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Too much carbon in EU funding – Commission rubber stamps 30 percent rise in Polish GHGs

In the upcoming 2007-2013 budgetary period, the European Union will spend EUR 347 billion – more than a third of its total budget – on subsidies from its structural and cohesion funds. In the same period, Europe will have to deliver serious cuts in its greenhouse gas (GHG) emissions in order to achieve the recently agreed targets of 30 percent reduction by 2020 and 60-80 percent by 2050.

Worryingly, these two parallel EU policies are uncoordinated and thus are on course to clash with each other. Indeed, climate change concerns are barely recognised in the 2007-2013 funding plans, which are currently being negotiated between the member states and the European Commission. Staggeringly, the EU and its member states

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EIB approves Bujagali Dam in Uganda despite major flaws

Who could be against a project that provides energy to Uganda, a country with one of the lowest rates of electrification in the world and one of the highest poverty rates? A country where blackouts are part of the fabric of life?

Quite a few of us, it turns out, and for a variety of reasons. The Bujagali Dam project, to be built just below Lake Victoria on the Nile, is not such an obviously bad project – no slave labour building the dam or millions of people displaced. In other words, no deal-breaker for the world's reputation-conscious development banks.

However, in the years that activists in Uganda and worldwide worked to save the Victoria Nile from yet another

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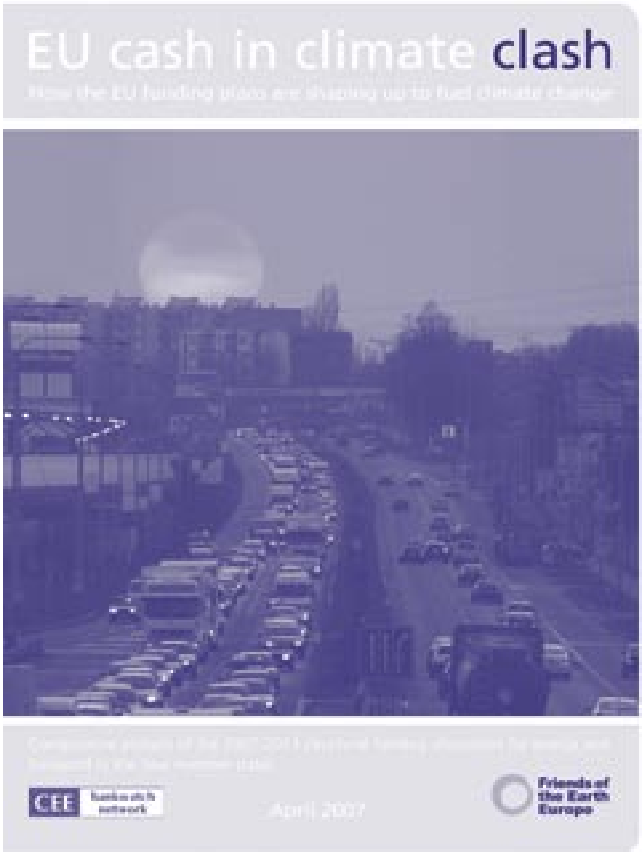
thus appear likely to undermine their own objectives with their own subsidies!

The past record of the EU funds signals a dire warning. The four countries that have so far received by far the most EU funds per capita – Spain, Portugal, Greece, and Ireland – have also witnessed by far the greatest increases in GHG emissions in the EU over the last 15 years.

If the EU wants to tackle climate change effectively, it would have to make sure that the same scenario is not repeated, especially in central and eastern Europe (CEE) which will receive over half of the funds – EUR 177 billion – in the 2007-2013 period. In fact, the EU funds should contribute to the opposite: pushing GHG emissions down while improving standards of living. The subsidies should be used to help CEE countries reconcile their right to develop with their obligation to cut emissions by moving to a climate-friendly development path.

There is a broad consensus today that such development is technically and economically possible and that the benefits of switching to a climate-friendly path greatly outweigh the costs. Last year's Stern Review, the recent IPCC report and the European Commission's own climate change strategy all point to this conclusion. An overwhelming share of fossil-fuel based emissions can be eliminated through maximising energy efficiency, switching to renewable energy, and curbing the rampant growth of road transport.



▲ **New report available at: http://bankwatch.org/documents/EU_cash_climate_clash.pdf**

If the 2007-2013 funding was systematically directed towards energy efficiency, renewable energy and sustainable mobility, CEE countries could avoid repeating the scenario experienced by countries like Spain. This could also gradually ease the current opposition to serious action on climate change in some CEE countries.

Unfortunately, the CEE countries seem set to miss the opportunity to embark on climate-friendly development. According to an analysis of the draft 2007-2013 funding plans – published by CEE Bankwatch Network and Friends of the Earth Europe in April – EU funding threatens to lock the new member states into high-emission infrastructure for many years. Planned support for energy efficiency and renewables is meagre and the transport subsidies are primed to once again favour roads and motorways at the expense of public transport.

Energy efficiency and renewable energy have each been allocated only one per cent of all EU funds – 1.8 billion euros – in the ten CEE countries taken as whole. Poland and Hungary score the worst in this regard. But no single CEE country is planning to promote efficient and renewable energy comprehensively throughout EU funding in all key sectors, namely industry, the power sector, and housing. This is despite the fact that the energy intensity of the CEE 10 economies is on average 50 percent higher than in the EU-15 and that there is large but unused renewable energy potential.

Around 50 billion euros have been allocated for EU financed investments in transport infrastructure in the CEE 10 countries. Out of this total, at least 53 percent is to be spent on roads and motorways. Less than a third has been allocated for railways and only ten percent for urban and regional public transport, which have suffered from chronic under-investment in the CEE countries in the past 15 years. In particular, Romania, Slovakia, and Lithuania seem most keen not to use almost any EU funding for public urban transport.

This is while trains and urban public transport produce on average three times less CO2 emissions per passenger-kilometre than private cars. For freight transport, trains cause more than five times less emissions per tonne-kilometre than trucks. However, the implications of transport funding for GHG emissions are not addressed at all in the new member states' funding plans.

Despite the grim outlook, the European Commission will have the final say. CEE Bankwatch Network and Friends of the Earth Europe have called on the Commission to revise the funding plans to avoid losing seven more years and billions of euros to unsustainable and energy-intensive development.

The news is mixed so far. In several cases, the Commission has acted to increase member states' funding shares for energy efficiency and public transport. On the other hand, on May 7 the Commission approved Poland's national strategy for the use of EU funds, which explicitly aims to increase Poland's GHG emissions by a full 30 percent between 2004 and 2013. Such a strategy for using EUR 67 billion – almost one-fifth of the total EU funds budget for 2007-2013 – runs directly against common EU climate goals and should not have been accepted by the Commission.

How can the climate and energy commitments agreed by EU leaders at the summit in March be taken seriously if the EU undermines them with its second biggest budget line?

CEE Bankwatch Network and Friends of the Earth Europe will continue monitoring the funding negotiations and will keep asking for a major rethink of EU funds to put them in line with the EU's climate objectives.

EIB APPROVES BUJAGALI DAM IN UGANDA DESPITE MAJOR FLAWS

large dam, the Bujagali project's flaws began to add up as its benefits diminished. By the time the World Bank and EIB approved the project this spring, the USD 800 million dam was found to be flawed on economic grounds, in protections for endangered fisheries, and in its potential to harm Lake Victoria.

FAST FACTS ON BUJAGALI PROJECT

Project cost: USD 799 million (not including transmission system)
Reservoir: 388 hectare reservoir will flood Bujagali Falls, a national landmark
Capacity: Promoters say 250 megawatts, but during low river flows could be much less.
Timeline: Construction is expected to begin mid-2007 and be complete by 2011-12. Money matters: The EIB's contribution was EUR 100 million. Other donors include the World Bank Group (USD 360 million in loans and guarantees) and the African Development Bank (USD 110 million).
Developer: Bujagali Energy, a joint venture between Kenya-based Industrial Promotion Services (an affiliate of the Aga Khan) and US-based Sithe Global Power (partly owned by UK-based Blackstone Group), with construction by Italy's Salini.
Affected people: About 5,000 people will be directly affected by project construction and land take.

More to the point for Uganda's citizens, the hugely expensive dam will not bring power to those in need: its electricity will be too expensive, and connections to the national grid for rural villages too dear. An independent economist who reviewed the World Bank's findings states, "The project is expected to have little or no positive impact on the majority of Ugandans now without electricity, and, at best, only a moderate benefit to the overall Ugandan economy."

Frank Muramuzi of Uganda's National Association of Professional Environmentalists (NAPE) says: "The high cost of the project will further limit funds available for rural electrification, and will likely lead to reductions in tariff subsidies for grid-connected users. Uganda already has the most expensive power in the region and tariffs have more than doubled in recent months, thus pushing more people out of the already limited market for electricity."

Equally disturbing is the lengths taken by the various parties to downplay the project's hydrological risks. The World Bank's least-cost analysis ignored extensive evidence that climate change will reduce outflows in the Nile; and proposes a new hydrological flow pattern for the operating dam complex that could slow the recovery of Lake Victoria.

Independent hydrologist Daniel Kull, whose 2006 study documented how the two existing dams were responsible for more than half the recent drops in Lake Victoria, says the project's hydrology analysis "starts by ignoring the true damage done to Lake Victoria by the existing dams and follows with a selective and optimistic view of current lake levels and possible climate change impacts. It is disturbing that the banks would approve a major infrastructure project based on biased hydrologic analyses."

The result could be a repeat performance of the Kiira Dam debacle, in which the World Bank used over-optimistic hydrological projections to justify that dam's projected capacity – projections which led to over-releases of water from the dam and dropping water levels in Lake Victoria.
It is particularly striking that the IFIs would accept the argument that climate change will not significantly affect River Nile flows. Climate change experts familiar with the science on the Nile say that hotter temperatures are expected to lead to a reduction in the Lake's outflow. Lower flows will wreak havoc on Uganda, as it relies on the Nile for virtually all of its electricity (a situation that will be exacerbated by the building of Bujagali). It is hard to imagine any Northern country accepting a project that would make it almost 100 percent dependent on one form of electricity, and one that is uniquely vulnerable to climate change. The IFIs are proceeding without any guarantee that the operators of Bujagali will be any more careful to protect the Lake's level than the previous dams have been. NAPE's

"It's not completely your fault, you weren't the only one involved"

Muramuzi says, "The dam's developers say they cannot control the outflow of water from upstream dams, so there is no guarantee that the current pattern of unsustainable releases will be stopped."

The project's environmental impact assessment was also flawed in its analysis of the dam's impacts on fisheries. Les Kaufman, a US fisheries expert with longtime experience studying the Nile, has concluded that the existing studies are "inadequate to rule out a likelihood of negative impacts to the survival of endangered species caused by dam construction ... The potential impacts to species diversity and ecosystem services from the proposed dam are extremely high." He recommends additional comprehensive baseline studies, a sustainability plan for the Victoria Nile, and improved mitigation measures. It appears his concerns were ignored by the IFIs.

Not up to best-practice standards

On March 5, 2007, NAPE and others filed a complaint with the World Bank Inspection Panel, citing concerns about potential violations of World Bank policies on Bujagali. The Panel had just completed an eligibility visit when the two IFIs made their decisions to support the project.

Groups have also documented the project's non-compliance with the best-practice standards described by the World Commission on Dams (WCD): see Analyzing Bujagali Dam Against the WCD, by IRN and NAPE, available at: http://www.irn.org/pdf/bujagali/BujagaliWCD2007.pdf.

In 2005, the EIB told IRN that it will "align to" the recommendations of the WCD for any large dams from which it sources carbon credits. Yet the Bujagali project fails to meet the WCD's standards on many key areas, including comprehensive options assessments, addressing the impacts of the two existing dams, analysing cumulative impacts, and others. For example, on the issue of options assessments, Uganda's energy crisis is real, but it has been amplified by its over-dependence on hydropower from the Nile and minimal efforts to develop the other hundreds of megawatts of cleaner energy sources (including plugging leaks in the system: the national grid is estimated to leak a third of the electricity that flows into it) that could have been prioritised before Bujagali.

Sadly, the Bujagali Dam story seems to be the story of Africa's energy-development past, present and future. There is no "Apollo Program" to light Africa's villages, but there are dozens of plans to build mega-dams that will power mines, smelters and factories. While the IFIs hope for a trickle-down benefit from their grand schemes, Uganda's rural poor know they will remain in the dark even after Bujagali comes online.

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Environmental and social safeguards – time to get serious at the EIB

Since the beginning of the dialogue between EIB and NGOs there has been one issue which has never gone away: the need for clear environmental and social standards – and clear procedures on how these would be applied – for EIB projects outside the EU.

It's evident that up to now the majority of the EIB's operations have taken place within the EU, and that the EU has its own environmental standards. It is now impossible to count how many times we have heard this excuse for doing nothing from EIB staff. Yet in reality the EIB's lending outside of the EU is greater than that of the African Development Bank or the European Bank for Reconstruction and Development, and comparable to that of the Asian Development Bank - all of which do have safeguard policies that clearly spell out standards which project sponsors have to respect as well as procedures that their staff need to follow while assessing projects.

Recently new IFC Performance Standards were adopted, and the EBRD is currently reviewing its Environment & Social policy, one of the reasons being that: "many stakeholders, including EBRD members, NGOs and clients, seek greater clarity on what the Bank requires in practice if its Policy and Procedures are to be met."

The EIB meanwhile can no longer hide itself behind statements about the 'highest standards' and 'best practice'. These words need to be converted into a concrete new policy and procedures which must be applied in all EIB projects outside the EU.

If the EIB is to make sincere commitments in its upcoming review of its environmental policy, then the first steps should be that its Management Committee requests the bank's Operations Evaluation department to conduct an evaluation of projects outside the EU. This evaluation should be carried out from the perspective of the application of "highest environmental and social standards" as the EIB highlights this in its current environmental policy, namely those established by the EU or deriving from international conventions and agreements, including among others the adequacy and quality of environmental and social assessment, public participation and access to environmental information.

Poland facing trial in European Court of Justice over Via Baltica

A few years ago nobody could have foreseen that the small town of Augustow in North East Poland would have become so famous across Europe due to the construction of a road bypass for the town, part of I European Transport Corridor. The number of press articles about the case is probably equal to the number of tourists who have recently come to Augustow in order to admire the Rospuda Valley, the outstanding local nature site endangered by the bypass construction.

The I European Transport Corridor, otherwise known as the "Via Baltica", is an express road running from Helsinki to Warsaw. Officially the construction of the road has not even started yet but in reality the corridor does exist. Every day thousands of heavy trucks journey from the Baltic states through Augustow and through five great nature sites of European importance, including the Rospuda Valley, a Natura 2000 site which provides a habitat for the endangered and protected Lesser-spotted and White-tailed Eagle, capercaillie, lynx, wolf and others.

In December 2006 the European Commission opened an infringement procedure against the Polish government for consenting to a series of eight road developments along the Via Baltica, including the Augustow bypass. After receiving an unsatisfactory response to its reasoned opinion, the European Commission decided to take Poland to the European Court of Justice.

However the Commission did not prevent the issuing of a final construction consent and construction started in March. Currently the construction works are being carried out outside the Natura 2000 site due to birds breeding season which is due to finish in July. The Commission has already announced it will apply to the ECJ for cessation of the construction works in order to protect the Natura 2000 site.

It seems that the ECJ may have agreed with the Commission application when in April it issued an order requiring the Polish authorities not to begin or to suspend afforestation operations in the Puszcza Augustowska special protection zone. These afforestation operations were proposed as a compensatory measure for the authorised destruction of the natural habitat of Puszcza Augustowska, even though the Ostoja Augustowska zone where it is located is set to be proposed as a site of EU importance.
The Polish government appears oblivious to the risk of failure at the ECJ. It claims that EU legislation does not apply to the Augustow bypass construction. However also in April the Regional Administrative Court in Warsaw reached a verdict that the opinion of the Polish Minister of Environment – Jan Szyszko – on the environmental conditions of the consent for the construction of the Augustow bypass has been annulled. The government has announced that it will apply for the cessation of the judgment.

Poland's prime minister, Jaroslaw Kaczynski, has also commented on the protests of ecological groups and the European Commission, saying: "We need to ensure cheap and fast road development. We need to remove development obstacles."

NGOs argue that sustainable development for transport can not come on the cheap. It requires searching for the best environmental solutions, mitigation measures and compensation schemes. Cheap and fast solutions will in the end turn out to be the most expensive – and slow – when the fines for damage inflicted on the environment start piling up.

Dos and donts - how the EIB can avoid development pitfalls

You can't win the Kentucky Derby with a thoroughbred cow

So goes an opening assertion from William Easterly in his most recent book *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good.* Easterly's years as a senior research economist at the World Bank inform his metaphor about the inefficacy of the multilateral aid model to deliver beneficial, sustainable results for the world's poor.

At the core of his critique, Easterly identifies two groups of people and their respective methods to address the challenges of making aid work. First up we have 'Planners', those "visionaries, celebrities, presidents, chancellors of the exchequer, bureaucracies, armies... [that] apply global blueprints [but] at the top lack knowledge of the bottom". Second, the 'Searchers,' those more concerned with finding piecemeal and practical, smaller-scale solutions for effective aid projects and programs than the lofty and utopian dreams embodied in the mission statement – 'A world free of poverty' – emblazoned in the lobby of the World Bank's headquarters.

Easterly argues that it's the Planners' 'Big Push' mentality that is responsible for development aid's ineffectiveness. It is a question of a cow in a horse race, the irrationality of assigning a prefixed goal without any reason to believe it can be achieved with the means available. Easterly further defines the Big Push as the heir apparent to the 'shock therapy' and 'structural adjustment' programs applied in Africa in the seventies and eighties and the states of the former Eastern Bloc, in which the imposition of ad hoc free markets and governmental reforms were forced upon many countries still reeling from decades of colonisation and communism. Given what we now know about the Wolfowitz years at the World Bank, Easterly is definitely on to something when he quips, "Planners with no feedback and accountability cannot impose a system of feedback and accountability!".

Much of the book's analyses follows to debunk the "legends of the 'Big Push'", specifically that: poor countries are stuck in a poverty trap which can only be alleviated by large amounts of aid; bad growth is caused by this poverty trap rather than bad governments; and big aid pushes are the sole impetus to growth.

Here Easterly's analysis is lucid, employing copious data and historical examples to dispel these myths, ranging from the Bank's grave miscalculations by imposing drastic free-market reform shock therapy to the tune of "thousands of percent inflation and a decade of production collapse" in transitioning Russia, to the glaring absence of correlations between the amount of aid a country receives and its economic growth (and, conversely, the high volumes of aid a country receives and the higher levels of government corruption.)

His solutions however – primarily the infallibility of free markets to solve the dilemma of ineffective aid – are less convincing. For Easterly, the miracles of the market are embodied by the 'Searchers', who can be motivated by the magic of 'demand' to find solutions in delivering aid to the poor. Among other things, Easterly believes aid lending as a free-market tool would encourage donors to specialise in those 'supply' areas where they are most effective (health, education etc.) and promote feedback and accountability to their 'consumer' constituency, the poor.

The problem with markets as a panacea for making aid work is that poor people often lack the access and capital necessary to entice the 'Searchers' to deliver aid effectively. As Easterly himself points out: "The tragedy of poverty is that the poorest people in the world have no money or political power to motivate searchers to address their desperate needs, while the rich can use their money and power through well-developed markets and accountable bureaucracies to address theirs".

"Despite the poor marks, we've decided to increase your allowance again"

The primary conclusion from Easterly is that a lack of accountability for judging whether lending has actually achieved its intended results plagues aid efforts, delivering the cutting but apposite observation that "Aid agencies are rewarded for setting goals rather than reaching them, since goals are observable to rich-country public while results are not."

Easterly ends by demanding genuine, honest and independent evaluations of the aid agencies themselves. He further argues that transparent and open disclosure about aid-financed projects is critical to effectively accountable aid systems.

Some of Easterly's conclusions are particularly relevant for a different beast set to compete in a race for which it's not quite ready. With the expansion of its external lending mandate late last year, the European Investment Bank (EIB) will now move beyond lending mostly for projects inside EU borders with the realisation of a more thoroughgoing investment program involving EUR 25.8 billion over the next seven years for regions outside the EU, and a further EUR 2 billion to be made available if necessary after 2010. There's also an existing EUR 3.7 billion for Africa, Caribbean and Pacific countries during the period 2003-2008, and while it's unclear how much this amount will be beyond 2008, it is likely to increase. These developments have raised more than a number of eyebrows among civil society and groups monitoring the EIB's activities.

As the EIB moves towards playing a greater role in the disbursement of EU aid budgets, it becomes less like a bank and more like a development institution, and as such could learn a number of lessons from the failures of the World Bank to ensure that aid actually works. Specifically in the case of the EIB is the absence of the necessary mechanisms to promote proper accountability and feedback – that would be available via the EIB's adoption of robust social and environmental procedures and benchmarks – and mechanisms for battling corruption and promoting accountability.

The EIB's recent first round of consultations during its review of the EIB anti-fraud and anti-corruption strategy are a step in the right direction towards adopting a framework that promotes accountability for its operations. However, the revised policy needs to be more proactive in combating corruption, take advantage of both EU law and international best practice to guide it, and adopt innovative and flexible approaches to maximise anti-corruption mechanisms in its lending. With a second round of consultations yet to come, the EIB still has the opportunity to push its policy in a more proactive direction.

And while signing onto the European Principles for the Environment last summer is well and good for the EIB, it still must demonstrate more than just an empty affirmation of aid institutions' love for Big Plans and begin to understand the ways in which aid can actually work for the benefit of the poor. For instance, myriad 'planners' often approach the EIB to develop the private sector in the Global South; but if the issue is energy security, this doesn't mean securing fuels for European markets and revenues for European companies, but rather ensuring domestic energy supplies and consumption for those in the South who need it most. One way to demand accountability of the EIB for this lending is by thoroughly and independently reviewing the implementation of its environmental policy in its operations beyond the EU.

William Easterly's The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good *is available from Oxford University Press.*

When is corruption not corruption? Ask the EIB

Corruption has been much in the news lately in IFI circles, thanks in no small part to that most sure-footed of international statesmen, Paul Wolfowitz. Having alienated his World Bank staffers with an anti-corruption drive in which many sensed a hidden agenda of neo-conservative American policy, Wolfowitz again demonstrated that political genius for which Iraqis are so grateful by being caught red-handed in a corruption scandal involving his girlfriend.

Despite this classic display of self-petard-hoisting, Wolfowitz has managed to place corruption high on the development agenda, and where the World Bank leads, the European Investment Bank usually comes limping along behind. The EIB is currently in the middle of a "Public Consultation on Review of EIB's Policy, Guidelines and Procedures on Fighting Corruption, Fraud, Money Laundering and the Financing of Terrorism," a title which suggests even before the off that the EIB is trying to stuff too many ill-matched clothes into the same suitcase.

And so it is proving, compounded by the fact that many of the garments are baggy, ill-fitting and not of the highest quality. The EIB's first draft of its corruption policy, despite its cumbersome nomenclature, is (in keeping with the bank's longstanding traditions) notably short on binding and legally enforceable mechanisms, relying instead on vague suggestions and hortatory 'principles'.

Having claimed in the draft document that "the EIB will not tolerate corruption, fraud or other illegal actions," the bank pushes the limits of its tolerance by steadfastly refusing to take an active role in investigating the activities of its customers. Instead, it relies on the clients themselves to tell the EIB whether or not they are in compliance with the law, and even whether they are corrupt or not: "A borrower must inform the Bank of any fact or information suggestive of a fraudulent or corrupt practice."

As popular as the idea of 'voluntary codes of practice' have become in corporate circles in recent years, an anti-corruption policy predicated on corrupt businessmen and politicos calling up to confess their sins in a fit of conscience seems slightly over-optimistic. It is particularly naďve given that corruption often stems from chains of representation, commission paid by corporations to agents to secure contracts.

But herein lies the fundamental question over anti-corruption activity: when is corruption not corruption? Answer: when it is an integral part of development policy in the Global South, as promulgated by western financial institutions. Over the past two decades, the World Bank has consistently advanced an agenda – the Washington consensus – consisting of trade liberalisation, privatisation of state assets and deregulation of systems of protection and oversight.

The result has been to create an insane scramble of tiny private elites all across the 'developing' world for control of collective public resources on which billions of people depend and into which equal numbers have poured years of work and effort. In this unfolding of pure market logic, corruption plays and continues to play a central role, greasing wheels and expediting massive social changes that would otherwise meet with resistance from existing powerholders. Corruption does not have to be an intentional part of the IFIs' blueprint to be integral to it.

As Naomi Klein (listing an array of major profiteers from these policies that stretches from Boris Yeltsin to Augusto Pinochet) noted in an April 28 article for The Nation, elite self-enrichment has consistently been seen as "unfortunate local embellishments on an otherwise ethical economic modernisation project. In fact, corruption was embedded in the very idea of shock therapy....the payoffs for local officials were an indispensable incentive for [them] to create the wide-open market Washington was demanding."

With its new mandate to invest outside the European Union, combined with its almost exclusive support for private capital, the EIB seems set to pick up the neo-liberal baton. This is why it is so disturbing to NGOs to see that the EIB seems even less willing than the World Bank to hold its clients to account with clear, pro-active and legally binding standards on corrupt activity. The only way to stop corruption in development projects is to make it illegal and enforce those laws with tough scrutiny, investigations and sanctions. Anything less than that, let alone a policy that asks the corrupt to turn themselves in at their convenience, risks giving the impression that the EIB finds corruption somehow congenial to its aims.

Perhaps this is an assumption we have derived from years of World Bank-watching: nonetheless, the only way to distinguish yourself from what has gone before you is to distinguish yourself from what has gone before you.

The next round of consultation on the anti-corruption review begins in June.

The memory hole

"What is unbelievably depressing about the [Conservative] government's response is that they see, in the evidence about greenhouse gases, not an opportunity to promote environmental concern but a chance to make the case for nuclear power."

Tony Blair, Neil Kinnock's shadow energy secretary, 1988-89

A High Court judge has ordered a rethink of the UK government's nuclear power plans, after a legal challenge by environmental campaigners Greenpeace.

A judge ruled that the consultation process before the decision last year had been "misleading", "seriously flawed" and "procedurally unfair".

But Tony Blair said while the ruling would change the consultation process, "this won't affect the policy at all".

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