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FORGING THE FUTURE, WITHOUT FAKING IT

It is clear the EBRD is reducing its role in the new EU countries. This is appropriate given the Bank's mission and the situation in those countries. Thus a key question for this year's EBRD Annual Meeting is: what now is the EBRD's role in Russia and the other former Soviet nations that are not a part of the EU?

For starters, the EBRD should finally recognise that development is not just about creating competitive markets, but that key factors in successful development involve improving the social situation. This means respecting labour rights, promoting gender equality, and making sure that services are affordable right across society, including pensioners and other currently disadvantaged groups.

The EBRD needs to look carefully at its 'safeguard' policies. How is it possible that most EBRD projects lack adequate social impact assessments, overlook gender impacts, and in general fail to account for the most disadvantaged sectors of society? Moreover why does the EBRD

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PROSTITUTION, TRAFFICKING AND STDs ON THE RISE IN EBRD OIL PROJECTS

The EBRD boast in its current NGO newsletter that "The first priority for the EBRD in addressing social issues is that our projects do not adversely affect anyone, especially vulnerable groups," has been exploded by new findings concerning the long-suspected negative social and gender impacts of the Baku-Tbilisi-Ceyhan (BTC) pipeline in Azerbaijan and Georgia, and the Sakhalin II oil and gas project in the Russian far east.

Based on field research conducted with local people in April this year and an analysis of accounts from local NGOs, *Boom time blues: Big oil's gender impacts in Azerbaijan, Georgia, and Sakhalin*, a new report from CEE Bankwatch Network and Gender Action, reveals a dark picture of increased burden and poverty for local communities and women as a result of the environmental degradation, land loss and damaged communal infrastructure that BP's and Shell's mega-projects have delivered.

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Forging the future, without faking it

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not recognise labour unions as legitimate representatives of workers so that they can submit complaints to its much vaunted Independent Recourse Mechanism?

The EBRD has started to recognise that without respect for basic human rights, the market economy is a half-empty shell. But will the EBRD in future stand tall next to those principles and push for human rights, a free media and a strong civil society that are essential for fighting corruption and building a stable economy in countries like Russia?

The whole concept of 'transition impact', which the EBRD prides itself on measuring, needs to be changed to reflect these social issues. Set against this background, the EBRD should ask itself what added transition value it can bring to the region when its own transparency in terms of its governing bodies is less than the governments in many countries of operation.

Last, there is no bigger environmental issue these days then energy. Regrettably the EBRD's intention to tackle the huge amounts of energy being wasted in the region is in danger of being undermined by its own continued fostering of fossil fuel extraction in the face of the overwhelming science regarding climate change. The EBRD seems intent on ensuring that the central and eastern European region remains a cheap energy source for Europe, the US and Japan. The EBRD's tendency to ignore a wide range of the Sakhalin II project's impacts, while blithely accepting the outrageous behaviour of Shell, is a shocking encapsulation of this trend.

Prostitution, trafficking and STDs on the rise in EBRD oil projects

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With a final funding decision on the highly controversial Sakhalin II Phase 2 project said to be scheduled for later this summer, the EBRD now has yet further concrete evidence that Shell's "flagship" project is breaching its policies and should therefore not receive the bank's backing.

The gender-specific negative impacts presented in the report range from increased anxiety about the safety of children due to increased heavy vehicle traffic, to rising crime levels and sexual harassment. Furthermore, it reveals trafficking of women, and increased prostitution and sexually transmitted diseases in communities that have witnessed an inflow of predominantly foreign male workers. Overall the social fabric of the pipeline-blighted local communities in Azerbaijan, Georgia and Sakhalin has been undermined, with acutely grave impacts for women and their status within their communities.

The report presents an evaluation of documents produced by the EBRD, IFC, BTC Co and Sakhalin Energy, and describes how the projects have failed to identify the negative gender impacts and to protect women from disproportionately bearing negative impacts. Furthermore, the investors have not ensured that women and men benefit equally from the limited benefits of the two projects. In fact, the short-term economic benefits brought by the two projects have not reached far and wide as promised, and have not eased the fears of local communities for the future.

While the alarming negative environmental impacts of the BTC and Sakhalin II projects are widely known as a result of close and concerted monitoring from civil society groups around the world, *Boom times blues* argues that the gender-specific impacts of these billion dollar oil projects have been dreadfully overlooked. With its support for BTC – a project being hailed by the EBRD and IFC as a successful project – and, potentially, for Sakhalin II, the report concludes that the EBRD is sanctioning the failures of BTC/Botaş and Sakhalin Energy to address gender issues.

The report argues that the EBRD's involvement in the two projects so far has also failed to "provide [the] suitable social safety nets for vulnerable members of the community", which the bank's current environmental policy envisions as necessary for achieving "progress towards sustainable development".

Embarrassments in recent years over the negative social impacts of its financed projects have alerted the EBRD to issues such as workers rights, involuntary resettlement and indigenous peoples. However, the gender impacts of its projects have remained a marginal area for the EBRD.

In 2006 the EBRD is preparing to revise its environmental policy which covers social issues. Presently the EBRD policy does not have specific safeguards for so called vulnerable groups, and without stricter guidelines and those safeguards in its future policy the EBRD's sustainable development aspirations may be left in tatters by big oil's bottom line again in the future.

▶ ***Boom time blues: Big oil's gender impacts in Azerbaijan, Georgia and Sakhalin*:**
http://www.bankwatch.org/publications/

THE EBRD'S PIP SHOW

Ahead of this year's EBRD Annual Meeting, the Bank has noticeably fast-tracked the revision of its Public Information Policy (PIP), and should be flagging the board of directors' approval of the new policy during the meeting in London. As it does so, the EBRD is under pressure to present clear developments in its lending transparency in the central and eastern European countries where, after all, the EBRD's promotion of transparency is intended to be fundamental to its operations.

However, speedy decisions have a tendency to quickly start looking like rushed decisions. The draft of the new PIP policy made available for public comments as well as a recent meeting between the Global Transparency Initative — a network of civil society organisations promoting openness in the international financial institutions — and the EBRD's directors have revealed that the Bank is in no hurry to firmly occupy a leading position among the public development banks when it comes to transparency and access to information.

At the end of January this year, prior to the formal beginning of the PIP review procedure, Bankwatch submitted to the EBRD a set of preliminary recommendations identifying priority points for the PIP review. The recommendations included the disclosure of minutes from EBRD board meetings, as well as a record of executive directors' votes, the adoption of procedural guidelines to govern information requests and appeal processes, the introduction of regular public consultations across the EBRD's full range of policy reviews, and the timely release of social and environmental reports throughout the project cycle.

"I'M AFRAID THIS IS FOR THE BANK AND PRIVATE SECTOR ONLY."

In early March, the EBRD released the PIP 2006 review draft for external comment. Only one of Bankwatch's preliminary recommendations was reflected in the draft, and not even in its entirety. Although the EBRD agreed to release board meeting minutes, it refused to disclose the voting records of executive directors, thus preventing the public from holding their country representatives – the executive directors – accountable for key decisions on projects and operations. Furthermore, the report on implementation of the existing PIP for 2005 was released only five days before the end of the consultation period, leaving next to no time for proper assessment of it.

The new policy undoubtedly contains a number of significant improvements, such as: the wider disclosure of general institutional information and accountability; making public the minutes of the board of directors' meetings; the enhancement of public participation in the development of country strategies; and the translating of project summary documents into national languages.

However, there are areas where the EBRD is still resistant to go further: the lack of any right of appeal from an initial refusal to disclose information, caused by some shortcomings with the EBRD's current Independent Recourse Mechanism process for this purpose; a lack of a narrowly defined list of exceptions to non-disclosure; no provision for the ability of third parties to decide which information is confidential; as well as the above-mentioned continued limitations to transparency at board level.

Ironically, while PIP regulates and guides the procedures for public consultations during EBRD policy reviews, the consultations surrounding its own review were not exactly state-of-the-art. Bankwatch presented EBRD Secretary General Reichenbach with constructive suggestions on how to make the 2006 PIP review process more inclusive and responsive to external comments. Regrettably, the EBRD management ignored Bankwatch's recommendations on organising a set of dedicated consultation meetings with NGO representatives, inviting the Aarhus Convention secretariat to participate in the meeting and disclosing external comments in their original form.

At the time of going to press it seems more than likely that the new PIP will be approved by the EBRD Board without substantial deviations from the draft policy. The Bank may be positioning itself to open up further its more eastern countries of operation to western investors. However, it may well have missed out on an opportunity to provide some significant reassurance for people in countries where, at the national level, information disclosure and transparency are increasingly imperiled.

Azerbaijan's oil boom showing troubling signs

Azerbaijan's GDP growth in recent years has been undeniably impressive. In 2004, GDP increased by 10.2 percent and in 2005 economic growth jumped by an extraordinary 40.2 percent. The GDP expansion is mainly due to oil development and the continued high oil prices. However, given that Azerbaijan cannot depend on oil for long, with an estimated 2010 peak production for both oil and gas, it is vital to the country's economic future and to the welfare of its population that the government seeks to reduce its heavy dependence on oil and diversify its economy.

Recognizing this fact, a main goal of international financial institutions' (IFI) assistance and of the Azerbaijani government's poverty reduction program is economic diversification. Since 1994, the IFIs, including the World Bank, IFC, EBRD, and IMF have approved more than USD 3.4 billion in financing to the Government of Azerbaijan and to private companies operating in Azerbaijan. A key question here, then, is: has a decade of IFI lending put in place the conditions necessary to sustain growth in the non-oil sectors of Azerbaijan?

A recent paper produced by the Bank Information Center reveals several concerns, including: continued widespread poverty (although it has decreased since the economic collapse, it still stands at 40.2 percent), high unemployment (14-20 percent), a growing dependence on oil, and possible signs of Dutch Disease. Furthermore, instead of focusing efforts on economic diversification, IFI assistance appears to have contributed to the problem of growing oil dependence.

Growing dependence on oil

In addition to oil-related economic growth, the non-oil sectors have also experienced substantial growth including 13.4 percent GDP growth and 36 percent export growth in 2004 (IMF, 2005). Although non-oil GDP and exports have increased substantially in recent years, it does not necessarily translate into economic diversification as the recent non-oil sector growth has not been enough to even make a dent in Azerbaijan's excessive dependence on the oil sector. Figures in Table 1 indicate that the oil sector's

	2001	2002	2003	2004	2005 (proj.)
Oil GDP	32%	31%	30%	31%	39%
Non-oil GDP	68%	69%	70%	69%	61%

Source: Based on nominal GDP figures in billion manat as provided in IMF, PRGF Review, August 2005.

TABLE 1. OIL AND NON-OIL SECTORS AS A PERCENT OF GDP

already hefty share of GDP, at greater than 30 percent, is growing and most likely will continue to grow over the next five years as oil production reaches its peak in 2010. With regard to the recent strong growth registered in non-oil exports, Table 2 indicates that this recent growth does not necessarily lead to diversifying the economy. First, non-oil exports started with a relatively small baseline value. Second, non-oil represents a small share of total exports, e.g., oil exports accounted for 90 percent of all exports in 2005. Third, non-oil exports have a slower growth rate compared to oil exports. Based on estimates for 2005, during the period of 2002-2005, the average percentage growth of oil exports exceeds non-oil exports. Lastly, and potentially most tellingly, Table 2 indicates that the growth in non-oil exports may be considerably slowing down, going from 36 percent in 2004 to only 10 percent in 2005

With the IFC and EBRD-supported mega oil project Azeri-Chirag-Gunashli offshore oil field and its supporting transport pipeline, Baku-Tbilisi-Ceyhan (BTC), coming on-line in 2006, the oil dependency trend illustrated above stands only to become more severe in the foreseeable future – GDP is projected to double by 2010 from BTC-related revenues.

	2002		2003			2004			2005 (est.)		
	mill. $	% of exps.	mill. $	% of exps.	annual % Δ	mill. $	% of exps.	annual % Δ	mill. $	% of exps.	annual % Δ
Oil & oil products	2,046	89%	2,250	86%	10%	3,097	86%	38%	4,989	90%	61%
Non-oil	259	11%	374	14%	44%	512	14%	36%	563	10%	10%
Total	2,305		2,624			3,609			5,552		

Sources: Dollar value of exports obtained from IMF, PRGF Review, August 2005 and IMF, June 2005.

TABLE 2. AZERBAIJAN EXPORTS

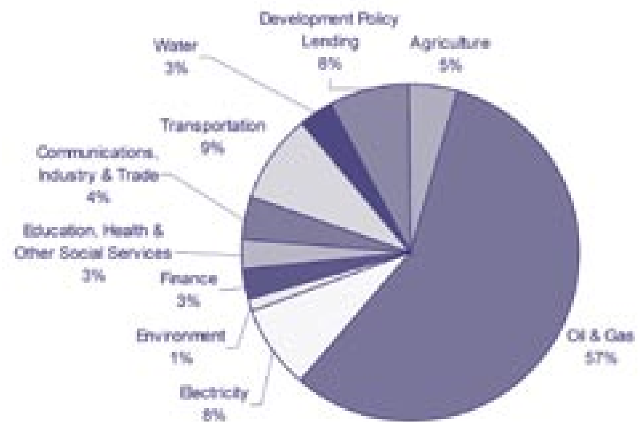

CHART 1: IFI LENDING BY SECTOR

Signs of Dutch disease?
IMF estimates for 2005 show a substantial real effective exchange rate (REER) appreciation (defined as the price of tradables to the price of non-tradables) stemming from large capital inflows and a relatively expansionary policy stance (IMF, 2005). Furthermore, the IMF states that the REER appreciation is thought to have contributed to a recorded slowdown in non-oil export growth to 5 percent year-on-year in the first quarter of 2005 (IMF, 2005). If such a scenario were to continue, it would be a textbook case of Dutch disease, where the loss of competitiveness of a nation's economy occurs as a result of a natural-resource-inspired boom that raises the value of the domestic currency, making manufactured goods, i.e. traditional tradeables, less competitive, increasing imports, and decreasing exports.Also troubling is increasing inflation. For 2005, inflation was reported at 9.6 percent. Both the IMF and EBRD warn of rising inflation for 2006, with the EBRD recently estimating the figure to be 13 percent.

IFI assistance overly focused on oil and gas
Although the IFIs have supported several initiatives and projects aimed at creating conditions for economic diversification in Azerbaijan – the creation of an Oil Fund, anti-corruption laws, financing for small and medium enterprises, and assistance for agriculture – other IFI financing appears to have counteracted these efforts.

Table 3 provides the share of World Bank, IFC, and EBRD lending going to the oil and gas sector of Azerbaijan and Chart 1 illustrates the sectoral distribution of the lending. The IFC and EBRD's project finance is heavily concentrated in oil and gas, with 93 percent and 66 percent respectively. Across the three IFIs', overall lending is still 57 percent to oil and gas. Thus, it appears that the lending operations of the three most significant IFI lenders to Azerbaijan may have contributed to Azerbaijan's growing dependence on oil.

Investment into Azerbaijan's non-oil sectors continues to be significantly constrained by poor governance and a lack of adequate supply of electricity and gas, two problems that a decade of IFI lending has yet to resolve. The lack of success may be due to not enough focus of IFI lending on these issues, and/or, in the case of poor governance, IFI support for measures that counteract efforts to improve governance.

	Oil & gas	%	Other	%	Total
World Bank	41	6%	693.72	94%	734.72
IFC	620	93%	48.85	7%	668.85
EBRD	924.50	66%	475.93	34%	1,400.43
Total	1,585.50	57%	1,218.50	43%	2,804.00

Sources: World Bank, IFC, and EBRD project information documents; figures as of October 2005

TABLE 3. IFI LENDING TO THE OIL AND GAS SECTOR (MILLION USD)

Do PSAs prolong poor governance?
The investment strategy for the oil and gas sector in Azerbaijan supported by the World Bank and EBRD relied heavily on Production Sharing Agreements (PSAs) to attract foreign investors to the sector. As such, the World Bank (IDA, 2005) maintains that "the hydrocarbons sector has been relatively insensitive to the overall investment climate due to its special contractual arrangements with the [Azerbaijan] authorities under PSAs."

The PSA model contract with its "special arrangements" does not apply to non-hydrocarbon sectors and the US State Department (2005) reports: *"Government bureaucracy, weak legal institutions and predatory behavior by politically connected monopoly interests have severely hindered investment outside of the energy sector."*

By design, PSAs allow the oil and gas sector investors to effectively by-pass a lack of legal and regulatory frameworks that continue to hinder investment in the non-oil sectors. PSAs establish the rights and responsibilities and profit sharing arrangements between the foreign oil/gas companies and the government. In addition, PSAs often include provisions that stipulate environmental responsibilities, tax rates, tax exemptions, and international arbitration requirements.

Thus far, PSAs have ushered in substantial foreign investment into oil and gas. As a result, the government now has a steady stream of revenue to keep its coffers overflowing for some time. Instead of using potential foreign oil investment as an incentive to first improve governance, the current PSA-driven scenario in Azerbaijan stands to

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Georgia's economic situation less than rosy

Georgia's economic performance is being hailed by its government, with back up from the EBRD and other international financial institutions, as nothing short of miraculous. In February this year, President Saakashvili talked up the so-called good times in his annual address to the Georgian parliament, claiming that: "Compared to 2002, taking inflation into account, per capita GDP has almost doubled and has reached USD 1,421." At a business forum in London earlier this month, EBRD president Jean Lemierre urged businesses to invest in Georgia which he described as a "good story" for investors. Yet for Georgians the reality couldn't be much different.

Independent Georgian experts balk at official government inflation statistics for 2005 of 6.2 percent, stressing that the government calculates the inflation only in relation to dollars, without taking into account increased oil and gas prices. A more realistic inflation rate for 2005, according to independent experts, was around 9-11 percent, while the rate of unemployment increased from 12 to 17 percent. Nor does the World Bank's Country Partnership Strategy for 2005 disguise the fact that more than 50 percent of the Georgian population continue to live under the poverty line, with 17.4 percent still facing extreme poverty.

State massaging down of cost of living statistics has also drawn scepticism from economists not aligned with the young reformers in the Saakashvili administration. And this disconnect between the government's economic fanfare and the reality on the ground extends also to the business community.

Alongside Jean Lemierre, Georgian prime minister Zurab Nogaideli held forth recently in London on his aims to transform Georgia into a "business-friendly haven". The EBRD's most recent Georgian country report enthuses about apparent improvements to the business climate: "Georgia's indicator reflecting governance and structural reforms of enterprises rose from 2 to 2+, after the government managed to improve the business environment, tighten budget restrictions and reduce corruption". However, while the government optimistically reports about the creation of a friendly investment climate for foreign and domestic investments, in fact all Georgian businesses, regardless of size and longevity, are experiencing difficulties.

An EBRD appraised new tax code, decreasing business taxes from 21 percent to 7 percent, came into force on January 1, 2005. Yet its introduction has been deeply unpopular. Beneath the headline cuts, it transpires, higher contributions to social taxes have been accompanied with drastically spiraling paperwork requirements.

As a result, say independent experts, small businesses are being virtually stopped in their tracks. If alarm bells are ringing within government economic circles as well as at the EBRD, with its keen eye for SME promotion and development, publicly the administration has been blasé, even to the extent where a number of leading governmental officials are on the record as saying that a faltering small business sector will not hit the Georgian economy.

Meanwhile large and medium-sized businesses are being asked to cough up for so-called "non-budgetary funds", like the "Law machinery development fund" that exists under the Prosecutor General and Ministry of Interior, and a "Defence fund" controlled by the Defence ministry. Officially, such funds receive injections via business sector "donations".

Recently Badri Patarkashvili, the Chair of the Business Federation of Georgia, openly criticised the accepted practice of forced donation to such funds, observing that in 2005 alone the cash flows into the "law machinery development fund" amounted to 160 million Georgian Lari (USD 87 million USD), while it is impossible to actually control how the government is using such sums.

Despite furious government denials, the representatives of NGOs, civil society and political parties have confirmed that after more than a year of related court cases, they have been unable to get information about the incomes and expenditures of the non-budgetary funds. With continued enormous strains on the Georgian budget (pensioners receive USD 18 per month), it is difficult to avoid the suspicion that influential pockets are being lined at the expense of Georgians struggling at the sharp end.

More and more Georgian SME representatives are starting to speak out not only about state blackmailing, but also about the changes in the law making it easier to register a new business. While before this process could take months, now it is even possible in one day. However, once registered, it is almost impossible to get your SME off the ground without strong lobbying and nepotism. While the number of specific corruption cases has decreased in recent times, there is a growing number of cases where local and regional governors compel SMEs to hand over shares in their business.

Nepotism still plays a vital role in Georgian business development at all levels. If during Eduard Shevardnadze's period in power the most successful businessmen were his cousins and relatives, in the new Georgian era they have been replaced by parliamentary representatives from the majority National-Democrats. Alarmingly, while the National-Democrat start to prepare legislation that would allow a sitting member of parliament to have di-

▲ "Believe me, it looks a lot better than it tastes."

rect business interests, an opposition parliamentarian from the Republican party, Valeri Gelashvili, has had his mandate torn up on the grounds that he was lobbying on behalf of his own business.

Foreign companies face the same quandaries as Georgian companies of course. If you're not prepared to play the game, then you can forget about investing in Georgia. In 2005 the Austrian company Schirnhofer announced plans to construct a meat processing factory in Georgia, involving a EUR 14 million investment. However, in March 2006, at the Georgia-Austrian Business Forum, Schirnhofer raised serious concerns regarding the obstacles it faced in trying to invest in Georgia. For three months, a number of trailers with production that Schirnhofer was importing into Georgia were held, without explanation, at Georgian customs.

The list of such cases is long, but not beyond the means of an independent judiciary. However an OECD report from March this year once again highlighted serious problems with the independence of the Georgian judiciary system, as well as problems related to human rights protection and freedom of the media. The Saakashvili administration's aggressive and much vaunted privatisation drive is also failing to live up to earlier commitments to proceed transparently and fairly – the ultimate losers once again are people in Georgia.

Indeed the Georgian press teems with privatisation-related scandals. The bulk of Georgia's privatisation revenues to date have come from three sales, two of which have already been cancelled. In the case of the Ocean Shipping Company, the Armstrong Holding Corporation won the bidding, agreeing to pay USD161 million, but subsequently backed out of the deal, and the shipping fleet was ultimately sold to a joint British-American venture for USD 90 million. The Chiatura manganese factory and the Vartsikhe hydro power plant were originally sold as a package in January to the Russian company EvrAzHolding and the

Georgian-Austrian DMC-Ferro joint venture for a reported USD 132 million. However, in June the winners announced they would not go through with the purchase. The collapse of the deal left a hole in the state budget, as the expected income had already been factored into the government's fiscal plan for 2005.

Accompanying – and perhaps a contributory factor to – these major privatisation hiccups is less public participation and scrutiny than was the case even under the Shevadnaze administration, and such trends could be here to stay in Georgia. While legislation on environmental impact assessment (EIA) is still lacking, the law on "Licenses and permits" allowing entrepreneurs to receive licenses for business activities also ensures the fast-tracking of potentially harmful major projects such as oil and gas extraction and aluminum processing. Three small waste incinerators in Tbilisi and upgrades to the airport – so-called 'national interest' projects – have sailed through the permission process recently.

New legislation governing Georgian EIA procedures is underway, with reasonable proposals elaborated with the support of the World Bank and the Dutch Commission. However, the Georgian ministry of the environment is also in the midst of preparing proposals that would do nothing to support the environment - the main aim is to increase flows to the budget seemingly at any price.

Unfortunately the situation is very similar to the late nineties when the IMF and World Bank praised the government's efforts and successes in the development of the economy and GDP was wedded to increased exports of natural raw materials rather than local economic development. Only in 2000-2001 did the Bank and Fund wake up to the fact that there was in fact no economic development taking place in Georgia as a result of endemic corruption.

Greater EBRD focus is expected in the coming years on early transition countries like Georgia. The veneer of economic respectability that the Saakashvili government is currently peddling should not blind the EBRD to the crippling barriers currently facing the Georgian population and Georgian businesses alike.

New energy targets don't tell the whole story

The EBRD's new energy policy, one of its key operational documents, has been under discussion for the last eighteen months. With signing off of the draft policy by the EBRD's board expected soon after this year's EBRD Annual Meeting, the new policy will emerge at a crucial phase for the bank as attention falls on its five-yearly Capital Resources Review. An expected increased emphasis on Russia and the lesser developed eastern states will make the EBRD's energy portfolio a keynote instrument for the next five years in this resources-rich neighbourhood of central and eastern Europe (CEE).

Arguably, therefore, the draft energy policy – which has just recently undergone an obligatory public comment period, attracting wide-ranging and constructive civil society input – can be read as a dress rehearsal for a wider recalibration of the EBRD's activities. If so, will the adoption of a rather cosmetic energy efficiency and renewable energy target trailed in the draft energy policy be just about the only thing distinguishing the next five years from the last?

In an International Herald Tribune op-ed last month primarily concerned with China, EBRD Chief Economist Erik Berglof indirectly hinted at a template for the EBRD's future operations, warning thus about the economic success story of central and eastern Europe so far: "...catch-up growth has been confined to foreign-controlled companies and banks. Even more worrying, investments in research and development as a share of gross domestic product are at the same low levels as in the mid-1990s."

Sustainable growth for the region, it seems reasonable to infer from such an analysis, will derive from increased EBRD focus and support for small- and medium- sized enterprises, the development of technologically advanced domestic industries and increased production of goods with high added value.

Berglof may have not had the editorial space to expound further on how this will translate into concrete EBRD commitments, but, with climate change now an accepted mainstream concern, you don't have to be a committed environmentalist to discern that, among other things, essential EBRD support for the fledgling CEE renewable energy sector ought to be firmly in the new frame. At the same time, support for the predominantly western-owned extractives sector ought to now have reached the limits of public financial generosity. Alas, the EBRD' draft energy policy deals a crushing blow to these urgently necessary ambitions.

On the positive side, the EBRD will make energy efficiency the "cornerstone" of its new energy policy – given CEE's notorious energy intensity, both an economic and

environmental albatross, there was no other choice. But even here, with the proposal to adopt a finite EUR 1 billion target for loans or investments in energy efficiency and renewable energy projects for the period 2006 to 2010 (EUR 674 million was committed in total in the 2001-05 period), rather than a percentage target of the overall EBRD energy portfolio to bravely drive the bank's lendings onwards to an altogether more sustainable equilibrium, the suspicion is that pressing climate issues are not being embraced but grudgingly recognised.

The result? One single investment currently in the EBRD's project pipeline – a proposed EUR 190 million loan for Hydro OGK Modernization in Russia – will practically fulfil the target for one year. Ambition is about as present as tobacco in a Dublin pub.

Similar imbalances are keenly felt throughout the draft policy. EBRD leverage in general — "[The EBRD] is heavily engaged in 'policy dialogue', which means it has regular contact with governments outside the simple scope of a project" — is a marvellous thing. On extractives — "Through its involvement, the Bank will, in line with its Environmental Policy, not only require project sponsors to minimise and mitigate adverse effects on local communities, but will examine ways in which a project or related activities may benefit the local community." — said leverage is a wondrous thing. When it comes to the development of renewables, "lack of political will" is, however, a force to be reckoned with.

Yet on extractives, the EBRD song remains the same, even with the most startling capitulation of the bank's standards so far – Shell's unfit for purpose Sakhalin II project – looming. With no apologies to what has gone before, we read: "The Bank will therefore continue to consider financing extractive projects if they are consistent with the Bank's mandate, and provided that acceptable technical, financial, governance, transparency and environmental standards are capable of being met."

Western oil companies could soon find themselves jostling for space on the EBRD's energy radar with CEE's state-owned nuclear operators. Jean Lemierre may have personally ruled out (during a recent face-to-face encounter with Bulgarian NGOs) EBRD involvement in the development of Bulgaria's ill-conceived Belene nuclear power plant, but his energy staff may well be eyeing the longer game.

Beyond embarrassing assertions within the draft energy policy that nuclear power stations emit "no significant greenhouse gas emissions", the EBRD's proposal to jettison the previously existing link between the EBRD's involvement in nuclear safety measures and the closure of high risk reactors in the region has provoked alarm amongst the environmental community.

The timing of such a proposal couldn't be more acute. As the world remembered the 1986 Chernobyl disaster last month, the World Bank released its new paper on 'Clean energy and development' which, among other things, endorses nuclear energy as a critical "clean energy" solution. Squeezing renewable energy to the margins, this surprising, troubling high-profile document includes no explicit World Bank commitments to start subsidising nuclear development. So who will? Is the EBRD in the frame to become not only the first international development bank to subsidise the nuclear industry but also the World Bank's Trojan nuclear donkey?

With shrill, energy-related headlines bubbling to the surface unpredictably every week, one disappointing fact seems almost guaranteed – the EBRD still has no meaningful game plan to cool things down with a concerted, strategic commitment to sustainable energy.

▲ EBRD AND FRIENDS IN A CORNER, SINGING THE SAME OLD SONG

EBRD kiss and tell reinvents transition

Bojan Dejak is no Joseph Stiglitz, the Nobel Economist and author of *Globalisation and its Discontents*, the best-selling insider account of the Washington consensus-mania that gripped the World Bank and IMF during Stiglitz's tenure as Senior Vice President and Chief Economist of the Bank. Having served as Slovenia's representative at the EBRD from 2002 to 2005, Dejak has recently published a slim volume with a big title: *The Cold War was won in the nineties, or a Short history of the European Bank for Reconstruction and Development*.

Billed as "the experiences and perception of an officer on the transition frontline", we are boldly forewarned that these will "differ from the strategies and description of events from protagonists at [EBRD] headquarters." Notably the text contains no direct testimony from any of the millions of people in central and eastern Europe that have been touched directly or indirectly by the EBRD since 1991.

What we do get, in the best tradition of a fireside reminisce over a bottle of slivovice or three, is a hotchpotch of predominantly cheer-leading analysis, celebrating the EBRD's role over the last fifteen years, tempered by occasional intriguingly candid glimpses of la realité, which themselves tend to get rebutted within the same chapter, or the same paragraph.

In the opening chapters, Dejak declares: "The benefit of [an EBRD project] to the citizens of a transition country or the financing of the public good has never been among the explicit pursuits of the EBRD, and if somebody in the description of the positive sides of a project happens to mention anything to this effect, he or she receives nothing but a condescending smile." Does the daily toleration of condescension feature in the job descriptions of the EBRD's outreach staff, one wonders?

Next sentence: "EBRD projects are undoubtedly beneficial to the citizens of former socialist countries, but that is not the only positive outcome of the EBRD's operations." Indeed no, regardless of whether it's a matter of some embarrassment or a badge of honour (it's difficult to know, but chances are the latter), Bejak is unequivocal about the benefits enjoyed by the bank's majority western shareholders as they secure transition impacts for the EBRD's countries of operation: "entering new markets, supplying goods and services under contracts, broadening political influence etc." The list is wisely truncated.

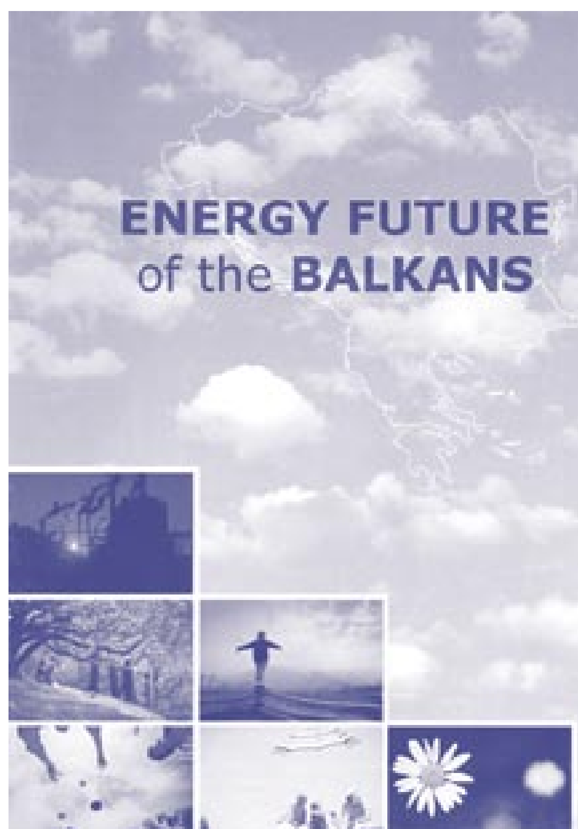
What of the EBRD's fabled transition impacts, faithfully regurgitated by Bejak citing the methodology of the Office of the Chief Economist? In practice, concerning the Sakhalin II project, which Bejak encountered owing to its markedly long and troublesome gestation period around

Balkan energy future map

A new map of energy projects in South-east Europe, put together by Stability Pact Watch, shows how the region is being turned into a fossil fuel transit corridor and a source of dirty energy for the European Union.

Current and planned fossil fuel and nuclear projects total at least USD 18 billion, dwarfing the roughly USD 253 million required for current and planned IFI- supported renewable energy and energy efficiency projects. And this despite the desperate need for improved energy efficiency across the region and its massive potential for renewables' development. Key regional players such as the World Bank and the EBRD say they have recognised the importance of developing energy efficiency and renewable energy in the region, but so far the evidence on the ground is desperately thin.

▶ The map can be seen online at: http://www.bankwatch.org/balkan_energy/ Copies can also be ordered by contacting: main@bankwatch.org



the corridors of the EBRD, it's worth quoting his conclusions at length:

"The EBRD could not take upon itself the burden of the risks involved in the decision and almost pulled out of from subsequent financing of the project. The people of Sakhalin are probably more adaptable and will quickly exchange their idyllic lifestyle for the achievements of globalisation. After all, it is more comfortable to watch Discovery Channel in a warm room than chase fish around a stormy and ice cold sea. This is also a kind of transition."

The poverty of the analysis is shocking, but here is Bejak´s unpacking of the findings of the EBRD's first Transition Report in 1994: "A market economy, in contrast to central planning, was also believed to be in harmony with the very essence of man, concealed in his individuality." He earlier informs that, in contrast to loud justifications from Marxists in favour of the "historic necessity" of their program, "the modern leaders of revolutionary changes manage without any epochal theory".

Taken as a whole, this bewildering line in unjoined-up analysis is more than irritating. The EBRD's contrasting stance towards Belarus and Azerbaijan – both have hard line rulers, the one with vast natural resources is accepted into the EBRD fold, the one without and with arguably the less hard line ruler gets the cold shoulder – is tolerated by Bejak via nostalgic hankerings after Tito.

When he does put in some sustained critique of the EBRD's approach, as with his analysis of the EBRD's concerted promotion of SMEs in central and eastern Europe and the dangers of western SME consultancies being the prime beneficiaries rather than the actual transition targets, Bejak's tangled web of ad hoc analysis soon trips him up, as he opines: "One of the advantages of transition reforms based on the advice of foreign consultants is that a reform can be presented to the public as a necessary evil and introduced before the various interest groups that stand to lose out manage to unite in effective opposition."

The same applies to his sporadic views on NGOs. Not long after learning that the EBRD's directors had been "astonished" to learn at the 2005 Belgrade annual meeting about the disreputable business practices of one of the bank's "model" clients in Serbia (a story broken by a Serbian NGO, but not cited as such by Bejak), the author doles out this advice to NGOs: "They must become better professionally qualified ... in order to be able to suitably monitor very complex projects and draw attention to their shortcomings at an early enough stage."

The abiding sense from this book is that Bejak really misses being at the EBRD's top table, being treated along with colleagues by the bank's management, as he puts it, like "farmed mushrooms": being kept in the dark and fed rubbish. "Like in any great empire," he writes, describing the bank's trans-European reach, "the sun never sets on the EBRD." Perhaps he should be told that the sun never set on the British empire because god could never trust an Englishman in the dark.

▶ ***The Cold War was won in the nineties* is published by Trafford Publishing.**

The Memory Hole

"You know that we pay a lot of attention to the environment. We have very clear policies. We do of course intend to respect those. There are clear commitments which have to be respected."

Jean Lemierre on Sakhalin II, the president's press conference at the EBRD annual meeting in Belgrade, May 23, 2005

Some of Sakhalin II's fundamental violations of the EBRD's environment policy – ongoing...

1. Construction of an off-shore platform base adjacent to the only feeding habitat of the critically endangered Western Gray Whale before experts expressing concerns can even complete their professional analysis.

2. Violation of Russian legislation by pipeline construction damage to over 100 wild salmon rivers and spawning beds – evidence uncovered along the right of way in April 2006 that undermines Shell's 'best practice' claims.

3. Violation of Russian legislation by pier construction and dumping of dredging wastes into the fisheries-rich Aniva Bay.

4. Wholesale lack of baseline data makes the project's environmental documentation permanently unfit for purpose.

"We recognize the issues, the company recognizes the issues ... our end analysis is that they've been addressed."

Jeffrey Jeter, EBRD environment adviser, quoted in Bloomberg, March 16, 2006

▶ **Ten Reasons Why EBRD Should Not Finance Sakhalin II: http://www.pacificenvironment.org/article.php?id=401**

New Zagreb waste strategy fails to justify incineration

Zagreb's long-awaited waste strategy is finally finished, but it fails to make a convincing case for the planned EUR 161.4 million waste-to-energy incinerator, according to environmental group Green Action. The EBRD is considering financing the project, but Green Action is calling on the Bank not to do so unless 12 key conditions are fulfilled.

"While we welcome the fact that a waste strategy for Zagreb has been developed, it is unacceptable that in spite of our repeated requests there was no public access to this document before it was approved. The strategy looks like it has been written with the sole intention of justifying the construction of the incinerator," commented Marijan Galovic of Green Action. "Its only redeeming feature is the sensible plan to charge for waste collection by quantity instead of by house size."

Recycling is the big loser in the strategy. A recycling target of 50 percent by 2025 is set, compared to the current pitiful 4.5 percent, but the measure proposed (increasing the number of recycling yards from 5 to 20) stands no chance of achieving this, and the City Council steadfastly refuses to examine door-to-door collection of recyclable and organic waste.

"The strategy makes repeated comparisons with Vienna as a justification for building an incinerator. Yet when it comes to implementing door-to-door recycling collections, Vienna's recycling system, which includes separated house-to house collection of organic and some recyclable waste, is apparently too expensive for Zagreb. No evidence is presented to back this up," points out Pippa Gallop of CEE Bankwatch Network.

Most tellingly, the strategy makes budget calculations for various activities but does not mention financing sources for any of them except the incinerator, leaving almost no chance that they will be implemented. While EUR 161.4 million is to be spent on incineration, only EUR 4.5 million has been calculated for recycling facilities.

The predictions for the quantities and composition of waste also went out of date before the strategy was even finished, thanks to Croatia's new regulation on packaging and packaging waste, which has seen a large increase in PET bottles being recycled since its introduction in January 2006.

Green Action will be submitting comments on the new waste strategy to Zagreb City Council and the EBRD, and is calling on the Bank not to accept the findings of the strategy in its current form. In line with its Environmental Policy, in which the EBRD states that it "will attach particular importance to promoting energy and resource efficiency, waste reduction [...] renewable resources and resource recovery, recycling," and the EU's Waste Hierarchy, which puts recycling before incineration with energy recovery, the Bank should demand a full analysis of the costs and benefits of implementing a door-to-door recycling and organic waste collection, incorporating the effects of this and the Packaging and Packaging Waste Regulation on waste projections.

It is also crucial that comments and suggestions from the public should be sought and incorporated into the strategy, and that funding sources should be outlined for all activities.

"Decision-making on Zagreb City Council's previous EBRD-financed projects has been characterised by a lack of transparency and the projects have left unsolved problems involving hazardous waste and sewage sludge that could have been prevented with early and comprehensive public participation. We hope that the EBRD will make it clear to Zagreb City Council that public participation includes consultation before decisions are made rather than simply presenting a fait accompli," concluded Gallop.

AZERBAIJAN'S OIL BOOM SHOWING TROUBLING SIGNS

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make it even more difficult to ensure that the necessary changes will be made to improve governance across the economy. In this way, the PSA contract model promoted by the World Bank and EBRD may be prolonging poor governance and thus creating an unintended barrier to non-hydrocarbon growth.

Considering Azerbaijan's increasing dependence on oil for economic diversification. Now that Azerbaijan has more than enough revenue streaming in from the oil sector, and, as a result, no need to borrow from the IFIs, it is questionable if the necessary changes will take place to improve governance and, hence, the prospects for economic diversification.

Heike Mainhardt-Gibbs, Bank Information Center

Editorial board: Greig Aitken, Petr Hlobil, Kiara Schirova, David Hoffman
Newsletter of the CEE Bankwatch Network on International Financial Flows

Address: CEE Bankwatch Network, Jičínská 8, 130 00 Praha 3, Czech Republic
Tel./Fax (+ 420) 274 816 571
E-mail: main@bankwatch.org, www.bankwatch.org