

Table of Contents

Join the EIB: NO REFORM - NO MONEY Campaign!	1
The Nature of the Beast: why the EIB must be reformed	1
A Sound Investment: EIB Funding for Enron	2
Bulldozing through Nature: Are the EU and the EIB making a habit of building highways through Biodiversity sites?	3
Kozloduy Decommissioning Fund: Repeating Old Mistakes?	4

The Nature of the Beast: why the EIB must be reformed

Major infrastructure, energy, transport and water projects inevitably bring significant and long-lasting environmental and social impacts. If you look at who is financing these projects, one might be surprised how often the name of the European Investment Bank can be spotted there; not only in Europe but also far away in Chad, Mauritius, Brazil, Vietnam, etc.

International Financial Institutions around the world have been required in recent years to accept reforms to improve their performance, transparency and accountability. Many have made concrete efforts to do so, but the EIB, one of the most secretive banks of the European Union, has remained the exception. While other IFIs are taking steps to improve their policies, the EIB has demonstrated very little desire to change.

Presently, the EIB is hoping for a major capital increase from EU member states to expand its lending. The Bank is asking member states to increase its capital from the current EUR 100 billion to 150 billion. The decision is to be taken in

Join the EIB: NO REFORM – NO MONEY Campaign!

NGOs from all over the world have joined the EIB: NO REFORM – NO MONEY campaign, which aims at improving the EIB's activities before even more money is spent on environmentally and socially harmful projects. The decision about the EIB's capital increase will be taken by 15 member states, or more precisely, their Ministers of Finance.

Until now, the decisions have been made behind closed doors, with no public discussion. There is a need for public debate and pressure on the EU member states to reform the EIB. NGOs and citizens are crucial in that respect. The EIB, the Methuselah of banks, has to change and the right to push for it lays in the hand of EIB's

shareholders. Therefore, we encourage all organisations to support our campaign and put pressure on your governments.

The EIB: NO REFORM – NO MONEY campaign has come up with the following recommendations:

To revise and improve the existing information disclosure policy, so that all relevant project information (environmental, economic and financial) is available to interested NGOs and affected communities on time.

To strengthen the Environmental Impact Assessment procedures.

continued on page 4...

June this year, during the EIB's annual gathering in Luxembourg. On February 7, 2002, more than 30 NGOs from all over Europe launched a campaign: EIB: NO REFORM – NO MONEY! The campaign calls for the implementation of necessary reforms regarding access to information, environmental standards, development mandate, and supervision by EU institutions, before any capital increase. In all of

these areas, the EIB lags far behind its sister organisations such as the World Bank and the European Bank for Reconstruction and Development.

Lack of Accountability, Staff and Environmental Policies

EIB operations show a lack of accountability and oversight in project management. This is largely because of (1) the "rubber stamp" approval process of its management and Board, (2) the Bank's relatively small staff, which has no environmental department (this enables low-cost loans but precludes professional environmental oversight), and (3) its increasing operations outside the original EU charter, where it is largely exempt from the overall policy direction of the European Union.

Some of the main problems are:

Lack of Standards: The EIB does not have rules to implement EU environmental legislation. Moreover, the Bank has refused to establish its own operational policies, even for the transport, energy and water sector. Even if the Bank always followed EU policies, they are not always appropriate for developing countries. In addition, the EU does not have policies for all the issues the EIB should address in its

continued on page 2...



The Nature of the Beast: why the EIB must be reformed

...continued from page 1

lending outside the Union. There are no clear guidelines that describe how or whether the EIB should implement relevant policies, directives or legislation in its increased activities outside the EU. When EU standards are not applied, national standards may be used. Yet, in many cases those national standards are inadequate or even non-existent.

No Public Accountability: One of the biggest NGO concerns is 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." It sounded good at first, but after taking a closer look at the document, it became apparent that disclosure of all important information was virtually impossible. When questioned about its secretive policies, the EIB cites: "confidential information restricted to internal Bank use only." Despite being a public institution, the EIB continues to operate largely behind closed doors, denying access even to those affected by its operations.

The Bank has been revising its information policy for more than a year. However, clear rules for timely release of relevant project information are still missing. The EU directive on Environmental Impact Assessment states that the public must

have access to information and the opportunity to express an opinion before a project is initiated. However, the EIB routinely ignores this requirement.

Lack of Staff and Expertise: According to the EIB's 2001 Annual Report, its staff totals a bit more than 1 000 employees, roughly ten times less than the WB, while its lending portfolio in the CEE region is similar in size to the World Bank's. The EIB does not have experts (apart from one) dedicated fully to environmental or social aspects, compared with more than 300 environmental experts at the World Bank. Undoubtedly, the EIB's sparse staff contributes to its low operating costs. At what point does the EIB balance the money saved against the number of people's lives adversely affected by the poor quality of its work?

Low Threshold of Environmental Protection: The EIB's implementation and follow-up of the environmental objectives lag far behind its environmental policy statement and requirements. For example, the EIB delegates responsibility for compliance with environmental standards solely to the project promoters who receive the financing. Also, the present policy does not focus on proactive environmental protection lending, but rather emphasises lending for technical "fixes" to the existing environmental problems. There the current Environmental Policy, there is a little recognition of the threats posed by the climate change, and nothing about the imperative need to refocus the EIB lending as a result.

Unsupervised Global Loans: The EIB enters partnerships with intermediaries, usually national or local banks, to provide Global Loans which are given through these intermediaries. Currently, Global Loans account for approximately 20% of all the EIB financing outside the European Union. Whereas Global Loans can be a good tool for channelling money to small and medium-sized enterprises, to support environmental projects such as energy efficiency and conservation, there is no evidence that the EIB Global Loans serve that purpose. It is also impossible to find out if EIB or EU policies are being followed by the intermediaries at national level. Repeated attempts by NGOs to gain access to EIB documentation have proved fruitless; neither the EIB nor intermediaries were willing to share information about environmental standards. In some cases, local intermediary banks are not even aware of the EIB environment requirements.

Part-time Leadership: Directors of the EIB serve part time and generally lack professional staff to help them in project oversight. This is in marked contrast to the World Bank and EBRD. The Board is non-resident, travelling to EIB's Luxembourg headquarters about ten times a year to approve a stack of loans. Formally, the Board has the sole power to make decisions about loans, guarantees and borrowing. With more than 300 project reports to review annually and only ten meetings a year, the thoroughness of review is questionable. There is no record that the Board has ever rejected a loan based on the Appraisal Report.

A Sound Investment? EIB Funding for Enron

"Our Mission is to further the objectives of the European Union by making long-term finance available for sound investment." – Mission of the European Investment Bank. "...To receive our support, projects and programmes must be viable in four fundamental areas: economic, technical, environmental and financial. We appraise each investment project thoroughly and follow it through to completion."

The above statements, coming from the mission of the European Investment Bank, are often repeated when the Bank enters into discussion with NGOs and tries to counteract NGO criticism. Since the EIB acts similarly to the other International Financial Institutions, and at the same time very independently, the Bank needs to have similar environmental and social safeguard policies and procedures as well as a level of expertise equal to the other sister financial organisations. The main argument of the Bank is that it operates mostly within the European Union and follows Community policies and legislation. Therefore, the EIB is different than the World Bank or other IFIs. However, 10% of the Bank's yearly spending is outside the EU and candidate countries. This consti-



tutes quite an impressive sum, if one bears in mind that the EIB's annual lending is more than EUR 36 billion.

The broad mission of furthering the objectives of the EU, not backed up by clear goals and sectoral strategies, allows the Bank to pick and choose very independently from the set of Community policies and objectives. The EIB behaves almost as a profit-seeking commercial bank and not as a publicly owned institution. However, the recent discovery of the EIB's involvement in supporting Enron - the disgraced American company which declared bankruptcy a couple of months ago in an atmosphere of huge scandal and allegations of criminal wrongdoing - goes far beyond what one can justify by the broad mission of the Bank.

The recent report "Enron's Pawns: How Public Institutions Bankrolled Enron's Globalisation Game" from the Institute for Policy Studies (IPS) has revealed that Enron received USD 7,2 billion in public assistance for its global operations (the full report can be found at www.seen.org). A portion of that public assistance came from the financial arm of the European Union - the EIB.

The report proves what NGOs monitoring the Bank have been pointing out for the last couple of years - the EIB is neither efficient nor does it truly fulfil EU objectives. It operates behind closed doors, without proper

supervision, clear sectoral strategies or strict environmental and social standards.

According to the IPS report, the EIB supported Enron with the following loans: USD 493 million towards Enron's investment in an Italian power plant and USD 60 million toward the Bolivia to Porto Alegre, Brazil gas pipeline. The Bank also provided indirect support for Enron when it approved a USD 78 million package for a 1000 MW power project in Santa Rita, Philippines. Enron was not a developer of that project, but it did hold the plant's fuel supply contract. The EIB is also considering a USD

35 million contribution toward an electricity transmission system in Macedonia in which Enron has an interest.

The fact that the EIB would have no problems with supporting Enron clearly calls for a closer look at this institution and the manner in which it fulfils its goals. Even with the best intentions it is difficult to find which of the EU objectives the EIB thought they were fulfilling when they decided to support Enron, and that is without mentioning the "sound investments" which the bank is so proud of!

Bulldozing through Nature: Are the EU and the EIB making a habit of building highways through Biodiversity sites?

The EU and EIB are currently financing highways through important biodiversity sites in Bulgaria and Czech Republic. Despite promoting sustainable development, these institutions are planning to build high-speed motorways through some of the most important protected areas in the accession countries, thus violating their own policies and procedures. Instead of adhering to environmental protection measures in the accession countries, the EU and its financial arm, the EIB, are ready to assist in the destruction of some valuable, unique natural areas in Europe.

D 8 Section across Ceske Stredohori

One of these controversial projects, financed by the EIB, is a section of the D 8 motorway, which crosses Ceske Stredohori, a unique Protected Landscape Area in Czech Republic, part of the EECONET network and potential NATURA 2000 site. From the very beginning of the project preparation, basic aspects of nature and habitat conservation have been neglected.

An EIA was conducted for the project considering only one option, without even taking into account possible alternatives. Originally, there were four options; one that would avoid the protected area, two tunnel options and a surface option. Based on the so-called Landscape Evaluation, the Ministry of Environment agreed that only the surface branches should be assessed. Officially, there was no reasonable explanation for the chosen option. The underlying reason was that Czech construction companies did not have experience with constructing tunnels in complex geological conditions. Therefore, the surface

option was necessary to increase their chances of getting the contract.

The Ministry's decision was in contradiction with the EIA act. The Legislative Commission of the Minister stated: "...the Decision contained formal and procedural errors, therefore it cannot be considered as a decision according to the EIA Act." A new approval, which would meet the EIA Act requirements, has not yet been issued. Moreover, the Ministry has approved an exemption from the prohibition to construct new motorways in specially protected areas, violating the provisions of the Nature and Landscape Protection Act.

Despite NGO concerns about severe environmental impacts, the EIB answered: "*It is not for the Bank to discuss individual projects with Friends of the Earth or other civil organisations.*" None of the arguments for a more environmentally and socially friendly solution have been accepted by the Czech authorities or the Bank.

The key argument for proceeding with the project is its supposed social benefit. It is assumed that the faster connection of the Usti nad Labem and Teplice regions with Prague will decrease the unemployment level in those regions. However, if decreasing unemployment is to be a benefit, the project should have also connected with nearby Most, the region with the highest unemployment rate. Even so, such a benefit has never been proven as resulting from this project.

From the start of project preparation, environmental NGOs have asked for an alternative option which would not cross Ceske Stredohori. However, the Czech authorities have not reacted. Today, NGOs are trying to enforce construction of a tunnel that would at least preserve the core zone of the protected area.

Struma Motorway in Bulgaria

Another example of building highways through important areas of biodiversity is the "Struma" motorway in Bulgaria, part of the European corridor No 4, financed by

PHARE Cross Border Co-operation. The motorway will pass through the entire length of the Kresna gorge, a CORINE Biotopes site of outstanding biodiversity, planned to be included in the EMERALD and NATURA 2000 network. The project will directly affect habitats and species protected by the EU and Bulgarian nature conservation law.

From the beginning, NGOs have raised concerns regarding the project, asking for alternative routes and a proper EIA. However, an alternative route-bed outside the Kresna CORINE site has not been developed at more than a concept level. In addition, the EIA report fails to make a complex comparison of all the alternative routes for the Kresna region. The EIA also has serious deficiencies in assessing the impacts of the road on biodiversity.

The highway will also affect the lives of local people, as it will cross the town, causing destruction of houses, loss of agricultural land, and the deterioration of air quality and life and safety conditions for the local people. According to the preliminary assessment, the highway will directly affect approximately one third of the town. The negative environmental impacts will eliminate current local incomes (from the agricultural land) and long-term sustainable development. By replacing the existing road with the highway, the local population will lose an additional road for low and middle speed vehicles, required by the Bulgarian legislation. To avoid all the negative effects, it is necessary to develop an alternative route that would avoid this region of rich biodiversity.

The examples of the D 8 and Struma motorways clearly show violations of EU standards and national legislation. NGOs have been asking for more environmentally and socially friendly alternatives, but the decision makers have constantly neglected them. One must wonder if the EU and EIB consider natural protected sites to be anything other than potential roadbeds. However, the construction has not yet begun and there is still a chance to save precious nature conservation areas in Europe.

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...continued from page 1

To require public consultations for EIB-financed projects with significant environmental and social implications.

To promulgate substantive policies on key issues such as energy, transport, and water and to comply with the EU requirement for integration of environmental protection

and sustainable development dimensions into all policies and practices.

To have environmental and social specialists on the Bank staff, who would work closely with economists, engineers and lawyers.

To create a special team which would promote energy efficiency, conservation and renewables.

To provide detailed information about "global" loans made through intermediary

banks, especially how these loans actually benefit the environment, and criteria for selecting projects.

To strengthen the role of controlling institutions, such as the European Parliament, European Court of Auditors, and the newly established European Anti-Fraud office (OLAF) over EIB activities.

More information about the campaign can be found at: www.bankwatch.org/eibreform

Kozloduy Decommissioning Fund: Repeating Old Mistakes?

In March 2002, the Bulgarian Parliament (Narodno Subranie) ratified an Agreement between Bulgaria and the EBRD on management and use of the International Decommissioning Support Fund for closure of the dangerous units 1-4 in the Kozloduy Nuclear Power Plant. With the Agreement now ratified, everything is ready and in place for closure of the units. This process must be sped up, however, in order to meet the deadline of 2003 set by the European Commission.

The present situation is the result of a significant delay in the process of reaching agreements for the closure of the Kozloduy Nuclear Power Plant units and of the faint-hearted and ambiguous behavior of the Bulgarian government, the EC and the EBRD. Since the G-7 meeting in Munich 1992, the EBRD has managed the Nuclear Safety Account fund. However, the Bank has failed to push the Bulgarian authorities to fulfill the Nuclear Safety Account Agreement. In addition, the EBRD has not supported the Government of Bulgaria with consultation, monitoring of the process of energy sector restructuring and involvement of new co-funding. The EBRD has also failed in keeping the Bulgarian public informed about the goals and results of the Agreement.

Now, we are in similar situation with the Agreement between the EU and Bulgaria regarding the International Support Decommissioning Fund. The EC has already saved EUR 200 million for the decommissioning of Units 1-4 at



Kozloduy. Six other Member States became donors and added almost EUR 20 million more to the fund. Apart from some brief statements from the EC and questions from some Member States' officials, there hasn't been much activity on the part of the Commission. Especially on the side of the restructuring of the Bulgarian energy sector, a proactive approach by both the EC and the Bulgarian Government are needed. So far, the Bulgarian authorities have done almost nothing to fully implement the Agreement, to keep the public informed and to promote significant changes in the energy sector that would allow the closure of nuclear units without any problems.

But there are also some positive signs. Energy minister Mr. Milko Kovachev has made two unexpected observations: The Bulgarian economy and households are still energy ineffective and waste a huge portion of supplied electricity; and there is no space for a discussion on energy independence or national sovereignty while Bulgaria imports some 60 % of its primary

energy fuels from one country only – Russia.

This is a sign, albeit quite weak, that the Government may be beginning to understand the real problems of Bulgaria's energy sector. Nevertheless, we must wait for real and irreversible steps towards the full decommissioning of units 1-4 as well as towards improvement of the situation in the energy sector and the whole economy. Reform of the energy sector is necessary, and the

EBRD can put pressure on the Bulgarian authorities to do so by supporting projects aimed at reform.

But later, another flip in the attitude towards the energy sector was made. The Prime Minister announced in early April 2002 that construction of a second nuclear plant at Belene will resume, with expectation that the construction will be paid out of EU budget. The Belene plant was begun in the 1980s and was 40% completed before work was halted in 1990 due to environmental protests.

To fulfill the Agreement for the closure of dangerous units at Kozloduy, statements are not enough. This time the Bulgarian Government, the European Commission and the EBRD must work together in a different way. The three parties should work together on promotion of energy efficiency and renewables in Bulgaria and should work to involve the broad public of Bulgaria in this process.

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