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Public Funds for Public Benefit – new NGO campaign launched

An international coalition of civil society groups has just published a strong wake-up call to the European Investment Bank, the least transparent, least accountable and least democratically controlled of both the European Union and international finance institutions. Public Funds for Public Benefit: Making the European Investment Bank Support People and the Environment sets out a clear vision for EIB reform.

The EIB has the potential to be a positive European source of public finance, providing public benefits worldwide. Based on the EIB's track record of not seriously engaging with civil society about proposed projects, however, as well as its preference for remaining largely invisible to the European citizens whom it serves, the publication of this document sees the EIB campaign coalition stepping up its public awareness raising and advocacy efforts to ensure that the following key reform steps are accepted and implemented by the EIB.

1. Living up to the transparency standards of European institutions

The EIB urgently needs to fall into line with the transparency norms shared by other EU institutions and other international finance institutions such as the World Bank and European Bank for Reconstruction and Development. The EIB must adopt a new approach to its public disclosure policy, which lives up to the spirit of Regulation 1049/2001 of the European Union and the Aarhus Convention on access to information relating to environmental issues, ensuring that communities affected by EIB projects, as well as other interested parties, are adequately and freely consulted before the approval and throughout the life of projects.

2. Development mandate based on sound safeguard policies for lending outside the EU

The EIB has no policy mandate for its lending to developing countries, though it operates in more than 100 such countries. This gives the EIB "carte blanche" for lending outside the EU, where it is not clear what environmental and social standards the EIB employs for projects or global loans provided to intermediaries. The EIB must

live up to the global development commitments of the EU and the standards set by other multilateral development banks. *(continued on page 4)*

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Mónica Ridruejo uncensored

Earlier this year, Spanish MEP Mónica Ridruejo presented an objective yet critical draft report

on the European Investment Bank (EIB) to the Economic and Monetary Affairs Committee (EMAC) of the European Parliament. However, the report provoked outrage within the Brussels establishment. In an interview with Bankwatch Mail, Ridruejo describes the struggle she faced to produce the report at all, defends her critique and offers her views on how the EIB must transform itself if it is to play its key role in contributing to 'social and economic cohesion' in the newly expanded European Union.



was setting off alarm bells both within EMAC and the EIB.

"In July, I was told that the parliament was dropping the report. As there was no apparent reason for this, I fought for a month to recover the report. Pat Cox, the President of the parliament, had to authorise and approve the continuation of the report on an extraordinary basis."

Monica Ridruejo, a member of the group of the European People's Party, was assigned in November 2002 to be Rapporteur of the EIB's Activity Report by EMAC members, with an agreed timeline to commence the report after June 16, 2003 when the EIB's annual report was released. Although she has an extensive banking background, she admits to having had little previous knowledge of the EIB and its institutional eccentricities. Having identified a host of problems, Ridruejo became acutely aware that the way she was orienting her investigations

believes that the approach of leading members of EMAC switched to ensuring that discussion of the report would be kept to a bare minimum. When the draft report was finally released in February this year, colleagues on EMAC, but principally the co-ordinators of her group and other groups, told her to take it back. The reason given: "This is not the right political moment to present the report."

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Mónica Ridruejo uncensored

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Ridruejo refused to back down. "All of my observations and recommendations in the report are based on objective data. The EIB needs to be more transparent, we should know more about the results of operations. Given the steps being taken by the market, its corporate governance system should be modernized. Such opaqueness is unreal and unacceptable, especially if we remember that the EIB is a public body and should be an exemplar."

In an EMAC meeting where the report was "savaged", Ridruejo says that she was told that the report would be totally changed so that she wouldn't be able to recognise it. "That's fair," she points out, "so long as there is debate on the underlying issues. But there never was a debate."

In the end the report received some eighty amendments, with the objective quite clearly being to render it meaningless. Only one declaration made a very weak reference to corporate governance. Ridruejo withdrew her name from the final, legless report and is critical of both the cynicism of parliamentary colleagues – "The whole process that we see of the parliament reviewing the EIB is just a make-believe situation." – as well as the EIB's lobbying throughout. Luxembourg MEP Robert Goebbels wanted the "absolutely ridiculous" deletion of 28 out of the report's 32 paragraphs. The EIB is of course based in Luxembourg.

It's clear that Ridruejo's report went well beyond the ritualistic back-slapping that the EIB has come to expect from European Parliament reports over the years. On the question of the EIB's corporate governance, Ridruejo carried out a benchmarking exercise based on the Winter report (initiated by the EU) and other standard practices. Her conclusion: "The EIB hardly complies with any of the basic standards."

In terms of governance, a key point for Ridruejo in this area is the composition of the Board of Directors, many of whom are well-known public figures with post-holder responsibility in banks which receive funding from the EIB. She points out that, "It would be extremely helpful if the EIB stated publicly how they deal with the concept of independence – in terms of the responsibilities assumed by directors, of potential conflicts of interest - and it would be very interesting to know if any of the remuneration packages for directors or management are linked to performance indicators on volume or any other factors."

On the issue of the EIB's Global Loans, a reason put forward by Ridruejo for why the bank notoriously fails to monitor these loans correctly is that it is content to subsidise commercial banks. And here she sees room for pressure to be applied. "This is not permitted by the internal markets condition of the EU. Funding benefits should go to outside beneficiaries such as SMEs or small municipalities that are less able to get good market conditions. That's the purpose of the EIB after all."

This question of who should be the prime beneficiaries of EIB investment has acute implications when it comes to whether the EIB's intake of representatives from the new member states will have any ability to push for EIB reform. A fundamental criticism levelled at the bank by Ridruejo's report was that it lends mainly to the richer countries. Since at least 1999 to 2003, every year 50 percent of all EIB lending resources (without counting European Investment Fund funding) have gone to the four big countries, France, Germany, Italy and the UK. The EIB's Corporate Operational Plan (COP) for 2003 (which applies for the period 2003-2006) indicates that the same ratio will be maintained. "New countries will not be able to change this until they have enough power to change the COP," says Ridruejo.

Monica Ridruejo is not running for the next European Parliament and is uncertain about whether there is sufficient will from other MEPs to push for reform of the EIB. She is certain, however, that the proposal in the final revised version of her report for debate in the future when the new parliament is set up is a still-born initiative: "There will be a follow-up, but I'm afraid it will be used to change the kind of approach I had initiated. Those in EMAC who were against the report will probably take the initiative so that there is a return to the kind of reporting carried out previously where they congratulate the bank rather than analysing things more closely."

Ridruejo also expects to see Philippe Maystadt, the EIB's president, taking some very discrete and largely cosmetic steps as a result of the recent unprecedented focus on the EIB's activities. But her analysis of the EIB has allowed her to see some potential internal rays of light. "Reports by the Operations Evaluations Unit, available on the EIB website, describe how the EIB is losing its institutional memory – there are insufficient records in the physical or computer files. This is hopeful because it means that people within the bank do have expectations on how things should be improved. But somebody at the top is not listening or not listening sufficiently".

Looking back on the treatment of her investigations, Ridruejo identifies a key factor, one long familiar to EIB reform campaigners, which determined the stitching-up of her report. "It's pretty simple really. If the public could have a peek at the EIB, there would be an outcry. Therefore, the best way to avoid this is to do everything possible to stop it from ever properly happening." □

▶ Bankwatch on EMAC Report:
<http://www.bankwatch.org/issues/eib/mngomaterials.html>

EIB outside Europe but not out of sight

- both places are suffering the impacts of EIB financed projects. A copper mine project in Laos and a pulp mill project in Bahia have both received EIB financing within the last year. Both projects will bring benefits to private companies – Australia's Oxiana and Finland's Stora Enso respectively. NGOs brought various environmental and social problems attached to the projects to the EIB's attention and in both cases the funding decision was taken with disregard for this information.

The EIB claims to have consulted with NGOs on the two projects, yet the plausibility of such claims is in doubt. In the case of Sepon, the country strategy for Laos prepared

by the European Commission states that there are no local NGOs in Laos and international NGOs are not able to operate freely. The Veracel case is well described in the open letter sent on behalf of 170 organisations and individuals to the EIB President, Philippe Maystadt, on May 21 this year.

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EIB outside Europe but not out of sight

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Dear Mr. Maystadt,
Re: EIB 'dialogue' with NGOs on the Veracel project

The EIB recently placed on its website an information note about the Veracel Celulose pulp mill project [1] which the Bank is financing in Bahia, Brazil. The note mentions that the EIB has had a dialogue with NGOs concerning the project.

We are currently writing to officially protest about the EIB describing the one meeting between the bank and NGOs on October 21, 2003 in Brussels as 'a dialogue' [2] and misusing NGOs in that respect. From the NGO perspective, and based on experience with the EIB, in this case there has been no meaningful dialogue at all. Instead, the Veracel case is a clear example of the EIB's lack of willingness to engage in a meaningful consultation with impacted communities and NGOs on the projects it is financing.

The Veracel case clearly shows how unwilling the EIB is to listen and consider environmental and social concerns expressed by local people and NGOs. We would like to know which measures or activities you are referring to when you state that the EIB "conducted extensive correspondence on the project with interested NGOs" [3].

Lack of transparency and clear framework for public consultations

1. It is extremely difficult for civil society to find out about projects that have applied for an EIB loan and that the bank is considering for financing. Also in the Veracel case there has been no transparency: The Veracel project was published in the list of projects that the EIB considers for financing after the public heard about Veracel's loan request in the media. Information about the project appeared on the list of projects in the pipeline only at the end of July 2003. NGOs then asked the EIB for information on the Veracel project and expressed their concerns, but it took the EIB's bureaucracy almost two months to answer [4], although they had already been considering financing the Veracel project. The EIB apparently seems to have no interest in being transparent and in providing information on the considered projects in order to listen to public concerns and to experts from the affected communities.

2. At the meeting on October 21, 2003 between the EIB staff and representatives from the Brazilian Veracel region and NGOs, the EIB was asked if their staff

had prepared any documents evaluating the Veracel project. The answer was "yes", but none of those documents were publicly available. Furthermore, the EIB refused to announce when they plan to decide about the project. They asked for more information from the Brazilian representatives without providing any information themselves.

Lacking consultation with NGOs and affected communities

The EIB's policy lacks guidelines regarding consultation and participation schemes for affected communities and NGOs. Consultation and dialogue with people concerned and impacted communities are neither requested nor welcomed prior to the Board approval of loans. In the Veracel case, it was extremely difficult to organize a meeting between the EIB staff and representatives from the Brazilian Veracel region and NGOs. This was due to the EIB's hesitation and unwillingness [5].

One of the main NGO recommendations proposed when the EIB was reviewing its Information Policy was a clearly defined framework for public consultation, based on releasing documents and information on environmental, social and economic aspects of the planned project. We believe that during its decision making process, the EIB should provide more transparency and take advantage of listening to public concerns (and to experts), particularly from organizations and affected communities from the concerned countries. This recommendation has not been taken by the EIB and no procedure for public participation exists.

Disregarding affected communities' and NGOs' concerns

To sum up, the EIB did not consider the information, the concerns or the criticism of the Brazilian local representatives and NGOs there at all. Instead, the EIB has decided to finance the project without seriously attempting to address these concerns or prove they were wrong. Equally, no attempt for further consultation has been undertaken. The consequences of this disregard for affected communities have resulted in huge protests from local people and NGOs, including the recent occupation of Veracel's plantations by the landless movement (MST) in Bahia [6].

For all the above reasons, we believe that the contact with the EIB can in no way be described as 'a dialogue'. We denounce the EIB's attempt to pretend it was open to affected people's and NGOs' concerns when it actually was not. We therefore urge you to change the note on your website and to stop referring to any of our contacts concerning the Veracel project as 'a dialogue with NGOs'. At the same time we are open to a

discussion on how real dialogue at the policy and project level between NGOs and the EIB can be established.

Due to these experiences with the EIB concerning the Veracel case, we urge you to implement clear standards for civil society consultation and more transparency in order to ensure that the bank does not finance socially and environmentally destructive projects, like the Veracel pulp mill.

We look forward to hearing from you.
Sincerely,

Lydia Bartz, Urgewald
Magda Stoczkiewicz, CEE Bankwatch/
FoEI

Footnotes:

1. This joint venture of Aracruz Cellulose and Stora Enso would be the largest single line bleached eucalyptus pulp mill in the world. A lot of environmental and social problems already existing in the region will be increased with the construction of another large pulp factory. Therefore a broad coalition of NGOs, indigenous peoples, peasants, fisherfolk, academics and many others are strongly opposed to the Veracel pulp mill. More information: <http://www.fase.org.br>

2. EIB website: <http://www.eib.org/news/News.asp?news=73&cat=-1>

3. EIB website: <http://www.eib.org/news/News.asp?news=73&cat=-1>

4. On July 1, 2003 NGOs (Urgewald and CEE Bankwatch) sent a letter to the EIB requesting information about the Veracel project and about the studies made by the EIB so far during their consideration process. They expressed deep concern about the Veracel project and suggested steps to ensure that such a potentially socially and environmentally destructive project is not approved. On July 18, 2003 a second letter of concern was sent to the EIB signed by about 30 NGOs from different countries urging the bank not to finance the Veracel project. The bank did not answer the first letter separately; they only sent one reply.

5. Only after many phone calls and emails did the EIB agree to consider a meeting, still not to ensure the meeting. The flights for Brazilian representatives had to be booked prior to the bank's decision to meet. The EIB denied a meeting with a broader number of NGOs. They only agreed to meet with the four Brazilian and three accompanying European representatives. Furthermore, it was the bank's will to conduct the meeting in Portuguese, but it became clear during the meeting that the EIB's staff was not able to communicate in Portuguese and did not organize a translator.

6. More information: <http://www.fase.org.br> □

Public Funds for Public Benefit – new NGO campaign launched

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3. Environmentally sound sectoral policies for lending

The EIB does not base its lending operations on sectoral policies. The EIB campaign coalition calls on the EIB to develop its own sectoral policies for investment in Energy, Forestry, Transport, Water and Waste Management and other key areas of focus in EU environmental policies, based on existing European legislation. The EIB should install a fully transparent and inclusive Advisory Committee for Sustainable Investment and Lending to facilitate this change.

4. Creation of a complaints mechanism for affected citizens

Only EU citizens can complain about the activities of the EIB through the European Ombudsman, whose jurisdiction over the EIB is quite limited. Therefore, the EIB must adopt a fully-fledged accountability and compliance mechanism, which provides equal access for citizens from outside the European Union.

5. Effective measures to combat corruption and money laundering

The EIB is subject only to limited supervision from the European Anti-Fraud Office (OLAF) regarding the fitness of its financial activities. As the EIB has so far refrained from declaring that it will withdraw support for projects that involve corruption it must adopt a fully-fledged anti-corruption policy.

6. A socially and politically sustainable private sector lending strategy

The EIB has no criteria for its lending to the private sector beyond basic financial standards, nor does it have efficient tools available to monitor the final beneficiaries of its lending to the private sector. Thus the EIB must develop a private sector policy that takes into full account respect for human rights and a proactive corporate social responsibility agenda.

The Public Funds for Public Benefit: Making the European Investment Bank Support People and the Environment contains detailed recommendations that will enable the EIB to get its house in order. □

► Bankwatch on EIB Information Policy:
http://www.bankwatch.org/publications/studies/2004/public_funds_05-04.pdf

The IFC's "no" to controversial Slovak paper mill followed by the EIB's "yes"

The International Finance Corporation (IFC), a member of the World Bank Group, was for some time one of the most controversial of the international financial institutions and was regularly criticised for its channelling of public money into environmentally controversial projects. After the failure of many such IFC projects, international NGO pressure led successfully to the IFC developing safeguard policies to prevent it from financing environmentally and socially harmful projects. This was bad news for profit-eager corporations, not unduly concerned by such matters as environmental protection. This bad news did not, however, last for too long. It was back to 'business as usual' when a new key financial player appeared.

Ask anyone who has travelled in Slovakia to the famous High Tatra mountains for the name of the town where they had to close their car windows, and for sure many will know what you're referring to. The stench which hangs over the town of Ruzomberok is very famous. It is caused by the emissions from the SCP paper mill located right next to the town.

After the fall of communism in the Slovak Republic, the citizens of Ruzomberok were no longer afraid to express their feelings about the air in their town. When the IFC considered providing a loan for the paper mill's production capacity increase project in 1999, they were one of the driving forces to show that the project might have serious negative environmental impacts. They were pleased to find that the project had disappeared from the

IFC's project list and was thus frozen due to a lack of finance. However, this state of affairs did not last for long.

Most Slovaks had never heard of the European Investment Bank (EIB), and this probably included the Ruzomberok paper mill company's finance managers. But this changed when the company was privatised by Neusiedler, the Austrian pulp and paper industry giant, in 2000. An EU-based company, Neusiedler knew where the money for the project could be sourced from without the need to fulfil creditor-specific requirements for stating the environmental impacts of the project.

The EIB announced its approval of a EUR 64 million loan for this project only after the loan request from SCP Neusiedler was approved in July 2003. When Bankwatch asked the EIB about the non-transparency of the loan request approval process, at first the Bank replied that the two month deadline which the EIB's information policy grants its staff for replying to requests would not be sufficient time to answer the request. Despite the fact that the three questions asked were very specific and 'easy-to-answer', the EIB reply that came after the deadline failed to answer two of them. So affected citizens still do not know who is to blame for the silence and the secrecy throughout the project's EIB co-financing approval process.

Local citizens have taken every opportunity to challenge the project legally. And their appeals have proved to be successful – the court suspended the execution of the project's construction permit until the court properly investigates the concerns raised by the local NGO and decides on the validity of the construction permit. Only a few days before a subsequent court session, the company appealed to the local NGO with the intention to respond to

the concerns of affected local citizens, not only verbally but this time finally in writing. At the time of writing of this article, the court session has been suspended ad infinitum and negotiations between the investor and the local NGO are developing.

The company and the EIB state that the project will bring significant environmental improvements in terms of atmospheric and liquid emissions. Local citizens are not against the project as such, but they are asking for: a monitoring system to measure the state of the air before and after the project's implementation, so that they can find out the truth about the project's impact on air quality; the setting of a maximum level of malodorous emissions that the company can discharge (with assurances that the company will not exceed this limit); a study to assess the up-to-date impacts of the company's emissions on the health of affected citizens; and that the investor's promises to fulfil their requests should be legally binding, and they hope to achieve this through an out of court settlement.

It is not unusual that there is tension between a profit-motivated investor and affected local inhabitants regarding the measures that need to be taken in order to protect the environment. But it is highly regrettable that an EU public institution such as the EIB, which officially claims to be 'pro-environmental' and to respect EU legislation, is fostering such a climate of secrecy about the project. The EIB is doing nothing to ensure that local people's right to know the state of the air which they breathe is respected, nor that the investor is fulfilling the relevant requirements in line with EU standards. It is not difficult to imagine the outcome should a similar EIB financed project happen in a non-EU member state without the appropriate environmental safeguards and legislation. □

Is thinking big the way to Stability?

The European Investment Bank has taken a leading role in the economic reconstruction of South-east Europe (SEE). Within the Stability Pact for SEE, the EIB has committed itself to bring stability and prosperity to the region through support for regional projects. In the last decade, and especially after the end of the Kosovo crisis, the bank's interventions and the amount of loans provided in the Balkans have enormously increased.

With its leading role in the specifically established Infrastructure Steering Group (ISG), which was set up in conjunction with other IFIs to foster sectoral strategies (transport, energy, water supply and environmental protection) for the development of regional infrastructure, the EIB has become the major source of loans in the Balkan region. By the end of 2003, the ISG secured financing for 53 projects, with a total value of EUR 4,01 billion.

The EIB has participated in the preparation of several regional studies dedicated to the future development of transport infrastructure in the region (Air Traffic Infrastructure Regional Study and the Transport Infrastructure Regional Study). Some of the findings of the studies imply that very often external political agendas dictate infrastructure investment, regardless of real traffic needs. Decisions

about expansion of the Trans European corridors in the SEE countries are made behind closed doors far away from the region, no matter whether the countries really need a new highway or an airport.

A telling example of this is the EIB's EUR 60 million loan for the expansion of the Sofia airport in order to serve 2,5 billion passengers even though projected levels of traffic remain significantly lower. Moreover, the airport is situated within the city of Sofia, very close to residential areas (see picture), and it has been developed without a thorough environmental impact assessment, posing a serious threat to citizens' safety, health and environment.

Studies clearly show that the existing infrastructure is sufficient for current traffic levels and only slight modernisations are necessary in future. Nevertheless, the transport sector (especially roads) is one of the most heavily invested in, attracting 67 percent of the overall investments (42 percent for roads), which accounts for EUR 2.74 billion. The EIB will provide long-term lending for some 13 projects for an estimated total cost of EUR 1.5 billion.

The Stability Pact Watch, an NGO initiative in the Balkan region, questions the EIB's intentions of bringing stability and prosperity to the Balkan region through

the promotion of extensive transport infrastructure projects. The coalition calls upon the EIB to cancel its investments in the construction of highways and airports and to take into account real regional demands. The EIB could instead provide Bal-



kan countries with smaller financial support for the development of local second and third class roads, better public transport or the rehabilitation of railway lines.

Furthermore, the Stability Pact Watch calls for the strict compliance of EIB funded projects with the European Union's regulations on Environmental Impact Assessment as well the need to take into account the social impact of these projects. Transparency and public participation in the EIB's operations are necessary to ensure stability and prosperity in the region. □

- ▶ Stability Pact Watch website: <http://www.stabilitypactwatch.info>
- ▶ Bankwatch on Balkans: <http://www.bankwatch.org/issues/>

BTC campaigner persecuted in Turkey

Ferhat Kaya was detained and allegedly tortured in Turkey following his work to mitigate the impacts of the controversial Baku-Tbilisi-Ceyhan (BTC) pipeline.

Kaya was detained following his attendance at meetings with those affected by the pipeline and later with trade unionists in Ardahan. Prior to his detention, Kaya had been working to document the case of an individual whose land was being used for the pipeline without it having been legally expropriated or compensation having been paid. On May 5 he informed BOTAS, the company building the pipeline in Turkey under contract to BP, of his concerns and he had been promised a meeting on the day of his arrest.

Kaya has stated that he was humiliated and very badly beaten up during his detention. An officer pointed a gun at his head and verbally abused him and his family. He was pushed to the ground and kicked repeatedly. Witnesses and relatives observed blood on his clothes and deep cuts on his arms and elsewhere.

Kaya himself believes his current detention is to prevent his political activities regarding the pipeline. Kaya has been involved for some time in mitigating the impacts of the BTC project by ensuring that local people obtain the compensation to which they are entitled and that their rights under the European Convention

On May 10 this year, the prominent human rights defender

on Human Rights are respected. This year he has assisted 38 villagers affected by the pipeline in bringing complaints to the European Court of Human Rights and European Court of Justice.

Ferhat Kaya has previously experienced intimidation in connection with his BTC related work. Last year, prior to meeting with the Italian Export Credit Agency, one of the BTC project funders, to inform them about social and environmental concerns associated with the pipeline, he received death threats and was later detained.

Human rights and environmental groups have condemned the treatment of Kaya and have called on the international community, primarily the BTC project's main international finance backers, to take urgent and appropriate measures to guarantee his safety. BP has specifically requested that local people help to identify problems with the project's implementation. As key sponsors of BTC, the World Bank and the European Bank for Reconstruction and Development should take seriously their responsibility to ensure that those like Mr Kaya who seek to improve the project are not victimised for speaking out.

Thus far, international appeals to the banks about the shocking Kaya case have elicited no response. Meanwhile, Ferhat Kaya remains in prison in Ardahan with his bail set at GBP 2000. □

- ▶ For more information on the Ferhat Kaya case contact the Kurdish Human Rights Project: khpr@khpr.demon.co.uk
- ▶ Bankwatch on BTC pipeline: <http://www.bankwatch.org/issues/oilclima/baku-ceyhan/mbaku.html>

EIR for all – including the EIB

The World Bank's involvement in the extractive industries may be reformed in the coming weeks. Central to this policy reform is the World Bank commissioned Extractive Industries Review (EIR) and recent encouraging public commitments from World Bank President James Wolfensohn towards implementing the EIR recommendations by reforming the Bank's policies, instruments and lending targets. If the World Bank takes these important steps, will this have an impact on the European Investment Bank's lending?

The EIR was initiated by Wolfensohn in 2000 to examine the World Bank Group's support for oil, mining, and gas projects within the context of the World Bank's affirmed mission of poverty reduction and promotion of sustainable development. The recommendations of the review team, led by Emil Salim, former Environment Minister of Indonesia, are up for decision by the World Bank in July.

The EIR concludes that in the vast majority of cases World Bank involvement in oil, mining and gas projects has not alleviated poverty or promoted sustainable development and mandates for an involvement of the World Bank in these sectors only if conditions like good governance, pro-poor policies, better environmental and social safeguards, and, finally, human rights respect, are put in place.

There have been many ringing endorsements of the review recommendations, including from the European Parliament, the EU Commission, six Nobel Peace Prize winners, church leaders, civil society, trade unions and the renewable energy industry. In view of this international support that the EIR report has received, NGOs are currently asking the president of the European Investment Bank to accept an invitation to a meeting to discuss how the EIR may be incorporated into EIB policies and practices.

Such a call to the EIB does not come from NGOs alone. The EIB has already been asked by a European Parliament Reso-

lution of March 31 - which specifically stated the need for European financial institutions to implement the recommendations of the EIR - to discuss the EIR findings. Last week, this Resolution on the EIR was officially sent to the EIB.

Specifically, the Resolution calls on the European Member States to raise the findings of the report in other national or



"James, I'm afraid we're lost. Do you have any suggestions?"

international financial forums, such as the EIB, EBRD, and national credit agencies to ensure that the problems explored are duly discussed and acted upon" (para 6). The Resolution calls also "on the European Commission to adopt a process in order to reflect the spirit of the EIR recommendations in the EU environmental and social guidelines for economic and development cooperation and notably in its cooperation with the IMF, the World Bank, the EIB and the EBRD" (para 7).

Until today, and with some difficulties, the EIB has only admitted to be 'policy-driven'. This refers to the responsibility they should bear in following the EU Commission directives and conventions (the "aquis communautaire"). But reality has often showed the opposite to be the case and NGOs have called on the EIB to reform in two ways: by adopting internal standards on environmental and social due diligence and by complying

with EU internal standards while financing projects carried out outside the EU.

Now, the wide support for the EIR recommendations presents a new set of political requests for the EIB. It remains to be seen if following the full EIR recommendations will be coherent for the EU policy driven EIB. It's clear that the adoption of the EIR by the European Commission - as requested also by the European Parliament - would be an important first step.

A good indicator was provided by António Vitorino, the European Commissioner for Justice and Home Affairs, when called to answer, during the March 31 sitting, a question from the Green Group at the European parliament. Vitorino stated that, "... the Commission supports the call for the full implementation of the recommendations of the Extractive Industries Review, which relate to the sustainability of investments, the promotion of good governance, popular consent, social and environmental impact assessment and the respect of human rights and core labour standards."

Reactions in the financial world to the EIR report are instead still contradictory. While the EBRD has stated its interest in the EIR and is beginning to embark on stakeholder consultation as part of their energy policy reform, in contrast last month several international private banks who are signatories to the Equator Principles (which means that they have agreed to comply with the environmental and social standards of the World Bank/International Finance Corporation) urged the Bank to rebuff the EIR's recommendations.

With EIB President Philippe Maystadt due to meet with James Wolfensohn in the next few weeks, NGOs are calling on the EIB to follow the World Bank's lead in moving in the direction of setting clear and mandatory criteria for future investments into fossil fuels. The reform-phobic EIB must not dig in its heels as usual. □

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(jaro@crbm.org)

Dubious gains: the EIB's involvement in the Slovak rail system

The EUR 200 million loan that the European Investment Bank (EIB) provided to the Slovak railway company in 1999 was conditional on the fulfilment of certain measures specified in the loan contract. These systematic measures imposed on the railway sector were adopted without any prior discussion with the public, and the conditions brought forward and insisted on by the EIB were never made publicly available. Slovak NGOs found out about them from an American volunteer who read about them in the *Symsite* magazine, a news digest for English speaking subscribers published by the U.S. Embassy in the Slovak Republic.

Apart from various classical neo-liberal measures such as the laying off of employees and the closing down of unprofitable passenger services, there was one condition in particular which is worth looking at from beyond the purely economic or environmental point of view: the issue of the level of subsidies that railways get from the state budget.

These subsidies are provided to the railway companies for the performance of services ordered by the government in the public interest. So the question arises: should it be left to Slovak citizens to decide on how much they want to subsidise railways through their elected representatives? Or should this issue be left to the biggest creditor of the company, in this case the EIB? The Luxembourg based bank seems to be convinced that it has indeed received such a mandate, so that it can prescribe to the Slovak Republic a "healthy" level of subsidies and deem what level is already "too much". And the EIB has indeed done so: as far as NGOs know, in the 1999 loan conditions the EIB asked the Slovak government to significantly decrease the level of subsidies paid to the railway company in the past, so that by 2007 they would be less than 31 percent of the 1999 level.

Another question arises: who will profit from the decreased level of subsidies? Definitely not people in rural regions used to travelling to work by train. They have now had to switch to less reliable road transport as the 1999 EIB loan conditions also included a request to close down a certain amount of passenger services, especially on regional lines. By 2003 this had to a large extent been realised, and it

further fostered the ongoing switch from rail to individual car and coach transport.

The EIB can state that the decreased subsidies will be beneficial in order to decrease the deficit of the state budget. But this does not seem to be the case - in order to cope with the ever increasing demand for road transport, the state is now borrowing vast resources for highway construction, mostly from the EIB.

So a decrease in subsidies for railways has further fostered the shift to road transport, and that means new demand for the construction of highways. Thus related financial flows may be the key factor for revealing who is profiting. Not surprisingly, the main (in fact almost the only) creditor of new highway construction, is the EIB. Following the accession of the Slovak Republic into the EU, the bank's loans may end up with the private companies - EIB clients from EU15 countries - that are now eager to bid for highway construction projects in the Slovak Republic.

With a few exceptions, railway services in the EU countries are publicly owned. But corporate giants can profit from railways only if railway services are privatised. The Slovak ministry of transport has announced that it is "looking for a strategic partner" to operate the national rail service. And the EIB conditions attached to the 1999 loan to Slovak railways seem to be fostering this as well. One of the regional railway lines where the passenger service was closed due to the implementation of the EIB loan condition was Zohor-Záhorská Ves, which is located near the Slovak capital Bratislava. Soon after this closure, the Bratislava regional self-government established a 'public-private partnership' railway company to operate the same services that the EIB had asked to be closed due to their 'high losses'.

At first glance this seems to be illogical - how can a small railway provider profit from services where big and, according to the EIB, heavily subsidised state railways had been losing so much money that the service had to be closed? The name of the private company that entered into this partnership may help us to understand this logic. It is the French-Swedish Connex group, a subsidiary of the Vivendi conglomerate, and Europe's largest private bus company. In March 2002 the same company won a tender for a 49 percent stake in the Bratislava regional state coach company. However this was later annulled due to some problems caused by Connex.

If it becomes the "new strategic partner" for nationwide railways, Connex would have the opportunity to further foster the shift in operations from railways to highway-reliant coach services. And there is no doubt that, given the chance, it would do so. It would not only mean more profits for the company (as, under the present state of subsidies and users' fees for the construction and usage of transport infrastructure, coach services are much cheaper to operate), but it would also achieve the goal of decreasing public subsidies to Slovak railways, as set by the EIB loan conditions.

So the future for the Slovak Republic's railways seems to be bright, after the EIB stepped in. Two thirds of the 1999 level of subsidies for railways can be saved so that more highways can be constructed in the Slovak Republic with EIB co-financing. Slovak railways can be privatised by the "strategic partner". Should it be Connex, it is not difficult to guess what this will mean for passengers. The same Connex was the first private company to lose its license to operate railway services in the UK following rail privatisation there, due to the fact that its trains were very often chronically overcrowded, delayed and dirty. It doesn't bode well for Slovak rail passengers.

Slovak NGOs are convinced that the future of the Slovak railways should be left to Slovak taxpayers. The reforms, involving significant changes in the levels of railway services ordered by the government in the public interest, and in the related level of subsidies from the state budget, should be decided upon through the democratic decision of elected representatives - with transparency assured and with open public discussion for all affected stakeholders. However, informing affected citizens seems to be an obstacle that cannot be overcome, as the EIB refuses to release the list of measures with which it conditioned the 1999 loan to the Slovak railway company, and which are presently a subject of the implementation. The Center for Environmental Public Advocacy, the Slovak member of both CEE Bankwatch Network and Friends of the Earth, will continue to fight for access to the loan contract from both of the parties that signed it - the EIB and the Slovak railway company - as both are public institutions operating with public money. EU accession should provide the opportunity to appeal to the EU Ombudsman on this matter, and the Center for Environmental Public Advocacy will most probably seize this opportunity. □

Access denied: the EIB's mythical Information Policy

When the European Investment Bank released its new policy on public access to information in October 2002, NGOs welcomed it extremely cautiously (see Bankwatch Mail 17, February 2003). Not even one of the recommendations submitted by NGOs during the two years of elaboration made it into the final policy statement, and the non-committal wording in the new policy made it all too clear that the Bank was and remains unprepared to conform to the best practices in access to information that are now standard in other public financial institutions. Mindful of such limitations, NGOs' hopes focused on the EIB's promise to regard the new information policy as an "evolving and flexible process", that is one that could be improved on.

This hope has so far been unfounded. On various occasions, the EIB has made it clear that it does not see much need to engage in further discussions with NGOs on the information policy. At last October's EIB/NGO dialogue meeting in Marseilles, the head of the EIB's Communication Department, Adam McDonough, delivered *exactly* the same presentation on the EIB information policy as he had done in summer 2002, namely prior to the release of the new policy!

The message is clear: the EIB may have an information policy but it exists in name only. This point was made explicit when McDonough quite frankly admitted that the new information policy was established simply to accommodate requests made by the European Commission. Not surprisingly the EIB's new information policy does not adhere to the spirit of the EC regulation to which it is intended to adhere (EC Regulation 1049/2001).

At the end of 2003, Campagna per la Riforma della Banca Mondiale offered to discuss with EIB staff in Luxembourg ways to improve the information policy. The offer was turned down with no valid reason given.

Even the 'project pipeline' on the Bank's website – the jewel in the crown of the EIB's claim that it is becoming more open for the public to access information – appears to have deteriorated rather than improved since its inception in 2001. While a survey in 2002 revealed that 15,7 percent of all projects listed in the pipeline were put there only after the Board had approved financing, a further survey in 2003 showed that this figure had risen to 18,3 percent.

This completely contradicts the clear statement in the EIB's

When the European Investment Bank released its new policy on public access to information

'Public access to information' policy statement that, "projects are introduced onto the pipeline list before a decision by the EIB's Board of Directors [is made]". It can be safely stated that information on one in three projects financed by the Bank is published far too late for any meaningful public scrutiny let alone for facilitating public participation in the decision-making process. Compounding matters yet further is the fact that this percentage takes into account only those projects which actually made it onto the pipeline at all. There is still no way to estimate the number of projects which are kept completely out of public view.

Apart from the numbers, the information provided in the project pipeline borders on being meaningless. The main documents related to listed projects are available only upon request, and experiences over the last few years show that the Bank's reaction to enquiries for documents is still elusive, diverging considerably from its stated goal of "applying an active information policy".

Real dialogue between NGOs and the EIB on its public access to information policy will be possible only if the Bank can accept two basic propositions. First, the Bank must recognise for itself the value of an active information

policy. With ever more EIB projects located outside the European Union, public scrutiny can help to uncover corruption and the mismanagement of funds, as well as improve the sustainability of public investments. Private banks increasingly recognise the value of such public input. As long as the EIB regards information disclosure as a nuisance factor then discussions on its information policy are pointless. Second, if the EIB is serious about its claim to continuously evaluate its information policy in an evolving process, then it must indicate some goals. Process without aims is meaningless as well.

At the forthcoming EIB/NGO dialogue meeting in July in Poland, the EIB's transparency and information policy will again be on the agenda. NGOs will expect the EIB to give an answer to both of these key prepositions. If not then any thoughts of dialogue will be at a dead end, a meaningless exercise to which NGOs should not give further legitimacy through their attendance. □

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► Bankwatch on EIB Information Policy:
<http://www.bankwatch.org/issues/eib/mstructure.html>

► Campagna per la Riforma della Banca Mondiale website:
<http://www.crbm.org/>



"I daren't say 'yes'. That would be too much like commitment."