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EIB Issue

## EIB - Eminence grise of Europe

The European Investment Bank (EIB) is a financial institution owned by the Member States of the European Union. Established under Articles 129 and 130 of the 1957 Treaty of Rome, it is a major financial presence in the world of development finance, rivalling or exceeding the World Bank in its annual lending. Its aims are to promote European Union policy objectives and development, mainly through granting long-term loans for investment projects.

In spite of six years of NGO efforts to instigate reforms, the EIB remains largely non-transparent and non-accountable to civil society, or even to the European Parliament. It has fended off all of the reforms put forward by civil society during the past six years, both within the EU and in those transition and developing economies to which it is lending increasingly large sums each year. Though its capital almost exceeds that of the World Bank, the EIB has only one employed environmental expert. Furthermore, public participation in the bank's operation procedures is to a great extent ignored. Even after a project is approved, all key environmental, social and economic documents remain classified information.

On March 26, 1997 the EIB promulgated official Rules On Public Access to Documents. After more than two years of NGOs patiently testing the EIB by making requests for documents about specific projects in the CEE region, it is clear that the 1997 rules have changed absolutely nothing. The EIB "recognises the legitimate interest of the citizens of its shareholder States, as well as of citizens in other countries where the Bank lends and borrows funds...". The bank further recognises that "documents should be publicly available to the maximum extent possible, and any denial of access to documents should be justified by reference to rules laid down in advance." But the rules refer mainly to "general information" rather than the crucial project-related documents that NGOs have been requesting.

Article 6 states that "Any document containing information

about third parties shall not be disclosed" and this is defined to block the release of "documents relating to actual or potential lending or borrowing operations, to individual projects or investment programs or the parties actually or potentially involved in such operations or projects, such as appraisal re - the identity or the financial circumstances of actual or potential borrowers... - the technical, economic or financial characteristics of individual projects or investment programs; as well as the Bank's appraisal, monitoring or evaluation of such matters...." In essence, rules that purport to focus on disclosure are actually rules supporting virtually total non-disclosure of information. It is simply unacceptable that a public effected by a EIB project is not permitted to enter into dialogue with the bank about plans that will affect its future.

Key reforms should be made in the operations of the EIB. A formal policy on information disclosure should be created to make relevant environmental, economic and financial appraisal information available in a timely way to interested NGOs and affected communities.

Public inquiries and consultations should be required from the initial stages of all projects to potentially receive EIB funding. Environmental and social implications of the projects should be stressed.

About 20% of EIB lending in CEE is through so called "global loans". By definition, "global loans" should support small, environmentally sound projects. It is therefore important to provide detailed information about "global loans" made through intermediary banks, particularly about the manner in which these loans actually benefit the environment, as well as the criteria used for selecting projects. Making the EIB more accountable and transparent is a challenge in EU countries and an almost impossible task in countries outside the EU. The EIB has to take a more active and responsible position with respect to its lending activities in CEE and CIS countries.

## Who in Ukraine Wants Nuclear Reactors?

Khmelnitsky 2 and Rivne 4 (K2/R4) are two partially built, Russian-designed nuclear units in Ukraine. Ukraine is presently seeking funding for this 1.72 billion USD project from the European Bank for Reconstruction and Development (EBRD) in the form of a 190 million USD loan. The Ukrainian President and other Government officials claim that the Ukrainian public wants these reactors, but the public itself has a different opinion.

Every Ukrainian citizen has been affected by the Chernobyl accident. In addition to suffering health problems as a result of radioactive pollution, Ukrainian tax payers have had to pay a special tax to cover the negative impacts of the Chernobyl disaster. Though Ukrainian citizens did not cause the

accident, they have been saddled with the financial burden of the multidimensional clean-up. Yet the Ukrainian Government is so enamored with the nuclear industry that it has shifted further financial liability to the tax payers.

The situation has been exacerbated by the fact that the Government introduced an additional electricity tariff for the completion of K2/R4. It is unrealistic to think that the Ukrainian public is in favor of the nuclear industry, and specifically the completion of the K2/R4 Project, after these experiences.

Last year a 120-day public consultation process on K2/R4 was initiated, in which over 80 Ukrainian NGOs took part.

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## World Bank loan is misused to finance Airport in National Park

Part of a World Bank Structural Adjustment loan is being misused to finance the expansion of the Nida Airport. The project would damage the Neringa National Park, which is currently under consideration as a UNESCO site. The Airport Project was approved by all the responsible official institutions despite the fact that it violates Environmental Impact Assessment procedures and other Lithuanian laws. Only after an Atgaja/Lithuanian Green Movement investigation and public protests supported by the President of Lithuania was construction suspended.

After the public protests, the Minister of Environment acknowledged that the project violated Lithuanian legislation, and pledged that the Ministry would neither approve the new Nida Airport Development Project nor allow further clearcutting of the forest. President Valdas Adamkus also established a commission to investigate the case.

Reconstruction of the airport is being financed by part of an 80 million USD World Bank Structural Adjustment Loan guar-

anteed by the Lithuanian Government. The World Bank loan is providing 5 million Litas (1.25 million USD) for the project and additional 5.5 million Litas need to come from other sources to complete the construction.

The World Bank is attempting to deny its responsibility for requiring an Environmental Impact Assessment and a



Public Participation Procedure, by stating that it is not directly involved in the distribution of the Structural Adjustment Loan. The 80 million USD loan was given to the Lithuanian Government without any clear guidelines about macroeconomic and structural changes in the energy, banking and financial sectors. This case clearly demonstrates that misuse of even small investment loans could result in serious environmental destruction. Instead of

renovating an existing small airport to accommodate emergency landings, the project is financing the construction of a regular passenger airport, and runways are planned to double in size.

## EIB: Europe's Biggest Bulldozer

The EIB (European Investment Bank) has become a leading international financial institution for financing transport infrastructure projects in Eastern Europe.

The EIB is committed to helping the transition to a market-based economy in Central and Eastern European countries by improving communications links between EU and CEE countries. The greatest portion of financing is aimed at extensive road and rail investments and upgrading of telecommunications. The extension of the Trans-European Network (originally initiated by the European Roundtable) is among the EIB's biggest projects.

Huge infrastructural developments are now taking place in CEE countries. In 1998 the EIB's transport loans for roads (1.1 billion EUROS) were nearly four times greater than the bank's investment into railways (290 million EUROS). Urban transport received only a tenth of the sum (155 million EUROS) invested into roads. Nearly half of the loans in 1998 went to construction of new highways. The greatest investments in this area were made in Poland, Slovakia and Czech Republic.

It is frightening to learn that most of the projects, especially highway construction projects, are in environmentally sensitive and very often protected areas. The EIB is also financing highway infrastructure projects which have not passed proper legislative procedures and are hence unapproved by the authorities. The promised loans are used to pressure the relevant authorities into accepting the projects.

Outlined below are some typical examples of the manner in which the EIB operates in Eastern Europe.

to release Hungary's capital, Budapest, from the traffic thoroughfare leading through the city. Construction of the northern segment of the highway began in the spring of 1998. This segment, located in a wind corridor of the highly polluted Budapest, is financed by a 50 million ECU loan from the EIB. The route is 250-300 m away from a housing complex for 5000 people called Kaposztasmegyer II, which was not marked on the map used by the highway design engineers. The third junction of the ring-road passes through an Environmentally Protected Area. Citizens, in typical fashion, have been left out of the decision-making process. Most locals only learned about the new highway after seeing construction begin. These citizens established an organisation called the



Kaposztasmegyer Environmental Protection Association (KKKE), to protest construction of the highway. Their

### Choking Ring Around Budapest

Hungary started to build the M0 Orbital Highway in order

protests were met with a rapidly increased pace of construction.

It did not take long before Hungarian citizens learned that construction of this highway violates many Hungarian laws.

The case of the M0 was taken to Hungarian Court in June 1998, where the lawsuit continues to this day. Expecting that the EU financial institution would respect national legislation, Hungarian NGOs wrote a letter to the EIB, requesting the bank to withhold monetary disbursement until a court decision was made. The Hungarian groups described the situation and the many ways in which the project violated Hungarian laws. The letter pointed out that there was public protest over the highway in Hungary.

At a meeting last year between EIB representatives and international NGOs, the M0 was used as a case study. At the meeting, EIB representatives pretended they were not involved with the project. They had no information about the ongoing trial. They claimed that they could not be held accountable for any breach of law in the construction process, because it was the project sponsor's duty, rather than the bank's, to fulfil the proper requirements. They stated that the bank is neither responsible for monitoring the public participation process nor the legal details, and for this reason, it has no independent information about the project.

Because communication with the EIB has been so unsatisfactory, CEE Bankwatch Network - along with a host of Hungarian NGOs and the European Environmental Bureau - turned to the Ombudsman of the European Union to pressure the EIB to re-evaluate or even cancel financing to the northern segment of the M0. The case is now pending a decision.

### Bypass Through Poznan, Poland

The Poznan Bypass again shows the way in which public money is used to support specially chosen private companies. The bypass is being built with money from the EIB and PHARE in order to economically justify other sections of the

A2 Highway (which is an extension of the Trans-European Network to Poland in the Berlin-Warsaw-Moscow corridor). The highway is supposed to be built and operated by a private concessionaire - Autostrada Wielkopolska. The PHARE grant (signed in December 1997) is worth 35 million ECU, in addition to a 130 million ECU EIB loan. At this point, the EIB has approved over 1 billion ECU in loans to transport projects in Poland, most of them highway and road projects.

It is important to note that the Poznan Bypass does not really fulfil the definition of a bypass. Its planned route is in part through the city and will traverse a drinking water reservoir that supplies water to one third of the city. The endangered area is valuable not only because of the drinking water reservoir (Poznan will lose 40% of its water resources if the bypass is built) but also because it is a recreational site for much of the population. Traffic from the bypass will increase pollution, exceeding allowable pollutant concentration levels. This means that the area will no longer be suitable for recreational purposes.

No public participation process took place in assessing the Poznan Bypass Project, and the credibility of the Environmental Impact Assessment (EIA) is highly questionable. Many protests, blockades and demonstrations against the

location of the bypass have been organised over the past couple of years, but the EIB and PHARE have nonetheless decided to finance the project.

The Poznan Bypass is only one of several problematic projects in Poland's Highway-Building Program. If this program is fully implemented, it will lead to a reduction of available funding for the rehabilitation of existing roads, railways and the public transit infrastructure. Public money is also supporting other private concessionaires who are a part of this program.

### EIB in the Czech Republic

The first EIB loans for expansion of the Czech highway system were provided at a time when neither the government nor the regional authorities were accustomed to listening to the demands of civic groups, or to considering the right of these groups to effectively participate in decision-making procedures. Between 1992 and 1997, not a single strategic environmental impact assessment was carried out for either infrastructural or development policies and strategies.

The most striking example of EIB involvement in the Czech Republic is the case of the D8 Highway. The bank is planning to provide financing for a 15 km section of highway between Lovosice and Rehlovice, which would cut through the Ceske Stredohori Protected Landscape Area. This highway would need to be exempted from the Law on Nature Protection, which forbids construction of highways in such areas. Should the highway be built, a crucial Central European bio-diverse area will be severely degraded. The fact that the EIB has already approved the loan places pressure on the relevant authorities to support this environmentally destructive project.

The project has been strongly opposed by Czech citizens'organisation. In December 1998, their position was supported by an expert team who conducted an Environmental Impact Assessment of the Highway Network Development Strategy. This team recommended that a different route

bypassing the Protected Areas be chosen. The Ministry of Environment is also very critical of the original highway plan, in spite of the fact that it is under great pressure from the highway contractor's lobby to officially withdraw its opposition to the project.

While Czech environmental and transport groups have heavily criticised the project, they have also formulated an alternative proposal. The alternative route recommended by the

expert team was designed by the Czech and Slovak Traffic Club. Because the transport corridor between Germany and Czech Republic is primarily used for heavy transport, NGOs have proposed to increase the use of the Ro-La combined rail-road transport system between Germany, Czech Republic and other countries. A Ro-La transport system presently exists between Dresden and Lovosice and is used by about 20,000 trucks annually. In addition to being a better environmental alternative, the route saves hauliers time by avoiding the bottleneck wait at the border. If the Ro-La system were to be expanded as a transit system across the Czech Republic, it would substantially reduce the need for a new highway, not only in Northern Bohemia, but across the country. An expanded Ro-La system would elevate the use of the TEN Berlin - Prague - Vienna railway corridor. This railway corridor, after necessary upgrades, could profit from an increased transit capacity.



The consultation process report includes 600 pages of comments from the public and, as Tim Murphy from the EBRD Environmental Department points out, most of the comments are critical of, if not in outright opposition to, the completion of K2/R4. In accordance with EBRD procedures, three public meetings were organised in Ukraine. At the meeting held in Neteshin, where many Khmelnytsky NPP nuclear workers live, not a single person spoke in favour of the project.

Although the EBRD and the project sponsor Energoatom, a state-owned company, were satisfied with both the number of hearings and the way in which they were conducted, the hearings were inconsistent with Ukrainian legislation. For this reason, an additional seven public hearings were later organised in various Ukrainian cities, this time in full accordance with Ukrainian legislation. At each of these meetings, a resolution was approved, calling on the Government of Ukraine and the EBRD to put an immediate stop to K2/R4 completion plans.

In spite of these public consultations, the results are not

being treated seriously by EBRD management. During the EBRD Annual Meeting Vice President Charles Frank erroneously claimed that there is "no evidence that there is public opposition in Ukraine" to the project. He has not, however, been able to show any evidence to the contrary.

In order to clarify what views of the Ukrainian public toward the K2/R4 Project, CEE Bankwatch Network commissioned SOCIS - Gallup International to do an opinion poll. The results of the poll prove that completion of K2/R4 has very little support among the Ukrainian public. Only 9% of those polled wanted to see the K2/R4 reactors completed. Since EBRD President Horst Kohler states that EBRD projects require the "support of the people", this finding challenges the feasibility of the project.

Several years of state propaganda about the K2/R4 Project have not changed the public's attitude toward this project. The Government of Ukraine is ignoring the opinions of its country's citizens, as it has not yet learned the rules of democratic leadership. Totally unacceptable, however, is the fact that Western countries are also ignoring the public by considering to finance the completion of the K2/R4 reactors.

## EIB HIGHWAY IN BULGARIA LIKELY TO DESTROY ENVIRONMENTALLY SENSITIVE AREA

The Bulgarian Government is presently using Bulgaria's central location in the Balkan region to impel the development of a highway network with sections that could infringe on protected landscape areas. The Dupnitsa-Kulata stretch of the Sofia-Thessaloniki-Athens highway, which is part of the Trans-European Corridor No. 4, would destroy a unique region rich in biodiversity. Though a management company for the project has not yet been chosen, preliminary plans for the Sofia-Thessaloniki-Athens highway route, to be built before the Olympic games in 2004, have already been completed. The Bulgarian Government is trying to compensate the lack of domestic resources with financing from EU programs and loans from the EIB, even though PHARE and the EIB have already financed the "Rehabilitation of Route E-79" with some 65 million EURO. Part of an additional 4 million EURO from PHARE will be used to prepare "major infrastructure projects," among them the Dupnitsa-Kulata highway. The improved Route E-79 should fully satisfy the need of the Bulgarian public, if freight trucks would be transferred to a combined railway-road system.

If urgent action is not taken immediately, unsustainable economic development and the drive for short-term profits from tourism linked to the Olympic Games will destroy the unique Kresna Defile, which is unique to the European continent. The Mediterranean and continental zones meet in this defile and the resultant ecosystem hosts dozens of rare plants and species. Research programs such as CORINE have pointed out the value of the valley, which is likely to become a significant part of the future EU network NATURA 2000. The present highway construction plan will destroy the existing reservation. Neither the investors nor the highway design engineers have shown any consideration

for the heritage or ecological sensitivity of the defile. Only after 15 Bulgarian NGOs put pressure on the Ministry of the Environment did the Ministry ask for a careful assessment of alternative routes; twice it sent back EIAs that had been submitted for approval. Bulgarian citizens' organisations have suggested three possible alternatives to the Dupnitsa-Kulata highway. The most acceptable and environmentally friendly option is the reconstruction and the extension of a railroad for freight trains instead of a highway. This option encompasses new terminals for loading goods, leading to an increase in employment.

Two other options were proposed in case the Bulgarian Government insists on expanding automobile routes, however unnecessary they may be. The second option is the construction of a tunnel. The third alternative is a route 5-10 kilometers east of the proposed route, leading through areas that have already been environmentally devastated by previous construction.

In a letter to the European Commission, Bulgarian NGOs wrote: "the funds for the construction of roads which Bulgaria receives from EU and EIB should not be used for projects which contribute to the destruction of sites with rich biodiversity or natural reserves and phenomenon." One way of assuring that this demand be met is for comprehensive assessments of all parameters - financial, economic, social, ecological, regional, etc. - to be completed for the proposed alternatives. Also, a strategic EIA must be completed for the full length of Corridor No. 4. The alternatives will, to varying degrees, limit the impact of transport through the richly biodiverse Kresna Defile. The valley could easily be protected if the project designers were to give as much thought to the value of nature as to easy truck transport.

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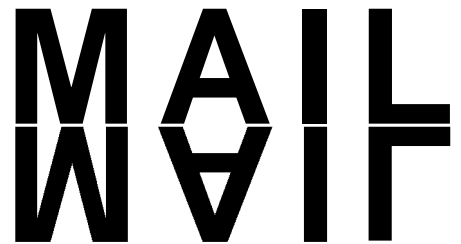
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CEE Bankwatch Network is an international NGO of 12 environmental organisations from 11 CEE and CIS countries. The Network is monitoring the activities of International Financial Institutions in the CEE and the CIS region.



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