BANKWATCH MAIL

Newsletter of the CEE Bankwatch Network on International Financial Flows
ISSUE 37
MAY 2008

EU billions must help to reduce waste, not boost it

As the new member states of the European Union become wealthier, their patterns of resource consumption are also changing, and their levels of waste generation are becoming an area of growing concern. The EU Structural and Cohesion Funds could play a crucial role in rolling out EU waste legislation and promoting sustainable development across the central and eastern European (CEE) region.

In the 2007-2013 funding period, however, the CEE countries are planning to construct 18 waste incinerators at a total cost of EUR 2 billion, out of which EUR 1.2 billion is being eyed for allocation from the Structural and Cohesion Funds. Bankwatch groups fear that spending billions of EU money on costly incinerators neither addresses the

continued on page 2

European Investment Bank urged to stop fueling the incineration fire

A new Bankwatch report has revealed that the EU's house bank - the EIB - has been massively supporting the incineration industry instead of promoting waste prevention and recycling.

"Fuelling the Fire: European Investment Bank financing for the incinerator industry" shows that, from 2002 to 2006, 68 percent of the EIB's loans in the waste sector supported incineration, even though it is the least preferred method of waste treatment after landfill according to the EU's own policies. Out of a total of EUR 1.47 billion invested by the EIB in waste management, EUR 992.64 million went for incineration, with the remainder used for other categories of projects, including EUR 17 million for two waste sorting facilities and EUR 30 million for a composting plant.

The report also includes case studies of particularly controversial projects, including the planned Zagreb incinerator in Croatia, in which the EIB has expressed an interest

continued on page 2

CONTENTS:

EUROPEAN INVESTMENT BANK URGED TO STOP FUELING THE INCINERATION FIRE

even though the environmental impact assessment was first rejected and then rushed through with no new public consultation after a few cosmetic changes.

With the end of the Waste Framework Directive review in sight, Bankwatch's analysis concludes that the EIB must seize the opportunity to stop bankrolling the incineration industry and direct its waste lending to support waste prevention, recycling and composting.

"Fuelling the Fire: European Investment Bank financing for the incinerator industry" is available for download as a pdf at: http://www.bankwatch.org/documents/fuelling_the_fire.pdf

EU BILLIONS MUST HELP TO REDUCE WASTE, NOT BOOST IT

needs of a city or a region in terms of waste generation and efficiency of resource use, nor does it help countries to fulfil EU requirements under the Community acquis. Such a scenario also raises serious environmental and health questions.

What is the problem?

The planned investments in incineration projects across the CEE countries largely contradict the EU waste management hierarchy, according to which incineration and land filling are the least favourable solutions. The Community strategic guidelines on cohesion (2006/702/EC) explicitly encourage the financing of waste prevention, recycling and biodegradation of waste projects as they are "cost-effective and help to create jobs". By financing the latter, it is more likely that the new member states will be able to fulfill the new recycling targets of 50 percent minimum for municipal solid waste by 2020, as adopted by the Environment Committee of the European Parliament at a second reading in April 2008.

Channeling EU funds towards incineration projects would significantly divert available financial resources away from waste management solutions which are cheaper, socially acceptable, environmentally beneficial and in line with the EU goal of becoming a "recycling society".

Studies by the European Environmental Agency project an exponential increase in waste volumes of 50 percent in CEE countries by 2020 [1]. At present, recycling rates in these countries are very low – approximately 10 percent on average compared with, for example, 60 percent in Belgium.

In this context, it is vital to bear in mind one essential fact about incineration: waste incinerators intrinsically require a permanent influx of waste to keep functioning over time, and thus their presence in the sector only boosts consumption patterns further. Therefore, the primary function of the EU funds in the CEE waste sector must be to strongly support prevention and recycling schemes which can address the expected growth in waste and also bring about better results in resource efficiency by catching up with the front runners in the EU recycling ratings.

You must be choking!

Incineration is usually strongly promoted via the concept of energy recovery. Yet incinerators produce double the greenhouse gas emissions per kilowatt hour of electricity than a coal-fired power plant [2]. It also squanders valuable material that could be recycled, which makes the argument for energy recovery unjustified from the resource efficiency point of view.

Furthermore, a major roll-out of incineration projects across the region could pose a significant impact on climate change compared to the promotion of prevention, reuse and recycling schemes. For example, in 2005, 37 percent of the produced waste in the EU27 was recycled, saving around 158 million tonnes CO2eq [3]. Studies have shown that by 2020 recycling would be able to contribute to emissions savings of up to 75 percent compared to likely 25 percent savings from incineration [4].

Incineration is often socially unacceptable. Incineration facilities do not make waste disappear but reduce it and transform it into toxic pollution – dioxins, furan, acid gases, ash, particulates, nano particles and heavy metals. There are direct and indirect impacts on the adjacent environment from incinerators, which affect the health of local people, workers at the facility as well as inhabitants on the regional scale if they intake contaminated food. With growing research evidence into incineration's side-effects, civic intolerance towards incineration across the EU is also growing.

Fanning the flames in Poland

In the 2007-2013 funding period, Poland plans to build at least nine municipal waste incinerators with the help of EU funding. The projects could potentially consume upwards of EUR 1 billion, with a hoped for contribution from the Cohesion Fund at the level of EUR 579 million Euro. This means that 59 percent of the Cohesion Fund resources for waste management in Poland and 44 percent of the Cohesion Fund and European Regional Development Fund resources are being lined up to finance the nine proposed waste incineration projects. Significantly, all of the nine projects across Poland have been selected

Alternative waste management solutions are urgently needed in Sofia

outwith the standard competition procedure, based on very scarce information, with no alternatives offered and with no concern for public scrutiny.

Such a strong focus on incineration not only runs contrary to the EU waste hierarchy but also prevents the consideration and development of any concrete plans for the improvement of recycling in Poland.

Poland currently recycles around six percent of its municipal waste, whereas the EU average is close to 40 percent. In spite of this, during the programming period for the EU funds, recycling has not been considered as a viable alternative for incineration. Moreover, such heavy investments in incineration will inevitably drive the funds away from separate waste collection, recycling and composting. Under these proposals, Poland's ability to fulfil its commitments towards the EU is also jeopardised: both the Landfill and Packaging Waste Directives and the pro-recycling changes proposed recently in the revised Waste Framework Directive would be little more than pipe dreams if the incineration-intensive plans proceed.

A striking part of these proposals involves the city of Kraków, where a 250,000 tonnes per annum incinerator is facing public opposition. The project failed to obtain Cohesion Fund co-financing in 2005, being rejected at the Steering Committee stage. In spite of ongoing strong social protests, the city is determined to push the investment forward.

The most recent project documentation [5] fails to consider any option for high recycling targets. The financial analysis has been done incorrectly with a very short time span (only up to 2020) in order to prove that the incineration scenario is the cheapest one by not including the significant costs of landfill construction – in this case, even after incineration there is left over waste which still needs to be landfilled.

The capacity of the proposed incinerator is also excessive as the city produces 268,000 tonnes of municipal waste per year, of which only 181,000 tonnes is burnable. What's more, 40 percent of the municipal waste stream is in private hands and, according to Polish law, the municipality cannot force private companies to deliver waste to one chosen facility. All this puts the economic viability and the demand for such investment in question.

Bulgaria – alternatives are feasible, desirable and ready

In the last couple of years, the capital city of Bulgaria, Sofia, has been facing serious waste problems stemming from the packed capacity of the local landfill and civic opposition, culminating in an acute waste crisis. Currently, Sofia municipality is preparing a project application for EU funding under the Operational Program Environment 2007-2013 that involves an incinerator or a Refused Derived Fuel (RDF) plant where waste would be be burnt in cement kilns.

Regrettably, the project's focus on such end-of-pipe technologies is unlikely to solve the pressing waste crisis of the capital as the existing landfill is to be closed. The proposed project will require years to be constructed, if approved. It is also costly and socially unacceptable. On top of this, Sofia still has to deal with more than 600,000 tonnes of accumulated mixed and shredded municipal waste stored in plastic bales that is posing serious environmental and health risks.

As a response, Bankwatch member group Za Zemiata, in coalition with other environmental NGOs, has developed an alternative waste management proposal for the city of Sofia and submitted it officially to the municipal authorities as part of the official environmental impact assessment procedure. The NGO document introduces the resource management approach, which requires binding targets for recycling of 75 percent and excludes burning waste in incinerators or cement kilns such as RDF. Reuse and recycling schemes, therefore, are at the heart of the proposed program.

The NGOs convincingly claim that the vast majority of the municipal waste can be reused and recycled, if properly handled. Experience in Europe and around the world has shown that recycling and composting rates can exceed 80 percent of total induced waste. The alternative also elaborates on a proposal for significant improvement of the separate collection system and the construction of a resource recovery park with reuse, repair and recycling facilities.

Composting is proposed as a solution to part of the organic fraction of the waste. A “Pay as you throw” system is also part of the proposal, to be introduced to encourage people living in Sofia to take up consumption patterns which generate less waste. Information and education activities are foreseen as an integral part of the proposal.

As for final disposal, a small scale landfill is envisaged which would accept only stabilised waste after the processing of remaining residuals through mechanical and biological treatment (MBT). The use of MBT and the landfill will gradually decrease due to higher recycling rates, prevention and reuse measures, with the ultimate goal of Zero Waste.

The alternative developed by the NGOs covers not only the technical aspects but also proposes a comprehensive approach towards an integrated waste management solution for Sofia. Such an approach is economically feasible and should be supported by the EU funds as it not only addresses the critical problems being presented by waste but also offers an environmentally sound alternative.

Landfilling the sky can be avoided

The currently planned incineration projects across the CEE region need to be seriously reconsidered by the European Commission. CEE countries have a unique opportunity to leapfrog onto a sustainable production and consumption development path – and the EU funds are crucial instruments to facilitate such a development. The unjustified allocation of EU billions on costly and harmful incineration projects is very unlikely to solve urban waste problems in the new member states.

Prevention, reuse and recycling schemes on the other hand have been strongly neglected in these countries, in spite of their highly appealing potential. Alternatives exist and are economically feasible – they are also eligible for EU funding. The clear potential to reap environmental and resource efficiency benefits, while being more climate protective and socially acceptable, must not end up in a landfill in the sky.

1. Fourth assessment report. EEA. 2008.
2. “A Changing Climate for Energy from Waste?”, Dominic Hogg, March 6, 2006: the figure counts biogenic CO2 as stated in the IPPC
3. Climate Protection Potentials of EU Recycling Targets. OKOPOL, February 2008.
4. Better Management of Municipal Waste will Reduce GHG Emissions. European Environmental Agency Briefing - 01/2008.
5. Strategic assessment of the waste management system for Kraków together with selection of variants for location of a thermal treatment plant , Kraków, October 2007

Zero waste, zero pain

The last weekend in April saw several Bankwatch coordinators taking part in an inspiring and important meeting featuring zero waste experts, local authorities, citizens and NGOs in the beautiful area of Capannori in Italy. The two-day International Zero Waste Meeting aimed to present real solutions and practices for achieving a “zero waste society”, where incineration and landfill are no longer used. People from across Europe and the United States discussed the challenges and opportunities for Europe to manage its municipal waste sustainably and to reduce related greenhouse gas emissions (GHGs).

The Capannori municipality is the first in Italy to have officially declared a Zero Waste goal by 2020. Currently, 82 percent of the waste generated by the community is either composted or recycled, representing one of the highest diversion rates in Europe.

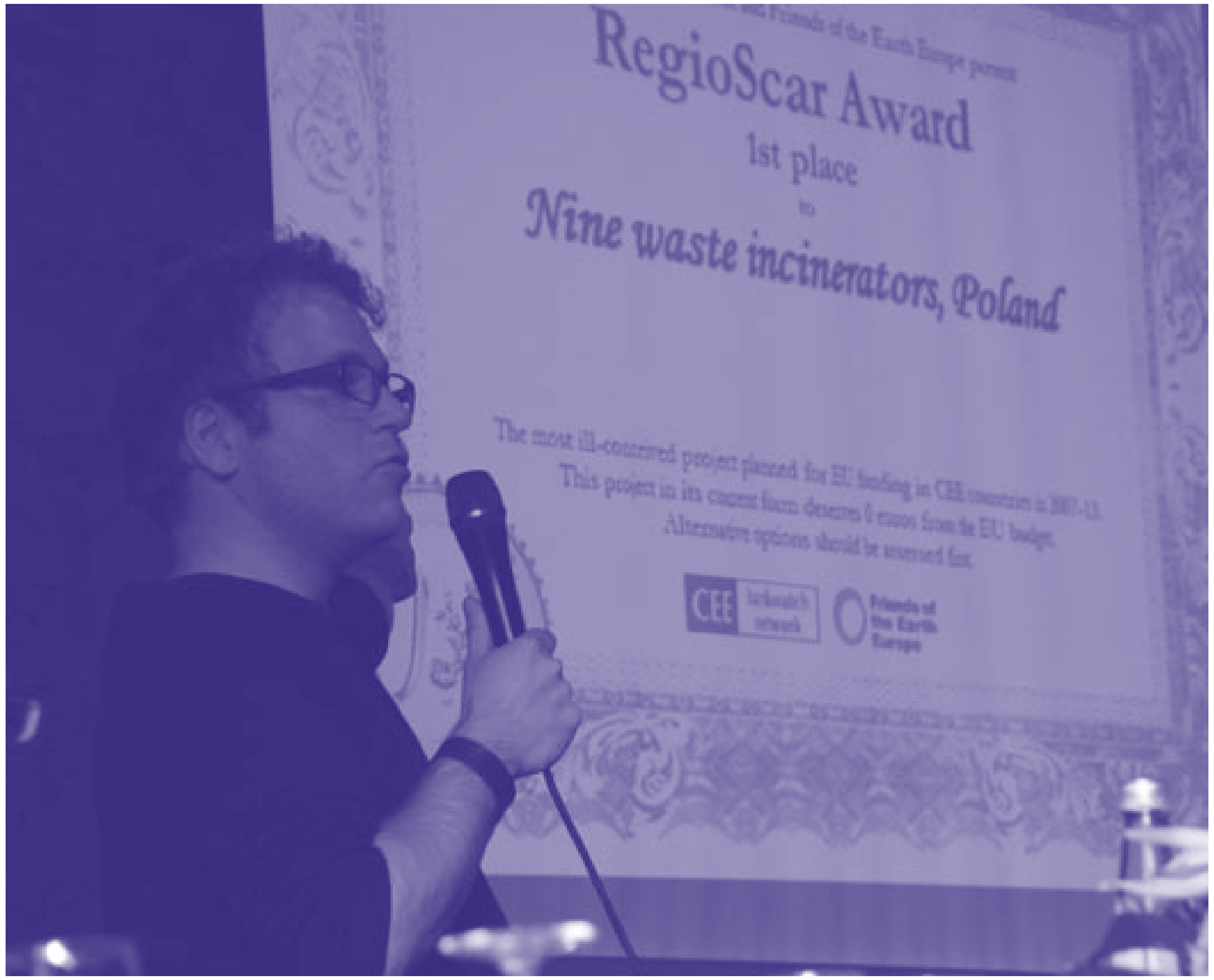
CEE Bankwatch Network, as the only environmental network in central and eastern Europe working on monitoring the multi-lateral public banks and EU funds, presented the current trends and threats in the new member states related to waste management and the use of the EU funds.

Bankwatch’s recently published map entitled “EU and EIB Funding in Central and Eastern Europe: Cohesion or Collision?”, more than EUR 2 billion of EU taxpayers money is currently allocated to be spent on at least 18 waste incinerators across the region. These are being promoted at the expense of more economical and green alternatives, such as waste prevention, recycling and composting.

Controversial cases from Bulgaria and Poland were presented to the audience, demonstrating how the majority of the new member states are on the wrong track in their waste management approaches. With their plans to spend EU and public bank funds on incinerators and after landfills both countries are ignoring the EU goal to become a recycling society.

Moreover, the EU is about to retreat from its own commitment if it weakens the Waste Management Directive which is still under revision.

The reclassification of incineration as recovery and the abolishment of the proposed 50 percent binding target for the recycling of municipal waste by 2020 may be unfortunately clear indicators that the EU refuses to deal with its waste in a sustainable way, and thus allows more GHGs to be released in the atmosphere which could have been saved by reduce, reuse, recycling and composting. The European Parliament is holding its second reading in the middle of June and could still reaffirm its strong position in favour of prevention and recycling.



Bankwatch presentation at the International Zero Waste meeting in Capannori: How nine proposed incinerators in Poland walked away with the RegioScar award

Zero waste is catching on in the Czech Republic thanks to NGO promotion

Bankwatch's Czech member group Hnuti DUHA/ Friends of the Earth Czech Republic has been scoring numerous successes in the waste sector, most recently via public pressure ensuring that waste incinerators in the Czech Republic are non-eligible for financing under the EU's Operational Programme for Environment budget line. As a result, Hnuti DUHA has been turning its attention to other lingering issues in the Czech waste sector.

The Czech Republic has lot of problems in the waste management sector. There are growing volumes of biodegradable waste in Czech landfills. The country's recycling ratio for municipal solid waste is around 20 percent, which compares poorly with the 50+ percent being achieved in Austria and Belgium. Decreased volumes of biowaste in landfills and an increased recycling ratio for municipal solid waste are the main targets of the national waste management plan, but success in achieving these targets is currently not happening.

However, Hnuti DUHA has initiated a project that aims to address these problems. The aim of the Zero Waste Society project is to introduce changes in waste management at the municipal level. Under national waste legislation, the producers of municipal waste are the municipalities, and the municipal authorities and politicians play the key role in waste management.

The project will promote reduce, reuse and recycling (RRR) of municipal waste. At its roots will be the long term push to decrease the amount of mixed municipal waste to 150 kg per person per year (currently it is at the level of 300 kg per person per year) and meet the 50 percent ratio for the recycling of municipal waste.

Ivo Kropacek, Czech waste camapigner and instigator of the new project, said: "The main aim of the project is to realise progressive waste management plans in selected municipalities. Succeses in the initially selected municipalities will help to spread the principles of RRR much more widely across the country to other municipalities. Already, and thanks to close cooperation with us, the municipality of Ostopovice has adopted our approach in its official documentation on municipal waste. We are in discussion with several other municipalities and our proposed solutions are attracting keen interest."

Speaking as Bankwatch Mail went to print and ahead of negotiations between MEPs and Member States on the recycling and prevention targets in a second reading agreement, Kropacek was critical of how European decision-making was shaping up on waste issues: "It is a pity that waste management is being treated by European decision-makers in ways that contradict our positive work here in the Czech Republic. The current situation in the debate around the Waste Framework Directive is very unfortunate. There is a proposal from the European Parliament to redefine incinerators as facilities for energy recovery. In addition, the Environmental Council is against the inclusion of targets for recycling and prevention in the directive."

The EIB undermines Africa

On the website of the European Investment Bank (EIB), you can read that the EU's house bank "has been a development partner in most ACP countries for some 30-40 years" and that it is acting as the EU's "development bank". Yet, when you look into the EIB's loan portfolio in Africa, you can see that, since 2000, the EIB has invested over EUR 750 million in the mining sector in Africa.

Mining is one of the most destructive industries in the world. Open-pit mines devastate ecosystems and spoil the conditions of life of the communities that depend on them. Besides deforestation, toxic pollution and the huge quantities of waste generated by the extractive activities, mines use massive quantities of water and require huge quantities of energy. These are usually provided by fossil fuel or huge dams in order to conduct an inherently non-sustainable activity: the extraction of finite natural resources from the ground. The opening of a pit also tends to bring with it many social problems: displaced people, corruption, conflict over the control of resources, unemployment, and the growth of prostitution and AIDS linked to the massive influx of itinerant workers.

When you factor in that mines create few jobs and generate low tax revenues for the host countries, the only reason why the EIB must be continuing to invest in the sector is its profitability. Indeed, the prices of raw materials are soaring on the commodities' markets, making unexploited African deposits very attractive.

Unfortunately, today, mining activities are undertaken solely for the benefit of industrialised countries. Large western corporations exploit resources and export them to Europe, the United Sates, or emerging countries (such as China, which massively exports manufactured goods made of imported raw materials towards rich countries). Africa, meanwhile, is plundered, traditional activities are vanishing, and promises about employment and economic benefits fail to be materialise.

EIB-backed projects sadly illustrate this situation. For example, in January 2008, 800 people were poisoned in Zambia because of an acid leakage provoked by the Mopani copper mine, whose main stakeholder is the Swiss giant Glencore – a beneficiary of a EUR 48 million loan from the EIB. The accident, the second serious one since the beginning of the exploitation, revealed that the enterprise was in breach of its environmental obligations for more than two years. As far as we can determine, the EIB has not taken any action against the promoter of the project.

In the Democratic Republic of Congo, the only project supported by the EIB since 1991 is the Tenke Fungurume project. It involves the exploitation of the world's largest unexplored copper and cobalt deposit by a consortium lead by the US company Freeport McMoRan. Tenke Fungurume is also well-known for the lack of transparency and the heavy suspicions of corruption surrounding the conclusion of the deal between the state owned company Gécamines and the private investors. In the field, a violent demonstration took place mid-January this year: 5000 people protested against their employment conditions and the breach of promises by the company.

Such situations are possible outside Europe because the EIB is still not bound by EU law when it invests outside the EU. Without any proper environmental, social or developmental standards, the EIB can only assess projects against their rates of return but at the same fail to evaluate, mitigate and monitor their devastating consequences.

The EIB, the financial institution of the EU that is supposed to act as a development bank in Africa, is lending huge amounts of public money to large western corporations – generally not well-known for their respect for environment and human rights – to help them take advantage of increasing prices for raw materials, without any consideration for the disastrous impacts of this polluting, short term and export-oriented activity on the host country and its people. The EIB's "partner for development" mantra must be about as comforting as a triple-shift diktat for affected mine-workers in Africa.

Anne-Sophie Simpere, Les Amis de la Terre (a member of Counter Balance: Challenging the European Investment Bank)

"Can you really get away with that here?"

Strange bedfellows: the EIB's huge fossil fuels portfolio is smothering clean energy initiatives

A poll conducted in April this year by WorldPublicOpinion.org found that majorities in 15 of 16 nations surveyed around the world think that oil is running out and governments should make a major effort to find new sources of energy.

According to the pollsters, 70 percent of the poll respondents (taken from 16 nations around the world, and including Russia, Ukraine and Azerbaijan) hold to the view that governments should assume that "oil is running out and it is necessary to make a major effort to replace oil as a primary source of energy." Might such views have any impact on slowing down and ultimately decommissioning for good the European Investment Bank's fossil fuels supertanker?

Recent research carried out by the German NGO World Economy, Ecology & Development (WEED), a member of the campaign coalition Counter Balance: Challenging the European Investment Bank, reveals that the European Investment Bank (EIB) is by far the largest public funder contributor to fossil fuel development, extraction and power generation.

WEED has analysed the energy portfolios and energy policies of the six most important multinational/regional development banks, including the EIB. In recent years, all of them –including the likes of the World Bank and the European Bank for Reconstruction and Development – have responded to the dramatic challenges of climate change and energy poverty by initiating a range of new initiatives to finance "clean energy" and help developing countries enter a "low-carbon economy".

In spite of the recent promising increase in investments for new renewable energies and energy efficiency, the EIB is by far the largest public lender of fossil fuel projects around the world. Out of EUR 30 billion energy investments committed by the EIB in the 2002-2007 period, more than EUR 12 billion (over USD 18 billion) has gone to oil, gas and coal projects (including fossil fuel fired power plants).

In the period, the EIB invested USD 15.1 billion alone in oil and gas projects, significantly more than all of the other five public development banks combined. Total finance for oil and gas projects in the same period by the Asian Development Bank, the World Bank, the African Development Bank, Inter-American Development Bank and the EBRD totaled USD 11.6 billion. The EIB also stands alone in having financed two nuclear projects in recent years.

The largest public bank investor in the world (in terms of annual loan volumes) must play a part in global change by phasing out its lending for fossil fuels both inside and outside the EU by 2012.

There are seven good reasons to end the EIB's funding for fossil fuels:

1. Lending impact on climate change
Fossil fuel use is clearly one of the major causes of global climate change. As a first step to tackle this problem the EU's house bank should stop financing large-scale fossil fuel projects, such as oil and gas pipelines or coal fired power plants, and instead intensively focus its lending into renewable energy, energy efficiency, research and new technologies implementation.

2. The inevitable dangers for human rights and democracy
In a number of developing countries fossil fuel exploitation has been linked to the abuse of human rights, especially when military forces guard extractive industries projects. So-called project revenues in many cases have been used to strengthen dictatorships or to maintain corrupt systems of public administration.

3. Negative impacts on communities
Oil and gas extraction, with associated pipeline construction, disproportionately affects poor, indigenous and rural communities. These people often end up losing their land and livestock – their main source of food, income and livelihood. They are very often forced to work in dangerous conditions for little pay, and suffer as a result of the pollution and environmental degradation caused by these investments.

4. Stimulating and exacerbating armed conflicts
Fossil fuel projects are all too often found in the middle of socially sensitive areas, where the competition for control of oil revenues may cause or exacerbate civil wars and domestic armed conflicts. This is the situation at present in Chad.

5. Loss of precious ecosystems and biodiversity
From Siberia's boreal forests to the mangroves of Central America, from the rainforests of the Amazon basin and Africa to coastal and oceanic environments everywhere, fossil fuel operations are causing irreversible damage to ecosystems. As a result, every day priceless biodiversity is being lost.

6. Impacts on gender inequity
Seventy percent of the world's poor are women, yet there are no special provisions to ensure that they benefit from fossil fuel projects, while they are most vulnerable to the negative impacts that these types of projects tend to bring. Increased economic dependency on men, the marginalisation of women's roles and responsibilities as well as increased workloads are just some of the examples of fossil fuel impacts on gender inequity.

7. Subsidising mega profit-making corporations
The EIB has financed fossil fuel subsidising mega profit-making international companies with the money of European taxpayers, but not in their interest. In 2006, revenues of Shell, BP, Total and ENI (Agip) totaled a stunning USD 870 billion, while in the same year Shell emitted more greenhouse gases than total gases emitted within Austria, Portugal and Hungary. There are better things to do with public funds than support wealthy oil companies

Bankwatch calls upon the EIB to phase out its lending for all fossil fuel investments by 2012. In particular, the following steps need to be implemented:

• An immediate ban on any fossil fuel projects situated in high conservation value zones, the territories of indigenous people and nations and areas where there is critical armed unrest.

• The disclosure of all direct as well as induced CO2 emissions from the EIB's fossil fuel and mining projects, with the release of supplementary information on mitigation and/or compensation measures that have been undertaken.

• Substantial improvements in the EIB's social and environmental standards, in particular addressing all of the above-mentioned adverse impacts within the 2008 revision of the EIB's environmental policy.

A deluge of public subsidies for Ethiopian dam projects, but public benefits missing

The Gilgel Gibe II hydroelectric project is a 25-kilometre long tunnel that generates power by exploiting the drop between the basin created by the Gilgel Gibe I dam on the Gilgel Gibe river and the Omo river in Ethiopia.

A EUR 490 million contract for the construction of the infrastructure was signed in May 2004 between the Ethiopian Electric Power Corporation (EEPCo) – a fully state-owned company and the sole electric utility in the country – and Salini Costruttori S.p.A., an eminent Italian construction firm that has a strong presence in many African countries. The contract was awarded following a direct negotiation between the two companies; no international tender was called.

In spite of the questionable procurement procedures, in October 2004 the Directorate General for Development Cooperation (DGCS) at the Italian Ministry of Foreign Affairs approved the allocation of a EUR 220 million aid credit to Ethiopia for the realisation of Gilgel Gibe II. The Ministry of Finance and its own internal technical evaluation unit also raised several critical opinions. The loan was the biggest aid credit ever granted by the Italian development revolving fund and it was approved while the Italian government was in the process of ratifying the cancellation of EUR 332.35 million of Ethiopian bilateral debt (subsequently cancelled in January 2005). Concerns were raised within the Italian parliament with formal questions asked in 2004 and 2006, and the loan was investigated by the prosecutor's office of Rome and the Italia Court of Auditors.

The European Investment Bank (EIB) provided another EUR 50 million loan for the project in October 2005. However, the bank did not examine the details of the contract, but accepted the statement of the Ethiopian government that claimed the funding was necessary to redress the imbalance between electricity supply and demand that was creating an emergency situation and hindering the country's economic growth.

The EIB approved the loan when the contract was already signed and the construction work well advanced, requiring an international tender procedure only for the EIB's funded components: the purchase and the installation of the electro-mechanical equipment for which subcontracts were awarded. The EIB was not suitably concerned about the fact that construction work had begun more than one year before, without an environmental permit having been issued by the Environmental Protection Authority.

In 2007 a team from the European Commission monitoring the project identified several other "lessons learned", among them: "The Project was defined without a comprehensive sector support strategy" and "absence of an accompanying programme for social development and capacity building".

The Gilgel Gibe affair is more than simply one 'dodgy' project. These hydroprojects are part of an overall strategy in Ethiopia to develop electricity generation mainly for exportation, in which Salini Costruttori S.p.A. remains a central actor. The Gilgel Gibe III project is the latest and most worrying episode in this saga.

On July 19, 2006, Salini Costruttori S.p.A and EEPCo signed another contract for the building of the Gilgel Gibe III dam on the Omo River, the biggest hydroelectric project ever realised in Ethiopia, with a 240 metre drop that will generate 1870 MW, for a total cost of EUR 1.4 billion. This contract, as with the previous one, was awarded without an international tendering process and the construction of the dam began immediately after the signing of the contract.

The Omo Valley is one of the areas with the largest biodiversity in Africa and it is populated by more than 15 different tribal groups still living via traditional means. In 1980 the valley was declared a World Heritage site by UNESCO.

The dam will have a huge downstream impact that will compromise the traditional methods of agriculture based on the flood of the river from which the food security of almost 100,000 people is dependent. As of April 2008, the project had still not received any financing from financial institutions. The financing for starting the construction were secured by EEPCo itself. Possible financiers of this new subsidy to a western corporation are: the EIB, the Italian government, the African Development Bank, and JP Morgan Chase.

Campagna per la Riforma per la Banca Mondiale and CEE Bankwatch Network released a full report in February 2008 about the Gilgel Gibe hydroelectrical projects. "The Gilgel Gibe Affair" report is available for download at: http://bankwatch.org/documents/gibe_study.pdf

Caterina Amicucci, Campagna per la Riforma per la Banca Mondiale (a member of Counter Balance: Challenging the European Investment Bank)

Report of the Delegation of the European Commission to Ethiopia, August 2007, available online at: http://www.deleth.ec.europa.eu/bluebook/?q=bluebook/project/236/view.

Public consultation on EIB environmental policy at last, but problems persist

The first public consultation on the European Investment Bank's Statement of Environmental and Social Principles and Standards got underway in May and immediately raised some doubts in the minds of civil society stakeholders. Chief among these is that the EIB should provide additional clarity to make the statement operational and in line with EU and international principles and standards. Campaigners believe that the EU's house bank must take full responsibility for its operations and leave behind the vague language that is widespread in the draft statement.

The first EIB Environmental Policy was adopted in 1984. At that time all project-related documentation both before and after EIB board approval was secret, making it next to impossible to assess the EIB's policy implementation. The policy was reviewed in 1996. The 2008 review is thus the second review of the environmental statement, but it is the first one to involve public consultation and, in a positive move at least on paper, the draft document aims to broaden the current scope towards greater assessment of social impacts associated with the EIB's lending activities.

The missing social components

Other than environmental groups, the EIB's public consultation was attended by social and development stakeholders that welcomed the inclusion of social standards. The major problems sticking out, though, are the EIB's proposal to apply and follow the new social standards only in non-EU countries and the fact that the 20-page statement in its current form is inherently an environmental statement with few paragraphs referring to the social principles, thus leaving the threshold for the social standards far too low.

Groups working on social issues, such as the European Peacebuilding Liaison Office and Amnesty International, were strongly critical on these points, arguing that the social component of the statement should be made more integral to the document and put on an equal footing with the environmental part of the statement. Principles and standards linked to conflict sensitivity and human rights, and relevant references to the EU and international law in that regard, are missing.

The International Trade Union Confederation also emphasised that the labour standards selected in the benchmark in the statement are not sufficient and that the statement fails to ensure that the International Core Labour Standards will be transposed in the EIB's operations - the responsibility for this will lie solely in the hands of the project promoter.

From principles to practice

In its public posting of the draft statement for comment, the EIB also refers to its Environmental and Social Practices Handbook published in September 2007 that describes how in its internal practices the EIB considers the environmental and social components in its work. This Handbook is clearly intended as a "live" document that is expected to change over time to incorporate changes in the EIB's principles. Yet a clear link and balance between what principles the EIB should adhere to in its draft Statement and how it will operationalise this in the Handbook (which is not open for comments in the current review) is still missing.

In the environmental part of the statement an important layer of references and benchmarks based on EU environmental law, something that could translate the principles endorsed into practice, is also missing.

For example, the draft statement endorses EU precautionary and prevention principles in regard to the development of projects that could have significant impact on the environment. We see a substantial risk in the non-enforceability of these principles if the EU practice on assessment of the alternatives, and especially alternatives when it comes to impacts on valuable biodiversity sites as prescribed in art.6 of Habitat Directives, is not applied.

Another substantial gap is the lack of requirement for the assessment of cumulative impacts, which is often the case in the EIB's operations when a series of projects in one area is financed. In recent years, the EIB has been involved in the Gibe I and II dam projects in Ethiopia, and is still considering further financing of the associated Gibe III project. These three projects have been assessed separately and have brought about devastating cumulative social and environmental impacts.

Standards for investments outside the EU

Since in recent years the EIB has drastically expanded its operations to finance projects outside the EU, the Counter Balance* coalition of environmental and development groups considers that EU standards should be a minimum requirement for project promoters and that they should be clearly spelled out in the EIB requirements for projects. The standards should not be "subject to discussion" with project promoters in the course of a project's environmental assessment.

Ultimately, the objectives of the external lending of an EU institution should be coherent with EU development policies and international conventions signed by the EU. They should ensure sufficient environmental and social sensitivity in the regions where EU agencies finance, should be about benefiting people in these regions, and not about western profits. We see added value in the EIB's funding drive outside the EU only if EU and international standards are applied.

Future steps

Upon the request of groups affected by the EIB's operations outside the EU, the EIB has now decided to organise an additional public consultation in Warsaw on June 12.

How the EIB responds to the comments and criticisms received by civil society groups remains to be seen in the second round of consultations planned for September 2008. However, in response to a question by an EIB staff member, "is this a clear and non-ambiguous document?" the answer for now was a clear NO.

Counter Balance: Challenging the European Investment Bank is a newly formed European coalition of development and environmental NGOs. The groups involved have extensive experience working on development finance, the international financial institutions and with campaigning to prevent the negative impacts that result from major infrastructure projects.

Counter Balance members are: CEE Bankwatch Network, les Amis de la Terre (France), urgewald and WEED (Germany), Campagna per la Riforma della Banca Mondiale (Italy), BothEnds (Netherlands), Bretton Woods Project (United Kingdom).

Czech roads paved with whose gold exactly?

In the world of European public finance, the Czech Republic has been recently garnering a public reputation for being one of the more advanced, mature economies in central and eastern Europe. In 2006, for instance, the country "graduated" from the World Bank and, similarly, in 2007 was the first of the region's states to graduate from the European Bank for Reconstruction and Development, bringing an end to any further investment assistance from the London-based multi-lateral.

However, in the country's transport sector, scratch beneath the surface and an array of non-transparent, often legally dubious practices tolerated by state agencies quickly become apparent. Several Czech NGOs – including Bankwatch member group Czech Friends of the Earth – have become increasingly concerned about spiralling costs for often ill-conceived road projects. Not only is scarce Czech budget money on the line, but also potentially millions of EU cohesion fund and structural funds aid.

The groups – also including Oziveni, Environmental Law Service and Transparency International – are calling on the European Commission not to provide money unless alternatives to controversially routed major road developments are properly assessed.

Such projects include the northwest segment of the Prague motorway ringroad (R1) and the Brno-Vienna motorway (R52), featured on Bankwatch's map of controversial projects (see http://www.bankwatch.org/billions/) and the Brno-Svitavy motorway (R43), the so-called "Hitler Highway" initiated by German occupiers in the 1940s and now being promoted by the regional authority of South Moravia as well as the Czech Ministry of Transport, despite potentially acute impacts on a densely populated suburb of Brno, the country's second city.

The root of the problem, according to the groups' overall analysis, is that national level decision-making for transport infrastrucutre construction and upgrades is not based on any consistent strategic plan. There is a gap between the National Transport Policy, as a strategy document with general objectives, and the Timetable of the transport infrastructure construction, a rudimentary list (some would say "wish list") of planned projects. No strategic asessment of the planned constructions, one based on multi-criteria analysis, has taken place.

The transport, societal and economic benefits and impacts on the environment have been overlooked, believes Pavel Pribyl from Czech Friends of the Earth and Transport coordinator for CEE Bankwatch Network. "It is currently not clear which projects should be prioritised and why," contends Pribyl. "The Czech Minsitry of transport openly states that it will construct all the projects that are in the Timetable once they receive the necessary permitting."

However, the groups maintain that the Timetable is based on the lowest estimated levels for the total investment costs of the planned constructions, but at the same time based on the highest level of the estimated incomes of the State Transport Infrastructure Fund (STIF). In other words, the real state of preparedness of the projects is not being taken into account, with obvious dangers for the budgetary allocation of billions of Czech crowns. The NGOs are therefore calling for an end to merely formalistic approval of the STIF budget from the Czech parliament and for the introduction of a proper analysis that takes account of different scenarios for determining STIF income and then making sure that investment priorities are set accordingly.

On the project level, major discrepancies between project estimates and final costs have plagued Czech road construction for years, and there are few indications that the problem is being tackled.

For the final section of the D8 (Lovosice-Rehlovice) that is yet to be laid, original official estimates in 1999 totalled CZK 5.1 billion (without VAT), rising by 133 percent to a figure of CZK11.9 billion (without VAT) by 2007. The final cost of the D11 motorway section Libice-Chyst in 2006 was 61 percent higher than the original 1999 estimate (CZK 4.1 billion to CZK 6.7 billion). Originally these road sections were deemed to be economically effective.

Investigations by the Supreme Audit Office have pointed to the fact that expert studies conducted on the order of the Roads and Motorways Directorate – an agency within the Ministry of Transport – are misleading and creating a false picture of problem-free financing for Czech motorways. The Supreme Audit Office's findings have been largely ignored by the ministry and the directorate.

In two of the most acute and pressing current cases involving projects that are also looking for EU funds support, NGOs are demanding that investment analyses are elaborated for the north-west section of R1 and the R52 so that serious and rational decisions on them can be taken. Every project that is to be financed from the STIF should, quite naturally, be based on an investment analysis. There are no exceptional cases specified anywhere.

Nevertheless, the construction preparation for these two projects has already cost millions of Czech crowns, although their routes are still not officially approved. There is a good reason to suspect, the groups believe, that this money has been spent badly, and there is potential to prosecute the Roads and Motorways Directorate that sanctioned the spending. Furthermore, the provision of inappropriate data for the calculation on the economic effectiveness of the north-west section of the R1 could be deemed to be a criminal act as the flawed information resulted subsequently in poor decision-making procedures.

These deficiencies are partially known to the European Commission. This is why the Czech Operational Programme (OP) for Transport – a document that outlines Czech priorities for transport sector investments financed by the Cohesion fund – contains a special preamble that was incorporated to ensure an assessment of alternatives and economic efficiency before the project documents are submitted to the commission. NGOs such as Czech Friends of the Earth and Environmental Law Service played an instrumental role in getting this language into the OP. Their latest findings from their analysis bring yet further proof that there is still a long way to go for the Czech Ministry of Transport to prepare projects that are properly designed and sufficiently credible for financing.

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