CEE bankwatch network

EBRD Capital Resources Review 4

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A capital increase for the EBRD requires evidence of real added value – Some ways forward

Even before the current economic crisis there were clear signs that the transition to a market economy in central and eastern Europe, which the EBRD is mandated to promote, is coming with a high social price tag attached. The EBRD's own survey on transition in 2007 – at the height of the boom times – included the alarming finding among 29,000 respondents across the region that trust in society had plummeted since 1989.

The economic crisis has added urgency to these findings, raising difficult questions for the EBRD about its role in the transition countries and the sustainability of the free market model it has been promoting for nearly two decades.

Yet the EBRD's Chief Economist, Erik Berglof, recently insisted that "The fundamental growth model for the region remains intact". As if to prove it, in November 2009 the EBRD used its own economic criteria to rate Hungary as the top performing economy in central and eastern Europe for the second year in a row, in spite of the country's well known economic and social problems. While there has been plenty of talk about needing to learn lessons from the crisis, it is not yet clear what has concretely changed in the EBRD's operations. CEE Bankwatch Network, with the support of the 45 undersigned civil society organisations, is requesting that any increase in the EBRD's capital is conditioned on improvements – laid out below – in the bank's operations.

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1) The EBRD must promote transition to a socially just, low-carbon economy, not only a market one, namely by:

a) Phasing out loans for fossil fuels and aviation (except safety improvements) and increasing energy efficiency and new renewables investments. The EBRD should use its financing to lead new and developing energy markets, not follow existing ones.

b) Setting measurable development and environmental goals in country and sectoral strategies, not only market-oriented ones, e.g., aiming to increase the number of people with access to drinkable water or recycling facilities, rather than primarily encouraging private sector involvement across the board.

c) Reviewing its transition indicators to include indicators on the contributions made by EBRD projects to societal wellbeing and the transition to a low-carbon society.

Article 1 of the EBRD's statute states that:

> "In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics."

In practice, this has resulted in the EBRD promoting private sector participation in almost every area of life, even in sectors where its value has not been proven, such as water supply and public-private partnerships (PPPs) in the construction and operating of public infrastructure.

However, an unfettered market economy is not likely to guarantee welfare and satisfaction, particularly with an absence of adequate social safety nets and regulation:

CEE Bankwatch Network's mission is to prevent the environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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> "In 2009, the Region is projected to have an additional 13 million poor or vulnerable people, instead of the number falling from 145 million to 130 million as expected before the crisis." (World Bank – Regional Briefing Paper for Europe and Central Asia, October 2009)

Regrettably, the EBRD's projects and sectoral policies do not set explicit development-related goals, instead concentrating on goals related to private sector participation.

Similarly, the EBRD's transition indicators do not take social and environmental factors into account, instead awarding points based on criteria related to the degree of private sector participation in the economy. However, private sector participation does not in itself prove anything: economic activities may be poorly carried out by either public or private entities, and in naturally monopolistic sectors private sector participation may prove to be poor value for money because there is a need to make a profit, but there is very little room for competition or innovation to cut costs.

Article 2.Vii. of the EBRD statute also stipulates that the bank is "to promote in the full range of its activities environmentally sound and sustainable development". Yet this has so far rather taken the form of screening the EBRD's individual projects for potential environmental difficulties rather than stipulating which sub-sectors should be supported and which should not.

With increasingly stringent climate targets being set, particularly in the EU, the EBRD needs to take decisive action to wean our societies off of fossil fuels. Investments made now will have impacts for decades, and it is high time for public development banks to stop financing fossil fuel projects. Likewise the EBRD must halt financing for the aviation sector (with the exception of safety improvements), as it is by far the most carbon intensive form of transport, and one heavily subsidised through exemption from VAT on air tickets and tax on kerosene.

2) The EBRD needs to learn lessons from the financial crisis by:

a) Reviewing its portfolio to avoid promoting commodity dependence in transition countries and instead fostering the development of higher value-added economic activities.

b) Tightening up its rules on financial intermediaries (FIs), to ensure that:

- FI financing is not used for socially harmful lending practices. This includes a phase-out of foreign currency lending to consumers and non-exporting SMEs.
- final beneficiaries of FI financing are disclosed, and those which are equivalent to environmental category A or B are published on both the EBRD's and the financial intermediary's website before financing is approved
- qualitative, independent evaluations are disclosed routinely to increase accountability and properly assess the extent to which the EBRD is achieving its stated goals with such loans.

The reasons for the current crisis are many, however in central and eastern Europe some of the main drivers were western European banks fuelling a boom in consumer credits and foreign currency borrowing which was ultimately unsustainable.

In order to prevent the collapse of the banking sector in the region the EBRD has provided numerous further loans to banks. But with the volume of these loans growing, greater accountability and transparency is urgently needed to ensure that they are used for socially and environmentally sustainable projects that bring real benefits for people and the environment.

In the transition countries further to the east, an over-reliance on commodities has contributed to vulnerable economies – a long-standing problem that has been highlighted by the crisis. The need to diversify economies is clear, however the question is what the EBRD will now do in order to make this a reality.

3) The EBRD needs to strengthen its governance and safeguard policies, by:

a) Moving towards a general presumption of disclosure in line with the Global Transparency Initiative's Transparency Charter for international institutions (www.ifitransparency.org/doc/charter_en.pdf).

b) Disclosing, most immediately, full evaluations of (at least public sector) projects, the environmental and social conditions in loan agreements, and the final beneficiaries of FI financing.

c) Swiftly implementing its Gender Action Plan and regularly reporting on progress made, and ensuring that gender becomes truly integrated into all bank operations through visible leadership and appropriate institutional arrangements.

d) Tightening its policies to ensure that it truly supports new markets and does not lend for projects for which financing is available at a reasonable rate from other sources.

e) Developing a stringent, publicly consulted policy to prevent the use of tax havens/secrecy jurisdictions by EBRD beneficiaries.

f) Ensuring that it has sufficient staff to properly implement its governance and safeguard standards

Bankwatch and other civil society organisations have for many years pushed for improvements in the EBRD's governance and safeguard policies. However, while many improvements have been made, the EBRD still lags behind other IFIs in some areas, for example with its non-disclosure of full evaluation reports.

To date, the EBRD also lacks a policy on the use of tax havens/secrecy jurisdictions, although it is clear that progress is being made in this area. Lost tax revenues through practices such as transfer pricing, which is greatly facilitated by tax havens, have mainly gained publicity in relation to the Global South but the same concerns apply to transition countries. As tax revenues are the most obvious means for governments to raise income to invest in services, activities aimed at lowering tax income clearly run contrary to development objectives.

While much of the EBRD's financing has supported projects that are likely to have had difficulty in accessing other financing, there have nevertheless been several cases in which it has repeatedly financed multinational companies that were most likely able to access financing from other sources, such as ArcelorMittal, Lukoil, Kaufland and Veolia Voda. If this is so, it runs contrary to the EBRD's statute (Article 13 vii) and raises questions about the use of relatively scarce public financing to support large private companies.

This call to the European Bank for Reconstruction and Development is endorsed by the following groups:

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Antonio Tricario, Campaign for the Reform of the World Bank, Italy
The Corner House, UK
Mika Minio-Paluello, PLATFORM, London, UK
Juan Martin Carballo, CEDHA - Centro de Derechos Humanos y Ambiente, Argentina
Jos Dings, Director, European Federation for Transport and Environment, Belgium
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