BANKWATCH MAIL

CEE Bankwatch Network's newsletter on international development finance

CEE bankwatch network

ISSUE 55
March 2013
www.bankwatch.org

New nuclear risks in Ukraine – EBRD urged not to back lifetime extensions under the guise of 'safety'

The European Bank for Reconstruction and Development is expected to take a decision this month on whether or not to provide a EUR 300 million loan for a nuclear power plant Safety Upgrade Programme (SUP) in Ukraine. Bankwatch and other environment groups are questioning the logic of the proposed SUP as it will result in some of Ukraine's old nuclear units continuing to operate for another 20 years.

In recent weeks, Alexander Shavlakov, the technical director of Energoatom, the state nuclear operator, acknowledged the reality of the programme, telling a meeting in February of the trade union of Ukrainian nuclear industry workers: "Without the Safety Upgrade Programme, [nuclear] units' lifetime extension is out of the question. We should be conscious of this."

The 'nuclear safety' billing of the SUP appears to be blinding EBRD decision-makers to the full implications of the proposed investment, although discussions and negotiations around the deal have been taking longer than expected – the EBRD board date for the decision is now scheduled for March 12, some six months later than planned.

For Iryna Holovko, a Bankwatch energy campaigner in Ukraine, there is a fundamental issue at stake: "Would the proposed EBRD loan help to guarantee the safe operation of Ukraine's 15 operating nuclear units, 12 of which are designed to finish operating by 2020? Our answer is 'no'. The SUP has got to be exclusively geared to safety measures, including the decommissioning of old reactors, not prolonging their lifetime."

Chief among the concerns of campaigners is that the SUP has not been designed to guarantee the safe operation of Ukrainian nuclear units after the expiration of the original design life.

As Holovko explains, the option – clearly a very realistic option under Energoatom plans – of plant operations exceeding the design period has not been assessed: "In the main ecological assessment report prepared for the SUP, only impacts within the design lifetime were analysed. To take the specific case of the South Ukrainian Unit 1 that expires this year, its potential environmental impacts beyond the closure date have been deemed by Energoatom to be 'non-significant' because 'in previous years of operation no significant impacts were observed'. This is a highly irresponsible approach to nuclear safety."

The whole concept of nuclear safety in Ukraine remains highly contentious. The final decision on whether to close or extend specific nuclear operations lies with the state nuclear regulating authority (SNRIU) based on periodic safety review results.

The capability, though, of SNRIU to base its decisions purely on safety considerations remains far from certain – currently no nuclear decommissioning plans exist, the only plan being to extend the lifetime of nuclear units.

Another major question mark hanging over the SUP deal concerns financing – principally whether Energoatom is in any position to contribute the required 60 percent of the programme's overall funding.

Continued on page 2 ▸

EIB hit by activist hoax, pledges to continue hitting climate

The European Investment Bank's annual press conference in the final week of February proved to be significantly more revealing about the bank's commitment to fueling climate change than is the norm for the EU bank.

Reacting to a fake press release – circulated by activists on the eve of the bank's set piece event in Brussels – which had announced that the EIB would be pulling out of coal investments with immediate effect, EIB president Werner Hoyer told journalists that such claims were "pure nonsense". Nonetheless, Hoyer pressed on and stuck to his script, maintaining that the EIB remains a frontrunner in the fight against climate change.

The surrealism inside the European Council building mounted as the EIB president then received the 'Coal Down' award of a flower vase in the shape of a smokestack from a 'citizen of Europe', one of the activists involved in the targeting of the EIB.

Journalists further pressed President Hoyer and EIB colleagues about the bank's efforts to combat climate change and to clarify its position on future lending for coal-fired power plants in Europe. It was reiterated that the EIB was not currently ready to announce dropping coal from its portfolio, and that gas too will continue to feature in its multi-million euro energy lending.

The EIB is currently undertaking a review of its energy lending policy, a process that takes place once every 5-6 years. Bankwatch and NGO allies such as Counter Balance (the group behind the EIB hoax action, with help from the Yes Lab) that have been participating in the public consultation for the policy review contend that such is the acuteness of the climate change challenge the

Continued on page 2 ▸

Inside

from page 1

▲ In December activists delivered a nuclear safety message directly to the EBRD's office in Kiev

Following nuclear 'stress-tests' implemented in 2011, the cost of Ukraine's SUP rose to EUR 1.45 billion. In tandem with a loan from Euratom, the EBRD is expected to provide up to 40 percent of the project costs. The remainder should be covered by Energoatom's own resources.

However falling tariffs announced in January this year for Energoatom's electricity will undermine the company's ability to pay its end of the SUP deal.

Already this year Energoatom has acknowledged to SNRIU that the reduced tariff rate will not allow for the implementation of all the planned SUP measures for 2013. The company has let it be known that in order to implement the SUP in 2013 it requires 3 billion hryvnas (EUR 286 million), yet under this year's tariff it will generate only 620 million hryvnas (EUR 59 million).

This is not the first time that safety modernisations at Ukrainian nuclear plants have been jeopardised: a previous modernisation programme saw the implementation of only 80 percent of 253 pilot measures and 37 percent of 472 adopted measures.

Given these highly uncertain factors hanging over the SUP, it is incumbent on the EBRD's board of directors to say no to the loan as it is currently conceived.

Read more: Background information on the Ukrainian nuclear power plant Safety Upgrade Programme is available at: http://bankwatch.org/our-work/projects/nuclear-power-plant-safety-upgrades-ukraine

EU MONEY FOR COAL-FIRED POWER PLANTS: HOW THE EU'S BANK IS HELPING TO DRIVE CLIMATE CHANGE

EIB loans to coal 2007–2011: EUR 2 billion

EIB loans to fossil fuels 2007–2011:
19 billion euros (a third of overall energy lending)

Coal plants financed by the EIB since 2007:

1. Du-Walsum Coal Power Plant in Germany, 2007
2. PPC Environment in Greece, 2007
3. Enel Energia Rinnovabile & Ambiente in Italy, 2007
4. TES - THERMAL Power Plant Sostanj in Slovenia, 2007 and 2010
5. Power Plant Karlsruhe in Germany, 2008
6. Fortum CHP And E-Metering in Poland, 2009
7. SE Power Plant And Forest Industry R&D in Poland, 2010
8. South Poland CHP in Poland, 2011
9. Paroseni Power Plant in Romania, 2011

from page 1

EIB must grasp this opportunity and commit to no further financing of coal fired power plants.

According to Berber Verpoest of Counter Balance, "The presentation of this award and the hoax press release were meant to emphasise the deep contradiction at the heart of the EIB. On the one hand, this is the bank of the EU with the goal to fight climate change; on the other hand, the EIB has been lending billions to coal, gas and other fossil fuels and until last year its dirty energy loans were equal to its support for clean energy. So with the hoax we wanted to make clear what we expect the future energy policy to look like."

Other than the press conference comments from Mr Hoyer, the EIB also reacted to the hoax press release by posting a denial on its website that included the threat of legal action. At the time of going to press, there had been no further indications of the bank actively seeking legal redress.

Such steps from the EIB, though, would surely indicate that it is missing the basic, highly serious point at the heart of the activist hoax.

As Xavier Sol from Counter Balance explained in the aftermath of the press conference high jinx in Brussels: "The EIB has been working hard over the past years to clean up its lending. We commend them for those efforts and we hope that they take this hoax for what it really is: not so much an attempt to make fun, but an alarm bell that time is running out and subsidies for fossil fuels must be ended today if we want to avoid catastrophe."

Find out more: Check out how the EIB hoax unfolded, including footage of the 'Coal Down' award handover, at: http://storify.com/ceebankwatch/eib-divests-from-coal

Building **renovation** must be **top** of the **EU budget** priority list for **2014–2020**

The renovation of buildings to high energy performance standards has the potential to be the most cost effective investment any European nation can make, given the benefits in terms of job creation, quality of life, economic stimulus and energy security that such investments deliver. For these reasons the Buildings Performance Institute Europe (BPIE) is advocating for the maximum possible allocation of EU funds to the energy renovation of buildings under the recently agreed multi-annual financial framework (MFF) for 2014–2020.

This bold assertion stems from the fact that there is a multiplicity of benefits that arise when energy saving measures are applied to existing buildings. Most obvious are the savings on energy bills that accrue to the building owner or investor. Yet the totality of benefits is in fact much greater.

Some of these additional benefits are also realised by the owner/investor, such as improved comfort, better internal air quality, improved sound insulation and increased property value (sale or rental). These additional benefits are not readily quantified and thus rarely get factored into the investment calculation.

However, many of the benefits are realised by society at large, rather than the individual investor. More efficient use of energy reduces energy imports, thereby improving balance of payments – a key issue given that nearly all of Europe's member states rely on imported energy to meet demand.

Investment in building renovation creates jobs – in manufacturing, installation and throughout the extensive supply chain of products and services that support such investments. These jobs reduce unemployment costs, increase tax receipts and stimulate local economic growth through increased disposable income.

Then there are the health benefits from improved living conditions and lower air pollution levels, resulting in fewer working days lost to ill health and a lower burden on state health services. Addressing the dire situation of families unable to afford keeping their homes adequately heated can only be solved in a long term, sustainable and cost effective way by significantly improving the thermal performance and heating system efficiencies of the housing stock.

There are energy system benefits too. It is cheaper to save a unit of energy than to supply one, thereby avoiding the cost of new generation capacity and other supply infrastructure. Lower heating demands in winter, and cooling demands in summer, reduce the traditional peaks in energy supply which are the most expensive to supply, so costs are reduced for all users.

Furthermore, according to the Intergovernmental Panel on Climate Change, saving energy in buildings is the cheapest way of reducing carbon emissions.

Quantifying the combined impact of all these benefits is not an easy task, yet it is one that the energy efficiency team at the International Energy Agency has taken on board as a current assignment. BPIE believes that if the co-benefits were systematically valued and monetised, they could significantly exceed the energy cost savings.

So what have these multiple benefits got to do with the MFF? Rather a lot, as it happens.

The EU's new Energy Efficiency Directive, adopted in October 2012, includes a requirement for member states to develop long term renovation strategies for national building stocks.

> "Addressing the dire situation of families unable to afford keeping their homes adequately heated can only be solved in a long term, sustainable and cost effective way by significantly improving the thermal performance and heating system efficiencies of the housing stock."

These strategies require the mobilisation of funds to invest in improving the energy performance of homes, offices, hospitals, retail outlets, educational establishments and the myriad of other buildings that we spend most of our lives inside. Yet finding the financing for such investments has always been one of the biggest barriers.

This is where EU funding via the MFF can – and should – play a key role in the forthcoming seven year budgetary period that the member states are now starting to plan for.

Under the MFF deal reached in early February, future spending should support growth, employment, competitiveness and convergence, in line with the Europe 2020 Strategy. And with the need to restore and reinforce fiscal discipline, "the value of each euro spent must be carefully examined ensuring that the European Added Value and quality of spending under the future MFF are enhanced".

BPIE believes that allocating MFF resources to building renovation is a wise investment that can help realise multiple benefits all across economic, societal, environmental and energy security dimensions. Accordingly, we advocate assigning high priority for programmes that stimulate building owners – from private households and small businesses to public bodies and commercial real estate firms – to renovate their properties to very high energy performance levels.

Public funding alone cannot provide all the investment required to improve Europe's building stock, so spending programmes need to be designed in a way that they leverage private capital – be that building owners' own financial resources, or funding from financial providers and the wider investment community.

Deep renovation of national building stocks, in line with the requirements set out in the Energy Efficiency Directive, is a long term venture spanning a number of decades. The period to 2020 is a crucial time during which the market needs to be transformed from low renovation rates (around 1 percent of total floor area each year) and shallow renovation (typically 20–30 percent energy saving) to high rates (2.5 to 3 percent per year) and depths (saving 60 percent or more).

The MFF 2014–2020 can provide member states and regions with the resources to kickstart the required transformation.

Dan Staniaszek heads Buildings Performance Institute Europe's data management, renovation and financing portfolios, and has broad experience across the sustainable energy sector spanning 25 years.

Kolubara mine “mired in crime and corruption”

At a press conference in January, Serbia’s energy minister Zorana Mihajlovic spoke out strongly against the Kolubara mining complex, describing it as being “mired in crime and corruption” while also announcing that a thorough investigation is ongoing into corrupt practices by the Kolubara management. Bankwatch believes that this latest confirmed scandal at Kolubara should be giving the EBRD serious pause for reflection as it considers yet another loan to the Serbian electricity company EPS, heavily implicated in these latest revelations.

The investigations, being carried out by a department within Serbia’s energy ministry, concern abuses related to the expropriation of properties neighbouring the mining complex. Mihajlović claimed that financial abuses committed by the managers responsible for the Kolubara complex involve millions of euros. As reported by Serbian news agency b92, a range of underhand practices have taken place in recent years, from the payment of high salaries to non–existent employees, to buying over–priced equipment, as well as using resettlement compensation to pass bloated sums of money to people close to the management.

On this latter point, Mihajlović detailed that the board managing EPS, which manages the exploitation of the Kolubara basin, paid EUR 1.2 million in compensation to one of its own members, Radoslav Savatijević, whose house was apparently one of those properties in the Vreoci municipality that needed to be relocated to make space for the expansion of mining operations.

It has emerged, though, that Savatijević’s property – not even registered in his name, a basic fact that should have disqualified him from receiving any resettlement compensation – was hugely overvalued in order to qualify for such a big payout. The house in question was somehow estimated to have the same value as dwellings of a thousand square metres in the Serbian capital Belgrade. Moreover, the EPS board member received this money while numerous other families, whose homes had been prioritised on resettlement lists, were still waiting to be offered fair alternatives and compensation.

A huge corruption scandal at Kolubara is not exactly news any more. What is new now, though, is that a government minister has opted to speak out so strongly in this case. Equally significant is the spotlighting of how corrupt practices are impacting the resettlement of communities on the mining perimeter – indeed for many years local people have been complaining about abuses and mistreatment from EPS management.

In spite of all this, the EBRD appears to be determined to continue its long–standing support for EPS.

Last summer, the EBRD approved a EUR 80 million loan to EPS for ‘environmental improvements’ at the Kolubara mining basin, a major financial commitment that will contribute to the expansion of extractive operations – and, in turn, to the burning of more lignite. This was the fourth EBRD loan to EPS since 2001, with a fifth approved subsequently and a sixth currently in the bank’s project pipeline.

Confronted last year by corruption investigations opened against numerous former EPS managers, the EBRD declared itself satisfied that the company is doing the best it can to clean up its act. In the same vein, the EBRD appears to be persuaded that EPS is trying to handle the resettlements as best it can. Yet the strong position adopted by Serbia’s energy minister in this latest instance suggests that Kolubara’s corruption problems are far from being resolved and that the real victims of the EBRD’s support for Serbian coal have been ignored.

The EBRD often argues that even when corruption allegations descend on its clients in central and eastern Europe, it prefers to stay involved in order to exercise pressure and ensure that any such clients clean up their act.

The fact remains, however, that in all these years of EBRD loans to EPS, the company’s practices remain highly dubious. Abuses regarding resettlement continue. And there remains too the nagging suspicion that some of the uncovered financial abuses may have involved the very public development money provided by the EBRD. The EBRD should cut its losses and withdraw from Kolubara at the earliest opportunity.

Read more: Background information on the Kolubara mine and the EBRD’s role in it is available at: http://bankwatch.org/our-work/projects/kolubara-lignite-mine-serbia

EBRD ADDED VALUE AT THE KOLUBARA LIGNITE MINE

540,000,000 tonnes of estimated lignite reserves in the EBRD-financed mining fields in Kolubara.

500,000,000 tonnes of estimated CO_2 emissions that will result from burning these reserves.

200,000 tonnes of estimated reductions in CO_2 emissions resulting from the EBRD-financed project.

Monsanto drops off the EBRD menu at least for now

"Please be advised that, in this particular transaction, the EBRD and Monsanto were unable to find a satisfactory project structure for financing. Each institution will continue to explore other opportunities in order to provide farmers and distributors with adequate and time-appropriate financing, which we recognize to be one of the key challenges to increase agricultural productivity in the Bank’s region of operations."

Thus via an email from the EBRD in late January, Bankwatch was informed of the bank’s decision not to proceed with a proposed USD 40 million 'risk–sharing facility' that would have enabled medium–large farmers and distributors in Russia, Ukraine, Serbia, Hungary, Bulgaria and Turkey to buy Monsanto's seeds and agro–chemicals in installments, without Monsanto losing money if they got into debt.

Were the multinational’s notoriously unpalatable negotiating tactics just too much for the EBRD to stomach?

We may never fully find out, though Bankwatch will be quick to react again should Monsanto choose to reapproach EBRD for support – a prospect that should not be ruled out given the bank’s comments.

What this case does highlight, however, is a distinct problem faced by a large institution such as the EBRD – it is difficult to reach individual farmers without intermediaries, because the bank does not have the on–the–ground infrastructure or local knowledge to provide thousands of small individual loans. This is a problem that needs to be addressed by central and eastern Europe’s governments and farmers' unions if the EBRD is not to end up courting such unsavoury business partners again in the future.

Win win win – CEE public show how to inject quality into EU funded projects

Bankwatch’s competition devoted to showcasing ideas for EU funds investments that can generate sustainable development for European communities has proved to be a big success – and it should offer inspiration to EU and national level decision-makers as the task of setting operational programmes, the blueprints for how to spend the EUR 960 billion pot for the 2014–2020 budgetary period, now gets underway.

Coverage of the EU budget negotiations in the last year has tended to focus exclusively on the ‘big-numbers game’. There has been an alarming lack of media attention given to the voices of those who can and do benefit from EU funded projects. Indeed as our competition entrants have shown, there is tremendous appetite for direct public engagement in the formulation of EU projects that can serve local community needs.

In the second half of 2012 we sought ideas for projects that could best contribute to sustainable development in central and eastern European communities. The results suggest that supposed EU fatigue may well be yet another ‘Euro myth’. Our national campaigners who closely follow the use of EU money in their respective countries were surprised – and inspired – not only by the number of project ideas that were submitted, but also by their inherent quality.

The final award ceremony took place in Brussels last month, where the competition winners gathered to describe their ideas and how EU funding can benefit their countries. EU funds decision-makers would do well to take note.

Prize-winning projects

Bulgaria

The **mountain bike park ‘Hissarya’ project** in central Bulgaria aims to develop three mountain bike routes: a short length route for beginners and nature lovers, a 4-5 hour route for professionals and an all day long tour, combined with sightseeing.

The **urban solar charger project** aims to charge any portable electronic devices while users are resting on a bench and surfing the Internet. Four such chargers could be built and deployed using the EUR 1000 award.

The **city park bees project** will be implemented on the roof of a public building in one of the many parks in the Bulgarian capital, Sofia. Workshops for both children and adults will be run by professional beekeepers, biology teachers and volunteers. Children will be given the opportunity to produce honey themselves.

Croatia

The **‘Bicycles save trees’ project** involves a low-carbon separate waste collection system in the city of Koprivnica. The concept is based on individual waste pick-up with bicycles on demand from the users of the service. The service is provided for free and is entirely financed by the selling of the collected materials. The main beneficial impacts of the project are reduced consumption, CO_2 reductions, and saving trees for paper production.

The **Urban gardening in Zagreb project** aims to establish shared urban gardens, where the residents of large residential buildings can have access to land for growing vegetables. The project will reduce the distance for food transport and enable Zagreb’s citizens to produce their own healthy food under the supervision of experienced producers.

The **Karlovac waste recycling project** aims to tackle the fact that waste collection is impossible for modern motor vehicles in the city’s old historic town area. The NGO involved will collect recycled waste on a voluntary basis and transfer it to recycling companies.

Czech Republic

A **community garden scheme in Stredokluky** that promises to create jobs in a rural area, provide local, ecological food and restore land and biodiversity.

Hungary

The **Mend it yourself! project** in Pécs aims to show young people how they can implement sustainability in their own lives, how they can use and repair old, out-of-order tools, toys, household machines and bikes in alternative ways. Thus they can develop their social competences and other skills suitable for everyday community life and for securing employment.

Tree-planting project along channels to develop local energy production and promote the conservation of biodiversity in Derekegyház. Along drainage channels owned by the local government and operated by a water management company, the project promoters plan to plant trees of local origin. This would contribute to the conservation of biodiversity, provide employment in the local community, increase forest areas, decrease loss of water due to evaporation and provide raw material for the heating of local public buildings. This will reduce dependency on foreign energy sources and increase local energy sovereignty.

Latvia

The **Eco-thoughts express project** in Riebini aims to increase environmental awareness among children and youngsters and help mobilise them to deal with global environmental challenges while contributing to local sustainable development. The ideas and activities have been developed by youngsters themselves and they include the production of information materials and drawing books, giving thematic lectures and regularly organising events in the county’s schools.

The **Footbridges for bird-watching project** in Liepaja city will develop footbridges and set up information billboards in Lake Liepaja in order to encourage people to learn about nature in the city, do bird-watching and find new ways of balancing human and natural needs.

Macedonia

The **‘Meteo’ sensor boxes project** in Skopje aims to provide free and easily accessible information related to environmental pollution. The NGO Free Software has designed a special box containing custom selected sensors that can measure various environmental parameters. The boxes can be placed anywhere, as long as they have internet access. The project is a direct result of the city of Skopje’s inability last year to cope with huge air pollution, that resulted in an increased number of deaths due to air pollution. The project can be implemented by municipalities at the local level and it will not only increase information flows for the public but also provide the necessary push for municipalities to deal with air pollution locally.

Poland

The **Centre for eco-passive building technologies** in Kock would offer consulting, training and the production of eco-passive building technology, and would employ around 15-20 people.

The **Rainwater for a rainy day project** aims to construct four reservoirs for rainwater located close to three settlements in Krzeszowice. The project’s main aim is to solve the problem of temporary water shortages that occur in the region mostly from spring to autumn. During the draught period inhabitants would be able to collect water from the reservoirs and use it in their daily farm work. In total the system should supply water to 40 households and 15 small farms.

Slovakia

The **‘Village jumble sale’ project** aims to create a roofed market place, a sort of jumble sale where members of the public can bring unused items (e.g. old tables, chairs, TVs, radios, washing machines, etc.) in order to prevent items ending up in waste collection points, scrapyards or even illegal dumps. As a result, the amount of waste in the region will be reduced.

The **Rail cycle-park Bratislava branch project** features an old neglected train station that would be cleaned and revitalised. The aim of the project is to create a cycle track in the station between the tracks to ease the traffic in that part of town, to plant trees to improve the environment and renovate the building and create a new community and cultural centre while maintaining the spirit of railways. Furthermore, a small community vegetable garden with composting potential would be installed to motivate people to produce their own food, recycle and make use of biological waste.

Find out more: Video clip interviews with some of the competition winners can be seen at http://bankwatch.org/news-media/blog/these-eu-citizens-have-better-ideas-eu-funds

EBRD enters **Kosovo**: Past **IFI failures** must be heeded

As Kosovo becomes the EBRD's latest country of operation, the bank needs to listen to civil society, writes Visar Azemi.

Kosovo has just celebrated the fifth anniversary of independence. In these five years, Kosovo has achieved membership of certain international financial institutions (IFIs): having already joined the IMF and the World Bank, on December 17 last year Kosovo became the 66th member of the European Bank for Reconstruction and Development. Yet what can Kosovo's citizens expect from EBRD membership?

For one thing, there is a definite need to learn from past international financial institution mistakes in the country. Kosovo still has a wide range of serious economic, environmental and social problems – a financial and budgetary crisis ongoing since 2001 has not been alleviated by World Bank membership. At the same time, the World Bank has mistakenly devoted too much focus and energy to building a new lignite power plant, spending millions of euros on associated technical assistance and studies. And the process continues to be mismanaged by the World Bank.

Meanwhile Kosovo's economic development is the worst in Europe. Official unemployment stands at around 47 percent, with youth unemployment reckoned to be as high as a staggering 73 percent. The figures for extreme poverty are equally grim with around 13 percent of the population affected. Alongside Bosnia and Herzegovina, Kosovo brings up the rear in rankings that assess the ease of doing business in the region. Compounding matters yet further, Transparency International rates Kosovo as the most corrupt country in the region.

The challenges then for the EBRD in Kosovo are extreme and deep-rooted – to start to overcome them, it would do well to embark on some innovative, new approaches.

In recent years, due to a lack of initiative and vision from Kosovo's decision-makers, a clear feature of international agency engagement has emerged: the international institutions have had to write strategies and other important political and economic documents for Kosovo. In such processes, including policy making and the implementation of these policies, international institutions have been rather closed to civil society organisations in Kosovo.

As it starts to formulate and design its first strategy for partnership with Kosovo, the EBRD has to be alive to civil society and other independent experts, and not only to local institutional authorities. Civil society's role in this initial process has to be a lot more than merely symbolic.

And where should the EBRD focus its attention in these early days? Those sectors that have been largely overlooked by international donors and other IFIs should surely be the most compelling if the EBRD is intent on improving living standards and economic prospects – investments are acutely needed in agriculture, multi-modal transportation, energy efficiency, renewable energy and for ensuring a sustainable water supply,

After Serbia, Kosovo has the largest percentage of agricultural land (52 percent) and tilled land (27 percent). In spite of this, Kosovo still imports basic food items such as fruit, vegetables, flour and eggs. Indeed at the end of 2012 the country's trade deficit totalled more than EUR 2 billion. Investments for sustainable agriculture could help decrease this deficit and increase employment at the same time.

When it comes to water supply, again Kosovo faces acute problems. Outages in drinkable water happen frequently, yet the government appears unable to tackle this problem.

Within the region of Prishtina alone, because of an old grid system, there is a huge amount of water being lost before it gets to households. At the same time, prevailing inadequacies in water and electricity provision remain the main obstacles for doing business in Kosovo. Given these water issues, it's even more remarkable that the World Bank remains intent on supporting the new lignite power plant for which vast quantities of water are needed for the plant to operate.

Finally, when it comes to energy use, Kosovo is the most inefficient country in the region. Over 60 percent of the electricity produced is used to heat households. Similar to the water problem, energy losses here stand at 37 percent as a result of an old grid and electricity theft. EBRD backed energy efficiency programs could reap big wins, helping to decrease energy demand while boosting employment at the same time.

The challenges in Kosovo are huge, but certain solutions are staring us in the face. Civil Society in Kosovo would like to be part of building a partnership strategy between Kosovo and the EBRD. Key to this is meaningful dialogue and engagement. The EBRD, though, must grasp the importance of not replicating the mistakes of its sister organisations. Only offering documents to be signed off by Kosovo's authorities after they have been drawn up elsewhere, and not holding proper consultations with civil society and independent experts in the country – this kind of approach has not got us very far in recent years.

Visar Azemi works at the Kosovo Civil Society Consortium for Sustainable Development, an umbrella organisation for non-governmental actors.

Air pollution in Kosovo – Shocking World Bank statistics, **shocking** World Bank **coal plans**

The World Bank's plans to finance a major new coal power plant near Prishtina in Kosovo have been put into sharp focus by a new campaign from KOSID that draws on the bank's own startling figures related to already existing air pollution in Kosovo.

The campaign highlights that climate impacts are not the only reasons to oppose energy production from coal. The health impacts are starkly immediate, bringing very concrete and measurable distress for local populations and major dents in state budgets.

Find out more: The KOSID campaign also involves TV ads, see: http://www.youtube.com/watch?feature=player_embedded&v=DZ29CSbK9_E

Kyrgyz parliament votes to renegotiate Kumtor gold mine contract

In a landmark ruling in late February, the Kyrgyz parliament voted to renegotiate a contract signed in 2009 with the Canadian mining firm Centerra Gold Inc. for the exploitation of the Kumtor gold mine, near the border with China. The 2009 deal is the most recent form of the contract between the Kyrgyz state and Centerra that has had a presence in the central Asian republic since the late nineties.

Among a range of issues, Kyrgyz parliamentarians referred to serious environmental concerns underpinning their decision. This can be considered a success for local activists that have for years campaigned against the negative impacts of Centerra's mining activities.

The day before the vote the Kyrgyz parliament heard from a State Commission appointed to undertake a comprehensive investigation into the risks and benefits of the Canadian firm's gold mining operations in Kyrgyzstan. This in fact was the third official investigation since 2011.

In the environmental part of the report, the State Commission argues that mining by Centerra has caused irreparable damage to nearby glaciers, including destroying the largest glacier in the area, Davidov. Results from German and Slovene laboratories show that mining activities have led to the pollution of the Kumtor, Taragay and Naryn river basins and will continue to do so if no measures are taken. Currently, there is a substantial risk that the dam on Lake Petrov may break because of pressure from mining operations, with the potential to result in a disastrous spill of tailings downstream.

The reassessment of the terms on which Centerra can mine in the future is good news in other ways too. New open pit mines planned by Centerra would negatively affect more glaciers in the region. In addition, the company is also currently exploring territories that intersect the territory of the Sarychat-Ertash nature reserve, permission for which was approved on July 5, 2012 by the government. A reassessment of the contract could yet result in the Kyrgyz authorities taking a tougher stance on restricting such activities.

Beyond to environmental harm, the State Commission informed Kyrgyz legislators that the deal with Centerra had failed to provide adequate benefits for Kyrgyzstan – the Kumtor mine is the Centerra's main profit-generating project, accounting for 92 percent of the Canadian company's income in 2011. The Commission advised Kyrgyz authorities to renegotiate the contract, investigate the conditions under which it was signed, and adopt measures to avoid similar mistakes in the future.

Centerra has indeed enjoyed surprisingly favourable terms: a generous tax regime, fixed environmental charges (USD 310 000 per year), an extended allowance to operate the open-pit mine until 2026 and very low payments for future recultivation works after the mine's closure.

These come on top of other beneficial factors such as a high gold component in the ore (on average 2.9 g per ton and more), relatively low spending on gold production (USD 502 per ounce) and significant proven and probable remaining gold reserves (approximately 900 tonnes of gold, compared to 260 tonnes produced in the period 1997–2011).

The parliament's ruling should serve as a wake-up call, both for all Kyrgyz authorities with any influence on the direction of the country's development, and to the international financiers of Centerra – including the EBRD, which in 2010 extended a revolving debt facility to the company.

The voices of citizens and civil society groups, who have for years warned about Centerra's Kyrgyz operations, should not be pushed to the sidelines by 'sustainable development' claims. On the contrary, local voices should be heard and be permitted a say in the decision-making over such investments from the outset.

Find out more: See the Kumtor Gold Mine project page at: http://bankwatch.org/our-work/projects/kumtor-gold-mine-kyrgyzstan

Commission lays down sustainable energy pointers to EIB

The public consultation on the EIB's review of its energy policy is well underway now, with the bank's intention being to have the new policy in place sometime this summer.

While not part of the review process as such, following an official request for information Bankwatch has received comments submitted by the Directorate-General for Environment of the European Commission to the EIB as part of ongoing exchanges between the bank and the Commission. We reproduce here a selection of these comments (EIB questions in italics, followed by DG Environment reactions). It is encouraging to read DG Environment's persuasive arguments placing a strong emphasis on sustainable energy – it's the kind of emphasis that Bankwatch would be delighted to see running through the heart of the EIB's new energy policy.

Particularly in the current economic climate, is there a trade-off between promoting a competitive and secure energy supply and one which is environmentally sustainable? Where should the balance lie and what implications does this have for energy sector investments?

The objective of the EIB should be to avoid any trade off and to fund investments that promote at the same time sustainability, competitiveness and security of supply. This is not only rhetorical: for instance, by developing wind, solar or geothermal energy production in the EU, it not only allows European industry to develop in new sectors (and potentially gain competitiveness there), but it also ensures intra-EU and sustainable energy sources.

Is the traditional model for electricity transmission and distribution changing? What implications does this have for future investments in electricity networks? What is the future role of smart grids, offshore grids and energy storage solutions?

The development of smart grids is the big challenge in terms of energy transmission and should represent the bulk of investments in the domain. Together with energy storage, it will allow to fully incorporate renewable variable energy into the system.

The promotion of off-shore grids is of importance as it practically helps transferring the energy produced to the consumption centres, allowing for a much greater area to be utilised for the production of energy and also the development of new technologies (wave energy generation, off-shore wind turbines, etc).

Gas is an important bridging fuel source in the transition to a low carbon economy: to what extent and under what conditions should gas-fired generation be supported?

Only if alternatives (renewables) have been considered, assessed and compared, and if the overall effects (economic, social and environmental, assessed on an equal footing) are in favour of gas.

Recent studies from the IEA suggest that gas will become more competitive than coal by 2017. This provides opportunities to switch to an energy mix with more gas, however it may also increase dependency from the East for this provision or on LNG from US and other more distant countries. Furthermore it may increase the search for and exploitation of shale gas in Europe.

The Commission is currently impact assessing several options for an environment, climate and energy framework for unconventional fossil fuels and in particular shale gas development in the EU. The policy of the EIB should follow the lines to be presented by the Commission next year. This would contribute to a better avoidance of stranded assets.

What role will coal and lignite fired generation have in the EU power system in the medium term, with or without CCS, and how is this consistent with the EU's Climate Action goals and its security of supply objectives?

This is very inconsistent with the Climate policy and should be funded only if CCS is actually in the project (and not "CCS ready"). Security of supply can be ensured through many other sources, including renewable sources, which are most of the time domestic.

As nuclear power stations are ageing, should their life be extended (where possible) or should they be replaced with other generation sources?

Extending the life of nuclear plants is not a sustainable option: it increases the risk of accident, and continues increasing the nuclear waste management problem. Ageing nuclear plants should be replaced by renewable energy sources that create the least negative impacts (eg, wind, solar).

In a developing market context, where should the balance lie between meeting local energy needs at least cost and reducing global greenhouse gas emissions – the trade-off between affordable energy for all and sustainable energy for all?

There is not necessarily a trade-off if actions towards energy efficiency and local renewables sources are promoted.

Shell's new shale gas frontier in Ukraine: another fossil fuel opening for EBRD?

The industry frenzy surrounding the development of shale gas in Europe is gathering pace, with the announcement in late January of a EUR 400 million deal between Shell and Ukraine to develop the country's shale gas potential.

However, the debate over the future of shale gas in Europe is anything but static. While the Ukraine deal may have provided fossil fuel proponents with some bragging rights, just a few weeks later Germany's upper house of parliament passed a resolution urging the German cabinet to tighten regulations for hydraulic fracturing (or 'fracking') in Germany.

Across the length and breadth of Europe, from the UK to Ukraine, we are seeing a tit-for-tat battle between shale gas prospectors salivating over new reserve finds, national parliaments that have been issuing shale gas moratoria and local communities clearly very concerned about the general disruption and environmental havoc that shale gas exploitation has brought to so many places across the US.

A telling tweet from Terry Macalister, the Energy editor of The Guardian newspaper, goes a long way to explaining what is playing out as the fossil fuel industry attempts to make the case for its latest strand of financial life support. According to Macalister, tweeting on December 13 last year: "In two decades I have never come across such heavy lobbying than for shale gas. What a pity renewables cant get that financial muscle."

Joining the fray in its own special way, and following the January announcement of the Shell and Ukraine's shale gas deal (Chevron has also signed shale gas contracts with Ukraine recently), was the European Bank for Reconstruction and Development. In a Financial Times blog post, the EBRD's managing director for energy and natural resources, Riccardo Puliti, reacted to the Shell-Ukraine shale deal with what appeared to be an expression – albeit a circumspect one for now – of the development bank's interest in becoming involved in Ukraine's potentially burgeoning shale gas sector.

In his article, Puliti, curiously also a member of the supervisory board of OMV Petrom SA, Romania's biggest oil company that is said to be assessing that country's potential for shale gas development, does point to the environmental concerns involved in Ukrainian shale gas development and the recent Shell deal: "There is vocal environmental opposition to the development of shale gas resources in Ukraine but, by and large, the deal was perceived a success."

Not surprisingly, the article does not linger long on such concerns – Puliti's prime focus is on the potential for shale gas to be a game-changer for Ukrainian energy supply and independence, and on the investment opportunities. While not a clear declaration of intent from the EBRD, nonetheless Puliti's sentiments represent the first public expression of at least vague interest from an international financial institution in European shale gas.

Why should this be an issue of concern? There are a string of reasons but mention of just a few will suffice for now.

For one thing, the environmental opposition to shale gas in Ukraine, largely glossed over by Puliti, is founded on some stark realities, including the location of shale reserves in protected nature areas and seismically active zones. Most worryingly at the present time is the fact that Ukraine's environmental impact assessment (EIA) regime has no teeth under current legislation: exploitation projects in Ukraine do not require EIAs.

If the EBRD chose to get involved directly in a shale gas project – and this could take several years to materialise, as we are only at the assessment stage right now despite the industry hoopla – the bank could argue that it would demand the upholding of European environmental standards. The same was true of the Sakhalin II oil and gas project, though at the time of its pull-out from that controversial project in 2007, the EBRD had not been in a position to grant final environmental approval to the project promoters. This was in spite of the project's long implementation period that had been said to involve 'cutting edge, western standards'. Said project promoter at the time was Shell.

If EBRD – and it would be a shrewd move, given historical experience – opts not to involve itself in the hard end of project finance for shale gas projects in Ukraine (or elsewhere), it may of course line itself up to be a financial accessory to the industry as a whole. As Puliti points out, "Once (legal and regulatory) change starts to happen, mid-sized companies will follow the big boys and help Ukraine bring real energy independence closer." This could well be the biggest risk for those who believe that an international public bank, drawing on the taxpayer contributions of countries across the world, should not be dragging resources that could be deployed for much needed clean energy projects into 'below the radar' support for the fossil fuel industry.

Ultimately, arguments against the EBRD – and other IFIs such as the EIB – supporting shale gas may boil down to fundamental banking rationales that environmental campaigners have often found themselves at the sharp end of when trying to persuade the IFIs not to fund climate-damaging investments: namely, 'bankability'.

For a variety of reasons including differing geological and infrastructure conditions, shale gas exploitation in Europe is regarded by potential investors as being economically unpalatable, certainly when compared to the US experience. According to a Deutsche Bank analysis published last year, European shale gas will cost twice as much to produce as US shale gas. The German bank has let it be known: "Those waiting for a shale gas 'revolution' outside the US will likely be disappointed, in terms of both price and the speed at which high-volume production can be achieved."

The logic of banking principles may sometimes be hard to fathom, but it would certainly be more unfathomable to see the EBRD backing a loser such as European shale gas. Or is the bank now giddy about extending its fossil fuel subsidies, beyond all reasonable environmental and economic logic?

Editorial board: Greig Aitken, Claudia Ciobanu, Sven Haertig-Tokarz, Petr Hlobil, David Hoffman

Contributors: Vizar Azemi, Pippa Gallop, Iryna Holovko, Zvezdan Kalmar, Vlada Martsynkevych, Patrycja Romaniuk, Dan Staniaszek

Design: rjones73.carbonmade.com
Layout: Tereza Hejmová

Newsletter of the CEE Bankwatch Network on International Financial Flows
Address: CEE Bankwatch Network
Na Rozcesti 1434/6
Praha 9, 190 00 Czech Republic

E-mail: main@bankwatch.org
Web: www.bankwatch.org
Twitter: @ceebankwatch