized enterprises in particular) one of the explicit selling points promoted by the initiative's backers.

On March 16 this year, the European Bank Coordination Initiative (the official name for the Vienna Initiative) reconvened in Brussels ostensibly to meet 'a similar need for collective action to avoid suboptimal outcomes'. The official reason was the publication that month of figures from the Bank for International Settlements (BIS) showing that in the third quarter of 2011 some USD 35bn had been taken out of eastern Europe by western European banks. In the largest market, Poland, foreign credit had shrunk by USD 13bn or 8.6 percent. This aroused fear that the voluntary commitments of the large western European banking groups made in Vienna in 2009, and due in any case to expire in April 2012, had been effectively abandoned. Reuters reported in January that some EUR 24.5bn in lending to which the western banks had committed themselves by April had not been made.

The real reason was the tightening up of bank regulation announced by the BIS Committee on Banking Regulation in 2010. This significantly raised the amount of capital which banks are supposed to hold in relation to their risk-weighted assets. In Europe, the European Banking Authority, that is supposed to coordinate bank regulation in the EU, issued guidelines requiring banks to raise their core Tier 1 capital (effectively their share capital and retained earnings) to nine percent of risk-weighted assets, considerably more than the six percent recommended by the Basel Committee. Moreover, capital markets have been weakened by the financial crisis and European capital markets have been weakened further by the war on government debt that is the unintended consequence of the 1992 Maastricht Treaty.

In this situation banks would have found that the easiest way to comply with these requirements is to reduce their holding of risky assets, simply by refusing to lend any more in eastern Europe, where the risks are relatively high because of weak banking systems and foreign currency exposure. Banks operating in Hungary have already been affected by the fall in the Hungarian forint of around a third against the Euro.

Two particular faults in the web of international banking in Europe have been identified. One is Austria, whose capital is an international banking centre and whose banks Erste Group, Raiffeisen International and Bank Austria (owned by the Italian group Unicredit) have taken a leading role in expanding into eastern Europe. The Austrian government, anxious at what the failure of a large bank would do to the borrowing and the credit rating of the government, had been pressing Austrian banks to disengage from eastern Europe. In November the Austrian banking authorities instructed those banks to reduce their exposure to 'emerging Europe', and were especially keen to raise their capital ratios. The other fault is Greece, whose banks hold large quantities of Greek government debt, but also have large lending operations in Bulgaria, Romania and Serbia.

In the end, the banking authorities backed off, and have given the western European banks more time to achieve the target capital ratios. The Brussels meeting agreed that banks should discourage foreign currency lending in eastern Europe and noted the limited capacity of countries in that region to absorb project finance.

In effect the Vienna Initiative revealed the willingness of the bank regulators and international financial institutions such as the EBRD and the EIB to accept the priorities of the big banks in western Europe. In 2009 they received massive financial support in return for lending commitments on which they failed to deliver. In 2012, they got relief from inconvenient capital requirements and the blessing of the European Commission for failure to deliver on lending commitments to eastern Europe, pending the development of local capital markets.

The experience of history suggests that those capital markets will fail to develop as long as the European Commission continues its war on government debt and the proper role of central banks in refinancing it. The most developed financial markets, in western Europe and north America, expanded on the basis of government debt markets in the nineteenth century and the first half of the twentieth century, where the central bank provided crucial refinancing facilities. The sub-prime market crisis hit the American financial system because, as Ben Bernanke has pointed out, there was not enough government paper in the balance sheets of commercial banks and financial institutions, rather than because there was too much. At a time when private sector borrowers are deleveraging, the stability of the banking system depends on the willingness of the public sector to provide good liquid assets for banks to hold.

Jan Toporowski has worked in international banking, fund management and central banking. He is currently Professor of Economics and Finance at the School of Oriental and African Studies, University of London. His most recent book is Why the World Economy Needs a Financial Crash and Other Critical Essays on Finance and Financial Economics (Anthem Press 2010).

Corruption cases put EBRD due diligence in the spotlight

In recent months bribery and money laundering allegations levelled at a former EBRD banker, as well as revelations that an EBRD staffer, now suspended, is one of the founders of the far-right, racist organisation the English Defence League have not made for great PR for the EBRD. While these cases would appear to be down to 'bad apple' individuals, of more systemic concern are indications that EBRD due diligence at the project level is having difficulty weeding out corrupted companies from its portfolio in central and eastern Europe. Two corruption scandals have broken out in the past year at EBRD-funded energy projects in Serbia and Slovenia, and while the bank is now investigating the cases, it is refusing to pull out of the projects.

For more than a year now, corruption allegations against the management of TES 6 – a new 600 MW lignite–fired power plant planned to be built at Šoštanj in Slovenia, and to which the EBRD is investing around EUR 200 million alongside the EIB – have been raised by both governmental and non–governmental actors (see Bankwatch Mail Issue 51). Earlier this year, a Slovenian state commission for the prevention of corruption declared that corruption conditions were created in the awarding of the contract for the construction of the new plant to French company Alstom, and that national lobbying legislation was also breached. The general prosecutor's office and local police have opened investigations. The World Bank debarred two subsidiaries of Alstom in February this year following improper payments made by Alstom back in 2002 to an entity owned by a Zambian government official.

Last autumn, a huge corruption scandal broke in Serbia as 28 people belonging to the current and former management of state–owned energy company Elektroprivreda Srbija (EPS) were arrested over allegations of embezzelment of company funds.

EPS is a long–term beneficiary of EBRD loans. Most recently in 2011 the EBRD allocated EUR 80 million for investments at the Kolubara coal fields managed by EPS, which Bankwatch argues will actually be used to support coal mining expansion. Some of those arrested were in charge of managing EBRD loans. The managers have been accused of manipulating over EUR 8.5 million worth of funds.

In the case of the Slovenian corruption case, the EBRD is currently conducting an internal investigation looking into several features of the project – including the corruption issue – before it disburses the funds. In recent correspondence with Bankwatch on the Šoštanj case, the bank is keen to note that even though it will not disburse any money until the internal checkup is completed, it has not formally frozen the loan. Hard as it may be to make sense of this very fine distinction, what is clear is that the EBRD is finding it tough to say no to a project it deems to be profitable, with the risk of wasting public money because of corrupt management a secondary concern.

In the case of Kolubara, the reaction of the EBRD has been more striking. Despite an even stronger public outcry in Serbia concerning the suspected crimes, the EBRD is nonetheless reacting more weakly, dismissing even the idea of an internal investigation and instead declaring that it is content that EPS has already taken appropriate measures to clean itself up.

What the EBRD needs to do, however, instead of worrying about how to disentangle itself from such corruption scandals is to conduct proper check ups to begin with in order to avoid getting involved with dirty companies, with companies that have a track record of corruption, such as EPS and Alstom. This would require a radical revamp of the bank's approach to its due diligence process. No more cosmetic airbrushes, but instead determined anti–corruption safeguards.

Read more: Background information about the Šoštanj project is available at: http://bankwatch.org/our-work/projects/sostanj-lignite-thermal-power-plant-unit-6-slovenia

Background information about the Kolubara project is available at: http://bankwatch.org/our-work/projects/kolubara-lignite-mine-serbia

EIB urged to dump coal in energy policy review

The European Investment Bank has announced that it will commence a review of its energy policy – "Clean energy for Europe: A reinforced EIB contribution" – in the second half of 2012. Bankwatch welcomed the announcement as the current policy, adopted in June 2007, needs to be brought up to speed and aligned with the latest developments in EU energy and climate policies.

Bankwatch's most recent research into the EIB's energy lending operations revealed that the bank's lending to fossil fuel based projects still remains significant and constitutes around one third of the bank's total energy lending. In the new EU member states in particular the EIB has supported mostly high-carbon energy, trapping these countries in unsustainable energy systems. Although the biggest share of the EIB's fossil fuel lending goes to natural gas projects, under its current energy policy the EIB has also financed several coal fired power plants in Germany, Poland and Slovenia.

Fundamentally, the current EIB energy policy is not strict enough to exclude financing to projects that undermine EU efforts to achieve a low carbon economy. In this context, for the purpose of multiplying benefits for the EU as a whole, the EIB should more strongly prioritise projects that meet the requirements of all the pillars of the EU's energy policy, such as energy efficiency and renewable energy projects. These reduce EU dependency on imported hydrocarbons, contribute to sustainability and are fully cost competitive, especially when factoring in social and environmental externalities.

Anna Roggenbuck, Bankwatch's EIB co-ordinator, is optimistic about the forthcoming policy review: "Revision of the EIB's energy policy provides an opportunity to shift its lending more emphatically towards energy efficiency and renewable energy, especially in the central and eastern European region. Bankwatch will be proposing that the EIB immediately stop coal investments, and a plan to phase out all fossil fuel lending should be prepared and implemented as quickly as possible. EIB capital from fossil fuel investments can also be redirected towards green projects instead.

"The EIB energy policy deserves a thorough and transparent revision with meaningful stakeholder consultation. We would like to see the bank follow the best standards of public consultation it applied for the recent revision of its Transparency Policy. On that occasion we saw two rounds of consultations that permitted stakeholders to provide their opinion on the policy solutions that the EIB proposed in its draft policy text."

Read more: Bankwatch's 'Carbon Rising' report discussing EIB energy lending is available at: http://bankwatch.org/publications/carbon-rising-european-investment-bank-energy-lending-2007-2010

EU nuclear grab looms large in Ukraine

Earlier this year at the World Economic Forum in Davos, Ukraine's president Victor Yanukovych met Thomas Mirow, the EBRD president, with Yanukovych deeming the ongoing cooperation between Ukraine and the bank to be "excellent". Other than this being a diplomatic pleasantry, when it comes to energy infrastructure projects Ukraine certainly appears to have done very well out of the EBRD: since 2005 the EBRD has committed more than half a billion euros for these projects in Ukraine, in particular for the upgrade and construction of high-voltage transmission lines. Yet the experience for all concerned – including local communities – has been far from excellent, and concerns are mounting that further grid expansion plans could be storing up yet more problems.

Four transmission line projects in Ukraine have been submitted to the EBRD, and now a fifth – the big daddy of them all – is being lined up for implementation and financing: the Ultra High Voltage Transmission Line Second Backbone (see map below).

Officially, this 1000 kilometre long transmission line, with an estimated price tag of EUR 2 billion, would contribute greatly to the stability of Ukraine's electricity grid, foster the development of renewable energy sources and improve electricity supply for Ukrainian consumers. As with the previous transmission line projects, it is expected that Ukraine will again seek major loan financing from the EBRD and the EIB.

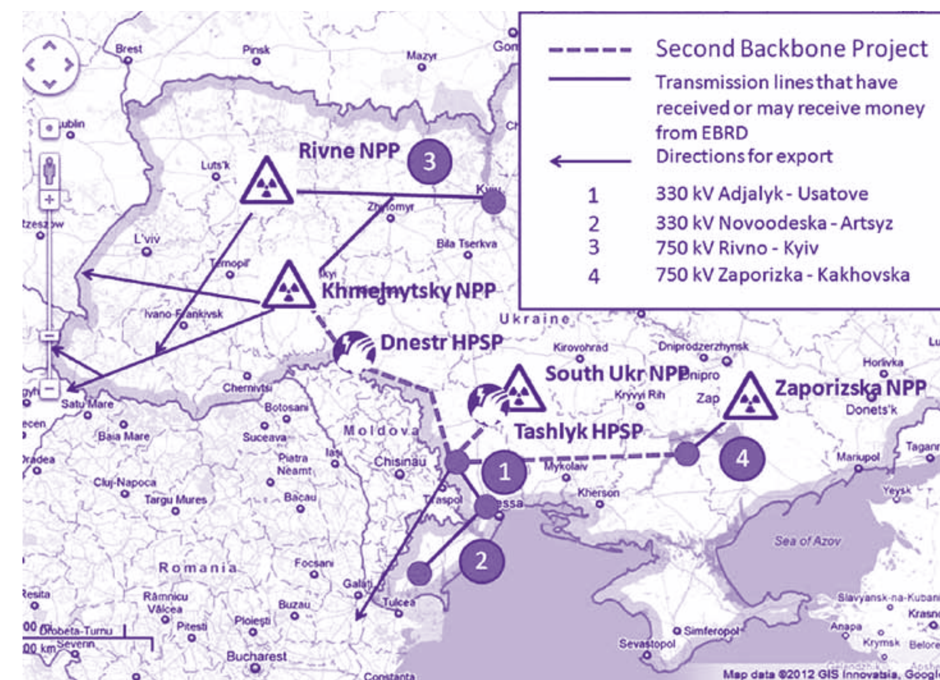
Yet this Second Backbone line is also receiving criticism for being the final piece in the transmission jigsaw that would permit the exporting of electricity from Ukraine's ageing nuclear reactors to Europe. The huge line would provide the opportunity to connect three nuclear power plants and two pumped storage plants and link those capacities with Europe in order to export 'cheap' nuclear electricity to the European market. Before looking at the more hidden nuclear implications, it is worth reminding ourselves of the checkered history of the EBRD's involvement in Ukraine's power lines, and considering whether a further such loan makes sense for Ukraine and for the bank.

Highly charged impacts and costs

Over the last seven years, four Ukrainian power lines projects were submitted to the EBRD, and to date three have been signed off by the bank. Reckless planning and highly insensitive handling of community and environmental issues from the state energy company Ukrenergo have been commonplace.

The 330 kV Novoodeska-Artsyz transmission line has not so far received EBRD financing due to its unacceptable routing. The route, proposed by Ukrenergo in 2010, goes straight across the Low Dnister National Park, a bird area of international importance that is protected under the Ramsar Convention. Ukrainian environmental organisations have appealed to the EBRD and the project has been returned to consultants for rerouting.

Out of the three EBRD-backed projects, only one has been physically constructed, the relatively short, 124km long 330 kV Usatove-Adjalyk Transmission Line Project. But it has involved violations of human rights, local riots and impacts that are still ongoing – despite an official agreement signed by Ukrenergo (and with the EBRD also engaged) to relocate overhead power cables outside certain villages, after two years no action has been taken.



The 750 kV Zaporizka- Kakhovska line has been delayed for a year because of the community issues taking place in Usatove. Similar problems with land acquisition and clashes with environmentally sensitive zones are anticipated. The fourth line, the 750 kV transmission line Rivno-Kyiv, was signed with the EBRD in 2007 but has not been constructed for a variety of reasons mostly stemming from the promoter's incompetence. Ukraine is already paying the interest on the EBRD loan.

The recent precedents, then, for the Second Backbone project are not good. And other than being plagued by similar scandals involving human rights violations and the destruction of nature protected areas (its precise routing is not yet known, though acute routing points are once again expected), Ukraine's State Financial Inspection (SFI) has noted that there are several structural flaws that prevent Ukraine from successful implementation of energy infrastructure projects.

First and most fundamental, according to the SFI, an independent state financial monitor, is the discrepancy between the Energy Strategy of Ukraine and real economic growth outlooks both for Ukraine and the wider world – the strategy, the key driver behind Ukraine's energy export push, is deemed to overestimate GDP growth and the level of associated consumption. A second suggested reason is a lack of state policy and consistency when it comes to delivering energy projects: efforts and funds are spread across several projects without any tangible coherence, and this is compounded by bureaucratic obstacles.

But are these short-term frustrations and project niggles the price worth paying for both Ukraine and the EBRD when the longer-term goal of this new infrastructure lies well beyond Ukraine's borders?

Ukraine's energy strategy for the period up to 2030 aims to make the country a major electricity exporter to Europe. Although almost every EU neighbouring country has the same plans, they are not predicated on the same formula as Ukraine's plans: the extension of the lifetime of old nuclear reactors. These extension programmes will require hundreds of millions of EBRD and European money, only they will be misleadingly called 'safety projects' . The Second Backbone project will not only make lifetime extensions necessary, but will ultimately lead to the installation of new additional nuclear units, in particular at the Khmelnitsky nuclear power plant.

All of these power lines projects, then, are not to fulfil Ukraine's own domestic energy needs but are for export. When the nuclear dimension is factored in, we have what has been to date one of the EU's dirty little energy secrets. With the Second Backbone project now looming into view, this is about to become the EU's dirty great energy secret.

Read more: An overview of the issues surrounding the transmission lines' controversies in Ukraine is available at: http://bankwatch.org/our-work/projects/second-backbone-corridor-high-voltage-electricity-transmission-lines-ukraine

Revolution at the EBRD required for any new role in Egypt

The figures should be well known. Somehow, though, in the western world, and especially in official quarters, they tend to get overlooked in the rush to impose the 'next latest thing' on post-revolution Egypt. The country's seven percent GDP growth figure in 2007, hailed by the World Bank and others, concealed a multitude of injustices. For one thing, average per capita GDP growth plummeted from 4.1 per cent prior to 1990 to 2.7 per cent during the neoliberal era set in motion by the IMF structural adjustment regime in 1991.

Since then, the percentage of the population living below 2 dollars a day has doubled, and nearly a third of all Egyptians live below the poverty line – a figure that may in fact mask the current reality as the political impasse since the overthrow of Mubarak last year continues and economic uncertainty intensifies.

While structural adjustment and market liberalisation were hugely beneficial for foreign corporations and wealthy Egyptians (in 2008 Egypt was named the top reformer in the World Bank's Doing Business survey), it devastated Egypt's economy and induced outrageous social symptoms. The phenomenon of street children, for instance, began during the Mubarak era – children living on the streets, working at shining shoes, collecting garbage, begging, cleaning, parking cars, selling food, and highly vulnerable to being forced into a string of illicit activities.

Western development banks are now lining up to re-enter Egypt or in the case of the EBRD, to enter Egypt and other north African countries in a highly ambitious extension of its founding mandate that saw it focusing purely on the central and eastern European states since its founding in 1991. An EBRD Technical Assessment, made public earlier this year, identifies the following operational themes to 'guide a potential engagement by the bank in Egypt':

- financing and improving conditions for investments in the private sector, with particular emphasis on SMEs, to support transition and job creation;
- enhancing the agribusiness value chain to improve food security, strengthen the distribution chain, and develop a sector that accounts for a high share of employment;
- modernising the financial sector so that it can contribute more fully to economic growth by strengthening its capacity and diversifying the range of financial products offered, including risk capital;
- increasing the role of renewable energy and improving energy efficiency
- supporting reform and commercialisation of the transport and power sectors including the mobilisation of private sector infrastructure investment for accelerated development; and
- upgrading municipal infrastructure, based on decentralisation and commercial principles, to provide wider access to better quality urban services to the population.

As the EBRD assessment makes clear, "private sector led, inclusive growth" is the key priority for both the EBRD and the as yet unelected Egyptian authorities. Privatisation and its modern-day equivalent public-private partnerships also feature heavily on the EBRD agenda for Egypt. But before assessing how 'inclusive' this 'inclusive growth' drive may end up being, especially for Egyptian women, it's worth taking a step back to consider the EBRD's credentials for stepping into a country so afflicted by poverty.

> "The link between the impact of EBRD's programmes on transition, and their impact on people's lives is not always well articulated" – UK Department for International Development."

European Bank for Reconstruction and ...

In spite of the name, the EBRD does not see itself as a development bank: it neither measures the development impacts of its projects, nor sets development targets at the project or country level. A new country level transition indicator on 'inclusiveness' is under discussion at the bank, and this may or may not include something on poverty and/or wealth inequality. But, fundamentally, the EBRD does not take poverty eradication as its primary focus in its developing country operations, although this is required for EU action under Article 21.2 of the Treaty of the European Union. The UK Department for International Development's Multilateral Aid Review noted in March 2011: "The link between the impact of EBRD's programmes on transition, and their impact on people's lives is not always well articulated".

Thus far no specific measures to address this gap as it pertains to Egypt and other north African countries appear to be forthcoming from the EBRD. It's certainly easier to claim, as the bank's president Thomas Mirow regularly does, that parallels between post '89 central and eastern Europe and the Arab Spring leave the EBRD very well placed to intervene now in a different continent. Yet are there so many close parallels? Poverty levels in the post-communist states were nowhere as severe as they are now in Egypt, though of course they did jump in the period up to the mid-1990s. And in certain aspects of economic organisation, lessons that have emerged from the post-1989 analysis in eastern Europe should already have been drawn from experience in Egypt.

Privatisation is being suggested without sufficient justification in the EBRD's Egypt Technical Assessment, yet of course widespread privatisation took place in Egypt pre-revolution and some of its effects have been recognised as contributory factors in the popular uprising of 2011 (and before). At the same time, the post-revolution mass privatisation drive that took place in eastern Europe has recently been strongly criticised by sociologists from the University of Cambridge and Harvard University. Their study – "Mass Privatization, State Capacity, and Economic Growth in Post-Communist Countries" – published in April this year claims to be the first to trace a "direct link" between the mass privatisation programs of the early 1990s and the "economic failure and corruption that followed."

The EBRD's role as a proponent of privatisation both then and now in two different continents does not appear to have escaped the authors' attention. Lawrence King, one of the study authors, commented on its release: "Rapid and extensive privatization is being promoted by some economists to resolve the current debt crisis in the West and to achieve reform in Middle Eastern and North African economies. This paper shows the most radical privatization in history failed the countries it was meant to help."

Does Egypt fit the EBRD, or will the EBRD be able to fit to Egypt?

The EBRD's gap on poverty and its ideological commitment to privatisation are clearly problematic, but on the practical level, when it comes to infrastructure and support for SMEs, two of the bank's focus areas for Egypt, is it equipped to deliver for the poor in general and, specifically, for women?

The Technical Assessment has it that the EBRD's operations in Egypt "will seek to address issues of gender equality and women's entrepreneurship", with the potential for further studies to look at the role of women in the economy and society, tailored lending (albeit via intermediary banks) to women-owned businesses, and, in municipal projects, "ensuring benefits are equally shared between men and women".

It is doubtful that EBRD support for upgrading municipal infrastructure, based on commercial principles, to provide wider access to better quality services will be effective if it does not from the very outset draw its map with a gender lens. That map needs to take in a wide range of actors and sections of society, for instance mothers trying to reach clinics, and children in rural areas trying to get to school. To ensure also a more robust safeguarding of women's rights in connection with its investments, the EBRD ought to be putting gender at the heart of its operations with a dedicated Gender Policy. A Strategic Gender Approach is currently being formulated by the bank, though it appears that it will fall short of being a fully-fledged policy. At the very least, a Gender Performance Requirement within the EBRD's environmental and social policy (such as there are for community health, biodiversity and other key issues) would provide more guarantees for women.

The emphasis that the EBRD is putting on public private partnerships (PPPs) for the provision of infrastructure and utilities also raises concerns, especially if such initiatives do not have gender and poverty considerations to the fore. Will EBRD infrastructure projects across a broad range of sectors (eg water and sanitation, transport, energy) ensure that the service provider is accountable to the poor populations they are supposed to serve? Before setting forth with new PPP schemes, it needs first to be established who, on a gender-disaggregated basis, is gaining and who is losing from existing systems, and then a determination made as to how the PPP approach will affect equitable access to services.

As long ago as 2004, a World Bank Development Report, Making Services Work for Poor People highlighted that making services work for poor people necessitated changes to strengthen accountability in key relationships in the service delivery chain between: poor people and service providers, poor people and policy makers/regulators, and policy makers and providers. Continuing scepticism though about PPPs, particularly in relation to bloated project costs and questionable development impacts, suggests that the 'policy makers-providers' nexus remains paramount.

Where the poor are having an impact is when PPP initiatives ignore social impacts – the collapse of water concessions in Argentina and Bolivia because of social unrest generated by substantial tariff increases, among other factors, are vivid examples. Ongoing public dissent in Ghana over World Bank backing for private participation in the public water supply suggests that development banks may well be backing a loser if they are holding out for PPPs to deliver essential services for all sections of society – and they can expect a public backlash.

'Growth a formality' say the models, but what about the informal realities?

Egyptians survived thirty years of Mubarak and his misguided, economic policies by working predominantly – and ingeniously and creatively – in the informal economy. Post-revolution economic policies should therefore start from there. The EBRD's major emphasis on developing Egypt's SME sector conforms to widely held growth- and jobs-boosting precepts, but when faced with the extent of Egypt's informal economy shouldn't it be embraced rather than leap-frogged over? Shouldn't the poor who comprise the huge informal economy right now be placed centre stage in the investment map, rather than being supplanted by a single-minded focus on private sector development and the SME sector?

Experiences in the solid waste sector, for example, are instructive. This sector, that employed over 100,000 poor, illiterate and unskilled youths, was privatised to multinationals in 2003 and has resulted in the worst urban environmental situation Cairo has ever known. Rather than replace this with another ineffective corporate model financed by large capital, Egypt would do well to upgrade and integrate the informal private enterprises rooted in traditional systems that provided residents with door to door collectors who recycle 80 percent of what they collect. Such grassroots, out-of-the-box solutions are unlikely to be part of the EBRD's thinking for Egypt – they are certainly beyond the scope of the EBRD's current transition methodology that guides its operations.

One billion per year for who?

The range of economic and social factors for the shareholders of the EBRD to weigh up when considering whether or not to green light up to USD 1 billion per year in investments for Egypt is vast. This article is unable to adequately cover not only all the key issues but also the related micro-issues and interactions: for example, do aspirational sounding plans from the EBRD to "enhance the agribusiness value chain" in Egypt take proper account of the broad base of women farm workers who survive from working on the land? And instead of leading to food security, will EBRD assumptions and possible future investments lead to food insufficiency as more food is directed to export markets, leaving poor women farmers and their children without adequate income and nutrition?

What is troubling, based on the relatively scarce, publicly available information from the EBRD to date, is the sense that it views the economic policies enacted under Mubarak as somehow having 'gone wrong', rather than being inherent failures in themselves. Continuing to promote market economies and attempting to design them in an 'inclusive' manner will not address the huge gaps between where people are and where the market is. Poverty, malnutrition, poor access to potable water and adequate sanitation, poor health, illiteracy, lack of skills, lack of ownership of assets – all of these make the distance between where people in Egypt are, particularly women, to those markets huge.

If the EBRD wants to reform and commercialise key sectors in the Egyptian economy in order to accelerate development, it will need to shift its focus from 'projects' to 'people'. That's a tough ask for an institution that to date – and despite the name – is more concerned with the bottom line than with development.

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Learn more: A video produced by RNN, Platform and Bankwatch called "Egyptian Revolution and Neoliberal Economics" can be seen on YouTube at: http://bit.ly/IoyD9C

EBRD approach to PPPs continues to perplex

After a long gestation period the EBRD's new draft Municipal and Environmental Infrastructure (MEI) policy finally appeared in April, bringing some good news such as the bank's commitment to start monitoring some on the ground project impacts and sustainability rather than just market-related transition impacts.

One of the document's more puzzling features, though, is its attitude towards public-private partnerships or PPPs. On the one hand, it takes a noticeably more cautious – and realistic – attitude towards PPPs than past EBRD documents, yet on the other, it is saturated with the bank's intentions to finance more of them.

The section on south east Europe is typical: "There remains an appetite for PPPs, despite the limited success in this region and the difficult market conditions. This approach will remain the mainstay of engaging the private sector. The Bank will continue to support municipalities wishing to tender viable PPPs, even though the process is resource-intensive and there is no guarantee EBRD finance will be chosen by the preferred tenderer. Activity is expected to cover a broad range of sub-sectors including parking, transport terminals, water and solid waste."

Another section, on Promoting Adequate Private Sector Participation, takes a similar line: "projects involving private sector participation will remain challenging and resource-intensive because: Intense policy dialogue is generally required … Compliance with the best practice requirements … can be problematic in the MEI sector … Lead times are long because of tendering requirements and the need to achieve fair and balanced contracts between the public and private partners … The costs of financial, legal and technical advisers are considerable; and … the preferred bidder may ultimately not choose EBRD financing. Despite these constraints, the development of PPPs will remain an aim in all EBRD countries of operations."

It is refreshing to hear that the EBRD has finally understood that many PPPs are not running smoothly, either in the transition countries, or anywhere else, but why then does the bank insist on pursuing the model?

One of the issues here is what counts as a PPP. The EBRD has tended to use a rather broad concept, one that can include commercially profitable activities and may include relatively small concessions lasting only a few years, for example for the construction and operation of a car park (although quite why such projects should be financed by a public bank is another question). In this case, there is indeed no need to throw the baby out with the bathwater and exclude all private participation in sectors where it actually does work. But too often larger, longer-term PPPs in public services such as water supply concessions and motorway construction and operation are proving problematic.

Evidence of failure mounts

Most of the examples so far are not in the EBRD region. The UK is the world 'leader' in this field, with over 700 projects financed so far, mostly for schools and hospitals. However the PPP model (or Public Finance Initiative – PFI – as the type used in the UK is known) has faced a barrage of criticism. Just the latest high profile broadside against this investment model was delivered by a new report last month from a UK parliamentary committee whose Chair, the MP Margaret Hodge, said:

"When a public authority chooses to fund a project using private finance it must be able to demonstrate that this was the best way to deliver real value for money for the taxpayer, not just a way to keep the project off the balance sheet … The current model of PFI is unsustainable. Time and again my Committee has reported on problems with PFI, including the costly contracting process and the prospect of little risk being transferred but high returns being enjoyed by investors. 30 year contracts are inflexible and don't allow managers to alter priorities or change services that have become outdated. We have even seen evidence of excess profits being priced into projects from the start."

In the MEI sector, a 2008 overview of studies comparing public and private operation of water supply globally (carried out by Germà Bela and Mildred Warner of Barcelona University and Cornell University) also found that private sector participation has not reduced costs, although this has been one of the main advantages cited in favour of private sector participation.

Another report, by the World Bank's Public-Private Infrastructure Advisory Facility in 2009, has found that in the water and electricity sectors, private sector participation has resulted in increased efficiency, but that this has not necessarily translated into increased investments or lower tariffs – meaning that either the starting tariffs were so low that increased efficiency still has not led companies to a sustainable position, or that the additional income has simply ended up as company profits that have not been reinvested.

Back in the EBRD region, only Hungary has undertaken a significant number of PPPs – around 100 – but then decided to review this policy when it noticed how much off-balance-sheet debt it had been running up. At the time of writing the National Development Ministry has said that it will propose to the government cancelling HUF 3 billion (over EUR 10 million) of PPP contracts signed under previous governments.

But doesn't the EBRD's involvement in projects stop problems like this from happening? Well, no, not necessarily. The bank contributed to Hungary's EUR 1 billion M6-M60 motorway with a EUR 75 million loan in 2008, seemingly without noticing the country's looming debt problems and the additional budget burdens that payments for this project would bring.

In the MEI sector, the EBRD was unable to ensure good value for the public budget in the Zagreb wastewater treatment plant, where the price tag rose from EUR 176 million in 2001 to EUR 326.7 million in 2007 and 75.5 percent of the capital investment costs were paid off by the end of 2006, raising the question of why the city could not have simply used normal public procurement for the project.

Nor did the bank manage to ensure satisfactory performance in the Sofia water concession in Bulgaria that was awarded in 2000, yet in 2009, the most recent year for which figures could be found, water losses were still at 58 percent.

In this overall context, would it not be more logical for the EBRD to concentrate on assisting its countries of operation to get the basics of public procurement right before moving on to more complicated and highly rigid structures?

A new form of 'PPP', Public-public partnerships, are being put forward by groups such as Food and Water Europe. These may represent an alternative model for improving public sector service provision, one as yet not utilised by the EBRD.

Read more: 'Public-Public Partnerships: An alternative model to leverage the capacity of municipal water utilities' is available from the Food & Water Europe website at: http://bit.ly/JbmcP2

Look out for the forthcoming Bankwatch website dedicated to showing how PPPs work, or don't work in reality. www.bankwatch.org/ppps goes live in June.

Clean energy expansion in eastern Europe requires a pro-active EIB

The European Union has embarked upon an ambitious voyage to reduce its greenhouse gas emissions by 80-95 percent by 2050. To achieve this goal, a deep transformation of the economy is needed. Such a shift requires significant investments into energy efficiency measures and renewable energy sources, but it also means that decisions and infrastructure investments that would lock up our societies in carbon intensive consumption and production patterns need to be avoided.

The European Investment Bank (EIB) has an important role to play in bringing EU policies and targets to life – and in the new member states of central and eastern Europe there is enormous potential for the EIB to step in and make a difference on clean and reduced energy initiatives. Yet to date, as Bankwatch's recent 'Carbon Rising' study has documented, only six percent of all EIB investments into renewable energy and 16 percent of energy efficiency investments were made in the new member states.

In autumn 2011 at the first-ever meeting between the EIB's board of directors and civil society representatives, the management of the bank hinted that they are well aware of this shortcoming. Although the EIB is looking for more opportunities to finance renewable energy and energy efficiency measures in the EU12, according to bank officials there are problems with absorption capacity, demand and there is only limited interest from financial intermediaries in the region to handle such targeted funds. Perhaps it is now time for the EIB to stick its head out of the box and look for new ways to support the necessary shift in the EU12. Although for the most part still in a deep slumber, the potential is there as is apparent in the case of the Czech Republic.

The Czech Republic is about to conclude a long running discussion on a national energy strategy for the forthcoming years. As the bulk of its fleet of coal powered power plants is soon to retire, the country has to come up with a clear vision of where to head next. Although the debate has not been straightforward, it has resulted in increased engagement by various stakeholders. Many, including civil society organisations, municipalities as well as several business associations. are calling for increased efforts especially in the area of energy efficiency.

The Paces commission, a group of academics and energy experts asked by the Czech government to prepare a basis for the new energy strategy, has shown that the potential of energy renovation of housing and the possibility of heat generation from renewable energy sources (mostly biomass burning) alone account for more than the combined consumption of coal and gas used for heating in housing.

Even though it is only one piece in the jigsaw puzzle, renovating housing stock to make it more energy efficient is a good example of how carbon friendly measures, when well designed, can have a positive effect on the economy as a whole.

For starters, such measures boost employment throughout the country. Just the production of efficient biomass-fired boilers alone provides employment for over 1500 people, more than is provided by Litvninosvka uhelná, one of the larger coal extraction companies in the Czech Republic that is considered to be a significant employer in its region. Furthermore, it helps to significantly cut bills for both households and municipalities and, finally, helps to decrease dependency on energy supplies from unstable regions and would prevent European politicians from having to cut energy deals with often obscure, undemocratic regimes such as the one in Turkmenistan.

By halving oil and gas imports and freeing the country from dependence on coal and nuclear energy, the Czech Republic could achieve an 88 percent reduction in carbon emissions by 2050, and it is likely that similar scenarios exist in other countries of the region. The main responsibility for making these changes happen lies with the national governments. Nevertheless, the EIB can help to speed up the process by elaborating suitable financing mechanisms for energy efficiency and renewable investments in the region and help the countries to overcome lack of funding for energy efficiency improvements in the face of tough austerity measures and budget cuts. Is the bank up for the challenge?

Health and safety on the line in ArcelorMittal's Kazakh operations

The EBRD's development of a new Mining Strategy saw the publication last month of a draft that will now be consulted on. Among the passages in the draft to catch the eye are "Multinational firms act as demonstrators of best (or at least better) practices in those EBRD countries of operations where EHS&S (Environmental, health, safety and social) legislation is lacking", and that "investments by major international mining operators in local mining sites in the EBRD's countries of operations have often led to rapid and significant improvements in the safety of workers, due to safety standards that generally exceed the most stringent local health and safety requirements".

This may come as news to those who work at or monitor ArcelorMittal's coal mines in the Karaganda region of Kazakhstan. The steel giant owns eight coal mines in the region along with an integrated steel plant in Termirtau, iron ore mines and power generation assets. In 2007 the EBRD financed the USD 100 million Mittal Steel Temirtau – Coal Mine Modernisation Project.

Over the last nine years, 107 miners have died in the ArcelorMittal Temirtau (AMT) owned coal mines in Karaganda region as a result of accidents involving methane explosions, coal failures and gas blowouts. The most recent fatal accident saw the death of a miner on April 20 this year at the Kazakhstanskaya coal mine. In August 2011, two workers were killed at the Kuzembayeva coal mine following a gas blowout.

AMT has long been accused by its workers and the Kazakh government for the high rate of industrial injuries and its approaches to health and safety that bring about unsafe working conditions for miners work. ATM counters with health and safety data that apeears to show progress in reducing injuries and deaths at the steelworks, coal mines and iron ore mines. However, the injury data has been questioned by statements from miners that some occupational injuries are misclassified as domestic injuries.

ATM downsizing is also felt to be having an impact on mine safety. Since ATM's acquisition of the coal mines in 1995, the number of workers at the coal mines has been reduced from 40,000 to 20,000. These efficiency measures have lead to miners reporting having to work on tasks for which they are not qualified or that are supposed to be covered by others. In addition to the pressures attributed to the lack of miners, cases have been identified in the Tentekskaya and Kazakhstanskaya mines where safety procedures are overridden in order to avoid work stoppages.

Violations of labour legislation, including the enforcement of extra overtime, have lead to a joint declaration from trade unions at AMT and at the company's operations at Kriviy Rih in Ukraine where experiences are similar. The unions have said: "Together we'll be able to more effectively stand up against the transnational company's rampant pursuit of income. This pursuit often entails infringement of employees' rights, deterioration of their working and living conditions, groundless job cuts, violation of social standards, pressure on trade unions and attempts to reduce the scope of their activities".

Economies of fail: relative efficiency gains don't mean a lot to the climate

According to the International Energy Agency (IEA), 80 percent of the cumulative CO2 that can be emitted between 2010 and 2035 if the world is to have a chance of keeping the global mean temperature rise below 2°C is already "locked-in" to existing capital stock. For a 2°C scenario, all investments after 2017 will need to be in zero-carbon utilities, unless existing infrastructure is scrapped before the end of its economic lifespan.

It is likely that the IEA study underestimates the existing capital stock lock-in, not taking into account lifetime extensions to capital stock beyond planned lifetimes as has been happening in a number of countries where the EIB and the EBRD operate. For example in some new member states like Poland, coal power plants that were built in the 1940s and 1950s and initially planned for 40 years of operation are still spewing smoke into the air. Such investments limit the already short time for action and leave no space for misplaced investments in fossil fuels. According to the IPPC in its Fourth Assessment Report: Climate Change 2007, "delayed emission reductions lead to investments that lock in more emission-intensive infrastructure and development pathways". This significantly constrains the opportunities to achieve lower stabilisation levels and increases the risk of more severe climate change impacts.

Keeping the Earth's mean temperature rise below 2°C is extremely challenging. If we discard geo-engineering there is no other way than to limit the overall level of greenhouse gas emissions globally by 50 to 70 percent by 2050 and then to gradually decrease the level of their concentration in the atmosphere. The level of CO2 in the atmosphere accepted by the EU authorities and the scientific community as a level that allows for an acceptable degree of certainty for humanity not to face the most dire consequences of climate change is 450 PPM (with a 350 PPM concentration being even safer, especially for developing countries in the Global South).

Within this very tight climate context, when the EBRD or the EIB consider investing in a power plant project to produce energy efficiency gains by lowering the energy required per unit of output, but in effect producing an increase in the overall lifetime emissions of the project, two different approaches may feature: the first is refurbishment or renovation of an existing industrial or power generation facility, and the second is the replacement of the obsolete generation power unit with the latest best available technology version.

In the first scenario, it should be acknowledged that a refurbishment/renovation will seriously limit the emissions of various types of organic and toxic particles and thus lead to an overall improvement of air quality in the area or region where the generation facility is located. When, though, it leads to an increase in the absolute lifetime GHG emissions, an alternative view is that it prolongs the time before that generation or production technology is replaced by a more environmentally friendly and less polluting one. It also means that the owner of the facility is extracting profits from passing the external costs on to society at large (at least this is the case in countries not covered by the EU's Emissions Trading Scheme).

Even in the EU, though, the costs of additional emissions other than CO2 are not fully accounted for and the uncertainty of the future CO2 price makes this a difficult task. One way to tackle this would be for major public investors such as the EBRD and the EIB to elaborate a quota of GHG emissions available to each country of operation both within and outside of the EU according to their historic share of GHG emissions and the necessary reductions up to 2050 for that country; the permitted emissions could then be distributed between different sectors of the economy in that country including the renovation/refurbishments that lead to lifetime extension. This would require close cooperation with each country of operation (as well as with UNFCCC) and would also necessitate taking account of and updating the development of each of the sectors of the economy rather than just concentrating on any given investment separately.

The replacement or life-extension scenario can be considered as a two-phase process: 1) the old obsolete technology is coming to the end of its economic or technological life, and thus it needs to be scrapped or closed; 2) a new investment is undertaken that will perform the same functions as the technology/facility that has been scrapped or closed. What tends to be missing here, though, is a thorough assessment of all the alternatives. Most often the choice is narrowed down to a zero-alternative scenario or the proposed replacement.

Thus the EIB or the EBRD will oftentimes be faced with a request backed by an approval by the environment and state authorities in the country of the project planned that at first seems like a simple choice: either the plant/facility will close or the investor will replace it with a newer version of the same kind of technology, using the same fossil fuel. The key question that tends to get overlooked by the banks, however, is what regional or local alternatives they are choking by providing a subsidy to the large scale fossil fuel facility.

Given the rapidly closing emissions window, public banks like the EBRD and the EIB need to be compelled to make climate considerations their ultimate bottom line – they are not supposed to crowd out private investors but still too often, especially in central and eastern Europe, we are seeing their fossil fuel lending crowding out clean energy alternatives.

EBRD maintaining relations with Turkmenistan regime

Following the EBRD's controvesial adoption in 2010 of a 'calibrated strategic approach' to guide its activities in the totalitarian state of Turkmenistan, annual discussions between the bank and civil society organisations have been taking place, with the most recent last month.

At the meeting, US NGO Crude Accountability that closely follows hydrocarbon investments in the former Soviet Union recommended that the EBRD reconsider its calibrated approach and focus instead on the following areas:

- Analysing the legislation of Turkmenistan vis-a-vis its compliance with the essential requirements of the EBRD regarding the transparency of the national budget.
- A complete cessation of cooperation with Turkmenistan on grant and loan projects to bring the legislation of Turkmenistan into compliance with the requirements of the EBRD for partner countries.
- Ensuring that the Turkmen authorities bring about the adoption and strict implementation of relevant legislation in the field of natural resources and the harmonisation of legal standards relavant to fiscal policy, environmental protection, social policy and the fight against corruption.

Repression against activists, the country's restricted media and low democratic accountability also featured in the discussions.

EBRD representatives maintained that the bank will not involve itself in any oil and gas projects in Turkmenistan until there is an improvement in the political and economic situation. In a continuation of its calibrated strategic approach, the EBRD will work to develop Turkmenistan's private sector, trade finance and MSME sector as priorities. On the political side, the EBRD will also continue its policy dialogue with the Turkmen authorities.

The EBRD continues to be involved in the Turmenbashi port project, deemed by Bankwatch to be controversial as it may be crucial for the country's oil and gas infrastructure.

Private equity and development: a bad joke that's laughing all the way to the bank

For 'development' activists used to fighting the excesses of project finance, it's a bizarre shift. Instead of touting the usual dams and mines, in recent years 'development' banks have gone a step further: giving money directly to hedge funds, private equity firms and financial intermediaries, the croupiers of casino capitalism who almost ruined the world economy back in 2007–8 and are well on their way to ruining it properly this time around.

On one level (the most obvious one) it's ridiculous, not to say obscene: those entrusted with a responsibility to help the world's poorest and neediest are giving what they have to the world's richest and least needy. Some might argue that transfer of wealth from poorest to richest is the basic point of the 'development' game (if it's not the point, why does it keep happening?), but let's leave such cynicism aside for a moment. Why, on their own terms, are 'development' banks getting into bed with private equity?

Private equity funds flourish in times of deregulation and cheap money, so it's no surprise they picked up steam in the early 2000s. The combination of a glut of capital (mainly from Asian surpluses), low interest rates and buoyant credit markets meant that investors got greedy for bigger returns than safe, unspectacular government bonds could offer (not such a bad idea given what has happened recently to many of those bonds, but that's another story). And thus was born the 'hunt for yield': hot money moving around the globe in search of 'alpha returns' of anything from 20–30 to several hundred percent a year.

Fast forward to post–2008 and the distinctive feature of the post–bailout economies: thanks to governments advised by Goldman Sachs giving Goldman Sachs all our money to make up for the fact that Goldman Sachs lost all our other money (a process known as the Efficient Markets Hypothesis), we don't have any money left. The private sector, notably the hedge funds, has it all. And therefore, according to a DfID official I shared a panel with recently, we have to "tickle and tease" them into "leveraging" their (or our) money for development. The fund he boasted about, the Emerging Africa Infrastructure Fund, has over 70 percent public money in it. Yet somehow the private sector is doing the public a favour by putting in a minor stake! It's also registered in Mauritius, of course.

> "What part of this model sounds compatible with basic human decency, let alone with development?"

Seeing the combination of cheap assets, desperate governments and lack of competition, private equity firms assembled enormous war chests, putting USD 28 billion into infrastructure in 2010 alone. The model they use is fairly simple:

- Acquire assets with debt – often transforming a debt-free company into a massively indebted one in the process of acquiring it;
- Short–term investments (thus zero long term development);
- Take it private – get the company away from public scrutiny and regulation to a place where you can do whatever you want to it;
- Emphasise short–term value maximisation: fire staff, sell assets, particularly land and infrastructure, cut R&D (asset–stripping in normal language);
- Concentrate on making 'alpha returns' (30–300+ percent, though the managers of Actis, the holding vehicle of the UK's development body CDC which was created when the top managers of CDC sold it to themselves for a pittance, allegedly made more than 5000 percent);
- Exit the company either by selling what's left via an Initial Public Offering, or by recapitalisation, i.e. take a large advance in future profits out of the company.

What part of this model sounds compatible with basic human decency, let alone with development? The astounding thing about modern–day global capitalism is that it's pushed the basic suppositions of what is morally OK as long as someone makes money to a point where Middle Passage slave traders would take one look at the World Bank's order book and go, "Blimey, that is bang out of order." One question, 'development' bankers: would you let these men treat something you cared about in that way?

The actual consequences of the private equity model in development are almost too numerous to list, as researchers at the Corner House and elsewhere have shown: massive government underwriting of private speculation; a failure rate of 70 percent; brutal reductions in people's access to energy; total lack of transparency, due diligence and standards; the ubiquitous use of tax havens, and; a culture of deifying the rich and their criminal ruthlessness. But since we're keeping it nice and light, let's conclude with a story that sums it all up.

Various 'development' banks, including CDC and the EIB, gave money to a Texan hedge fund called Emerging Capital Partners. ECP invested in various Nigerian front companies used by associates of a man named James Ibori, governor of Delta state, to launder the profits of corruption. It did so despite the fact that the Nigerian Economic and Financial Crimes Commission had put Ibori and said associates all over the front pages of the Nigerian press by investigating them for corruption. In other words, ECP knew exactly who it was dealing with – that was why it was dealing with them! If you want 'alpha returns' in a deeply corrupt place, where else would you go? And the development banks knew it too. Or if they didn't, it's because they chose not to.

Two of the Nigerian front companies were banks, which collapsed as a result of being used for unsecured loans. The resultant bailout cost the Central Bank of Nigeria USD 2.6 billion. That's poor people's hard–earned taxes siphoned out to Houston and on to London and Luxembourg. Ibori has just been found guilty of ten counts of corruption in London. The whistleblower who brought the case to the attention of CDC and the EIB, a man called Dotun Oloko, was rewarded for his pains by having his name leaked to ECP, who put private detectives on his trail and ensured he can never return to Nigeria. The DfID Minister, Andrew Mitchell, had to issue a public apology. Nigeria's Economic and Financial Crimes Commission is now investigating ECP for corruption.

Well done, 'development' bankers. I hope you're proud. Because thanks to what you do every day, the work that comforts you when you can't afford that second home or those private school fees because at least you're 'making the world a better place', there'll be a whole lot more misery, corruption and despair where that came from. Guaranteed.

Anders Lustgarten works with the Bretton Woods Project in London and is part of the 'Counter Balance: Challenging the EIB' coalition. He has written widely on development and finance issues, including the report 'Conrad's Nightmare – The world's biggest dam and development's heart of darkness', available at: http://www.counterbalance-eib.org/?p=107

Green initiatives compromised by private equity

A new greenfield gas cogeneration power plant Cogen in the north of Slovakia is planned to produce power and heat. It is to be financially supported by both the European Investment Bank and the European Bank for Reconstruction and Development through the private equity EnerCap Power Fund.

Located in Považský Chlmec, a town in the Žilina district, the new plant is set to negatively impact on the quality of life of locals who have for decades been suffering from the impacts of a nearby waste disposal site and highway. The inhabitants of Považský Chlmec have been protesting against the Cogen plant since 2007. Its connection to gas and heat pipelines means that 1.3 hectares of woodland from the nearby forests – through which the pipelines would pass – would have to be chopped down.

The Cogen power plant and connected gas and heat pipelines did not undergo a full environmental impact assessment (EIA), but only a so-called exploratory assessment decreed by the District Environmental Office in Žilina in 2007, even though the exploratory assessment showed a threat of serious social and environmental risks.

Cogen Žilina is financed via the EnerCap Power Fund, a private equity fund in which both the EIB and the EBRD have committed up to EUR 25 million EUR each (roughly 50 percent of the fund's total commitments). The EnerCap Power Fund is located in the Czech Republic and operates in central and south-eastern European countries. It is supposed to "support projects based on the use of mature technologies in the wind sector, as well as in the biofuel and other renewable energy sectors considered to be environmentally beneficial and contributing to the reduction of greenhouse gas emissions".

Contrary to the goals of the EnerCap Power Fund, the EIB has informed civil society organisations that while the majority of the Fund's investments are targeting the renewable energy sector this does not mean that a project such as Cogen cannot be financed by the fund – the EIB and the Fund perceive cogeneration as a measure for increasing energy efficiency and therefore consider Cogen as eligible for financing from the EnerCap Power Fund.

The involvement of the EIB in the EnerCap Power Fund is classified under the EIB's Climate Action programme, which is intended to "focus both on low-carbon investments that mitigate greenhouse gas emissions and on climate-resilient projects that improve adaptation to climate change impacts." Cogen is neither of these things.

Environmental and social problems of the Cogen project

According to Slovak and EU legislation, energy projects under 50MW do not have to undergo a full EIA process if the authorities do not decide otherwise, or if the exploratory assessment does not show possible significant environmental impacts. Cogen has a capacity of 40 MW, which means that initially only a so-called exploratory assessment had to be conducted. However, even though the exploratory assessment showed the threat of serious environmental risks, the Slovak authorities decided that a full EIA was not necessary.

The lack of a full EIA process had several consequences. First, the cumulative environmental impact of the plant in combination with already existing sources of CO2 and dust pollution in the area was never properly assessed. Second, the planned level of noise produced by the plant, together with three existing sources (the nearby highway, a busy main road and trucks bringing waste to the huge local waste disposal site) will be 95 decibels (dB), exceeding the acceptable level for industrial zones by more than 20 dB.

The planned power plant is intended to be built 138 metres from family houses and about 200 metres from the local high school where the allowed level of noise (for schools, housing zones) is 50 dB, which means that the noise will be almost twice the permitted level. Noise levels too have not been taken into consideration in any assessment. Finally, the project documentation fails to take into account the fact that the construction area is a seismic and flood prone area.

The construction of the plant is not in line with the local Energy Strategy, as this document does not envisage the need for more heat and electricity in the town, and definitely not from a new fossil fuel source. In addition, the main heat provider in the region has declared no intention of buying heat produced by Cogen. Thus it is unclear how the heat will be used.

Uncertainty over the demand for the heat to be produced by Cogen has led to the route of the planned heat and gas pipelines to be changed during the project approval process. Because of these changes that have taken place during the permitting process, local people have had no opportunity to respond to them.

Professor Karol Honner from the Department of Energy Technologies at the University of Žilina, and author of the Energy Strategy of Žilina, states that: "Any logic seems absent in the choice of location for this plant. The heat pipelines should be short to prevent energy losses. But, to reach the potential consumers, heat pipelines from Cogen would be 4519 m long and would cross the Rajčianka and Váh rivers and railways, and then go up to the hill and end in the town part Hájik."

Real responsibility

The EIB can contribute to a real change in the CEE region but this can only happen if the bank ensures that mechanisms created to support energy efficiency and renewables, such as the Climate Action Programme, are indeed used properly and not to promote contrary goals. Alas, private equity funds allow the banks to subcontract much of their due diligence work to the recipient fund, which may not possess either the skills or the interests to conduct proper environmental and social impact analyses.

Europe has limited resources for dealing with the energy crisis. Therefore, its financial arms would be better advised to invest directly in energy savings and new renewable energy sources rather than waste taxpayers' money on disputable projects that further deepen problems in the energy field. According to the new EIA law of December 2011 passed by the Slovak parliament, an EIA should be completed before planning permission procedures begin. The local community in Považský Chlmec and CEE Bankwatch Network plan to request the reopening of the permitting processes and for a full EIA to be conducted.

The new EIA law thus gives the EIB and the EBRD the opportunity to finally take responsibility for this project that they are clearly helping to finance by insisting on a proper EIA and for public consultations so that the impact of the project on people and the environment is properly measured.

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