BANKWATCH MAIL

CEE Bankwatch Network's newsletter on international development finance

CEE bankwatch network

ISSUE 48
May 2011
www.bankwatch.org

Slovenian government uncovers major problems with coal power plant plans, EBRD role questioned

A stunning intervention by the Slovenian government has undermined the development of the controversial Sostanj 6 coal-fired power plant project, and also cast doubt on the scrutiny of the project's backers, including the European Bank for Reconstruction and Development and the European Investment Bank.

Last month the Slovene Minister of Economy, Darja Radić, presented the Slovene government with a critical report into the management of the EUR 1.2 billion, 600 MW Sostanj 6 project, for which last year the EIB agreed a EUR 550 million loan and the EBRD also approved a loan of EUR 100, with a further EUR 100 syndicated to commercial banks. The report – unfortunately not publicly available, though details of the minister's presentation to government have emerged – outlines a number of serious shortcomings in the project.

Radić's intervention has led the Slovene government to take the stance that it will only support a state guarantee for the EIB loan amounting to EUR 440 million if the economic efficiency of the project can be improved and plausibly verified. The minister also let it be known that because of the seriousness of the report findings she would be passing them on to the Commission for the Prevention of Corruption, the General Police Directorate and the public prosecutor.

According to the Slovenian environmental NGO FOCUS and CEE Bankwatch Network, this has important implications for the EBRD's involvement in the project, and raises questions about the project appraisal process that led to the project being backed by the bank.

In summary, the Slovene government has taken the view that the Sostanj 6 project is not being managed transparently and that it is excessively risky to support it with a state guarantee for the EIB loan. The government also appears to have been concerned that the Sostanj 6 management has seriously breached a variety of relevant rules, including the necessary public procurement standards – it has been suggested that key decisions were made, such as signing contracts with suppliers amounting to hundreds of millions of euros, without a proper investment study having taken place nor appropriate analysis of the effects of the project. Significantly, as pointed out for some time now by critics of the project, Sostanj 6 has never been included in Slovenia's energy policy, and therefore has not been subject to strategic environmental assessment.

Further criticisms in the report express concern about Sostanj 6's economic and financial efficacy. Even minor changes in the project's financial input data may lead to a significant reduction in its internal rate of return and cause the project to have a negative net present value. The investment is very sensitive to the price of coal and the price of coal is, in the current investment programme, very low. However, the report warns of a high risk that the Velenje mine will not be able to guarantee such a price. The current price in the investment plan is 2.25 EUR/GJ, while today the lignite is already sold at 2.7 EUR/GJ. If the price increases by 10 %, the investment is negative.

Moreover, a related concern focuses on the price of emission allowances. The investment programme estimates it to be 20 EUR/t CO_2. If the price of allowances becomes only 10 percent higher, the investment is again negative. Again, when it comes to the electricity sales price, if this price drops only 10 percent lower than currently planned, the investment is not profit-

Continued on page 2 ▸

EBRD's renewables drive in Kazakhstan overshadowed by consistent fossil fuels support

At the beginning of this year, doubtless with an eye on its annual meeting in Astana, the EBRD stated that its goal for development in Kazakhstan was to "promote economic diversification and move towards a more sustainable model of financial development."

The EBRD also states that it is committed to providing resources to promote energy efficiency and renewable energy projects throughout the region, including in Kazakhstan. In March 2011, the EBRD duly announced an initiative to support a renewable energy financing facility in the country – the facility would "provide the Bank an instrument to extend financing for renewable energy projects" in the country. The EBRD investment for this new initiative is EUR 50 million.

However, the EBRD's penchant for funding oil and gas related projects was evident through its investments in Kazakhstan during the past year. Despite claims to be committed to investing in renewable energy projects, in 2010 and 2011, the EBRD continued to provide significant financial support to oil and gas development in Kazakhstan. For instance, the EBRD decided to provide USD 10 million to Zhanros Drilling LLP, an oil services company providing services to oil and gas companies in the Kyzyl Orda region of Kazakhstan. The bank stated that it wanted to invest in the private sector and modernised equipment at the drilling services company.

In the period the institution has provided funding to three new projects in the oil and gas sector, building on its years of financial support to projects related to the enormous offshore Kashagan oil field. The EBRD underscored the importance of supporting private enterprise as a reason for providing loans approaching USD 100 million in the hydrocarbon sector. Only two of these projects are catalogued in the natural resources portfolio of the bank; one pro-

Continued on page 2 ▸

Inside

Slovenian coal power plant plans from page 1

able. And if the total investment costs were to rise by EUR 100 million – something not unheard of for a project of this scale – the investment would again be negative. If more than one of these elements changes for the worse – and by a relatively small margin – Sostanj 6 risks becoming uneconomic.

A variety of actors, among them environmental NGOs in Slovenia, have been warning about the problematic aspects of the Sostanj 6 project since 2007. That the Slovene government is now balking at the prospect of issuing a state guarantee for Sostanj 6 suggests that it shares the concerns of the project's long-standing critics.

It appears that the government's views may change if the project investor produces a new investment programme that takes into account all project costs, including the costs of decommissioning the facilities at blocks 4, 5, 6 and the associated gas turbines. The appointment of a special auditor to comprehensively audit the individual management activities at Sostanj 6 will be required. A thorough analysis of the ability to achieve reasonable prices for coal at 2.25 EUR/GJ, as well as a thorough analysis of all the investment's other input parameters in order to prove the reliability of achieving a return on investment in accordance with the sectoral policy for the energy sector – which is 9 percent – would need to be provided.

The project investor would also have to ensure that they carry out procurement procedures in line with the rules for public procurement, as outlined in the national Law on Public Procurement in the water, energy, transport and postal services.

FOCUS and Bankwatch believe that due to the Slovene government insisting on a thoroughgoing review of the Sostanj 6 project, as well as the initiation of investigative procedures regarding legal breaches, there is a serious enough case emerging for the EBRD to also review the project and its involvement in it.

The bank should also be examining why it did not pick up some of the weaknesses in its project appraisal process, for example in relation to the public procurement procedures and the economic viability of the project. The groups are calling on the EBRD to request that the Sostanj 6 promoters and the Slovene government make all the recent reports on the project publicly available.

Renewables drive in Kazakhstan? from page 1

ject was catalogued with transportation projects, a strategy the EBRD has used in previous years when it supported other projects that directly benefited the Kashagan field, a massive offshore oil field in the fragile north Caspian Sea, which is fraught with environmental, social, economic and technical problems that have slowed its development.

One of the largest fields in the world, Kashagan is located off the coast of Kazakhstan, in shallow water that is home to endangered sturgeon and the Caspian seal. Although production of the first phase of the project was originally slated to start in 2010, repeated setbacks have slowed down development of the field, which is now set to begin commercial production in 2012. In February 2011, Sauat Mybayev, the Kazakhstani Oil and Gas Minister said that the second phase of the project would be postponed indefinitely, stating in the media: "We are not about to approve a phase that is inefficient from an economic point of view".

Kashagan also threatens communities in Kazakhstan through associated projects such as pipelines from the offshore site to the Bolashak oil refinery built outside of Atyrau, and the refinery itself. The EBRD has not directly financed the Kashagan Field, but it has repeatedly financed 'support' projects to Kashagan, contributing to the overall financial viability of the project, without directly bearing the responsibility for the activity at the field.

Investments to support Kashagan and other oil development in western Kazakhstan

The EBRD has provided USD 8 million in loans to the joint venture RauanNalco, comprised of Kazakhstan's RauanMunaiKhim and the US Nalco Company, to develop chemicals to aid in the development of the Kashagan field. RauanNalco is based in Atyrau, near the Caspian Sea in western Kazakhstan. The EBRD loan is to be used to support expansion of the company's facility and to build a new 'blending' plant, which will have the capacity to produce 9400 tons of specialty chemicals per year.

According to the EBRD's press release about the planned investment, as production at the Kashagan and other fields "ramps up", specific chemicals will be needed in the refining process; approximately 90 chemicals are necessary for the extraction and processing of oil and gas.

In 2010, the EBRD also provided a USD 65 million loan to the company Circle Maritime Invest (CMI) to supply three "shallow draft icebreaking tug boats" to provide off-shore support services to Agip KCO in Kazakhstan's part of the Caspian Sea. According to the EBRD's website, the boats will be used in "icebreaking management operations, as well as in towing, transportation, and rescue activities and other support services to the artificial islands (acting as oil platforms) constructed in the surrounding areas of the Kashagan oilfields."

By categorising projects, like Circle Maritime Invest, as transportation projects rather than as oil and gas projects, the EBRD permits lower levels of categorisation within the bank, meaning that the projects are subject to less stringent environmental and social standards. And, by claiming that such a project falls within the transportation sector, the EBRD does not have to place the project into the energy and natural resources portfolio, lowering the overall investments in that category.

Previous investments related to Kashagan

The EBRD previously financed the Bautino Port, outside of Aktau, Kazakhstan, where ships supporting the development of the Kashagan Field are based. The port development also benefits transportation by tanker of Kazakh oil from Bautino to Baku (Azerbaijan) and other ports on the Caspian, including Makhachkala (Russia) and Neka (Iran). From Baku, oil is then piped west through the Baku-Tbilisi-Ceyhan Pipeline.

The EBRD's investment in this project – also not included in its energy portfolio, but again in its transportation portfolio – amounts to USD 30 million, which was invested in separate loans. The first investment of EUR 12.9 million was made in 2006, when the EBRD provided a direct investment to the Bautino Atash Marine and Supply Base for construction of a "supply base catering to offshore oil operators". It was followed by a second investment in 2008 in the amount of EUR 8.5 million, and a third in 2009, which provided an additional USD 18.6 million to "enable the company to complete the construction, equipment and placement into operation of a marine support and supply base in the bay of Bautino". In addition, the EBRD provided a USD 10 million equity investment to Balykshi, the base operator at Bautino.

The EBRD's steady financial investments into the support projects around Kashagan provides critical support to an investment that has been plagued with environmental and economic difficulties since the outset. The EBRD's continued funding of a project that has so many questions attached to it gives pause: is this the best use of public funding?

What if the EBRD, instead of pouring money into projects related to Kashagan, placed that financing into its pool for renewable resources? To many NGO observers this would be a much wiser and financially more responsible investment than continued support for the hydrocarbon sector, particularly into a project as fraught with problems as Kashagan demonstrably is.

The EBRD's practice of funding transportation projects associated with oil and gas investment in the region appears to be a region-wide approach. In Turkmenistan, where the EBRD is not directly funding projects in the hydrocarbon sector, it provided financing for the Turkmenbashi Port in the 1990s and appears – if its current strategy document for Turkmenistan is anything to go by – to be considering it as a potential project again. Following the EBRD's review of its Turkmenistan country strategy in April 2010, the World Bank is considering a loan to the Turkmenbashi Port to upgrade its capacity. The World Bank's documents state that the project aims to diversify the port's usage, yet according to EU figures the overwhelming volume of product going through the port is oil and gas related. If the EBRD also decides to finance the Turkmenbashi Port, it will clearly be benefitting the oil and gas industry of Turkmenistan and enabling greater volumes of transport to Baku and Neka.

The EBRD, if it is serious about diversifying the economy of Kazakhstan, should, instead of continuing to pour resources into the hydrocarbon sector, put the resources it would invest into that sector into renewable and energy efficiency. From an economic, environmental and human rights perspective, this approach would be far more sound and in keeping with the provisions of the founding documents of the EBRD.

Kate Watters, Crude Accountability

Non-transparent boat to Cairo

"Here comes the boat only half-afloat, oarsman grins a toothless smile. Only just one more to this desolate shore, last boat along the river Nile. Doesn't seem to care, no more wind in his hair as he reaches his last half mile. The oar snaps in his hand before he reaches dry land but the sound doesn't deafen his smile".

Do the lyrics of the seminal 1979 hit 'Night Boat to Cairo' by British pop/ska band Madness offer any kind of portent for the EBRD, that since February this year and following the popular revolution in Egypt has been steadily providing a drip-drip of public commentary concerning its desire to start investing in the country and possibly elsewhere in north Africa? It remains very difficult to say at this juncture, as the justificatory process for so doing that the EBRD has embarked on has been notable for one thing: a lack of transparency.

Yes, in spite of the significance of such a potential foray by the bank into unchartered territory – going way beyond its primary mandate to operate in the former communist bloc countries of central and eastern Europe – the case for EBRD entry into North Africa, and most notably Egypt, is still shrouded in mystery.

About all that is known publicly so far is: the EBRD could potentially make available EUR 1 billion of investment money per year to Egypt with the focus, it is said, to be on the EBRD's traditional targets including small companies, the financial industry, utilities and regional government; in early March, and in response to the wave of popular uprisings in North Africa, the European Commission issued a 'Communication on a Partnership for Democracy and Shared Prosperity with the Southern Mediterranean' which emphasises the intention to promote inclusive growth, civil society and democracy in the region – with the Commission proposing the EBRD and the European Investment Bank to take the lead in these operations, and; on March 29 the EBRD's board of directors was issued with an appraisal report on the potential for the bank to engage in Egypt, with the same report also sent to national governments with a shareholding in the EBRD.

A Freedom of Information request for this report to the relevant UK government department, the Department for International Development, received a rejection notice – seen by Bankwatch Mail – citing spurious grounds.

An inquiry into the release of the report made via Twitter to the EBRD's Director of Communications, Jonathan Charles, resulted in the following response: "I will, certainly, consider whether to make all or some of it public, after the shareholders have digested it." Not exactly reassuring, though Mr Charles' Twitter account description points out that "My views are my own", and he has also divulged via Twitter that he has been involved in "Brainstorming on how to help North Africa, after unrest" during the recent World Bank/G7 meetings in Washington DC.

CEE Bankwatch Network has been alarmed by the EBRD's zeal following the overthrow of the Mubarek dictatorship, the man who in fact asked the EBRD to consider investing in Egypt only last summer. According to Bankwatch's EBRD coordinator Fidanka Bacheva-McGrath: "After 20 years of operations, a sustainable and socially just society is nowhere to be seen in the EBRD region. Many of the countries that the EBRD works in remain poverty-stricken and the economic liberalisation model promoted by the bank has taken a severe battering in the crisis. This is hardly a good moment to declare victory and jump into a new, very troubled region, particularly with Egypt currently not even having a real government."

On this 'democracy' question, in public at least the EBRD has started to make some belated acknowledgement of the challenges on the ground. As reported in Bloomberg last month, EBRD president Thomas Mirow appeared to make EBRD engagement in the region contingent on "each and every country following the path of democracy, a multi-party system and market economy. Otherwise, there would be no grounds for EBRD to engage." The same report quoted Mirow saying that "We could be able to quickly develop a business model", with the second quarter of 2012 being suggested as a potential start date for lending in Egypt.

> "The case for EBRD entry into North Africa, and most notably Egypt, is still shrouded in mystery."

Bankwatch, meanwhile, is calling for no expansion of EBRD activities for the foreseeable future, at least until the bank has gained more experience in poverty reduction and has demonstrated a stronger ability to achieve environmentally sustainable and socially just transitions in the countries where it operates.

Major question marks, for instance, hang still over one sector in Egypt that the EBRD would most likely look to involve itself in – the banking sector. The EBRD's 'intermediated lending' to the private banking sector in central and eastern Europe is not only the bank's least transparent form of lending, where the names of the final beneficiaries are almost impossible to come by let alone any positive results, it has also been slammed by the EBRD evaluation department. In a November 2010 report into the bank's crisis response, the evaluation department found that "some" of the EBRD credit lines for SMEs were not disbursed by the banks, and they "did not prevent the credit crunch, particularly for small businesses".

Where are the Egyptian people in this unfolding spectacle? One prominent activist in the Egyptian uprising, Wael Ghonim, commented on a panel at the World Bank/IMF Spring meetings last month: "The way in which the international community collaborated in the injustice and with the dictatorship is basically a crime."

Sat alongside Ghonim was director general of the IMF, Dominique Strauss Kahn, who took on board much of the criticism. "Certainly, what has happened in the north of Africa has been a lesson for us," said Strauss Kahn, "by demonstrating that it is not sufficient to simply analyse the macroeconomic figures, and we've got to look far beyond that. The distribution of income, the elevated levels of youth unemployment, created the impression among the population – and not just a perception but also a reality – that the wealth was not for everyone."

A suggestion, then, that the old neoliberal ways had a role in inciting Egypt's uprising. It surely cannot inspire much confidence among Egyptians that the EBRD, with its own neoliberal 'boat only half-afloat', could be about to set sail from London.

Read more: Civil society concerns about EBRD expansion into North Africa is available at: http://www.bankwatch.org/publications/Letter_EBRD_North Africa.pdf

The gains and the losses since 1989

To mark 20 years of the EBRD this year, we are pleased to present a range of personal reflections from people both within and beyond central and eastern Europe, people who have worked directly on issues related to the EBRD, or who have studied the bank's impacts. Václav Havel, former President of the Czech Republic, sets the scene with his views on the post 1989 settlement.

The European Bank for Reconstruction and Development has been in existence for 20 years now. It was founded not long after this region of ours awoke from over four decades of oppression. We lost, thankfully, a domineering system that permitted so very little. Have we allowed ourselves to replace this loss with other losses?

Years ago when I used to drive by car from Prague to our country cottage in Eastern Bohemia, the journey from the city centre to the signboard that marked the city limits took about fifteen minutes. Then came meadows, forests, fields and villages. These days the selfsame journey takes a good forty minutes or more, and it is impossible to know whether I have left the city or not. What was until recently clearly recognisable as the city is now losing its boundaries and with them its identity.

It has become a huge overgrown ring of something I can't find a word for. It is not a city as I understand the term, nor suburbs, let alone a village. Apart from anything else it lacks streets or squares.

There is just a random scattering of enormous single-storey warehouses, supermarkets, hypermarkets, car and furniture marts, petrol stations, eateries, gigantic car parks, isolated high-rise blocks to be let as offices, depots of every kind, and collections of family homes that are admittedly close together but are otherwise desperately remote. And in between all that – and this is something that bothers me most of all – are large tracts of land that aren't anything, by which I mean that they're not meadows, fields, woods, jungle or meaningful human settlement. Here and there, in a space that is so hard to define, one can find an architecturally beautiful or original building, but it is as solitary as the proverbial tomb – it is unconnected with anything else; it is not adjacent to anything or even remote from anything; it simply stands there.

In other words all the time our cities are being permitted without control to destroy the surrounding landscape with its nature, traditional pathways, avenues of trees, villages, mills and meandering streams, and build in their place some sort of gigantic agglomeration that renders life nondescript, disrupts the network of natural human communities, and under the banner of international uniformity it attacks all individuality, identity or heterogeneity. And on the occasions it tries to imitate something local or original, it looks altogether suspect, because it is obviously a purpose-built fake. There is emerging a new type of a previously described existential phenomenon: unbounded consumer collectivity engenders a new type of solitude.

Where has all this woeful development come from and why does it go on getting worse? How is at all possible that humans can treat in such a senseless fashion not only the landscape that surrounds them but the very planet which they have been given to inhabit? We know that we are behaving in a suicidal manner and yet we go on doing it. How is it possible?

We are living in the first truly global civilisation. That means that whatever comes into existence on its soil can very quickly and easily span the whole world.

But we are also living in the first atheistic civilisation, in other words, a civilisation that has lost its connection with the infinite and eternity. For that reason it prefers short-term profit to long-term profit. What is important is whether an investment will provide a return in ten or fifteen years; how it will affect the lives of our descendants in a hundred years is less important.

However, the most dangerous aspect of this global atheistic civilisation is its pride. The pride of someone who is driven by the very logic of his wealth to stop respecting the contribution of nature and our forebears, to stop respecting it on principle and respect it only as a further potential source of profit.

And indeed, why should a developer go to the trouble of building a warehouse with several storeys when he can have as much land as he wants and can therefore build as many single-storey warehouses as he likes? Why should he worry about whether his building suits the locality in which it is built, so long as it be reached by the shortest route and it is possible to build a gigantic car park alongside it? What is to him that between his site and his neighbour's there is a wasteland? And what is to him, after all, that from an aeroplane the city more and more resembles a tumour metastasizing in all directions and that he is contributing to it? Why should he get worked up over a few dozen hectares that he carves out of the soil that many still regard as the natural framework of their homeland?

I sense behind all of this not only a globally spreading short-sightedness, but also the swollen self-consciousness of this civilisation, whose basic attributes include the supercilious idea that we know everything and what we don't yet know we'll soon find out, because we know how to go about it. We are convinced that this supposed omniscience of ours which proclaims the staggering progress of science and technology and rational knowledge in general, permits us to serve anything that is demonstrably useful, or that is simply a source of measurable profit, anything that induces growth and more growth and still more growth, including the growth of agglomerations.

But with the cult of measurable profit, proven progress and visible usefulness there disappears respect for mystery and along with it humble reverence for everything we shall never measure and know, not to mention the vexed question of the infinite and eternal, which were until recently the most important horizons of our actions.

We have totally forgotten what all previous civilisations knew: that nothing is self-evident.

I believe that the recent financial and economic crisis was of great importance and in its ultimate essence it was actually a very edifying signal to the contemporary world.

Most economists relied directly or indirectly on the idea that the world, including human conduct, is more or less understandable, scientifically describable and hence predictable. Market economics and its entire legal framework counted on our knowing who man is and what aims he pursues, what was the logic behind the actions of banks or firms, what the shareholding public does and what one may expect from some particular individual or community.

And all of a sudden none of that applied. Irrationality leered at us from all the stock-exchange screens. And even the most fundamentalist economists, who – having intimate access to the truth – were convinced with unshakeable assurance that the invisible hand of the market knew what it was doing, had suddenly to admit that they had been taken by surprise.

I hope and trust that the elites of today's world will realise what this signal is telling us.

In fact it is nothing extraordinary, nothing that a perceptive person did not know long ago. It is a warning against the disproportionate self-assurance and pride of modern civilisation. Human behaviour is not totally explicable as many inventors of economic theories and concepts believe; and the behaviour of firms or institutions or entire communities is even less so.

Naturally after this crisis a thousand and one theorists will emerge to describe precisely how and why it happened and how to prevent it happening in future. But this will not be a sign that they have understood the message that the crisis sent us. The opposite, more likely: it will simply be a further emanation of that disproportionate self-assurance that I have been speaking of.

I am certain that our civilisation is heading for catastrophe unless present-day humankind comes to its senses. And it can only come to its senses if it grapples with its short-sightedness, its stupid conviction of its omniscience and its swollen pride, which have been so deeply anchored in its thinking and actions.

It is necessary to wonder. And it is necessary to worry about the non-self-evidence of things.

This article is an authorised adaptation of a speech made by the former Czech president Václav Havel at the Opening Ceremony of Forum 2000 hosted by Mr Havel in 2010.

EBRD AND THE ENVIRONMENT – A MARRIAGE NOT YET MADE IN HEAVEN

I spent more than ten years working for Bankwatch, primarily focused on campaigning aimed at the European Investment Bank (EIB). Whenever I engaged with the European Bank for Reconstruction and Development (EBRD) from the mid 1990s on, it was clear that this bank was different from the EIB. Meeting and engaging with the EBRD tended to happen via usually quite amicable, though always rigorous, discussions arranged between the bank and NGOs around the EBRD annual meeting. The EIB has only begun to attempt to mimic this 'grown-up' model for dialogue in the last couple of years.

Yet, despite the EBRD's willingness to engage reasonably openly with civil society both in central and eastern Europe and beyond, it has ultimately been disappointing to tally the bank's environmental impulse – as laid down in its founding charter – with its actual lending record. The EBRD, after all, was the first multilateral development bank with an explicit environmental mandate built into its charter.

Yes, the EBRD has provided project finance to tackle some of the environmental degradation that persists as a legacy of the communist era in our region – it would have been difficult not to do so. At the same time and throughout its 20 years of existence, the EBRD has heavily impacted on eastern Europe's environment. It's unfortunately still not unusual for an EBRD energy efficiency deal, for example, to be announced in the same week as the bank is pledging more financial support for the expansion of the oil industry.

This kind of skewed thinking and lending has to change. The danger is, of course, that we may see the EBRD taking on short-termist environmental 'transition', via such unproven and massively expensive technologies as carbon capture and storage. This would be a mistaken approach. The EBRD can do renewable energy deals. It also knows that energy efficiency and energy savings in our region still need to be stepped up in a big way.

A total EBRD phase-out of fossil fuel deals would put the bank's financial clout on the right path to delivering, finally, what its founding charter has on its first page, namely to "promote in the full range of its activities environmentally sound and sustainable development."

Magda Stoczkiewicz is the Director of Friends of the Earth Europe in Brussels. She previously worked as Policy coordinator for CEE Bankwatch Network.

EBRD beneficiary Veolia criticised in new report

The EBRD's assumption that private sector participation in the water sector brings improvements has been challenged by a new report from the consumer advocacy group Food & Water Watch on Veolia Environnement, a company that has benefited from EUR 175 million in equity investments by the EBRD since 2007 to expand its operations in eastern Europe.

According to the report, consumers worldwide report problems when Veolia runs their water and sewer systems, including high rates, poor service and failure to make promised improvements.

Several cities in France – including the company's home city of Paris – and the United States have even taken back their water systems from Veolia to improve service and lower costs. Paris remunicipalised its water supply in 2009 after the expiry of Veolia's 25-year contract. This year, the new public utility has already projected EUR 35 million in annual savings and the mayor has announced plans to reduce water prices by 8 percent.

In the CEE region, with a legacy of underinvestment and ineffective management of water supplies, private management of water supplies has been promoted as the most effective way to improve the situation.

Yet the EBRD's involvement in this sector has been marked by the bank's unwillingness to measure the results in concrete human or environmental terms instead of abstract transition impacts.

In the case of Veolia, for example, the EBRD promises merely that: "The transaction will contribute to increased private sector participation through privatisation of publicly-owned entities and expansion of contracted-out services to the private sector. The expanded Company will demonstrate high standards of corporate business conduct in several national markets and foster the development of modern management, financial and operational skills in an expanding workforce across the region. The transaction will foster the entry of an international operator in the Russian and Ukrainian market where the private market is dominated by local operators."

So what does that mean? Will the water be fit to drink in the region? Will there be greater investments to prevent losses from the system?

Not if the company's operations in Bucharest are anything to go by, according to the Food & Water Watch report. Within three years of Veolia subsidiary Apa Nova taking over its water and sewer services in 2000, 350,000 people – about 20 percent of the consumer base – had complained about the company's prices and billing practices, causing the deal to come under the scrutiny of national regulators.

By 2007, because of ongoing invoice irregularities and inadequate service, the general mayor at the time was calling the contract harmful. In 2009, Neculai Ontanu, local mayor of Sector 2 in the city, asked the city to terminate or modify the contract, accusing Apa Nova of refusing to extend service to areas in his district.

Later that year, the city amended the 25-year concession contract after the company conceded to waive the city's debts and to make additional investments.

Nor is the problem unique to Veolia. Sofia's water, for example, has been supplied by Sofiyska Voda under a concession since 2000, with the help of a EUR 31 million loan from the EBRD.

The concession agreement supposedly contained detailed targets for reducing water losses, but in 2009 these still stood at 58.7 percent. The company has in fact now been taken over by Veolia, which angered residents by increasing water rates by 9 percent early this year and threatening to shut off the water service of customers who failed to pay their bills.

As the EBRD reviews its Municipal and Environmental Infrastructure (MEI) policy this year, it needs to re-think whether its strategy of promoting water privatisation in the region has been truly successful.

Yet the bank's financial interest in Veolia Voda and Aqualia puts it in a conflict of interest between its role as a defender of the public good and its interest as a shareholder of the companies.

The EBRD's new MEI strategy must ensure that this situation does not occur again – the strategy ought to insist on the EBRD refraining from taking equity stakes in companies that provide basic services.

Read more:
The new Food & Water Watch report "Veolia Environnement: A Profile of the World's Largest Water Service Corporation" is available at: http://www.foodandwaterwatch.org/reports/veolia-environnement-a-profile/

Lies, damned lies, and the EBRD's transition indicators

> "The EBRD's indicators are an unsatisfactory guide to countries' progress. They are some help if used alongside other indicators, but positively misleading if used on their own."

The 'transition indicators' developed and provided by the European Bank for Reconstruction and Development (EBRD) since 1994 have become one of the most used sources among scholars and other analysts studying economic and social developments in eastern Europe and the Former Soviet Union. They have proved extremely popular despite a number of questions about their validity – that is, what they actually measure – and their poor record in providing an accurate guide to the progress of individual countries in building sustainable market economies. The failure of the transition indicators, we argue in this article, is linked to a flawed understanding of 'transition', one which has been and still is based on a narrow concept of private ownership rather than on a broader perspective of economic development.

The initial agreement to set up the EBRD was signed on 29 May 1990. The bank's role was from the start limited and rather unclear. There had been hopes of a more substantial organisation, providing funds to overcome eastern Europe's heritage of past under-investment and low levels of technology. Instead, the EBRD was to 'foster the transition towards open market oriented economies and to promote private and entrepreneurial initiative'. It was to be, in the first instance, about systemic change, so-called 'transition'. It was not primarily concerned with 'reconstruction and development'.

The assumption was that that would follow once the aim of the market economy had been achieved. This choice partly reflected reality – there were no funds for a more ambitious role – but it was also backed by a conception of transition that remained largely unchanged through the period from 1990 to the present. This was despite considerable difficulties and disappointments along the way, as well as apparent successes.

Our view is that the EBRD has been a valuable source of information, assisting researchers and anyone else who wants up-to-date information and analysis on the transition countries of Eastern Europe and the Former Soviet Union (its remit always expanded beyond Europe alone) that were encouraged to abandon central planning in favour of market economies. However, its conception of transition is at best highly questionable.

A set of 'transition indicators', intended to show how far countries have progressed along the road to a market economy, embodies the central thesis of the bank's understanding of transition. It by no means represents the totality of the EBRD's activities, but it is important and central enough to warrant its discussion as a focus for assessing the bank's role in influencing the broad strategies for, and approaches to, transition.

The EBRD indicators may give a true reflection of what they try to measure – such as how much of the country's assets have been transferred into private hands – but they are not necessarily indicators of positive changes in the economic system overall. There is consistent credit given to those that rush towards a free market, and rather negative implications for those that choose slower routes, notably Slovenia which remained the country with the highest per capita GDP.

Of course, as indicated below, the small print pointed to caveats, but the scores are what attracted the attention and drove the policy advice. This article therefore looks at the EBRD transition indicators, asking 3 questions:

1. What is the theory behind the choice of indicators?
2. Do high scores indicate genuine success in creating an economic system that can lay a basis for growth and prosperity?
3. Have indicators been revised, or country rankings changed, in the light of the problems that have emerged during transition?

We follow this by looking at three key areas: privatisation and private sector development, price and trade liberalisation and the development of financial institutions.

The choice of indicators

The EBRD system gives a score of 1 to 4 (sometimes 4+) for each country for each year from a list of 9 transition indicators. In 1998, a set of indicators on 'the market-oriented development of infrastructure' was added. The EBRD conception of transition does not include quantitative indicators either of a country's level of development or of macroeconomic stability.

The core is the development of the private sector. For that the EBRD looks for large-scale and small-scale privatisation. It is accepted that this needs to be accompanied by enterprise restructuring, for which an indicator is provided. However, most attention, as we illustrate below, goes to clearly measurable figures, such as the extent of privatisation and share of the private sector in GDP.

A second key area is the development of markets, and for that the key indicators are price, trade and foreign-exchange liberalisation and competition policy.

The third key area is the development of financial institutions, as a key to enabling growth by channelling savings into investment.

Privatisation and enterprise restructuring

The small print in EBRD publications acknowledges problems with at least some of these indicators. Starting with privatisation, it is recognised that the state has a role and that 100 percent privatisation would not be desirable (75 percent of enterprise assets in private ownership is the threshold for a 4+ rating here). It is also recognised that maximum speed in this alone may not be the right approach when other elements of transition are lagging behind. Moreover, an existence of a 'support for corporate governance' was a requirement for what was the highest score in 1994 (the 4+ benchmark including 'effective corporate governance' was added later, but none of the countries managed to reach it).

Nevertheless, the message of the indicators is clear: a high score as quickly as possible in privatisation is what earns the praise – and it leads to higher scores also on enterprise restructuring. The questions of corporate governance, incentives for stakeholders, and key competencies and abilities within the companies took a back seat in the actual scoring practice.

Thus the EBRD was quick to reward Russian and Czech voucher privatisation with praise (scores of 4 and 3 respectively by 1994), exaggerating their extent (vouchers were used only for a minority of Czech assets) and overlooking or downplaying their negative consequences. In both cases, the result was a chaotic ownership structure in which fortunes could be made and shipped out of the country without creating a viable business structure.

How is this reflected in the transition indicators? The Czech Republic was and is the absolute star in large-scale privatisation. That helped the architects of their voucher method to win international standing and to be promoted as advisers in other countries. It continued to gain high marks also for enterprise restructuring (a score of 3 from 1993), even as major enterprises privatised by vouchers and direct sales to domestic owners suffered financial catastrophe in the late 1990s and were, in a number of cases, brought back into effective state control, slimmed down and sold off to foreign firms, often with little better performance in the following years. Their accumulated debts were covered at considerable cost to the state budget.

The EBRD take on all of this, with no revision of indicators and never a step backwards in scores, converts a rather chaotic development, full of false moves, reversals and hasty improvisation, into a steady advance towards an ultimate aim.

For Russia the gap between the reality and the impression left by the transition indicators is even more remarkable. Privatisation in the early 1990s was accompanied by a desperate struggle for survival by enterprises, often with wage payments delayed and with normal financial relationships replaced by barter. The EBRD shows very good scores for large-scale privatisation from the early 1990s (rising to 3.33 in 1997, when assets were handed to the so-called oligarchs in the notorious loans-for-shares deal), and reversing in 2005 after Putin's government renationalised some of the oligarchs' wealth. Enterprise restructuring also scores moderately well, but experiences a temporary reversal in 1999, just as barter was giving way to more normal economic relations. This also coincided with a change from stagnation to some degree of growth among Russian firms, although, in general, firms not involved in export-oriented raw-material extraction were typically limping on, surviving thanks to a degree of protection from foreign competition.

Liberalisation

Price, trade and foreign exchange liberalisation should be less problematic, but here too there are difficulties. It is not clear that liberalisation should be achieved as quickly as possible. A number of countries experienced foreign exchange crises and this could cast doubt on the appropriateness of rapid liberalisation. A high score might therefore be more appropriate for a country that holds back. In fact, top marks went to Bulgaria from 1994 (4, rising later to 4.33), yet the country suffered a financial crisis, linked to foreign exchange liberalisation, in 1996-7.

Russia too won top marks in the later 1990s, in the lead-up to financial meltdown in 1998. Its score then fell markedly (from 4 in 1997 to 2.33 in 1998) and it never regained the dizzy heights of its pre-crisis years. However, lower scores in later years were associated with greater stability and economic growth. Again, the EBRD measured the speed of movement towards a free market, in this case meaning financial openness, but speed alone appears to have been a questionable approach for Russia at that time.

Financial institutions

Banking and finance are even more problematic areas. The EBRD assumption was that banks would play a role in transferring savings into productive investment. This would be helped by banking independence and by competition between large numbers of banks.

In fact, banks were frequently means to channel savings into private wealth – for example, by owners granting credits to themselves which they never repaid – and the more independence they enjoyed the more likely this was to happen. As a result, deposit levels often remained very low and banks played their expected role of granting credits to businesses for productive investment on a significant scale in only a few countries, largely those in central Europe. Even then, credits were often misdirected and poorly controlled.

Problems were clear from very early on, with banking crises in a number of countries. Latvia had the second highest EBRD score for bank transformation in 1996 (3 from 1994 to 1997), after liberalisation measures aimed at turning the country into a Baltic Switzerland. In fact, much of the banking activity was unsound and about 40 percent of deposits and assets were compromised in the crisis of 1995-6. Russia scored less well, but still reasonably, although its banks were playing no substantial role in supporting productive investment. Their overall contribution is better seen as negative as they were more concerned with speculation and helping transfer money out of the country. There was an improvement in Russian banks' relevance to economic development after the crisis of 1998 – credits to businesses increased as did customer deposits – yet this was rewarded with a lower score in the EBRD's Transition Indicators (falling as low as 1.67 from 1999 to 2001).

The EBRD also saw an important role for other elements of the finance system, such as stock markets. These are lumped together under a heading of 'Securities markets & non-bank financial institutions'. This too contained some deceptive indicators. Share trading took off in countries that experienced voucher privatisation and the Czech Republic and Slovakia were earning the highest scores (albeit still modest levels of 2.67) on this broader indicator by 1994. Russia overtook them both in 1996 (reaching 3). High levels of stock-market activity did not indicate share dealing, and hence share prices, acting as a disciplining force on management. They rather reflected managements – able to acquire funds from bank loans – and traders of uncertain backgrounds buying and selling control over companies.

When that settled down, share trading too declined and stock markets came to play very small roles in all transition economies. The EBRD indicator, following regulatory structures and institution building in a narrow sense, therefore tells us extremely little about the significance for the economic system of an area which, as Joseph Stiglitz has remarked, should be regarded as a 'side show'.

Infrastructure

The EBRD transition indicators now end up with a set of measures, incrementally added from 1998, for parts of the infrastructure, meaning telecommunications, railways, electric power, roads and water and waste. These are certainly important themes for a country's development potential, but the indicators tell us nothing about the quality of these activities and their public service functions. It is all about the extent of marketisation.

Thus for railways the key issues include the commercial orientation in operations, the sub-division of activities and avoidance of cross-subsidisation. There would be substantial variation in scores for Western European countries on these points and plenty of scope for arguing about their importance.

Where now for the EBRD and transition?

We conclude with two points. The first is to re-emphasise the limitations to the EBRD's transition indicators. They give no reliable guidance of a country's progress towards an economic system that can bring growth and prosperity. They are indicators only of progress along a road to an economic system defined by private ownership and free markets. Those are not the same things.

Experience has demonstrated many areas in which they do coincide and many in which they do not. Recently, this has been underscored by the very different impacts of the crisis of 2008 in transition economies: some of the countries that followed the liberalising road most enthusiastically (such as the Baltic Republics) were among the most severely affected; some others that liberalised rapidly, notably in central Europe, seemed to do relatively well.

The EBRD's indicators are therefore an unsatisfactory guide to countries' progress. They are some help if used alongside other indicators, but positively misleading if used on their own. However, given the notorious difficulties with getting access to comparative data on the region, researchers often found the EBRD indicators the only data on institutional and structural change with an apparent validity and reliability available across the transition countries. They were thus often used alone as key indicators on various aspects of the transition countries.

The second point is to ask whether the indicators and judgments have changed in the light of experience. In fact, there were only minor adjustments in the conceptualisation of individual scores in the period of 1994–2010. However, the apparent failure of the indicators to identify vulnerabilities and important differences that were exposed in the crisis of 2008 led the bank to reflect on their methodology.

In its 2010 Transition Report, the EBRD acknowledged that its indicators 'may have exaggerated the actual progress' (page 12) and should be revised in the light of the crisis to give greater weight to 'the quality of regulatory and supervisory institutions' (page ii). However, in the same document, the bank's response wavers between assertions that a return to the growth model of the past was 'neither feasible nor desirable' (page iii) and that past strategies were 'fundamentally successful' (page v).

Practical revisions remain relatively minor. The EBRD's current indicators continue to emphasise the benefits of large finance and real estate sectors while failing to incorporate features that, in its own analysis, could mitigate vulnerability. This has left a number of countries that have suffered severely from the crisis scoring extremely well.

Professor **Martin Myant** is a specialist in Czech and Slovak economic and political developments and teaches at the University of the West of Scotland. He has previously contributed to the Economist Intelligence Unit. **Jan Drahokoupil** teaches at the University of Mannheim. Myant and Drahokoupil's latest work is 'Transition economies: Political economy in Russia, Eastern Europe, and Central Asia', published by Wiley in 2010.

A SHOWCASE ON GETTING IT WRONG – THE BTC PIPELINE

In the early part of the last decade, I found myself involved for the first time in an international campaign against a major infrastructure project: the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. It was being built by BP, whose CEO John Browne said it would only work with "free money" from governments, meaning loans and guarantees from the EBRD and other public banks. So, working with courageous activists from the region and civil society groups around the world, I set about highlighting how the project failed to meet the environmental and social requirements of its would-be financial backers.

The campaign won some tactical victories – achieving compensation for landowners here, strengthening environmental protections there. But ultimately the EBRD and others decided to finance BTC, in spite of dozens of violations of their lending requirements.

Much of what we'd feared came to pass. BP built BTC to its trademark shoddy environmental standards. The pipeline exacerbated regional tensions, playing a key role in the 2008 Georgia-Russia conflict. The added wealth and international prestige further entrenched the Aliyev dynasty in Azerbaijan. But once it was built, many along the route resigned themselves to their lives becoming harder, their land less productive and their communities more militarised. "It is, after all, the State" was a common reflection. The EBRD and other financial institutions moved quickly onto the next project.

Looking back, I realise the campaign taught me something about how international public finance works. In my youthful enthusiasm I'd made the mistake of assuming the institutions' decisions were made rationally, and by judging whether projects met their policies and standards. In the event, politics played a far stronger role, as did the institutions' undiscriminating assumption that all such projects were always good for the people of the host countries. Clearly, I now know, winning the arguments is not enough – it is via the success of organising by social movements that their course may be turned. That lesson was strengthened in my subsequent work on the privatisation of occupied Iraq's oil, where Iraqi civil society succeeded – remarkably – in depriving the USA and UK of achieving much of what they'd come for.

As the EBRD celebrates its 20th birthday, it's worth remembering how unpopular high finance has become, and how movements demanding social justice rather than neoliberalism have grown since its foundation. Will it last another 20 years? That is for us to determine.

Greg Muttitt was formerly a campaigner at Platform and is author of Fuel on the Fire – Oil and Politics in Occupied Iraq, published in April 2011 by Random House (www.fuelonthefire.com)

After 20 years of the EBRD, environmental sustainability still elusive

Back in 1991 when the EBRD started its operations, environmental issues were gaining worldwide recognition as a key problem for the coming decades, and the fall of the Soviet Union had revealed untold environmental damage behind the Iron Curtain. It was only fitting, then, that the EBRD's founders mandated the bank not only to promote market economies, but also "to promote in the full range of its activities environmentally sound and sustainable development".

Twenty years later, the EBRD has come a lot further with the promotion of market economies than with environmental sustainability.

While energy efficiency has been well mainstreamed into the bank's activities during the past few years, other elements of the EBRD's environmental potential have never really grown wings and flown. This is partly the result of a lack of clear vision by the bank – as well as by many other institutions – about what environmental sustainability really looks like. Surely it does not include investing in four coal mining projects in Mongolia worth a total of USD 290 million, for exporting the mines' output to China. Yet while the White House has recently – and justifiably – called oil subsidies 'crazy', EBRD lending for fossil fuel based projects actually increased significantly between 2006 and 2009.

Overall the EBRD needs to develop a vision of how a truly sustainable region would look – and what is needed to get there. It also needs to adjust its mandate to ensure that environmental and social goals are not hidden by the 'main' goal of transition to market economies. The bank also needs to continue the work already started to integrate environmental indicators into its country level transition indicators, in order to recognise that transition is not worthwhile if it does not lead to environmental sustainability.

In a world of finite resources and climate change, the EBRD needs to limit or exclude itself from financing in more sectors than just those which are already more or less illegal – and the fossil fuels sector must be first in line. A public bank must lead, not follow, markets, and public financing should not be for just anyone but only for projects with proven social and environmental benefits. In turn, the EBRD also needs to step up financing for renewable energy. Even in countries where legislative conditions for renewables are not optimal the bank has a role to play in financing pilot projects to push forward the development of the regulatory framework.

Read more: Bankwatch figures, based on the EBRD's, that show the bank's booming fossil fuel lending activities between 2006 and 2009, are available in pdf at: http://bit.ly/EBRDenergy

EBRD LEARNING FROM THE CRISIS, BUT NOT MUCH

The EBRD likes repeating that it has learned some lessons from the economic crisis. However, changes to the outward-oriented growth models it prefers for central and eastern European countries are marginal.

Financial integration is to be continued, though the "excessive reliance on foreign currency exposure" is to be reduced. It is true that dollarization and euroization increased the vulnerability to crisis. However, the global experience has shown that countries that were less financially integrated and that had established capital controls proved to be more resilient in the face of the global crisis. Thus, the crisis clearly put in question the principle of financial integration.

In its 2010 Transition Report, the EBRD propagates export-led growth. However, the crisis brought into the open the vulnerabilities of strongly export-oriented countries. Countries like Slovenia and Slovakia suffered from a very severe recession in 2009 due to the abrupt fall of exports. Poland, with its more inward looking economy, fared much better. The export-led recovery in countries like the Czech Republic and Slovakia is very fragile because their main export market, the euro zone, is in a structural crisis. For the south-east European and Baltic countries, which ran up enormous deficits on trade balance and the current account, export-led growth is a mirage.

The EBRD overlooks too an important issue of international competitiveness: the exchange rate. For the south-east European and Baltic countries, devaluation would usually be a pre-condition for structurally enhancing exports and furthering import substitution. Such a measure is not in the interest of the western banks in the region.

The EBRD characterises the pre-crisis growth model of many central and south-east Europe countries as being driven by domestic demand. This characterisation is incomplete. Domestic demand was driven to a large degree by the growing indebtedness of private households, not by growing wages. Only a more equal distribution of incomes (and growing wages) can provide a sound basis for a more inward-looking development. A more inward-looking development could be more resilient to crisis.

Joachim Becker is Associate Professor at Wirtschaftsuniversität Wien, and teaches political economy, international relations and on development issues.

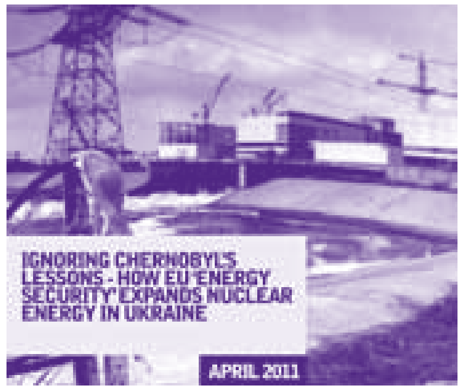
Crossed wires: New report provides the nuclear context for EBRD transmission lines in Ukraine

As the world observed the 25th anniversary of the Chernobyl nuclear catastrophe on April 26, CEE Bankwatch Network issued a startling new report that sets out how the plans of the Ukrainian government to build 22 new nuclear reactors and extend the lifetime of old Soviet reactors are being indirectly supported with European public money as part of the long-term EU 'energy security' strategy.

With the Fukushima nuclear disaster ramping up global calls for a U-turn on the so-called 'nuclear renaissance', the report – 'Ignoring Chernobyl's lessons: How EU 'energy security' expands nuclear energy in Ukraine' – points out the crucial financial role being played by the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) in facilitating the transmission of nuclear-derived electricity within and beyond Ukraine.

The two public banks have already provided EUR 650 million in support of several large-scale transmission infrastructure projects to provide an outlet for electricity from Ukrainian nuclear power plants. These investments have been scrutinised for several years now by Bankwatch's member group in Ukraine, the National Ecological Centre of Ukraine, which has consistently raised alarm particularly about the EBRD's emerging nuclear duplicity – the bank's own policies stipulate its involvement only in nuclear safety projects, and not in nuclear generation.

Launching the report, Iryna Holovko, Ukrainian national coordinator at Bankwatch, commented: "Since the Fukushima crisis started, we have seen EU leaders order nuclear stress tests in European and neighbouring countries, Germany halting activities at reactors on its territory and Italy moving in a similar direction. Nevertheless, no one is speaking about the indirect EU support for the massive nu-



clear expansion envisaged by the Kiev government. European leaders seem to be so interested in securing cheap Ukrainian electricity imports that they choose to ignore the enormous safety and financial risks associated with such a development."

In 2010, two new projects were launched by the EBRD and backed with grants from the EU's Neighbourhood Investment Facility: the "second backbone" ultra high-voltage (UHV) corridor and the Nuclear Power Plant (NPP) safety upgrade project. By 2018, when it is expected that the "second backbone" could realistically be put into operation, seven of 12 Ukrainian nuclear reactors connected with "second backbone" should be closed down. Yet the Ukrainian government plans to extend their lifetimes, and this is where EBRD financing for the NPP safety upgrade project comes in – the project makes no sense without the lifetime extensions.

Moreover, as the report points out, when it comes to the EBRD's involvement in nuclear safety in Ukraine, in 2004 the EBRD approved financing for post-construction upgrades of the K2/R4 reactors. At that time the EBRD pledged that one of the outcomes of the project would be to allow the state nuclear agency Energoatom to mobilise financing for safety measures at other reactors.

According to the EBRD: "The safety level of 13 operating VVER units will be upgraded over the next six to seven years using K2 and R4 as a benchmark. The safety upgrades of these units will be performed in accordance with the Upgrade Package developed by Ukrainian and Western experts, reviewed and agreed by Riskaudit and approved by the State Nuclear Regulatory Committee of Ukraine. The financial provisions for the Upgrade Package will be annually reflected in the electricity tariff."

Yet, seven years on, most of those upgrades are still pending and Energoatom has yet to raise money in Ukraine for them. As the report puts it: "This is a clear sign that the EBRD has failed in one of the most crucial aspects of its involvement in nuclear safety."

Among the report's recommendations is a request that should the EBRD proceed with the Ukrainian NPPs safety upgrade project, the loan agreements should specify that reactor lifetime must not be extended beyond the original projected closure.

Iryna Holovko commented: "The EU cannot continue to play a double game, insisting on nuclear safety at home, while securing electricity imports at the expense of unsafe nuclear expansion in neighbouring countries. The EU and the international financial institutions such as the EBRD should immediately stop the practice of back-door subsidies to Ukraine's nuclear sector. Halting nuclear expansion is in the interest of both Ukrainians and Europeans. Nuclear risks know no borders."

Read more The new report is available in pdf at: http://bankwatch.org/documents/IgnoringChernobylsLessons.pdf

Jurassic Armenia: Who and what will be exploited by a string of new mining ventures?

The EBRD's 'Transition Report 2010: From Recovery to Reforms' was presented to the public and the media in Armenia at the end of last year by the bank's chief economist, Erik Berglöf. The report revealed the pros and cons of the transition period from the point of view of the EBRD's in-house specialists.

In the course of the presentation, attention was drawn to a key passage: "Over the past few years Armenia has made significant progress in structural reforms. However, in many different areas there are still serious problems, such as the business environment, problems with tax and customs authorities, corruption and crime."

Although it came with certain caveats, the emphasis on 'progress' did raise some eyebrows, considering a variety of recent independent assessments of the socio-economic situation in Armenia, including from the OSI-Armenia Report on Armenia's European Neighborhood Policy Implementation in 2010, as well as the 2010 Corruption Report from Transparency International 2010 – both organisations pointed to a deterioration in Armenia on a number of key indicators.

To mention just a few: a sharp rise in inflation, rocketing prices for essential goods, and unhealthy overlaps between business and the ruling authorities in all branches. According to official statistics, inflation in Armenia shot up to 11.5 percent over 12 months. Moreover, food inflation was more than 17 percent. According to independent management expert Harutyun Mesropyan, over the last two years the poverty threshold in Armenia rose by 11 percent, and inflation for goods consumed by the most vulnerable segments of the population is at least 25 percent.

One of the distinguishing characteristics of the current crisis is the over-exploitation of natural resources, which carries serious risks for the environment as well as socio-economic consequences. Development banks operating in Armenia, in particular the EBRD, finance this sector. The EBRD needs to be implementing its declared mission, namely to contribute to the prosperity of the country. And this prosperity must be achieved through proper management of natural and human resources.

In this regard, the EBRD ought to be monitoring the activities it finances in a mandatory manner, with independent assessment a necessary and integral part of such monitoring. The results should be transparent, so that it is commonly understood how the money invested is impacting on the social status of the country's population, the environment, as well as the ongoing government policy regarding socio-economic development.

Exploitation of mineral resources in Armenia

Armenia may have a territory as small as 29 000 square kilometres, but there are 630 mineral deposits situated within its borders. In fact, 70 percent of the territory contains potential reserves of minerals. Since 2005 the Armenian authorities have embarked seriously on the development of mineral resources, yet without having in place a general concept, a national strategy, any means of assessing environmental damage, an operational monitoring system, as well as no social protection of the population against potential risks.

Precious and nonferrous metals like gold, silver, molybdenum, copper, zinc and iron are mined in Armenia and exported out of the country. Yet, the contribution of the mining industry to the state budget hardly exceeds 2 percent. The reason for this is that companies have almost never paid for resource exploitation.

No taxes are imposed on industrial waste, neither on dumps containing a mixture of heavy and toxic elements. Cadmium, antimony, arsenic, selenium, mercury, vanadium, copper, molybdenum, zinc, and other elements are found in Armenia's rivers, soil, potatoes, carrots, beans, vegetables, and dairy products. This has been documented by studies conducted by the Center for Ecological-Noosphere Studies of the National Academy of Sciences of Armenia in Kapan in 2007, in Kajaran in 2009, and in Akhtala in 2010. Furthermore no taxes are imposed on the precious and rare metals exported from the country, and accompanying rare elements and metals such as vanadium or tantalum are simply ignored and exported as concentrate.

Geopromining Gold Company

In 2010, the Control Chamber of the Republic of Armenia detected serious violations by the 'golden' company Geopromining Gold, including concealment of gold and silver, field exploitation with no authorisation documents, and a failure to fulfill contractual obligations. The Control Chamber publicly offered to revoke the company's license and refer the case to the General Prosecutor's Office of the Republic of Armenia. However, a month later the issue was dissolved.

The Minister of Energy and Natural Resources, Armen Movsisyan, promised to investigate the situation. A commission was created, which for four months has answered all questions by stating that there are no results so far. The company meanwhile, without possession of design documents, began the construction of a crushing and grinding installation in the Sevan Basin. As a result, dust and small particles containing toxic metals got into the groundwater and rivers flowing into Lake Sevan, causing the accumulation of heavy and toxic metals in the lake. This sort of activity contravenes the Law of Armenia On Lake Sevan, which prohibits the processing activities in the Sevan Basin. Note that Sevan, with a fresh water reserve of 34 billion cubic metres, has been declared a strategic priority for Armenia.

Geopromining Gold has received USD 250 million funding from the Russian Vneshtorgbank (VTB). A report made by the Control Chamber of the Republic of Armenia noted financial irregularities associated with this transaction. The EBRD has no direct relation to Geopromining Gold. However, it is directly related to VTB, as it provided a loan of USD 10 million to the Russian commercial bank. Further implications of this loan are cited below in the section on the Teghut Project.

EBRD and the Teghut Copper-Molybdenum Deposit Project

The EBRD has provided the Armenian Cooper Program (ACP) Company with a loan of USD 3 million for the installation of filters in the Alaverdi Copper Smelter, which emits annually about 25 tons of sulphur dioxide. The plant bought the filters but did not install them, stating that this would require to increase the amount of raw material, copper concentrate, several times. Subsequently, it became clear that the bank loan to reduce air pollution has a longer-term objective: a project for open-cut mining in the Teghut copper-molybdenum deposit located in a forest.

The project, presented in 2006, immediately provoked public outcry. Independent experts assessed that the project is non-viable, for economic, environmental and social reasons.

For its part, ACP Company estimated the damage to Teghut's ecosystem as follows: four rivers, the basins of which are formed in the Teghut woods, were estimated at a market value per 1 kg of fish contained in them. All rivers taken together have been valued at USD 600. The forest was estimated at the value of individual trees, and if the project covers an area of about 2,000 hectares, the area of deforestation, according to the project developers, was only 357 hectares, where the trees were roughly counted. And so on. The company did not pay for the estimated damages. These estimates were given for guidance purposes only so that governmental authorities, the environmental examination proceedings and the government could make their decision.

In spite of huge public resistance and the fact that the project violates seven international conventions and 11 national environmental laws, the Ministry of Environment gave a positive opinion.

Notably, in 2006 ACP had no money for the project, but it stated that the EBRD would finance the project with a sum in the region of USD 180 million. However, after the scandal surrounding the project, the company began looking for another financial partner. And it found one.

ACP and VTB Bank already knew each other, and the Russian bank agreed to grant USD 270 million to the company. The agreement was signed in 2007, but so far the company has not received a single dollar. The public appealed to VTB with a call to terminate the agreement. Of urgent concern is that the company is already chopping the Teghut forest and is constructing Armenia's largest tailings pond at the site of the Kharatadzour ravine. The project risks are virtually unacknowledged, nor are the risks of cross-border pollution to the Debed River.

Activists from the Teghut Defenders' group have urged the population to refuse to pay for housing and communal services through VTB, and have regularly protested in front of the VTB central office in Yerevan – those involved in the last demonstration were dispersed by police. Throughout there has been no response from VTB.

While VTB and the company have been engaging in this virtual financing arrangement, the EBRD took an indirect part in this financial game and, as mentioned above, provided USD 10 million of finance to VTB. The public reacted immediately. A protest action was conducted at the EBRD's Yerevan office and a letter was sent to the bank's management with the request not to finance VTB or to promote the improvement of its image under the umbrella of the EBRD.

The EBRD response was a standard one: the USD 10 million is not being allocated for the development of Teghut deposit but for support to small and medium-sized businesses. The public was not satisfied with this answer.

EBRD and Amulsar Gold Mine

A further gold mine, Amulsar, is to be developed by Lidian International Company with support from the EBRD and the International Finance Corporation. Currently an exploration survey is proceeding, with construction and open-cast mining expected to begin in 2011.

The EcoLur NGO has initiated public monitoring of the project and has already identified some risks at the preliminary stage. In particular, the Jermuk balneotherapeutic health resort, famous for its healing waters, is situated near Amulsar.

Curiously though, Jermuk is not included in the environment impact assessment provided by the company for the state environmental review. Jermuk locals were not invited to the public consultations, with the exception of the administrations of three tiny villages, the inhabitants of which are very happy that the company has repaired the roof of the Culture Center and that finally refuse and waste in their villages is being collected. The majority of Jermuk locals, investors engaged in the development of local tourism infrastructure, and the Jermuk Group which deals with the manufacture and export of Jermuk mineral water – all know nothing about the Amulsar Project and the existing risks.

Deno Gold Mining Company in Kapan

▲ On the left, the new tailings management facility that Deno Gold/Dundee has built, with a closed water cycle - the first of its kind in Armenia.

On the right, and just across the embankment of the modern facility in the other photograph, is the old tailings facility that gets dry and the wind blows toxic dust from it over nearby houses and orchards, according to Geganush villagers.

The Deno Gold Mining Company, a subsidiary of the Canadian company Dundee Precious Metals, holds assets at the Shahumyan gold-polymetallic mine and Kapan Mining and Concentrating Company.

Relationships between Deno Gold Mining Company and the EBRD started with the Geganush tailings pond construction project, which was commissioned in 2008. The EBRD provided USD 4 million for the project.

Following public monitoring conducted by EcoLur, CEE Bankwatch Network and Kapan NGO For the Environmental Security and Democracy Development, the basic principles of social and environmental responsibility – principles promoted by the EBRD – have been violated in the course of project implementation. The villagers of Geganush, the village located near the tailings pond, were forced to transfer land for the construction of the new tailings pond, for which the community received a paltry compensation, roughly USD 10000 per year for the lease of communal land.

On the site previously, Geganush villagers collected natural products from the forest, grazed their cattle and cultivated gardens. The land provided some kind of subsistence as there is no other work in the village. When the locals learned about the construction they came out against it, collecting 134 signatures from a total village population of 287 inhabitants. The protest with the signatures was handed in to the Kapan Aarhus Center, where Deno Gold Mining Company was conducting public consultations. Despite the protests, the Ministry of Environment gave the green light to the project.

Under Armenian law, the company ought to have provided the consultation participants with an Environmental Action Plan (EAP), but it failed to do so. The EAP was received after the commissioning of the tailings pond, and not from the company but from the Ministry of Nature Protection.

Even a cursory examination of the plan explains why it was concealed from the public. It contains no environmental protection measures as such. The plan provides for laboratory analysis of water and air, the delivery of potable water to the workers, measures that are usually taken during operating activities. The EAP, though, has nothing to do with environmental protection measures such as reducing emissions, reducing the risk of water pollution, soil reclamation, afforestation, and so on.

Moreover, the employment policy of the company, with reductions in the number of workers and cuts to wages for mine workers (workers receive around USD 300 a month, while working eight hours per shift underground) has lead to protests, with a series of strikes taking place at the mine throughout 2009-2010.

During a working meeting in London in November 2009, the Head of Operational Support at the Environment Department in the EBRD, Dariusz Prasek, and a spokesman for Dundee Precious Metals, Adrian Goldstone, without denying some of the negative aspects, agreed on one issue: that the main social achievement of the company is to provide jobs. In fact, this myth has long been debunked.

A job entails, first and foremost, that the workers have guaranteed rights, that they are protected by the laws effective in the country, by the Constitution of Armenia, and the Labour Code of Armenia. If a project like this one is to be discussed in a development context, then it means that the European standards fixed in the UN Universal Declaration of Human Rights, the European Social Charter and other such codes should be adhered to.

In the case of mining companies, where Deno Gold is no exception, workers in fact have no rights at all. Employment contracts are short-term, and basically stipulate the rights of a company and the obligations of an employee. Trade unions are either absent or union leaders are highly paid employees of the company who fail to protect workers' rights. EcoLur knows of no case where a union has defended the rights of workers. As a rule, this is done by public organisations. For example, in the case of Deno Gold, the For the Environmental Security and Democracy Development NGO assisted workers to make a legal case over a claim for payment of arrears for night shifts for the period 2005-2009.

A lack of social security is one of the biggest problems. Even the treatment of injuries suffered in mines is paid at the workers' expense. The lawyer of For the Environmental Security and Democracy Development NGO, Arthur Ghazarian, has given the following assessment of the Deno Gold operations: "The company violates the provisions of the Aarhus Convention, the Law On Freedom of Information, it does not comply with basic human rights – the right to health and a healthy environment, the equal right to residency, the right to work which are governed by the Armenian Constitution, the UN Universal Declaration of Human Rights, and the European Social Charter. It also violates environmental laws in respect of a number of laws, including fundamental laws like the Land Code, Water Code, Forestry Code and Natural Resources Code."

The company currently expects to commence open-cast mining at the Shahumyan gold-polymetallic mine, part of which is located in the city of Shahumyan. The risks at Kapan are so great that in spite of the threat of the company to close the plant in the case of disagreement – the former CEO, Robert Faletta, made such statements – local people voiced a public protest. Local organisations held rallies outside the Kapan Aarhus Center, and the public movement 'For Green Kapan' created a campaigning page on the social networking site Facebook.

Letters of protest have also been sent to the authorities and to the EBRD, as the public considers the bank to be a possible financial partner. The EBRD responded neutrally, stating that the open-cast mining project at Shahumyan has not been submitted for review, but if it is submitted, the public will be invited to the discussions. Such discussions, however, have not always been particularly inclusive or productive in the past.

Mineral resources and politics

The mineral resources sector is renowned for its association with high corruption risks. In 2009, two officials at the Armenian Ministry of Nature Protection, the director of State Environmental Inspectorate and his deputy, were convicted on bribery-related charges. They were convicted for demanding a bribe from the director of the Akhtala Ore Processing Plant. Global Gold Corporation filed a recorded conversation with the former minister of nature protection, in which he extorted a bribe of USD 3 million from the company. The scandal leaked from behind the scenes, and on this occasion in 2006 the Armenian president's press secretary was compelled to hold a press conference, as the name of the president was mentioned in the recording.

More recently, in 2010, the State Inspectorate made regular inspections at Deno Gold and disclosed abuses costing millions, an allegation rejected by the company. Ultimately, the abuses were valued at around USD 500, and the officials who carried out the inspection were given a severe reprimand.

Even under Armenia's existing laws, which aim to encourage the mining business rather than the sustainable development of resources, the stipulated sanctions do not operate. Everything is decided depending on personal relationships and patronage.

In our view, the prevailing policy that results in the overexploitation of natural resources in transition countries is flawed. But nor is it beneficial to the world community as a whole. The phrase "Nations will go to war over natural resources" has become a global mantra. And now we are witnessing how nations go to war for oil, gas and gold. It's quick money. But in the grab for resources and money, the environment is being destroyed – the world is losing water, soil and forests, and much else. The current trends in Armenia will result in the destruction of the environment in Armenia – this will mean that the world will be deprived of its part of water and land too.

We believe that the development banks operating in Armenia and more widely in central and eastern Europe should radically review their policies, not because this is only necessary for us, but because the developed countries need it too. We are all in this together.

Inga Zarafyan, EcoLur NGO, Armenia.

Read more: Further information above the EBRD's often troubled engagement in gold mining projects is available from the Bankwatch report, 'Between a rock and a hard place: How local communities pay the cost of EBRD-financed gold mining projects', available at: http://bankwatch.org/documents/btw_a_rock_and_a_hard_place_web.pdf

Drawing water in a sieve – EBRD water projects in Bishkek require close scrutiny

EBRD operations in the Kyrgyz Republic have to date focused mainly on small and medium-sized businesses, with the international public lender giving out modest loans to various private companies. The main exception has been the 'golden' Kumtor project, which was rather generously funded by the EBRD.

In the summer of 2009, for the first time in many years, the EBRD decided to enter the municipal sphere, with its approval of a project for municipal water works rehabilitation in the capital city to the amount (according to the latest update) of EUR 10.5 million. This sum has come in part from an EBRD loan, as well as via a grant from the Swiss government – a Swiss company duly won the tender for the project consultancy.

In May this year, the EBRD's board of directors is to decide on a new loan (up to EUR 20 million, to be provided against government guarantees) for water supply in the municipal sector, although operations connected to the first loan described above have not yet begun.

Proceeding from the conditions of the first loan, there is no doubt that the EBRD will require a significant increase in tariffs in order to ensure the return of the loan funds, for the bank obliges the Metropolitan Mayor's Office, by special agreement, to set tariffs for drinking water (and the system of sewers) at a level which would ensure the fulfillment of financial obligations.

This was confirmed during a visit to the Kyrgyz Republic in March 2011 by Olivier Descamps, the EBRD's Managing Director for Turkey, Eastern Europe, the Caucasus and Central Asia. Descamps assured the citizens of Bishkek that this "project aims to provide access to clean drinking water and upgrade the water supply system of the capital city; the project will involve the repair and replacement of pipes, the installation of new water purification systems and an increase of water tariffs".

The residents of the capital city still have no information about the settlement procedure of the loan. The EBRD, which boasts of its European standards of openness and transparency, unfortunately appears quite satisfied with verbal assurances from the authorities that there was ecstatic acceptance for the project at public meetings.

This is simply not true. The citizens were simply presented with a fait accompli: the money has been already borrowed, and now the consequences of this have to be accepted, including the need to increase water tariffs. The EBRD did not conduct public hearings as required by local laws, nor has a Feasibility Study been undertaken. The bank confined itself to an internal environmental document, the Environmental Due Diligence. But even that superficial examination has virtually acknowledged the European level of drinking water quality in the capital of the Kyrgyz Republic, as well as the very good metropolitan water supply system infrastructure.

The analysis carried out by the international consulting company COWI (hired by the EBRD to carry out the above environmental review) proves that the level of the existing system is quite satisfactory compared with water companies in some other cities in Eastern Europe, according to the following criteria:

- affordability of tariffs for low-income families
- water consumption is not too excessive, with high quality drinking water
- the water supply company is well staffed and structured
- the monitoring of water quality is regular and scrupulous
- the biological treatment of waste water is in relatively good condition.

There is no guarantee that the above indicators will be significantly improved after the project is completed because the project does not envisage the introduction of new advanced technologies for the treatment of drinking water (e.g., infrared radiation). It is only going to improve the process of water chlorination.

No support for the laboratory for water quality monitoring is envisaged by the project, which is confirmed by the recipient of the loan, Bishkekvodokanal, the State Joint Stock Company.

Bishkekvodokanal, of course, is a profitable company and it enjoys very little criticism. The company manages its finances with an enviable level of accountability. They are aware that the loan is taken once, but that the tariffs will be increased forever. An unpleasant discovery,

AS TRANSITION IN GEORGIA SPEEDS UP, SO THE LITANY OF INJUSTICES GROWS

The EBRD's mandate is unique among the international financial institutions. Yet its success in achieving this mission to foster transition to market economies and democracy varies significantly from country to country. Perhaps what is most at issue is the theory that democracy, respect to human rights and transparency will develop as an automatic response to the development of an open market economy – this theory does not of course always stack up, in eastern European countries outside the enlarged European Union in particular.

The EBRD either clearly lacks an understanding of the real environment in which it works in the countries of the Southern Caucasus and Central Asia, or simply prefers to close its eyes to the challenges it creates for local populations.

It cannot have been comforting for EBRD staff to cast an eye – if they did – over a recent Georgian media report entitled "What the state does if it likes your land", a report which describes how the Georgian government, without any primary negotiation or adequate compensation, expropriated land from local people for the construction of the Tbilisi railway bypass, a project supported by the EBRD. This is a project where even the EBRD's project documentation states that it will not bring any additional economic benefits to the country – what it is doing however, other than the land expropriations, is also creating a threat to Tbilisi's drinking water system.

Similarly, can the EBRD clarify why people in the Avtokarkhana district of Kutaisi have had their water supply cut off by the water company that has been deemed worthy of EBRD support? Other impressive results of EBRD-sponsored water 'rehabilitation' initiatives can be seen in the neighbouring city of Poti – there is no safe drinking water in open taps.

The still highly controversial Baku-Tbilisi-Ceyhan (BTC) pipeline, the Tbilisi Public transport project or the Poti/Kutaisi water rehabilitation projects – all differ in scale, have different aims and goals, promises and impacts on the local and regional social and economic environment. Yet all stand as clear examples of the EBRD's failure to achieve its mission.

The EBRD's investments end up supporting existing models of governance in given countries, without even questioning the ultimate real impacts. With the BTC pipeline as an entry point, the EBRD has supported economic reforms and liberalisation in Azerbaijan, efforts that have given rise to the country's unsustainable dependence on exporting commodities, but not to improved democracy, transparency, pluralism or even to much needed poverty reduction. From Azerbaijan to Georgia, where the EBRD is helping to roll out a similar development recipe, one that includes the construction of a number of potentially very damaging large hydro dams and the export of electricity – specifically, the EBRD stands ready to support these large hydro projects as soon as possible.

To date, the EBRD has tended to situate itself in the shadows behind local, regional and international companies, those who so often attract the ire of people living at the sharp end. What will happen when people begin to understand who is standing in the shadows?

Manana Kochladze is CEE Bankwatch Network's Regional Coordinator for Caucasus. In 2004 she won the Goldman Prize, the so-called 'Environmental Nobel', in recognition of her campaigning to defend communities and the environment being impacted by BP's BTC pipeline.

though, awaits the townspeople: they are to face an inevitable increase in tariffs in exchange for the rehabilitation of only six out of more than a thousand kilometres of pipes, and for the purchase of 100 pumps and 42 vehicles.

One cannot avoid the thought: if we need to raise tariffs then why take out a loan, hire consultants, and become enmeshed in the bureaucratic procedures of the EBRD? The affordable service of providing safe drinking water and sewage disposal is becoming a commodity. However, we have received no quality assurance.

There are a range of recent examples from western Europe of where this kind of intervention in municipal water servies – often involving privatisation – can go badly wrong. For 12 years the water in the French city of Grenoble was under the control of a private firm which would take corrupt decisions. After the majority in the city council changed, and there was a powerful protest campaign from local residents and a series of lawsuits, the Mayor's Office decided to return the city's water to its control. Since 2001, this decision has resulted in a reduction in water tariffs and a significant increase in profitability.

The results of similar projects for the rehabilitation of urban and rural water systems in the Kyrgyz Republic, conducted by other international lenders, gives precious little encouragement to people living in Bishkek. The General Prosecutor's Office is still pursuing cases related to the recovery of multi-million dollar damage inflicted by corrupt contractors during the Taza Suu ('Clean Water') Project.

As the events of April 2010 in the Kyrgyz Republic show, the raising of tariff rates can be a major catalyst for dissent in Kyrgyz society. Therefore, the Taza Tabigat NGO, jointly with the Bureau for Human Rights and Rule of Law, convened a meeting with residents of the city and established an initiative group. This group addressed the mayor of the capital with questions on whether any anti-corruption mechanisms have been built into the project, what form of public scrutiny was provided for by the project and would the capital residents be able to monitor the tender process for equipment procurement. The initiative group hopes to be able to monitor the progress of the project, although it is concerned about a possible privatisation of the metropolitan water supply system, which precludes direct public control.

While allocating money for the first loan described above, the EBRD expressed its concerns about the lack of guarantees for the proper financing of the technical design and construction supervision as such. This appears to relate to the well-known story of putting the cart before the horse – the number of kilometres of pipes to be replaced, as well as the number of water meters and pumps to be purchased has been already set out, yet there is no plan for how to implement it.

Thus, the first EBRD project initially contained a conflict between the declared goals and reality. The Mayor's Office is not in a hurry to tell the residents of the capital whether it found the money for those costs, as well as for the other costs related to the water supply system which are not covered by the project.

Bureau for Human Rights and Rule of Law, Bishkek, the Republic of Kyrgyzstan

TRANSITION THOUGHTS

As a term, 'transition' is often used to portray in bearable terms the reality of what has happened in central and eastern Europe (CEE) over the past three decades. It implies that CEE societies could somehow move from one ultimately negative condition called socialism to another – the ultimately positive state of western capitalism and democracy, and become prosperous along the way. This has been a misleading concept from the start.

Far from its supposed function as a static, positive role model, western capitalism has been facing serious social, political and economic problems itself. The most recent examples include of course the global economic downturn since 2008, not to mention the deteriorating state of the global environment. Both of these problems are rooted in the diminishing ability of democratically elected institutions in the west to both control the expanding power of multinational financial capital and impose policy solutions on it.

The chimera of 'transition' has led CEE societies into a trap. It has effectively hampered the search for genuine alternatives that could improve democracy and welfare in both post-socialist and capitalist societies. Instead, the concept of unidirectional transition has paved the way for the domination of multinational financial capital over yet another region, one indeed that possesses notably weak democratic traditions and institutions to step in its way.

International organisations and financial institutions have been instrumental in this process. Among these, the EBRD has probably been a champion of social and environmental responsibility. But the bank has altogether failed the hopes and aspirations of CEE people who long for democracy and prosperity – by facilitating the imposition of pre-fabricated political, social and economic models upon them.

Pavel P Antonov is a social researcher and journalist. He is the former Editor in Chief of information programmes at Nova, the first independent TV channel in Sofia, and the former Editor in Chief of Green Horizon, the magazine of the Regional Environmental Center for Central and Eastern Europe.

Notes and many queries – NGOs meet the EBRD

The revolution will definitely not be convened – or televised, or bashed out on a laptop – under the umbrella of the NGO programme laid on every year by the bank at its annual meeting. That is undoubtedly not what this annual meeting of minds is for.

It is though, certainly from the NGO perspective, a great annual opportunity for civil society from all across central and eastern Europe to tell EBRD staff, bankers and directors how things are in relation to the bank's often puzzling operations.

To mark the EBRD's 20th anniversary, Bankwatch Mail has trawled through its archives – what follows is a brief overview of how things have panned out in NGO-EBRD relations in recent years.

▲ An NGO press conference during the EBRD annual meeting in Belgrade, May 2005 – the subject: Shell's Sakhalin II oil and gas project, then in the running for EBRD project finance.

One great aspect of the EBRD's annual meetings has been the bank's willingness to grant NGOs space for a press conference on the subject of our choosing during the proceedings of the annual meeting – things only went a bit weird in Kiev in 2008, when the NGO press conference dedicated to Arcelor Mittal's ridiculously poor environmental and safety record initially fell victim to some underhand blocking tactics, a situation that soon resolved itself.

Pictured above, second from left and seemingly praying for some good sense to prevail, is Dima Lisitsyn, the inspirational spearhead of the Sakhalin II campaign. Dima's involvement in the fight to safeguard endangered ecosystems on Sakhalin Island, a fight ongoing for the last two decades in the face of the world's largest oil and gas projects, was recognised last month when he was awarded the Goldman Environmental Prize, the so-called 'Environmental Nobel'.

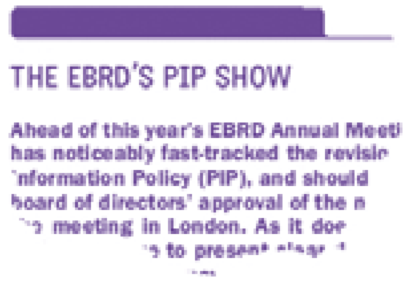
Dima was an ever-present at the meetings between 2005 and 2008, providing startling evidence to bank staff of Shell's shoddy project implementation. Disappointingly, in some quarters of the bank, Dima's presentations started eventually to receive a sniffy 'death by Powerpoint' reputation. From where Bankwatch Mail was sitting, though, the reverse was true. Dima Lisitsyn consistently brought fresh evidence of Shell's abuses: let's call it prevention of death – for Sakhalin's whales, wild salmon and people – by Powerpoint.

▲ The Sakhalin Whale Funeral, conducted by NGOs from around the world on the EBRD's London HQ doorstep in April 2004.

“He might not give much away, but he is listening to you. Intently.” Thus was Jean Lemierre, president of the EBRD between 2000 and 2008, described by one of his staff to Bankwatch Mail at one of the social occasions around the EBRD annual meeting.

The picture above shows Mr Lemierre and Olexi Pasyuk, a long-serving Ukrainian staff member of Bankwatch, 'getting it on' (as they frequently would over the years) in 2004 over Ukrainian nuclear issues. In a farewell tribute to the outgoing EBRD president at the Kiev meeting in 2008, Bankwatch's senior staffer Petr Hlobil fleetingly broke out into French to praise Lemierre's 'willingness to talk' and to engage with NGOs from across central and eastern Europe.

Bankwatch Mail likes to think that it comes in handy. Not just in the provision of insightful analysis, nor in dishing up breaking news (remember Belgrade 2005 and that less than juicy, juicy juices Serbian company that the EBRD was then touting?). No, when you're in a meeting room in Kazan (2007), and the atmospheric conditions are sauna-like, we were glad to be of service to the EBRD environment department, as pictured above.



THE EBRD'S PIP SHOW

Ahead of this year's EBRD Annual Meeti
has noticeably fast-tracked the revisio
'nformation Policy (PIP), and should
board of directors' approval of the n
meeting in London. As it doe
to present

Bankwatch Mail content comes in all shapes and sizes. A Ukrainian Bankwatcher reported that the headline above (from the London 2006 meeting) had been generating sniggers among EBRD staff ranks – of course, the Ukrainian in question had been the very one to submit the article, with the headline included as an added bonus for overworked Bankwatch Mail editorial staff.

Said article referred to one of many reviews of the EBRD's public information policy, a vital component within the bank's operations. Alas, those who follow and engage in such areas of policy are engaged in arguably the 'oldest profession' in the IFI-watching business: lots of backwards and forwards, endlessly repeated, and, despite lots of haggling, only brief glimpses of real exposure at the end of it all.

Yes, in the photo below, it's business as usual outside the Zagreb 2010 annual meeting following an NGO demo warning against a new 'Coal Growth' agenda being promoted at the EBRD. (There is a snap in the archive of another EBRD staffer merrily carrying one of these CO2 balloons on a walk down the street, but we'll spare their blushes for now – such symbolism does not seem, yet, to have had the desired effect!)

▼ A black CO2 balloon declined, and no visible sign of an EBRD white flag being waved.

EBRD setting a course for a substantial limitation of access to information

This year the European Bank for Reconstruction and Development (EBRD) is once again reviewing and updating its Public Information Policy (PIP), engaging currently with stakeholders in the region in a public consultation process for this highly important policy plans. The policy review process makes reference to a fundamental principle – a willingness to listen and be receptive to the comments of third parties, but this willingness from now on should be "flexible in nature".

How far will this flexibility go? Won't this flexibility in question perhaps become a new barrier to a sustainable and conflict-free transition to democracy and an open type of economy?

Upon reading the PIP text, there is a distinct sense that the EBRD is yielding to the unspoken diktats of the 'commercial approach', which may not only cause conflict with the bank's mandate, but also other fundamental principles such as transparency, accountability and governance, not to mention the EBRD's supposed willingness to listen to third parties so as to benefit from their contributions to its work in fulfilling its mandate – the so-called 'eyes and ears on the ground' role that civil society so often strives to provide.

The current PIP and the proposed draft for commenting suggests indeed a narrowing of the EBRD interests group, to project sponsors and commercial participants and to ensure that their interests, over the public interest in obtaining adequate access to necessary information, prevail. For years the public has been rationed out with information in dribs and drabs, and the EBRD as compared with other multilateral banks (such as the Asian Development Bank and the World Bank) is still lagging behind in preemptive information disclosure about its projects in the central and eastern European region.

The course being set by the EBRD is one of submissive appeasement to its customers and co-financing organisations, such as intermediary private banks. The stipulation that the grounds for non-disclosure of information must be significant or valid cannot be accepted as a strong mitigating argument, especially when considering some of the widespread impacts attached to the bank's long-term projects.

Most recently public activists in the Kyrgyz Republic have had a chance to experience in practice what the term 'non-disclosure' actually implies, and what is the particular significance of the reasons for withholding important information.

In May 2010 at the EBRD Annual Meeting in Zagreb, bank officials clearly informed the delegation of Kyrgyz NGOs that the EBRD had nothing to do with the Kumtor gold mining project, and it was understood too with the gold mining company Centerra, nor did the bank have any plans or projects vis-a-vis Centerra, even in the long term. Therefore, it was said, any inquiries and correspondence were no longer relevant. The EBRD-Kumtor connection was now semi-ancient history, apparently.

But in the autumn of 2010, the EBRD changed its mind and decided to finance Centerra again, denying at the same time that the Kumtor project was part of the package. We are giving the company new money, was the message, but we do not know where and how it will be used. As was described in a letter of October 26 from the bank to NGO representatives: "The Bank is considering engaging in a new project with Centerra at the group level ... This facility may or may not be used for the Kumtor project."

At the same time, no summary of the project was disclosed on the EBRD's website before discussion of the project took place at a meeting of the EBRD board. This kind of thing is becoming a common practice, and it identifies not only sensitive projects but also admits to the increasing scrutiny and professionalism of civil society organisations across the region.

Interested civil society organisations did receive an answer (from the Secretary General of the EBRD) that the EBRD had opted to rely on one of the 'valid' reasons in this case, in particular, that Centerra was, probably, afraid of competition and, what's more, the fact that Centerra is a publicly listed company on the Toronto Stock Exchange exempted the EBRD customer from compliance with the provisions of the PIP.

How then can this tendency to exempt itself from the general procedure of timely information disclosure square with the EBRD's commitment to democracy, which many deem to also involve rigorous standards of transparency?

To take a further example, the EBRD believes that in the case of capital market transactions (whether it's an initial public offering of shares, a listing of companies or bonds issue) certain rules of stock exchanges, certain decisions of some 'other bodies', as well as some 'legitimate' concerns of sponsors must be taken into account. In our view, this provision completely negates the bank's achievements as regards confidence-building measures and often over-rules the legal norms of national legislations in the EBRD countries of operation.

Should there now be any significant changes included into the draft PIP during its final review stage, a clear procedure for suspension and re-starting of the process in the usual procedure, which has not yet been shown in the PIP, needs to be stipulated.

A further concern is that the PIP review proposes not to publish information from reports prepared by the EBRD's Project Evaluation Department that constitute a trade secret, if it is difficult to ensure the protection of confidential information about specific aspects of the content of any project which have evoked a wide public response.

So, evaluation reports for the implementation of high-profile investment projects and their summary become classified, even though these would only enhance the public interest.

It is hard to find a more contradictory and potentially conflicting provision in the new PIP. An EBRD project loan usually receives public attention when it has a negative impact on the environment and the lives of local communities – the EBRD ought to reconsider to what extent this kind of requested information meets the criteria of confidentiality.

Regretably it appears that the EBRD is intent on maintaining a blind faith in the impeccable faultlessness of its definition of information as confidential, and possible project abuses, we must assume, will continue to be governed by a presumption to non-disclosure.

Bureau for Human Rights and Rule of Law
Bishkek, Kyrgyz Republic

▲ Some participants at the EBRD public information policy consultations in Moscow, April 27

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