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Sustainable EU budget – it's time to cut the crap

Painful – unnecessarily severe, some would argue – austerity drives are being rolled out all across Europe in the wake of the latest economic crisis and the public's bailing out of Europe's private banking interests. In some quarters, a hefty social price is already being paid, and organisations such as the OECD and the IMF – the latter has recently talked of a potential 'social explosion' – are warning of more pain to come if ideological budget butchery prevails over more prudent pruning.

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Khimki forest reprieve brings no cessation of underhand tactics

Forest fires and forest ire have raged this summer in Russia, the latter concerning the Khimki forest where protests from environmenalists and the general public against the proposed routing of the Moscow-St Petersburg highway through the ancient oak forest on the edge of Moscow have garnered headlines around the world and aroused the interest – and apparent direct intervention – of U2's lead singer Bono. The road project has been slated for financial backing from both the European Investment Bank (EIB) and the European Bank for Reconstruction (EBRD). What, though, are the current views of these two European public banks following the shock intervention of President Dmitry Medvedev in late August to halt construction for "further civic and expert discussions"?

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KHIMKI FOREST REPRIEVE BRINGS NO CESSATION OF UNDERHAND TACTICS

These discussions subsequently took place at the Public Chamber of Russia, a unique body established by the Russian president for public consultations. At a two hour meeting, however, on September 16, the Public Chamber was unable to come up with a position on the controversial highway. Anatoliy Kucherna, a Public Chamber member, was quoted as saying: “One environment specialist says that everything is right and another says that everything as wrong – how should I make up my mind?”

The Public Chamber-convened discussions were, according to attending environmentalists, notable for the limited space for discussion, with project proponents simply repeating that no other route can be seriously considered. Some twenty speakers managed to make statements, leaving another twenty signed up, such as Greenpeace Russia, but ultimately without the opportunity to air their views. Bankwatch, which has been liaising with The Movement to Defend Khimki Forest, has in turn written to the EIB and the EBRD asking them not to accept the Public Chamber hearing as a proper public consultation. It remains likely, though, that the Public Chamber will suggest that further assessment of the project will be needed, as alternative routes have not been properly assessed.

President Medvedev's unprecedented intervention has been widely attributed as a reaction to the long standing protest of the inhabitants of the Khimki area, who have fought to prevent their and Moscow's forest from destruction. The Movement to Defend Khimki Forest had earlier organised a camp in the forest in a bid to stop the construction, resulting in the construction company engaging in violence against the protestors. The protest camp is no more. Nevertheless the protests continued to receive support from the local population – in early September an opinion poll found 76 percent of Khimki residents to be behind the protestors.

Strong-arm tactics and manipulations have continued to be thrown at the protestors. Following President Medvedev's insistence on public discussions, on August 31 the head of the Moscow region, Boris Gromov, stated that public consultations had been held already. Yet the following day Gromov suggested that, indeed, public hearings would be held on September 2. Hearings did then follow under the auspices of the local authorities but there was no public invitation. Instead, according to a witness present at the event, the authorities bussed in employees from state institutions, including schools, kindergartens and hospitals. Each institution had ‘to deliver’ five employees without any information in advance about where they were going.

Proponents of the project have also organised a concerted campaign to discredit the forest's defenders, arguing that they back a highway routing which will require significant resettlement. As part of these disinformation efforts, in different areas people have been 'informed' about different alternative routes going through their neighborhoods. The Khimki defenders have not in fact been pointing to any particular alternative that they favour, though their preference is for widening an existing road. This option would not require resettlement but instead the demolition of some shops, an option that would agreement on a compensation package with commercial companies, something not out of the ordinary in today's Russia.

In the meantime Khimki defenders continue to be harassed. On September 11, Yaroslav Nikotenko was arrested by police and spent almost two days in a cell. His arrest followed an attempt at a protest meeting to hang a banner with the slogan “We all live in Khimki Forest”. The meeting had been approved by the authorities and Nikotenko did not in the end even manage to hang the banner in question.

This is just one more episode, since the discovery of the potential Khimki devastation in 2007, in the long history of violence against the people who have questioned the need to route the Moscow-St Petersburg highway through the forest. The case of the ‘Khimki Truth’ newspaper publisher Mikhail Beketov, who was beaten up – losing a leg and becoming mentally disabled in the process – is the most well-known. Sergey Protazanov, the designer of the ‘Citizens consent’ newspaper, was also beaten to death. Perhaps most chilling is the case of Albert Pchelintsev, the head of the Khimki fund ‘Against Corruption, Fraud and Disgrace’, shot in the mouth for ‘opening his mouth too often’.

Where does this leave the potential international public lenders who are supposed to be lined up to help finance the 43 kilometre, EUR 1.5 billion section of the highway? It is difficult to imagine a proper transparent public consultation for the project, as expected and required for projects being considered by the EIB and the EBRD. For the recent discussion at the Public Chamber in Moscow, the project developers presented notes from public hearings held in 2005. The document itself suggests that these consultations were for another project, the ‘Moscow Ring Road – Sheremetievo 3’, rather than for the existing highway to St. Petersburg and involved only the owners of summer houses outside Khimki town.

The story of the highway, as it rumbles on with speculation that the recent environmental 'interruption' will soon fade in the memory as sufficient time passes, is not about the conflict of economic development versus nature conservation. As Transparency International has been pointing out, the decision over the routing boils down to good old-fashioned corruption. There is interest in developing land next to the proposed road for the construction of commercial infrastructure, something that costs a fortune in Moscow these days.

A day after the Public Chamber meeting, Prime minister Vladimir Putin told the press: “We will continue to discuss the final option of the project development with the public”. Some hope, then, that further distruction of Khimki forest will be halted for the time being. However there is currently no clear plan regarding the process of further consultations, and it is evident that the Ministry of Transport and other interested parties are digging in their heels for the Khimki routing and are not ready for dialogue any time soon.

As the world awaits news on developments in this high profile battle for environmental justice, The Movement to Defend Khimki Forest is not going into hiding – the group, along with allies, plans to keep the sharp practices of their opponents and the possible tragic plight of their forest very much in the limelight.

Keep up to date with all the latest developments surrounding the Khimki forest and the international public banks at: http://bit.ly/9HBPeC

SUSTAINABLE EU BUDGET – IT'S TIME TO CUT THE CRAP

The budget fever just starting to grip the corridors of Brussels, however, is less concerned with wholesale cuts, but rather with how to spread and shape the billions foreseen for the 2014-2020 budgetary period. Environmental NGOs, including Bankwatch, are adamant that the horse-trading just getting underway must deliver a sustainable EU budget – one that catalyses the transition towards a just society that guarantees the well-being of Europe's people in a globally responsible way, within the ecological limits of the planet. The case for EU public resources delivering sustainable development has never been greater, and by necessity this requires an end to EU funded investments that fail to deliver on EU objectives.

Central to this, we are arguing with our partners, is the formulation of a new EU budget that primarily addresses the great environmental challenges of our time: climate change; biodiversity loss and the collapse of ecosystems, and; the over-consumption of resources.

European Commission rhetoric in recent times has given some cause for optimism. In March this year, Climate commissioner Connie Hedegaard declared: “Some may say we cannot afford it – I say we cannot afford not to. Therefore, we must mainstream climate into all relevant policy areas.” José Manuel Barroso talked admirably on biodiversity in April last year, stating: “The loss of biodiversity is a global threat that is just as important as global warming. It threatens our natural environment and thus, the quality of our life. But biodiversity underpins also our economies. It is not therefore only because of the love of nature or a vision for our environment that we should keep biodiversity on the political agenda.” And Environment commissioner Janez Potočnik has also recently observed: “What could be more fundamental, more universal than the stewardship of the air we breathe, the ground we walk on or the water we drink?”

Yet if the current budgetary period – that runs to 2013 – is taken as a starting point for future negotiations, it is clear that not only major reform of the actual allocations for Europe's member states is needed. A sea-change in the overall thinking and planning will also be required, and the Commission must assume responsibility for translating positive intentions into firm commitments across the EU.

Currently, for instance, the EU funds are still firing increased GHG emissions in some member states, particularly in the new member states in the east – the bias towards motorway construction over rail in central and eastern Europe, backed by EU subsidies and the European Investment Bank over the last decades, has made transport the fastest growing GHG source in the region. A large part of the problem – one that needs to be addressed head on – is that the present EU budget does not sufficiently and coherently integrate climate change into its priorities, even though the EU has taken on vital commitments to reduce greenhouse gas emissions (those 2020 targets). Nor does the present budget have either an integrated approach or a clear budget line set up to deal with this issue. Investments in projects or schemes to combat climate change are of course possible but not compulsory – and there is no specific earmarking of funds. NGOs are therefore calling on the EU to set up safeguards for climate action in the forthcoming budget. For instance, EU money spent on climate damaging activities should be redirected to support green investment, as well as so-called 'climate' proofing, a mechanism that would rule out investments with negative carbon effects.

Clean energy in all our backyards

With energy-related emissions accounting for roughly 80 percent of all GHG emissions in the EU, setting the continent's energy sector on a fundamentally more sustainable path via the EU Funds is paramount in our demands, with major investment boosts in energy efficiency and renewables top of the pile.

According to the Commission, meeting the EU's 20 percent by 2020 energy savings target would avoid the construction of about 1000 coal power units; save an estimated EUR 220 billion every year between now and 2020; slash dependence on energy imports, cut CO_2 emissions, create hundreds of thousands of jobs, fill industry's order books and help solve the respiratory and other health

problems of relying on a heavily pollutant fossil fuel power sector. Yet despite these major benefits, the EU's main policy instruments to reduce energy use, the Energy Efficiency Action Plan and the Energy End-Use Efficiency and Energy Services Directive, are so far only indicative and have been largely ignored by the member states.

The dangers of not prioritising energy efficiency – as is the case with the current budget – are evident in Bankwatch's own backyard of central and eastern Europe. The structural funds, the major source of financing to the new member states, allocate a miserable 2.5 percent for energy savings. Yet ours is precisely the region where businesses are stagnating in the post-crisis doldrums and the potential for reducing energy use and cutting bills is highest.

There can be no more excuses surely: we need energy efficiency in our backyard, and we also need renewable energy.

To secure the CO2 reductions demanded by the Intergovernmental Panel on Climate Change as well as the EU's 80-95 percent figure, investment in renewable energy must also be prioritised in the forthcoming budget. According to a study by Greenpeace, increasing the share of final energy produced from renewables to 25 percent by 2020 would cost an additional EUR 370 billion in investments compared with business as usual, but would lead to about EUR 20 billion of savings in fuel cost. To reach by 2050 a renewable shares of 92 percent in final energy and a reduction by 95 percent of energy related CO2 emissions, would cost an additional EUR 1,800 billion in investments, but would however bring EUR 2,650 billion of fuel cost savings over the next 40 years.

The EU's member states have a significant role to play in investing national budget money in order to stimulate renewable energy markets – and EU funding should be a major driver to support such initiatives. We are calling for "Climate" research – backed by EU funding – to focus on underfunded renewable energy (wave power and geothermal which currently suffer from a lack of large funding streams), smart grids, and the interaction between climate change and land use.

Choose the right path out of the carbon roundabout

Any necessary advances made in energy of course can be wiped out if current trends in the transport sector continue apace. In contrast with other industrial sectors, transport is the only sector where GHG emissions have increased since 1990. Unless concerted policy action is taken, this trend is likely to continue, with transport emissions expected to grow by 74 percent between 1990 and 2050.

A significant chunk of the EU budget is driving this GHG growth, with around EUR 90 billion dedicated for the transport sector through various funds under the current financial framework. Only a proper reform of the methodology for the planning, implementation and evaluation of transport investment projects will allow the EU institutions to demonstrate a clear commitment to the climate and energy targets for 2020, including meeting the 30 percent GHG emissions reduction. A key NGO demand is rebalancing the allocation of funds towards projects that allow a smart and low carbon upgrade of the continent's network – if more connectivity is to be attained, it requires more joined-up thinking, not simply a nod and a funding wink to the next white elephant project that emerges from a dusty, mid-twentieth century drawing board.

The economic importance of nature

On biodiversity and resource efficiency, the leap of 'sustainable faith' to propel the EU billions to the true service of Europe's people and environment is also daunting – but the consequences of gripping to the status quo are substantially more so.

Presently 65 percent of habitats in Europe are under serious threat due to gaps in monitoring, lack of proper management and the negative impacts of harmful subsidies and infrastructure investments such as runaway road-building, poorly conceived water and flood management and tourism infrastructure. Europe's so far impressive Natura 2000 network would, however, seem to emerging as little more than a finger stuck in the biodiversity dyke. Its chronic lack of funding will need to be addressed by the new budget – EUR 3-4.5 billion per year should be secured from the EU budget, representing 50-75 percent of the total costs of Natura 2000.

And official noises have started to be more encouraging and a lot more urgent about the impending biodiversity breakdown. At the EU Council meeting of 25-26 March 2010, the Heads of State stressed the "urgent need to reverse continuing trends of biodiversity loss and ecosystem degradation" and committed to ambitious targets: protection and restoration of European Union biodiversity and the ecosystem services it provides by 2050, with the 2020 headline target of halting the loss of biodiversity in the EU and stepping up the EU contribution worldwide.

The provision of adequate financial means at both the EU and international levels must now, therefore, be insisted on. And it has to sit alongside measures to ensure that when major infrastructure projects are proposed for funding, strengthened assessments are provided, including the mid-long term costs of biodiversity externalities, carefully checking that smoother alternatives could not be more efficient and cheaper, and at a minimum ensure that all possible mitigation measures have been taken.

Tackling the EU's startling levels of over-consumption must also start now. According to a 2009 Friends of the Earth Europe analysis, the EU's ecological footprint exceeds its global carrying capacity by a factor of three. The EU is the biggest importer of resources worldwide – a longer term dead end that the 'Europe 2020' agenda appears to have in its sights with one of its flagship initiatives being a "Resource efficient Europe".

Fundamental improvements in Europe's waste management are integral to minimising the footprint's impact. There is significant potential for spending money from the EU funds for waste prevention, reuse, recycling and composting projects instead of financing a few huge projects for waste incineration. Increasingly controversial, waste incineration (often dubbed "landfill in the sky") freezes potential improvements in reducing and recycling waste for the very long lifetime of the incinerator (20 years usually), because it needs to burn the same amount of waste to remain economically profitable. We are calling for the current practice of supporting harmful waste treatment practices such as investments for incinerators or landfills to be replaced by integrated waste management concepts, tailor-made for the region concerned.

Growth: the skeleton in the Cohesion cupboard

Clearly, from what has been seen in the past – particularly the recent past – there is a major, growing disconnect between stated EU policies and goals on the one hand, and the allocation of the EU Funds on the other. And clearly Johannes Hahn, Commissioner for Cohesion Policy, is alive to this, commenting last December: "I intend to strengthen the overall coherence of the EU intervention by establishing closer coordination with other EU policies and clearer alignment of cohesion policy with the main strategic agenda of the Union."

Yet how is sustainability to get a proper look-in when the Cohesion Policy is built on the growth paradigm that focuses myopically on the quantitative expansion of economies, to the detriment of other considerations? As things currently stand, Hahn will be seeking to square a very slippery circle, unless of course sustainable development comes to the fore in the new budget discussions. If there can be some elementary redefinition of the Cohesion Policy's aims, to foster the assets of Europe's many and varied territories via a sustainable perspective big on biodiversity, the potential for green jobs and local renewable energy production among others, then such an approach will address the EU's unignorable, mounting challenges: the need to adapt to climate change, inefficient energy systems and high energy consumption, resource-intensive manufacturing, environmental pollution, transport congestion, and degraded urban areas.

The upcoming budget's priorities and objectives need to be redefined "beyond GDP" and should focus on enabling sustainable development that takes into account the ecological limits of the planet. The NGOs that intend to engage in the budget debate have a wealth of suggestions, primarily derived from the unsustainable unravelling currently being advanced by the 2007-2013 funding.

Uppermost in everyone's minds must be the realisation that 2020 is looming, and it will fall within the next budgetary period. Facing up to the challenges requires the financial firepower of the EU Funds targeted firmly – with binding rather than voluntary commitments – at investments that deliver unambiguously for people and the environment across the continent.

To zombie on for another seven years after 2013 with a compromised and contradictory budgetary approach is almost unimaginable. Forget the pain of today's national level budget cutting. Yet another unsustainable EU budget – if you can imagine – would be akin to cutting our own throats.

EU funds flows for smart flood prevention can save billions and lives

This summer has seen yet more heavy flooding in Central Europe, with Poland hit severely in May and June. Over 250 000 people were affected and according to the Polish government the cost of the damage totalled EUR 3 billion. August then saw wide areas of North Bohemia in the Czech Republic dealing with the devastation of more deluges.

To some extent the costs of the mopping up and the disaster recovery can be covered by the European Union under the European Solidarity Fund, where Poland, the Czech Republic and Germany applied in August. Yet sympathy for the victims of these floods should not prevent us from asking: is EU money being spent correctly?

The question relates partially to recovery and the Solidarity Fund, but more specifically to so-called flood prevention measures, co-financed in recent years under the EU Cohesion Policy and by European Investment Bank loans. Bankwatch and other environmental NGOs have posed a range of questions about the rationale of these measures. The main problem has been seen to lie in the overall approach to flood protection that seems to be grounded in old concepts that have not proven effective when confronted with the reality of recent floods.

To date EU funds have been spent in Poland on regulating rivers (ie, straightening their banks) and turning small rivers into concrete channels. This, not surprisingly, makes

riverwater flow faster and increases the flood risk of areas situated lower in the basin. Some projects originally planned for financing under the Cohesion Policy, like the Nieszawa Dam on the River Vistula, would destroy unique freshwater habitats but would not diminish the flood risk. The plans to finance the Nieszawa Dam, with a massive price tag of EUR 500 million, with EU funds support have been shelved, at least for now.

There are, however, many ways to spend public money (including the EU funds) wisely on flood prevention in Poland, and thus contribute to the prevention of tragedies in the future.

First, we lack information – there are no maps of flood risk that cover the entire country, although NGO initiatives to provide such information have been welcomed by local communities, for example in the Odra River Valley in the south. This kind of data would be the first step to prevent building development in areas which are clearly the most prone to flooding. In fact, securing uninhabited land and designating areas which are 'dry reservoirs' or 'polders' which could retain flood waves is the only effective way to keep the water away from towns and cities.

Another area where we need investment is risk management. People living in areas of risk should be educated and informed exactly on what they need to do in emergency, and not end up waiting until it's too late to escape the flood by whichever last ditch means they can muster.

Finally, EU funds could contribute to the restoration of river valley ecosystems, encompassing for example riverine forests and meadows, that can provide protection from floods more effectively than any dyke or dam.

Rip it up and almost start again – New EU funds priorities for Hungary

In office since April, Hungary's new government has set out plans to boost the country's flagging, crisis-hit economy by – among other things – altering its EU funds spending priorities. The new priorities and funding principles make up the so-called New Széchenyi Plan, named after Istvan Széchenyi, a legendary theorist, writer and statesman from Hungary's 'Reform Age' in the nineteenth century.

The government is reportedly now negotiating with the European Commission on the possibility of replacing the existing New Hungary Development Plan with the New Széchenyi Plan, so that the new plan can be considered as the National Strategic Reference Framework from January 2011 on. The draft plan was published in the summer to allow for public debate between July 27 and September 15. The National Society of Conservationists (Friends of the Earth Hungary, and member group of CEE Bankwatch Network) was one of many groups to submit comments to the proposed New Széchenyi Plan.

The draft plan contains several progressive elements, principally: the promotion of sectors that have a big job-creating potential, a focus on domestic SMEs as a driving force for the economy and employment, the aim to develop a green economy, the promotion of non-typical forms of employment such as part-time employment, decreasing the administrative burdens that accompany access to EU funds, as well as supporting investments in energy efficiency.

Yet a crucial question is whether or not it can deliver these – with EU funds assistance – given that it fails to acknowledge the fact that addressing economic, social and environmental problems within the current economic paradigm is a tall – some would say impossible – order. Major question marks hang too over some of the declared preferences for achieving these goals, such as the promotion of nuclear energy and large-scale biomass, nanotechnology, and the desire to pitch Hungary as a transit economy.

The National Society of Conservationists has pointed out that the driving force and aim of regional and cohesion policy should be to enhance the quality of social well-being, and this should not be limited to individual financial welfare but ought to encompass factors like physical and mental health, the quality of the environment, democratic rights, free time, security, and social and community relationships. Thus the conclusion that the economic development policy should be subject to a wider-scale social strategy, namely a real sustainable development strategy.

The current sustainable development strategy, prepared under the previous government, lacks the capacity to integrate policies. It was established by the then government simply to meet the EU requirement to have one. It was not adopted by the Hungarian parliament, there is no public consensus on it, sectoral policies hardly refer to it at all – it was written, clearly, as a tick-the-box exercise. Therefore the Széchenyi Plan should integrate environmental and social aspects much more than would appear to be on offer in the current draft.

What is apparent is that the government is aware that the development of a green economy has high potential, but limiting this to the energy sector is weak policy-making and far too lacking in ambition. Moreover, a green economy does not work in a system that insists on constantly growing consumption. If we are serious about a green economy in Hungary then there needs to be a restructuring of production and consumption, as well as big strides forward in public behaviour that can be achieved through enhanced environmental awareness.

One of the tools for development of the latter is a measure in the current Environment and Energy Operational Programme – on the "Promotion of Sustainable Consumption". It will be crucial to keep this measure alive. And while this promotion is not expected to be cut under the Széchenyi Plan (there have already been good campaigns run in the past), it is only linked narrowly to energy issues in the plan. It should be rolled out much more widely, including on such issues as food consumption and sovereignty, traffic, waste, food and the value of sustainability in general.

When it comes to the use of biofuels, any boost for this area necessarily comes with economic, social and environmental barriers. An increasing number of biofuels initiatives are emerging in Hungary, and there are signs of keen political will to develop biofuels, thus potentially using valuable land and good agricultural conditions for producing raw material for biofuels. The clear dangers are that this can limit land for food and fodder production and also deteriorate available land. Biofuels production also does little for jobs and therefore the National Society of Conservationists is calling for the use of biomass to be limited to small-scale, local energy production and use.

It is further vital that any national development policy focuses on the development of the local economy. An economic system based on the local use of local resources, local markets and food sovereignty is key to this, and an essential step in this direction is the implementation of subsidiarity. Decisions need to be taken at the most appropriate level, with the involvement of those affected; this also contributes to good governance. In practice, this requires wide publicity for decision-making, trainings and research on democratic rights, institutions, campaigns to promote participation, as well as the development of local communities and NGOs.

While the draft plan does contain such elements, this approach and related measures should be enhanced. Economic development needn't go the way of SMEs becoming suppliers to foreign investors and multinational companies, producing vulnerabilities for the economy. This is especially relevant to branches of industry that have been most exposed to the negative impacts of the economic crisis and that drive unsustainable consumption patterns, eg. car manufacturing.

All in all, only development measures that take into account the ecological carrying capacity of the country – those that reduce the material and energy needs of the economy, as well as the emission of pollutants and destructive land use – should enjoy support in the draft plan and, ultimately, from the EU funds. Though the draft plan attempts to take environmental aspects into account, the measures that it outlines are not fit for purpose. A strategic environmental assessment for the plan is highly necessary, an assessment that is required by EU and national legislation but something that has still to be performed.

Finally, since the level of public trust and solidarity is languishing in Hungarian society, it would be crucial to launch programs that aim to enhance wide-scale public trust and social capital. This could be achieved by including a measure to promote public and citizen participation, local communities, and the development of the NGO sector. Such a step is essential if the Hungarian government wants to deliver on its headline aim of "national cooperation".

EU funds for Latvia's environment up in smoke

Latvia's struggles to find a way out of its current ongoing economic woes mean that the Baltic state is in need of deploying any public money it can get its hands on, especially with the IMF and the European Commission insisting on tough to swallow medicine (including potentially widespread privatisation of state-run industries) as part of their rescue packages. Disappointing to hear, therefore, of EUR 34.6 million of EU Cohesion Fund money aimed at environmental improvement measures recently falling victim to the wider economic crisis fall-out.

Under the EU funds programming period 2004-2006, Cohesion Fund money was allocated for the construction of a new boiler house/co-generation plant in the north-western city of Ventspils. The project aimed to shift from the use and burning of hard fuel oil to biomass/coal in order to reduce sulphur emissions – a measure required to help Latvia comply with EU directives on sulphur emissions.

However, it has recently emerged that the German company Stadtwerke Flensburg GmbH that won the tender has been unable to find the necessary investment money – they failed to provide cash for the up-front investment that would have been subsequently reimbursed by EU money. The project, thus, is going nowhere, the EU funds will stay in Brussels and sulphur emissions will continue to be pumped into the local environment.

CONFERENCE – THE PRIVATE SECTOR TURN: PRIVATE EQUITY, FINANCIAL INTERMEDIARIES AND WHAT THEY MEAN FOR DEVELOPMENT (NOVEMBER 22, LONDON)

There has been a major expansion in private sector lending within development finance in recent years. The International Finance Corporation's private sector portfolio has more than quintupled since 2002, while the European Investment Bank's operations in Africa and elsewhere are almost exclusively private. Crucially, more and more of these private investments go not for projects directly but to financial intermediaries (FIs) and private equity funds.

Despite the market failures such mechanisms have caused, their use is increasing – public development finance, goals and policies are being mediated more and more by financial markets and their actors. It appears as if leading development actors are pushing a new paradigm aimed at making development finance another field of intervention for financial markets.

This one-day conference organised by the Bretton Woods Project, part of the **Counter Balance: Challenging the European Investment Bank** campaign, brings together a range of different organisations that have begun to concentrate on the turn to private finance, notably through FI and private equity lending. It will focus on the IFC and EIB as perhaps the two longest-standing private finance-supporting international financial institutions, but also on other funders involved in similar activities such as the Commonwealth Development Corporation, the African Development Bank and the International Monetary Fund.

For more information, and to register, visit: http://www.brettonwoodsproject.org/art-566623

EBRD financial sector strategy revision reveals few lessons learned from crisis

Over the summer the European Bank for Reconstruction and Development (EBRD) published a long-awaited draft of its new financial sector operational strategy for public comments, allowing the public to see how the bank plans to apply the lessons of the financial crisis in practice.

How much has been taken on board by the bank, since after all, behind all the headlines about the billions that the EBRD has thrown at nervous western banks in central and eastern Europe since early 2009, the EBRD played an important role in helping develop the financial and economic vulnerabilities that have made the escape route out of the crisis for CEE economies all the more difficult. EBRD programmes directly helped increase consumer indebtedness, fueled consumption and real estate booms, and disseminated originate-and-distribute business models that made local banks across the region's economies more reliant on international money markets.

In spite of the ongoing tough economic situation in many of the bank's countries of operation, the document is unclear about how the EBRD's financial sector operations are expected to impact ordinary people, especially vulnerable ones. Now more than ever hard questions need to be asked about the EBRD's development impacts, yet strikingly words like 'poverty', 'gender', 'minorities' and 'women' fail to get a mention at all in the bank's draft.

The EBRD is, though, emphasising support for private equity funds, which invest in micro, small and medium enterprises (MSMEs), build up value and then sell them on. Negative impacts on industrial relations and employment through private equity fund activities have been documented, and the EBRD strategy so far lacks analysis of how its support for such funds can be guaranteed to have positive development impacts.

The bank commits to support retail lending only when it is carried out according to best practice standards, but doesn't specify what these standards are. Nor is it clear whether the EBRD considers it feasible to lend support to non-bank, small-scale financing and savings institutions such as credit unions or building societies.

On the level of larger-scale development impacts, there is ongoing fuzziness about how the EBRD's new financial strategy will deal with the use of offshore financial centres in the interim period until the bank develops its new overall strategy to deal with the issue. The use of such centres (aka tax havens) diminishes tax income for governments - particularly problematic at a time of additional financial hardship in much of the transition region.

The EBRD's plans to continue ensuring financing for MSMEs is welcome, yet concerns remain about the opaqueness of loans disbursed to small business via financial intermediaries, and to what extent they are supporting environmentally and socially sustainable small companies. The EBRD may opt, and it has been increasingly doing so, to extend a EUR 100 million SME credit line to highstreet Bank X in Ukraine, and it then defers the lending responsibilities on to Bank X. The EBRD claims that it would be too cumbersome to publish the final beneficiaries of intermediated loans, ie those companies supposed to be benefiting from loans direct from Bank X.

However it remains the case that more information could be disclosed than is currently the case, for example by disclosing information about the most environmentally and socially risky categories of loans, or about projects with a value over a certain threshold.

Among the issues that the EBRD has picked up successfully is the need to develop local currency lending in order to reduce the threat to households and MSMEs from fluctuating exchange rates in foreign currency loans. The bank does need to take a firmer line on this and commit to gradually phase out support for foreign currency lending for households and non-exporting MSMEs, but at least it is paying increased attention to this issue.

While the final strategy has not been approved at the time of writing, the draft reveals significant room for improvement in order to ensure that the EBRD's financial sector investments bring tangible benefits for people and the environment.

Bankwatch's comments to the draft strategy are available in pdf at: http://bit.ly/9QUO2Z

Read also Bankwatch's crisis analysis from Spring 2009, 'Bubbling under the surface: The role of western public finance in the crisis hitting central and eastern Europe' at: http://bit.ly/cB7Mw0.

Energy failings in the east – a challenge for the EU funds

While energy efficiency and renewables are gaining ever greater importance in the EU strategies, the translation of good intentions into practice does not yet appear to be running at anything like full throttle. The EU has agreed to a binding goal of 20 percent share of renewable sources in final energy consumption by 2020, but the goal of achieving a 20 percent reduction in energy consumption is not binding. Despite legislation on areas such as the energy performance of buildings, eco-design or energy labelling, on current progress the measures in place will not be sufficient for the EU to achieve its efficiency goal, as pointed out in a recent study published by the European Climate Foundation. The study predicts that the EU will get only halfway to its target – the upshot of this is that consumers of energy will spend an extra EUR 78 billion in 2020.

Much of the potential still lies in central and eastern Europe (CEE), the most energy inefficient part of the EU, though also home to the 10 new member states that are the beneficiaries of the largest chunk of the Cohesion funds. Significant financing and a range of changes in their administration are necessary in both the current and upcoming budget period in order to ensure this potential is not overlooked once again. Significant barriers also limit the development of renewable resources.

A decaying building stock, heating systems badly planned by the former centralised economies and inefficient industrial installations all continue to blight the economic and environmental landscape of the region. EU funding has been invested in the insulation of public buildings, the switch to biomass heating or industrial innovation. Yet the volume of the funds is negligible compared to the potential for investment and needs – Bankwatch estimates that only 2.4 percent of all EU funds in the CEE region for the 2007-2013 period is being invested in energy efficiency and renewables.

In the Czech Republic, for instance, the EUR 481 million allocated for the insulation of public buildings under the European Regional Development Fund has already been spent, even though we are only halfway through the budgetary period. A similar scenario is expected soon in Poland and Slovakia. Demand is clearly high and widespread across the region.

There are vitally important knock-on benefits too. The Central European University in Budapest has recently calculated that a medium-intensive housing retrofit programme in Hungary would create 78,000 jobs in the country by 2020. Out of Hungary's current allocation of EUR 22.9 billion for 2007-2013, less than one percent is being used for energy efficiency projects in different end-use sectors.

There is clearly a vast potential for plugging CEE's efficiency gap via the EU funds. Channelling more Cohesion money into efficiency measures will also foster recovery for economies, as these investments are mostly realised by local small and medium-sized companies with much of the added value staying in the regions.

To fully unwind the investment potential of the EU funds in this sector, it is necessary to remove administrative obstacles as much as possible, simplify and unify the procedures and provide sufficient capacity building for the authorities to effectively deal with the applications. Drafting the proposals of the new Cohesion Policy for the upcoming budget period, progressive minds in the European Comission and the member states will have an opportunity to tackle these difficulties.

Shady solar developments in the ČEZ Republic

On the renewables front, the successful feed-in tariff policies in Germany and Spain have been taken up aggressively in some CEE countries. In the Czech Republic, the success has been so massive that there has been wary speculation of large electricity price rises in 2011 due to the contribution of renewable production. But the real source of fear behind the headlines lies elsewhere – the media hype has been fuelled by the PR department of ČEZ, the country's coal and nuclear giant. Realising that its outdated business could be threatened, ČEZ has sought to spread alarmist news that the electricity price could rise as much as 20 percent next year, a figure that has been outright rejected even by the Ministry of Industry. The Photovoltaic association and NGOs have calculated that prices will rise between 5 and 9 percent for households.

But renewables in the region are hitting more meaningful barriers. In most of the countries, their development is being limited by grid capacity. Limits in the form of quotas are imposed in advance by the law – as in Latvia or Slovakia – or on an ad-hoc basis in reaction to high numbers of new installations, as in the Czech Republic where new sources are restricted to connect to the grid.

Should the major strides forward in installed capacity and renewable production continue, allowing EU climate-energy package targets to be met in the new member states, it will be necessary to find ways in which to substantially reinforce grids. Private capital for electricity generators and distributors will be necessary here, but public finance has a huge role to play as well. There is a clear public interest to ensure interoperability, interconnections, common regulation and technical standards for smart grids, as well as associated research and development – all essential items in to making a low carbon future a reality.

Ukrenergo and the EBRD – another project short-circuit around the corner?

The conflict situation in two Ukrainian villages, where national energy giant Ukrenergo – a client of the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) – has constructed high voltage electricity lines over people's homes and plots (see Bankwatch Mail 43), is showing some signs of changing for the better.

As we predicted in April, the state-owned company rushed to complete the project and put the controversial lines into operation in Usatove and Nerubayske. However the EBRD's position was admirably strong: either the villagers agree with the presence of the 330 kilovolt lines on their territory or the transmissions should be moved outside. The compromise that was reached in June, and furthermore materialised in a multilateral agreement sealed by local authorities, Ukrenergo and even Ukraine's minister of energy, obliges Ukrenergo to construct and connect the lines outside the villages before June 1, in exchange for the villagers tolerating the lines in their community for one year.

The EBRD considers this outcome as "in principle satisfactory", and the bank has agreed to monitor its implementation. Recent information from the site so far confirms some progress – Ukrenergo has become more approachable to the local people, it has withdrawn court claims, and is negotiating land acquisition for lines outside the villages.

A happy end? Yes and no. Even if everything in Usatove does go according to plan (as should have happened years ago) there is another transmission lines project that has the potential to result in more static for local communities – and this one was approved for financing by the EBRD in tandem with the EIB in 2007. The EUR 350 million project is designed to connect the Khmelnistky and Rivne nuclear power plants with the central regions of Ukraine and the capital Kiev.

As has become its customary approach, Ukrenergo started the project's implementation after a hiatus period of several years and already the first kilometres have brought serious challenges. Since the council of Korolivka village in the Kyiv oblast failed to approve the proposed route along the western border of the village and has insisted on using an alternative one that runs at a distance from the village, Ukrenergo has not come up with any better solution than to plan the new route through the nearest landscape reserve, one that has national importance. Given the legal status of this type of protected area, and that such construction involving serious interference with forests is prohibited, in July 2010 the State Directorate for Nature Protection in Kyiv oblast recalled its previously issued conclusion on land acquisition in this area.

The position taken by the Korolivka council is understandable and was provoked by the fact that the initial project design disregarded the interests of Korolivka's inhabitants. An already existing and operating 750 kV transmission line runs close to the western edge of the village (though the project's environmental impact assessment overlooks this entirely) and a further two new 750 kV lines are planned within the same corridor. Moreover, one more 330 kV double circuit diversion (also not mentioned in the EIA) is also planned for construction in the same corridor, meaning that villagers may end up with three 750 kV and two 330 kV high voltage lines close to their homes and right above their land.

This kind of concentration of high voltage lines at the minimal allowed distance from the village and above agricultural fields has the potential to seriously impact local people's health and livelihoods – thus the affected people are opposing such additions. But the rerouting of the two 750 kV lines through the protected area is also unacceptable. In spite of the attempt to minimise the impact on the village, the proposed alternative route will require substantial cutting of the forest in the reserve – the passage required is roughly 120 metres wide. Furthermore, if constructed under the altered design the transmission lines will run for some nine kilometres along the small local River Kodra, and will undoubtedly spoil the picturesque and almost untouched landscape of its valley.

While last year's at times violent conflict in Usatove highlighted the EBRD's lack of monitoring, the quality of project implementation in this case demonstrates how easily a project with flaws in its environmental assessment can pass through the bank's approval process. Meanwhile the Government of Ukraine is now discussing with the EBRD the conditions for a further loan for Ukrenergo, this time for the South Ukraine Transmission Project that seeks to construct a 750 kV transmission line from the Zaporizhska nuclear power plant to the Kakhovska substation in the Khersonska oblast and two 330 kV interconnections in southern Ukraine. EUR 175 million financing is being considered by the EBRD, as well as a further EUR 175 million from the EIB.

The EBRD board date for the South Ukraine Transmission Project has been delayed, though is now set for October 12 despite several outstanding problematic issues related to the project – Bankwatch's Ukrainian member group NECU still awaits responses from the EBRD on these. Is the EBRD ready to move forward once again with serious doubts still outstanding? If yes, it can only be a matter of time before another Ukrenergo project fuse is blown.

MORE FOSSIL FUEL FOLLIES

Vlora, Albania, in 2004: the European Bank for Reconstruction and Development, the World Bank's International Development Association and the European Investment Bank agree to a EUR 110 million loan for a new 97 MW oil- and gas-fired thermal power plant (TPP).

Critics maintained from the outset that the TPP's electricity would not be economic, and the financing from the public banks took place in the face of enormous local opposition

On completion of the TPP, government sources began confirming that the plant would be used only for reserve purposes. Last year it was reported that plant testing had started but recently it emerged that even that has not happened because of problems with the water pipes

The IFIs have thus indebted the Albanian people for the sake of an unpopular TPP, built near a protected area and tourist region, that does not even produce any electricity.

Meanwhile, in July the EBRD board passed a EUR 210 million loan to Croatian oil company INA for modernisation of its oil refineries and to help INA "become more competitive within its core markets". Yet the information about this project was only made available on the EBRD website in September, despite stipulations in the bank's information policy that such project information should be released 30 days prior to board discussion, "unless the Bank's client or co-financing institution provides sound reasons for not releasing the document." Peculiar practices, but no more peculiar than the EBRD's continuing taste for oil – the bank is also currently considering a EUR 30 million equity stake in the Central Europe Oil Company (registered in London) to provide co-financing of planned expenditures in mature oil and gas fields in Central Europe.

Bankwatch's film on Vlora's troubled energy issues can be seen at: http://www.youtube.com/watch?v=069evvxSNDY

For whom the PPP tolls? Controversial Slovak highway halted for now

At beginning of September, the Slovak Minister of transport, Jan Figel, declared that the prolongation of the concession contract for the construction of a 75 kilometre section of the D1 motorway, that was about to expire at the end of August, would not take place. Figel found the original concessionaire contract, that sought to use a public private partnership (PPP) framework for project financing, to be drastically overpriced and not advantageous for the Slovak state.

The announcment was welcomed by nature experts, Friends of the Earth-CEPA (Bankwatch's member group in Slovakia) and SOS Birdlife Slovakia, groups that had been fighting against this controversial PPP and environmentally dubious highway project throughout this year. Substantial public finance savings can now be realised (should the project proceed) following the prevention of the overpriced PPP version – the PPP price tag had grown over the year by roughly EUR 1.3 billion.

Alarm had been raised by the groups previously when a less environmentally damaging route variant was overlooked by the Ministry of Transport in favour of the approval of a variant to be routed through two national parks (Mala and Velka Fatra) and Natura 2000 sites, as well as cutting the town of Sutovo into two parts. The groups took their case to the European Commission as well as to the banks financing the project – the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), where there was particular concern about the controversial PPP aspects of the project.

The Commission required more time to investigate the alledged weaknesses of the project, and this lack of a green light for the project meant that the EIB delayed in signing off its intended EUR 1 billion loan. Consequently, the final financial closure was postponed several times, concluding in September's non- extension of the expiring contract. Where this leaves the banks is unclear – Bankwatch has requested clarifications from both the EBRD and the EIB, without any responses to date.

The proposed PPP elements in the project not surprisingly have raised many eyebrows – the facts that have emerged should stand as further clear warning of this finance model's questionable suitability for further roll-out in central and eastern Europe.

The project costs spiralled out of control to reach the astronomical level of EUR 9.1 billion for the construction of 75 kilometres of highway. Underlying this was the maniplualtions that had gone on to make the PPP model appear more favourable than classical public procurement – the 'evidence' data was seen to be derived from unjustified or unexplained calculations. Indeed earlier this year, when the Slovak media discovered the differences in the respective PPP analyses produced by different sets of figures from the Ministry of Finance and Ministry of Transport (the latter being much more sceptical about the value for money of the PPP option), the Transport minister Ľubomir Vážny was unable to come up with any proper justification. The issue was simply brushed aside, with Vážny declaring that there had been several versions of the analyses and that he could not recall which was the analysis that was forwarded to the government for approval.

Even though the expired concession contract has not been extended, the environmental aspects of the D1 case remain uncertain – how the routing of the variant will proceed is now up in the air. It is still not clear whether the new government will persist with the controversial variant already approved or will return to the more environmentally friendly variant, as recommended by the Minister of Environment during the environmental impact assessment.

The European Commission has conditioned its clearance for the project on when appropriate mitigation and compensation measures are provided by the Slovak authorities. The nature experts of the previous Fico govenrment were unable to oblige.

Thus, the dreaded PPP may have been booted out, but funding the poorly planned route of the D1 via the EU funds or state budget sources is no solution. The Slovak state is obliged to follow European legislation, and even if the highway is financed from the different sources, the Commission will not approve a subsidy from the Cohesion fund if the routing is not in compliance with European directives. The new Slovak government needs to look north, to the example of the Rospuda Valley case in Poland. If it comes to its senses with the help of Rospuda, a lot of time, aggravation and money can be saved.

PARLEZ- VOUS PPP?

In September, European Commission President Jose Manuel Barroso delivered his 'state of the union' address to European Parliament, a speech strong on the need for more intelligent EU budget spending and for nipping financial sector antics in the bud. A further insistence from Barroso on the need for more PPPs came, therefore, as a surprise.

In the summer, a new External report on the EBRD's transition indicators was posted on the bank's site. Among the proposed ways forward for the EBRD, to support “social cohesion and additional depth” the bank is asked to consider moving into sectors such as education and health – but in order to preserve its private sector focus, one way to do this might be to finance PPPs in these sectors. Moving into totally new investment sectors armed with a highly problematic investment vehicle would surely involve too much risk for a bank whose bottom line is 'bankable projects'?

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