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Comments to the 2012 draft Country Strategy for Romania

Bulgaria:

Centre for Environmental
Information and Education
(CEIE)
For the Earth

Czech Republic:

Centrum pro dopravu a
energetiku (CDE)
Hnutí Duha

Estonia:

Estonian Green Movement–FoE

Georgia:

Green Alternative

Hungary:

National Society of
Conservationists – Friends of
the Earth Hungary (MTVSZ)

Latvia

Latvian Green Movement

Lithuania:

Atgaja

Macedonia:

Eko–svest

Poland:

Polish Green Network (PGN)
Institute of Environmental
Economics (IEE)

Serbia:

Center for Ecology and
Sustainable Development
(CEKOR)

Slovakia:

Friends of the Earth – Center
for Environmental Public
Advocacy (FoE–CEPA)

Ukraine:

National Ecological Centre of
Ukraine (NECU)

CEE Bankwatch Network welcomes the draft of the EBRD country strategy for Romania as an appropriate material for the public discussion on the role of EBRD in this country. We take this opportunity to deliver a number of comments and questions and we look forward to taking part in the follow-up discussions.

In December 2011, the European Commission adopted the Communication "Energy Roadmap 2050" [1]. The EU is committed to reducing greenhouse gas emissions to 80-95% below 1990 levels by 2050 in the context of necessary reductions by developed countries as a group. While officially committed to promoting sustainable development and reducing greenhouse gas emissions, the EBRD's expertise and funds should be provided exclusively to projects with positive environmental and social impact in line with the Energy Roadmap 2050.

There are several examples of previously funded projects that follow the principle of sustainability (such as the investments made by the Bank in co-operation with the International Finance Corporation in two wind farms, in 2011) and we welcome these funding initiatives and congratulate the Bank for its significant achievements in the fields of renewable energy and energy efficiency, in particular. However, it is very unfortunate that a major part of funds are still directed and planned towards large-scale projects that often harm the environment and social cohesion and are far from promoting sustainable development, such as fossil fuel energy investments, unsustainable transport and agricultural production systems.

1. Lending to banks

One of the strategic directions of the EBRD's revised country strategy is continuing to support and develop the financial sector. While the rationale for this is understandable, Bankwatch would recommend that decisions on future

support for this sector be based on transparent communication of results of past initiatives and demonstration of positive effects for the real economy. Therefore we would like to raise a number of questions related to past FI investments in Romania.

How does the EBRD establish the additionality of lending to banks in Romania? What has been the impact of EBRD lending to banks in the previous strategy period on access to credit of MSMEs and the real economy? What percentage of the financing was disbursed by intermediary banks? Is it correct that 100% of lending to FI has reached MSMEs? How many MSMEs were reached? What is the current baseline in terms of access to credit at Romanian commercial banks for MSMEs?

2. Energy Sector

One of the Bank's operational responses to the Energy sector challenges is to "encourage investment in the mining sector". While the Strategy mentions a "particular emphasis on supporting best environmental, health and social practices", it does not exclude investments in expanding this sector. We urge the Bank not to support the opening of new mining projects of any type. In case it supports the rehabilitation of existing mines, it should ensure that this step will not lead directly or indirectly to expanding production.

Bankwatch welcomes the fact that the Bank included the need to assist the Romanian government in "Restructuring the power sector and increasing energy efficiency and sustainability" among the top priorities under the "Strategic Orientations". However, the Bank takes into consideration supporting new connections for the delivery of fossil fuels among its operational priorities/operational response in this regard. As the EBRD draft Strategy pointed out, Romania has an important renewable energy potential and consequently, in its strategic direction to develop sustainable energy projects and facilitate the transition to a low carbon economy, the EBRD should strengthen its efforts to support renewable energy facilities that use local resources (solar, wind, biomass and small hydro power plants) while phasing out fossil fuel projects.

For the EBRD, as a public finance institution, energy security cannot be defined by developing oil and gas pipelines, CCS projects and mines; if the Romanian government is not capable to speed up the transition to a decarbonized economy, the EBRD needs to assist it where possible and lend support to those investors who are willing to invest in energy efficiency and sustainable renewable energy.

3. Transport Sector

The country strategy identifies as a challenge the fact that the development of concessions or PPPs in the roads sector is lagging behind. Given recent experience in other countries in this sector, it is unclear why the EBRD is making efforts towards developing such schemes. Even in countries with higher public sector capacity and fewer problems with corruption this model has resulted in high long-term debt burdens, mostly off the government balance sheet. PPP motorway projects have too often provided poor value for money for the public sector and thus the taxpayer, and transferred almost no risk to the private sector. Specific

examples include the M6 in Hungary, the A5 in Austria, and the D1 in Slovakia[2]. The high long-term debt burdens involved in PPPs have become much more apparent since the beginning of the crisis and have led to some countries such as Hungary[3] and Portugal[4] re-examining their commitment to this model. Even in the UK, where the PPP model is said to have originated, multiple concerns have been raised about PPPs' value for money and long-term budget burdens.[5] We therefore ask the EBRD not to support PPP motorway construction in Romania for the foreseeable future.

How was the development of airports identified and selected as a strategic orientation, and how does it fit the direction of low-carbon economy transition?

We urge the Bank not to support the opening of new airports; in case it supports the restructuring of existing airports, it should ensure that this step will not lead directly or indirectly to capacity expansion.

As the Strategy itself pointed out, there is a need for investments in public transportation and local road rehabilitation as well as the development of the railway infrastructure. We therefore ask the EBRD to focus on more sustainable transportation investments which would help Romania in its transition to a low carbon future.

4. Projects implemented during the previous strategy period and lessons learnt for the new strategy period

What are the lessons learnt from the projects mentioned in the strategy that failed to reach the projected transition impact?

Has there been an evaluation of the 'Kaufland regional expansion' loan? What was the effect of supermarket expansion on local producers and local production standards?

Based on what grounds could it be concluded that companies such as Petrom, Lafarge and Renault found it difficult to access credit from sources other than the EBRD? Please disclose the documents containing the additionality analysis.

Alro loan and the proposed Vimetco Power loan

The Alro loan raises concerns related to the fact that a couple of Vimetco (Alro's parent company) subsidiaries are registered in tax havens[6]; also it is unclear what the EBRD loan has been used for[7] and whether there are implications related to Vimetco's taxation practices (that can lead to losses for the government of a 3rd world country where the company owns mining operations).

Has the EBRD included tax haven considerations in its due diligence for the loan to Alro/ Vimetco Power proposed loan?

Is the debt service for the Alro loan being paid by Vimetco, Alro or by its subsidiary in Sierra Leone?

Is Raiffeisen Bank S.A. Romania one of the commercial banks that were selected to administer the EBRD loan?

5. Greenwashing environmentally unsound investments

The Bank should refrain from combining investments in unsustainable projects such as the refinance of debt of large companies with finance that includes “an element of energy efficiency” under a single project such as in the case of Alro Slatina. In this case, all the Bank’s investments are directed towards refinancing most of the existing debt of this company with the purpose to bring stability to its financing structure, while the energy efficiency element is completely uncertain (based on the assumption that refinancing Alro’s debt with USD 180 million “will enable the Company to proceed with a USD 50 million investment programme during 2010 to 2012, which will focus on improving the quality and range of its products, and which includes significant energy efficiency improvement projects”). We would like to underline that combining different investments under a single project may be misleading with regard to the project impacts and poses a risk of greenwashing environmentally unsound investments.

6. Agribusiness

The agribusiness sector has been for decades the most subsidized one at the EU level, despite the fact that conventional agriculture has proven unsustainable due to its reliance on fossil fuel and is very carbon intensive. The Bank plans to address the needs of the agribusiness sector by supporting “larger agricultural holdings”, which obviously rely on conventional production methods, instead of focusing on encouraging sustainable local and organic producers.

In its Communication on the CAP towards 2020^[8], the European Commission highlights that „it is important to further unlock the agricultural sector’s potential to mitigate, adapt and make a positive contribution through GHG emission reduction, production efficiency measures including improvements in energy efficiency, biomass and renewable energy production, carbon sequestration and protection of carbon in soils based on innovation”. According to the Commission “it is also essential to further strengthen and simplify the quality (including organic farming) and promotion policies in order to enhance the competitiveness of the agricultural sector”. More than this, the Rodale’s Farm Systems Trial^[9], a 30-year study which compared conventional and organic farming methods, showed that in every category from soil health to human health, profits, yields and energy usage, “organic farming is far superior to conventional systems.”

As one of the EU members, Romania needs to adjust its agricultural sector and bring it in line with the new EU agriculture direction. The organic farming sector in Romania is undeveloped compared to other EU countries (only 1% of the entire agricultural production is organic) and there is a major need for investments in this sector. Instead of investing in large unsustainable agriculture holdings, the EBRD should focus on better and more sustainable alternatives such as creating a finance framework based on the Tajik model. The Tajik Agricultural Finance Framework (TAFF)^[10] was set up by the EBRD in 2007 to support the

restructuring and diversification of the agricultural sector in Tajikistan. The Framework's main objective is to provide alternative finance to small and medium-sized farms and support the freedom to farm concept whilst fostering best farming practices. The Bank should seek to replicate the TAFF project in Romania.

7. The EBRD Country Strategy revision process

We welcome the fact that, unlike with the previous country strategy revision process, a draft of the new strategy is presented. A Romanian version should prove useful in the future to attract more groups of stakeholders.

We hope that the EBRD will take our comments and questions in consideration in finalising its strategy for Romania.

Best regards,

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[1] http://ec.europa.eu/energy/energy2020/roadmap/doc/com_2011_8852_en.pdf

[2] The M6 motorway project in Hungary attracted criticism from the Hungarian State Audit Office due to a PPP model having been chosen without comparing the costs against normal public procurement. (State Audit Office of Hungary: Summary of the comparative audit on the funding arrangements for motorway development projects (0645), 2006 [http://www.asz.hu/ASZ/nemzetk.nsf/0/F4BBF73B25A33019C12578240038ECCA/\\$File/0645.pdf](http://www.asz.hu/ASZ/nemzetk.nsf/0/F4BBF73B25A33019C12578240038ECCA/$File/0645.pdf))

The A5 Ostregion motorway PPP in Austria was found by the state auditor not to have any major advantage for the public sector over conventional procurement. The auditor added that the PPP was calculated to offer a value for money advantage of EUR 167.97 million over public sector procurement, but this is a figure based on subjective estimations of probability, which due to the breadth of the cost estimates on the risks transferred to the concessionaire, may also develop disadvantageously for the public partner. (Wirkungsbereich des Bundesministeriums für Verkehr, Innovation und Technologie: Umsetzung des PPP-Konzessionsmodells Ostregion, Paket 1, February 2010)

http://www.rechnungshof.gv.at/fileadmin/downloads/2010/berichte/teilberichte/bund/bund_2010_02/Bund_2010_02_1.pdf.) This appears to be a common problem with PPPs.

The EUR 9 billion Slovak D1 motorway PPP, whose price rose from an already high starting price of 7.8 billion, involved hardly any risk transfer to the concessionaire after the construction stage. The PPP, whose advantages compared to ordinary public procurement had never been convincingly proven, was later abandoned after a change of government in Slovakia, but the fact remains that the EBRD approved the project without calling into question the high costs. For further details see: bankwatch.org/documents/IP_EBRD_D1motorway_10May2010.pdf

[3] Hungary Ministry of National Development: Use of PPP is in Member States' exclusive discretion, 7 September 2011, <http://www.kormany.hu/en/ministry-of-national-development/news/use-of-ppp-is-in-member-states-exclusive-discretion>; Bloomberg: Hungary May Save \$2.2 Billion on Reorganization of PPP Projects, 14 April 2011, <http://www.bloomberg.com/news/2011-04-14/hungary-may-save-2-2-billion-on-reorganization-of-ppp-projects.html>

[4] Fernando Teixeira dos Santos, Minister of State and Finance, Portugal, and Carlos da Silva Costa, Governor of the Banco de Portugal: Portugal: Memorandum of Economic and Financial Policies, 17 May 2011, <http://www.imf.org/external/np/loi/2011/prt/051711.pdf>

[5] Treasury Select Committee: Seventeenth Report: Private Finance Initiative, 19 August 2011 <http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/pfi-report/>

[6] Vimetco N.V. is a subsidiary of Vi Holding N.V.; Vi Holding N.V., Vimetco's controlling shareholder, is registered in the Netherlands Antilles; Sierra Mineral is registered in the British Virgin Islands.

[7] Alum, a Vimetco subsidiary, has taken over the Sierra Leone mine operations in 2011 from Vimetco NV, for USD 30 million; to finance the acquisition, Alum took a USD 25 million loan from Raiffeisen Bank S.A. Romania. The EBRD syndicated part of its Alro loan (project number 40875) to commercial banks.

[8] <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0672:FIN:en:PDF>

[9] <http://www.rodaleinstitute.org/fst30years>

[10] <http://www.taff.tj/>