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No Responsibility for Development

The European Investment Bank (EIB) declares itself not to be a development institution, thereby skirting any mandate regarding responsible development. However, the EIB granted more than twice as many loans in 2000 than did the World Bank (IBRD and IDA). Its activities, therefore, have a significant effect on the world development.

Despite being called an "investment" bank, the EIB is, in all actuality, a public institution with an extensive development agenda, within and outside the EU.

What are the actions of the EIB regarding development? Although the Bank rejects any linkage with development institutions such as the World Bank, it gives funds for the same type of activities: regional development, health sector structural adjustment, labor market enhancements within the EU, or World Bank-type projects in the Third World and Eastern Europe. However, the level of quality reminds of the



EIB: NO REFORM NO MONEY!

Citizens' campaign to improve the European Investment Bank's transparency, accountability and environmental performance before new funding by EU members is provided.

While the European Investment Bank seeks a capital increase, environmental groups are calling for reforms of the Bank in the four main areas in which it lags behind other international financial institutions (IFIs), such as the World Bank. The 15 EU member states who own the Bank are asked to condition replenishment on reforms in the areas of access to information, environmental standards, development mandate and supervision.

Last June, the EIB announced that it will seek a substantial increase in its subscribed capital, in order to expand its lending. Currently its capital is EUR 100 billion. This is so-called subscribed capital, sort of a guarantee for the EIB from the 15 EU member states. The planned increase may be up to 75% higher. The EIB needs the capital increase in order to operate legally, as the statutory limit on outstanding loans will be reached in 2003. The decision on the capital increase will be made during the next Annual meeting in June this year.

Using the opportunity presented by replenishment, which has worked well in past efforts to obtain agreement on reforms at the World Bank, more than 30 NGOs from all over Europe have joined in a call for important reforms of the EIB in four main areas:

- Transparency and access to information: The demand is for full, timely public access to all relevant project information.
- Environmental standards: The demand is for establishment of clear environmental standards to underpin the EIB's role in promoting the EU Sustainable Development Strategy and in meeting the requirements of major treaties such as the Kyoto Protocol on climate change.
- Development: The demand is for acceptance by the EIB that it does have a development mandate and for there to be clarity about what that mandate is. Connected to this is a related demand for agreement with civil society on how its activities outside the EU should be carried out in a transparent way to avoid causing social and environmental problems.
- Accountability and supervision: The demand is for greater supervision of the EIB, including enhancing the roles of the European Parliament, European Court of Auditors, and the European Ombudsman, in order to promote greater public accountability.

World Bank 30 years ago. As with environmental standards, the Bank lacks capacity – no staff is available to deal with the social and environmental impacts of the projects.

The UK's Department for International Development, in its report on the EIB's development mandate, found that much needs to be improved if the Bank itself is to develop successfully as an institution. This may be a successful argument, as it

seems that the only development in which the EIB is interested in is that of business interests.

Is this dinosaur of an institution, which has poor environmental standards and refuses to accept its development mandate, a worthy receptacle of an increasing amount of the EU's development finance resources? Certainly not – but this is what is happening, and would continue to happen with fund replenishment.

Bulgaria – Nuclear Plant or EU Membership?

According to recent statements by governmental and Kozloduy Plant officials, it is clear that Bulgaria has launched a new round in its battle for defense of the dangerous, outdated VVER-440 reactor at Kozloduy. Disregarding EU grant money and concessions from the EU in 1999 that made it possible to invite Bulgaria into negotiations for membership in the Union, officials in Sofia are once again showing their lack of commitment to maximizing the safety of the Kozloduy plant.

On January 10, 2002 the Minister of Energy, Mr. Milko Kovachev told Reuters that “Bulgaria will fight to delay the closure of two of the oldest reactors at “Kozloduy” beyond the EU deadline of 2006. Our position is clear and we will decommission the third and fourth units by 2008 and 2010 respectively. We will defend this position.” A day later Mrs. Meglena Kouneva, Deputy Minister of Foreign Affairs and Chief Negotiator with

the EU, stated that “there is no governmental position yet” and “currently we have only the position of the Minister of Energy.” Mrs. Kouneva expressed concern over the effects of the statement on EU negotiations. But Mr. Yordan Kostandinov, Kozloduy’s Executive Director, brushed aside those concerns as “political, not technical” and stood by the delay.

”These statements can only harm Bulgaria’s efforts in negotiations with the EU,” comments Petko Kovatchev, CEE Bankwatch Network energy coordinator for Bulgaria, adding “It is ridiculous for someone to think there is an opportunity to revise the accession formula ‘10+2’ from Laeken by the use of nuclear blackmail.”

“If the Government decides to continue the operation of Units 3 and 4 after 2005 or to ask for renegotiation of the deadline for closure of Unit 2 it will be a clear indication that they intend to disregard the possibility of EU membership and return to the orbit of Russia. The situation today is quite similar to one in Ukraine where EBRD and EU were blackmailed with the ‘Russian card’ to finance two new nuclear units,” Kovatchev stated.

EIB Information Policy – the Windows May Be Transparent, but the Curtains Are Closed

NGOs across Europe and CEE are concerned with the EIB’s lack of transparency and public accountability. In 1997, after persistent pressure from NGOs, the EIB adopted its official “Rules on Public Access to Documents.” But while these rules purport to improve information disclosure, in reality, they are so restrictive that disclosure of vital information is virtually impossible. When questioned about its secretive policies, the EIB cites “confidential information restricted to internal Bank use only.” Thus, despite being a public institution which uses public funds to finance development projects (often in conjunction with other institutions which operate with a far greater degree of transparency), the EIB continues to operate largely behind closed doors, denying access even to groups impacted by the proposed projects.

Due to constant NGO pressure the EIB decided about a year ago to review its Information Policy. NGOs raised the following demands: the draft Policy document should be posted on the web for comments for 60 days, along with an explanation of how the consultation process will unfold; during those 60 days the Bank should inform civil society and the private sector that the document is open for comments and post external comments on the web; a synthesis of comments and the Bank’s responses should be posted on the web; an updated and proposed final draft should be dissemi-

nated prior to formal approval by the Board.

The EIB’s response was to slightly alter its web site and rename it “Towards the new EIB Information Policy.” The one positive development was the Bank’s decision to post projects in the pipeline on



the web site. However, clear rules regarding the release of information are still missing. The EIB calls this approach “flexible” and “pragmatic,” which in other words means that they arbitrarily withhold information, deciding on its release on a case by case basis. Using this “flexible” and “pragmatic” approach, the

EIB has refused most of the NGOs’ suggestions and demands, such as obtaining a comprehensive draft of the new information policy or a timeframe when it would be adopted by the EIB Board. What the Bank refers to as an “everything but” policy creates a situation where the project promoter, usually a private company, decides what citizens are and are not allowed to know. Under this policy, the EIB will not put a project in the pipeline on the web site if the promoter disagrees.

From the content point of view we believe that some basic rules must be established allowing interested parties to obtain relevant information. The EIB should adopt a clear policy for the release of EIA (Environmental Impact Assessment) or other project-related environmental, social and economic documentation prior to Board Approval. The current practice, in which documents are released and public consultation begins only after Board Approval, creates a perverse incentive for project promoters to disregard the EIA process, as funding is already approved. In this situation the EIA process becomes meaningless. The EIA should be mandatory before approval by the EIB Board.

Aside from having transparency problems towards EU citizens and communities affected by EIB projects, the EIB is also not transparent towards other EU institutions, or national parliaments. The Bank likes to present itself as an independent institution, but it is independent to such a degree that it does not allow the European Ombudsman or European Anti-Fraud Office to interfere with its activities or fully check its records, while in other cases it claims to be governed by the EU rules.

But even the EU governments that are represented on the EIB Board of Directors have a very difficult time in overseeing EIB staff activities. Unlike other large international financial institutions, the EIB does not have a resident Board of Directors. The Executive Directors meet less than once a month to decide on projects proposed by management. During this one-day meeting

they are able to “rubber stamp” EUR 3 billion. Furthermore, Directors typically receive project information only two weeks prior to each meeting. Of course they cannot spend those entire two weeks studying projects, as for most of them this is just a part time position and they are involved in non-EIB issues as well.

EIB – a Friend to the Environment?

The European Investment Bank (EIB) declares itself to be environmentally concerned, yet has no internal procedures which would guarantee this. According to its Annual Reports, the EIB is a friend to the environment: “In financing any investment, the EIB applies the core environmental management principles of “prevention”, “precaution” and “polluter pays”, as called for in EU policy.” Nice of them indeed, considering this is how a public institution should act for the public good. But if you look closely at the Bank’s numbers and project listings you see a different picture.

During the past five years the amount the EIB has invested in individual loans in “environment and urban development” has increased, from EUR 5 billion to EUR 6,4 billion. Most of the money is spent in three sectors: water conservation and management, measures to combat atmospheric pollution and urban/suburban transport. However, most of the projects in the environmental categories are technological fixes in environmentally harmful sectors or expansions of water/waste-water works; not exactly water conservation. There is also the matter of the EIB’s competing goals of combating atmospheric pollution and

promotion of the TransEuropean Network. Which goal is followed by the investment? Probably the one which garners one-third of the EIB’s portfolio: it’s not pollution combat.

Environmental benefits are not clear from the EIB’s portfolio and, as a recent portfolio screening exercise found, the environmental categorisation of EIB projects lacks classification on the basis of predefined criteria. It seems that staff deem projects as “environmental” if and when they choose. This selection method would not be surprising, as the bank lacks capacity to conduct a thorough environmental analysis for even a fraction of its enormous portfolio. Its “environmental policy statement” is little more than empty words. While this document refers everywhere to the EU policies and documents there are no procedures how for the non-EU countries, where those policies are not applicable.

The EIB funds projects both within the EU and without, but within the EU it is able to hide amongst many institutions (EU, national governments, IFIs) whose projects are of environmental concern to the public. But bankrolling disaster in 100 other countries of the world makes it easier to be seen – there are fewer large scale investments, so the ones which are funded are more visible (such as the Chad-Cameroon and Bolivia-Brazil

pipelines, the Lihir gold mine, and the Lesotho Highland Water Project). It is time to expose the EIB within the EU concerning its lack of environmental standards, and let it feel some real pressure.

The bank trusts everything to its credit-worthy investors – regardless of world-class corruption scandals or a project’s likely failure. Until the point at which repayment is guaranteed, the EIB’s care for the environment is just obligatory words of rhetoric. Project quality, environment, impact on local population – why to bother with such expensive nuisances?



Nope, no environmental procedures in there, either.

EBRD to Fund Project under Legal Challenge?

Environmental Law Service, a Czech NGO, has filed a suit in the case of the land use proceedings for the investment of NEMAK Co. near the town of Havran (Most District, Czech Republic). The suit is based on a number of documented illegal steps taken by authorities during the land use proceedings which would allow NEMAK, a Mexican producer of aluminum engine heads, to erect a new facility in the middle of agricultural land. Another suit was filed by Mr. Rajter, a local farmer, whose livelihood is seriously threatened by the project. The project, currently seeking loan financing, is in the initial due diligence consideration stage at the EBRD.

Both the Environmental Law Service and Mr. Rajter are suing the Most District Office for issuing a positive land use decision for the project despite a number of illegal steps in the preparatory environmental and land use proceedings. These steps include: illegal approval of the removal of the required project site from the Agricultural Soil Register; a missing decision of

the State Air Protection Authority regarding the impact of the project on air quality; and a conflict of interests regarding the district office’s decision-makers.

Environmental Law Service has also appealed against the construction permit for the project, as its issuance was based on a number of failings regarding dangerous waste management. It is not clear from the project documentation which dangerous substances, in what amounts, are to be used during the production process. The documentation also lacks information about dangerous waste substances which will arise from the production process, including extremely toxic ones like dibenzodioxins (PCDDs) and steams from heavy metals.

Pavel Franc from Environmental Law Service comments on the situation: “The NEMAK project is an issue of long-standing public discussion. It has already been rejected in the City of Pilsen, because of protests of local inhabitants based on its health risks and the contradiction of the project with the city’s land use plan. The Czech government seems to be hunting for foreign direct investments at almost any price. It would be a shame for the EBRD to encourage such behavior by funding this project.”

Clear Targets for Climate Change Needed

In May 2001 the EIB adopted a Climate Change Policy. Although this is a welcome step forward in principle, the document itself is quite weak. It lacks any real targets or mechanisms of supporting reductions in green house gases emissions, except for the sequestered carbon in the paper on which is printed. Moreover, the recent EIB evaluation of energy sector investments in the EU as well as accession countries from 1990-2000 shows that the EIB lacks a way to enforce its priorities in its lending portfolio.

While the EIB claims in all of its public documents that it is implementing EU policies, a recent internal evaluation found that it "did not measure and compare the relevance of the projects financed as regards their consistency with priorities and objectives of the Community." This is no surprise to NGOs which have been monitoring the EIB for the last seven years. Even though the evaluation did not consider climate impacts of EIB activities, some of the recommendations provide a good basis for a real climate change policy.

The evaluation shows that the EIB has already made some progress in supporting renewables which represent 10.4% of its energy portfolio. However, if the figures are studied a bit further one learns that most of those projects were incinerators or large-scale hydro, so the evaluation concluded that "the Bank has financed a very low share of the substantial increase in renewable energy investments during the second half of the 1990s, particularly wind energy." And in the accession countries the EIB only finances energy supply projects, completely ignoring the demand for energy efficiency and renewable sources.

Thus, despite the clear evidence of climate impacts and existing EU commitments to ratify and comply with the Kyoto Protocol, the EU, through the EIB, still continues to subsidize fossil fuels, with a significant number of projects for

fossil fuel exploration, extraction and transport, even after its adoption of the Climate Convention in Rio.

So where should the EIB go with its climate activities? First, the EIB should phase out all support for fossil fuel exploration and extraction projects. Second, it should limit its investment in the use of energy to only projects that lead to substantially increased efficiency of current production capacity. Third, it should develop a clear methodology for assess-

ing the GHG implications of every project it is considering, as well as its overall portfolio, that includes both direct and indirect GHG emissions. Fourth, the EIB should set clear targets for its portfolio in terms of supporting renewable and energy efficiency in EU member states and accession countries. Finally, the EIB should adopt strict guidelines for flexible mechanisms projects under the Kyoto Protocol, to ensure that the focus is on renewables and energy efficiency.



"What?"

"I said... no reform, NO MONEY!!"

Want more information about the NO REFORM - NO MONEY! campaign?

Go to:

www.bankwatch.org/eibreform

to find out:

- Who is the EIB?
- What is replenishment?
- Who else is supporting this campaign?

plus,

- Case studies about EIB projects,

- The history of the EIB,

and, most importantly,

- How you can get involved!

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