

The CEE Bankwatch Networks Mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation

## **WHY IS A WORKER-BASHING SUPERMARKET CHAIN IN LINE FOR MORE PUBLIC HANDOUTS?**

In January 2005 the European Bank for Reconstruction and Development (EBRD) provided a loan to the German Schwarz Group company for the strategic expansion of the Kaufland supermarket chain in Poland. The EBRD granted the EUR 110 million loan in spite of the uncovering – by a parallel investigation carried out by the National Labour Inspectorate – of Kaufland’s contempt for Polish employment law<sup>1</sup>. Although the EBRD claimed it undertook a specific action plan that helped to remedy the company’s shortcomings, another labour investigation undertaken by the National Labour Inspectorate last year revealed Kaufland Polska’s continuing non-compliance with Polish legislation and International Labour Organisation standards.

On January 23, 2007 the EBRD’s board of directors will vote on whether or not to provide a EUR 100 million loan for Kaufland’s operations in Romania<sup>2</sup>. In the light of Kaufland Polska’s scandalous record of employing children, discriminating in the workplace and restricting freedom of association, is the EBRD now prepared to help export bad business practices and workplace discrimination to Romania and, perhaps, beyond?

### **Believing is seeing**

In February 2005, the Polish National Labour Inspectorate (PNLI) revealed the results of inspections conducted in over sixty Kaufland supermarkets across Poland. The situation for workers in Kaufland shops was found to be shocking, with Polish law regularly violated in almost every supermarket. The chain’s staff did not get paid for overtime, there was no proper evidence of work time, and Kaufland’s management fired anyone who executed the right of freedom of association and collective bargaining and dared to establish a trade union.

In its publicly available documents, the EBRD reports in brief on the activities it undertook to remedy the shortcomings of its client. It commissioned an external expert on labour rights to conduct a monitoring visit to the stores, organised meetings with the PNLI and trade unions and claims that it helped Kaufland Polska to revise its operational and management systems. However, there is no way to examine the details of the actions undertaken by the company or to see the results of the monitoring. The EBRD has declined to disclose both the independent labour review and the annual environmental report produced by Kaufland.

After trying for months to get a hold of the environmental information on Kaufland that is in the possession of the EBRD, Polish Green Network/CEE Bankwatch Network filed a complaint to the EBRD’s compliance mechanism<sup>3</sup>. The EBRD Independent Recourse Mechanism (IRM) dismissed the complaint on the grounds that the IRM is not a mechanism for dealing with the disclosure of information and the bank’s compliance with its own Public Information Policy. Faced with this informational and procedural dead end, it appears that Polish citizens are expected to simply accept the EBRD’s official declaration that Kaufland now complies with the requirements set out by the PNLI.

### **Kaufland revisited**

From June 2005 to December 2006, the PNLI undertook over 30 further inspections in Kaufland’s supermarkets. It found evidence of extensive non-compliance with Polish employment law still prevailing across Kaufland Polska’s operations.

Contrary to declarations from both Kaufland and the EBRD, the PNLI official inspection notes<sup>4</sup> that there have been no improvements in procedures for the recording and verification of working hours, overtime and remuneration. The recording system was found to be dubious in every store inspected; employees continue to be

<sup>1</sup> National Labour Inspectorate investigation report on Kaufland Polska, February 2005, <http://www.pip.gov.pl/html/pl/html/01000024.htm>

<sup>2</sup> Kaufland Romania Project Summary Document, <http://www.ebrd.com/projects/psd/psd2006/36710.htm>

<sup>3</sup> Complaint to the EBRD IRM for refusing disclosure of project-specific documents on Polish Kaufland and failing to process an appeal to this request, October 3, 2006, <http://www.bankwatch.org/project.shtml?apc=147579-236052c--1&x=1928137>

<sup>4</sup> Notes issued by Regional Labour Inspectorates from June 2005 till December 2006

cheated on remuneration for overtime work, they are not given enough days off (especially Sundays) and enough rest between shifts. It is still common in Kaufland Polska for employees to be denied their holidays and for safety and hygiene standards to be violated.

The most shocking of the recent findings reveal Kaufland Polska's illegal employment of children and reluctance to provide appropriate work conditions for pregnant women and disabled employees.

When the Nationwide Trade Union "Inicjatywa Pracownicza" submitted an official complaint<sup>5</sup> to the EBRD IRM in September 2005 regarding Kaufland's violation of the EBRD Environmental Policy, the complaint was dismissed on the grounds that a trade union "is not of itself an affected group" and therefore does not comply with the IRM formal procedures for filing a complaint<sup>6</sup>. With the EBRD's client openly contemptuous of corporate social responsibility and the international financier itself displaying allergies to the principles of transparency and accountability, Kaufland's Polish workforce effectively has no choice but to accept nineteenth century working conditions.

### **Gimme some more**

The EBRD's client has been repeatedly caught breaking the bank's Environmental Policy and the recent Black Book on Kaufland and Lidl in Europe shows that Schwarz Group daughter companies have been jettisoning employees' rights all around Europe<sup>7</sup>, yet the EBRD is still considering to provide the Schwarz Group with an additional loan of EUR 100 million to help fund the expansion of Kaufland's operations in Romania.

The International Finance Corporation and the EBRD have already fed Schwarz Group with nearly EUR 250 million<sup>8</sup> of public loans. As the evidence against Kaufland's malpractices mounts, it is about time that the EBRD, with a 'no loan' decision, served notice to this company and other violators of workers rights that such practices are completely unacceptable. The standard EBRD justification for lending in such circumstances is that without the bank's influence over the client such practices could be much worse. As the Polish case graphically demonstrates, the EBRD has no leverage over the Kaufland group.

### **For more information:**

*Anna Roggenbuck, Polish Green Network, Szczecin, Poland  
aniar@gajonet.pl, www.bankwatch.org*

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<sup>5</sup> Complaint to the EBRD on expansion of the Kaufland superstore net in Poland filed by the Nationwide Trade Union "Inicjatywa Pracownicza", September 2, 2005, <http://www.bankwatch.org/project.shtml?apc=147579-236052c--1&x=690477&d=n>

<sup>6</sup> EBRD Chief Compliance Officer response to the IRM complaint, October 6, 2005

<sup>7</sup> Ed. Hamann, Andreas and researchers, *Schwarz Retail Company: Selling cheap at the employees' expense. The black book on Lidl in Europe*, Vereinte Dienstleistungsgewerkschaft (ver.di), Berlin: 2006

<sup>8</sup> IFC's EUR 36,7 million loan for Lidl Croatia in 2004, IFC's EUR100 million loan for Schwarz Group in April 2004 and EBRD's EUR110 million loan for Kaufland Polska in January 2005.