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World Bank AGM Issue

Editor's Note

The environmental, social and other civic groups are concerned that the World Bank and other International Financial Institutions will repeat their previous mistakes in decision-making about the Balkan region. Therefore the NGOs decided to come together and develop guidelines for international investment in this region to ensure that civil society has a voice and an influence in the control of public funding. Other issues of concern are energy, particularly nuclear power, and transportation projects. We refer you to details of specific projects outlined in the articles printed in this newsletter.

Please note that the World Bank Annual meeting in September 2000 will, for the first time, be held in Eastern

Europe - in Prague. In order to help the World Bank staff and officials become familiar with issues in this region, we have described some of projects where the World Bank works hand in hand with the national government to successfully continue the practise of the previous Communist regime of ignoring of public opinion or environmental laws and regulations.

NGO and World Bank participation in the Prague-2000 meeting will offer an excellent opportunity, not only to taste Czech beer, but also to monitor progress made by the World Bank in opening the funding process to public review and comment. The result will be a stronger society, fuelled by a responsible, involved citizenry.

Balkans Rehabilitation- new development or old mistakes?

Immediately after the end of the NATO's military operations in Yugoslavia, Western governments and donors began estimating the war's impact and consequences on the region. Many strategies, priorities, policies and agendas now being considered will shape the future of millions of people living in this region. A few global players such as WB/IMF, EBRD and EU will implement the region's macro-economic restructuring process and determine the future of Balkans.

How will this be done? Are the donors going to implement the same "economic medicine" they used in Bosnia-Herzegovina? --the same policies that led to the collapse of the national economies, disintegration of the industrial sectors, deregulation of the trade regimes, and flood of imported commodities to further destabilise domestic production? Will they break up integrated systems of public transport and construct new motorways? Or is it possible that the interests of the Balkan countries and their people will be taken into account by the global economic players?

Balkan residents have many questions such as: what are the

goals of this process? What kinds of financial resources will flow into it and under what conditions? How can this process lead to a system where there are no winners and losers? What is the place of public opinion and how will the public be consulted?

Because of the complicated and rather contradictory situation in the Balkans, CEE Bankwatch Network will

sponsor a region-wide meeting of NGOs to discuss the current situation and possible solutions. Out of the discussions Balkan civic organisations can draw a number of recommendations towards the International Financial Institutions (IFIs). Civic organisations hope that the following recommendations will be heard *and heeded* by the IFIs.

Unified region. IFIs should look at the region as a whole. IFIs already have plans that consider so-called "waves" of countries according to their degree of affliction by the war. Such differentiation is based on political and economic favouritism. This approach can only lead to new conflicts. Principles that divide the countries into different



categories, that are not based on the countries' real needs, and do not support sustainable development should not be used in the process. A unified approach is crucial for the political, economic and social stabilisation and development of the Balkan countries.

The "Bosnia" syndrome. How will the IFIs avoid repeating mistakes such as Bosnia-Herzegovina, where huge amounts of money were improperly used or simply disappeared? There needs to be a clear mechanism for initiating, monitoring and evaluating projects and funding for the reconstruction process. This mechanism should be based on the highest standards, procedures and policies of the IFIs and should be open for public monitoring and control in accordance with the Aarhus convention. The process also should be easy to implement with as little bureaucracy as possible and clear rights and responsibilities for the process facilitators.

Civil society participation. Democratic decision-making in the use of rehabilitation funds is critical for the economic, political, and social relationships between the Balkan countries. IFIs must seek input from the affected communities, local authorities, NGOs, expert groups and trade unions on what needs to be done and how it should be accomplished. They must work in a clear and transparent structure, adhering to their own policies and making thoughtful decisions that include the rights and opinions of civil society.

Sustainable development. With the sustainable development model, decisions are made with public participation, a new democratic legislation is built, and new approaches for natural resource use are adopted. All the new regional development sector programs should pass the Strategic Environmental Impact Assessment procedures before their approval. It is unacceptable that with public money, IFIs are financing projects which conflict with local legislation and negatively impact the environment and the population -- all under the guise of post-war reconstruction.

Independent estimation. The damages from the war in Yugoslavia will have long-term impacts, not just on the territories and populations who were directly affected by the conflict, but also on the Balkan region as a whole. There must be objective and independent estimates of the short- and long-term damages, in which NGOs and the public are consulted. No one knows how the Balkan reconstruction process will end. The issues are complicated and difficult. But the process does offer the IFIs an opportunity to correct past mistakes and use their power to help build one stable and integrated region in the Balkans. CEE Bankwatch Network urges IFIs to have the courage and integrity to use their power constructively.

NGOs Meeting on Balkan Reconstruction is organised from 8-10 October 1999 in Sofia. Results of the meeting will be available on www.bankwatch.org

Energy efficiency funds unused in Ukraine

Despite an investment offer of more than one billion dollars in energy efficiency and infrastructure improvements, Ukraine has completed only two projects totalling 230 million USD in two years. The Joint EBRD and World Bank Energy Efficiency Action Plan was proposed to Ukrainian president Leonid Kuchma in January 1998. According to the Action Plan, the EBRD and WB would provide financing to start a comprehensive energy conservation program while assisting the Ukrainian government to establish sound pricing policies and financial practices.

Proposed investments included installing gas meters, rehabilitating power generators, improving transmission and distribution systems, rehabilitating district heating, developing energy service companies, and upgrading systems for large-scale industrial consumers.

Because Ukraine imports substantial amount of its energy and needs 4 to 10 times more energy than other industrialised countries to produce a unit of GDP, this was a significant opportunity. Rather than beginning negotiations immediately to implement this Action Plan, the Ukrainian government has developed only two projects in nearly two years. The first one is an EBRD loan (30 million USD) for establishing UkrESCO. The second is a 200 million USD loan for Kiev District Heating Improvement Project by

the World Bank. Other projects were either postponed or cancelled.

Why was this money not used? One reason can be found in the text of the Action Plan: "While the potential for cost-effective Energy Efficiency improvements is huge, the current political, legal, institutional and economic environments in Ukraine are not always supportive of their implementation."

Dangerous Energy Efficiency

At last year's annual meeting of the EBRD, CEE Bankwatch Network distributed copies of the "Joint EBRD and World Bank Energy Efficiency Action Plan" in order to highlight the initiatives of the two IFIs in the energy sector. This Action Plan was signed by James Wolfensohn - president of the World Bank, and Jacques de Larosiere president of the EBRD. Representatives from the Ukrainian government were not enthusiastic about this information effort, however. Security police confiscated all copies of the Plan and halted its distribution.

The second reason is linked to the first: The government of Ukraine still has its old habits, remaining from the Soviet times, of dealing with a few giant projects but not with numerous small ones, even if they are more effective. Intent on constructing the controversial nuclear reactors known as the K2/R4 project, the Ukrainian government is blind and deaf to any alternative energy proposals.

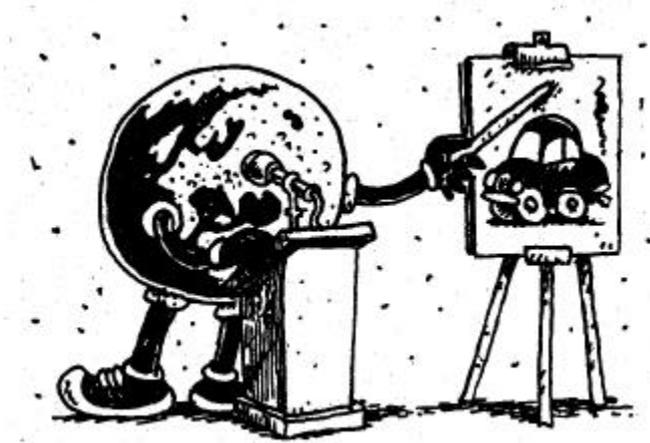
What should the World Bank and EBRD do with the Action Plan? First of all, they should develop similar proposals for other CEE countries. At the same time, the banks should be firm in promoting energy efficiency in Ukraine through both lending and advisory services.

The text of the Action Plan can be found at <http://www.ecn.cz/K2R4/eeplan.stm>

EIA? Not MY responsibility!

Both the World Bank and the Estonian government are side-stepping requirements for an Environmental Impact Assessment (EIA) on reconstruction of a major highway between Estonia's two largest cities.

About 30 of the 180 kilometres of the motorway between Tallinn and Tartu already have been reconstructed, upgrading the current two-lane road to a four-lane



highway. Currently a 25 million USD World Bank loan is being negotiated for the project. Despite Estonian NGO requests for a full EIA, the World Bank claims they will lend money just for "portions of the road that will not require realignment," therefore, are not required to conduct an EIA.

Based on current Estonian legislation, the government is not obliged to do an EIA on this highway project either. Some preliminary environmental reviews have been done by the government but their quality is far from meeting EIA requirements. A new national law on EIA is in late stages of preparation but the Bank will sign the loan agreement before the EIA law becomes effective. The board date of the loan is May 2000.

Part of the motorway will be built through wetlands and forests while part of it will be widened to four lanes in its current location. The road will virtually cut Estonia into two parts. In addition, the road crosses the major forest that is planned to form part of EU-initiated Natura 2000 network of valuable natural areas. The North-South forest mass is a major path of migration for wild animals including elks, goats, wild boars and wolves. The road will also be a major barrier for the migration of smaller animals such as frogs, badgers, weasels and hedgehogs..

Lithuanian Ministry opposes project financed from the World Bank Program

At the request of the Prime Minister of Lithuania, on September 10th the Ministry of Environment issued the official position concerning reconstruction and expansion of the Nida airport in Curonian Spit National Park. The Ministry accepted the recommendations of the commission of experts established by Government for investigating violations of legal procedures. The commission also provided guidelines for future use of the airport.

Recommendations are based on provisions of the Comprehensive Development Plan of National Park. These recommendations are: 1) any future expansion of the airport be prohibited; 2) the Government should cancel any funding of airport construction and use all additional funds for waste water treatment or municipal waste management; and 3) construction of a flight control building is not allowed. The commission said the 600 meters of existing runway, with the mobile navigation system, can be used only for emergency landing or official purposes but not for transportation of passengers or cargo.

Such a position of the Ministry of Environment, although belated, is quite positive. Hopefully, this will finish the airport construction story. According to Lithuanian law, however, these recommendations are not binding. Final decisions are under the jurisdiction of Municipal government and the Ministry.

Construction of the Nida Airport was suspended by the Ministry of Environment in August 1999 after public protests were organised by environmental NGOs and supported by Lithuanian President Valdas Adamkus. Nida is a central settlement of Curonian Spit National Park. The

reconstruction of the airport was started in 1998 by the city of Neringa to convert an obsolete 600 metre-long runway into a passenger airport suitable for mid-sized planes. By its action, the municipality of Neringa violated the Comprehensive Development Plan, which was approved by the Government in 1995 and which outlines the reconstruction of the existing runway without any expansion in size and infrastructure.

Reconstruction of the airport was being financed by a World Bank Structural Adjustment loan. None of the WB EIA procedures has been applied, because the WB is not directly involved in the distribution of the loan funds. In addition, the officials of WB local office say the Bank is not responsible for such misuse of Structural Adjustment loan



Public demonstrates against Neringa airport Vilnius on May 19 1999

and still have not issued any explanation or official position. In 1998, 1.25 million USD was spent for reconstruction of the airport and another 1.25 million USD was required for its completion.

The airport would cause serious damage to the sensitive environment of Curonian Spit. For the final stage of the construction, about 10 hectares of pine-trees would be cleared. The runway is located on the shore of Curonian lagoon surrounded by unique coastal meadows abundant in protected plants and birds. According to scientists, the airport would have caused irreversible visual damage to the Curonian Spit landscape. Moreover, many invaluable

elements of the ecosystem would disappear due to the harmful impact of maintenance of the airport.

Curonian Spit National Park is a peninsula - a narrow sandy piece of land between the Baltic Sea and the Curonian Lagoon. Half of it is in Russian territory, the other half is in Lithuania. Both countries are protecting this land as a National Park. It is famous for its unique sandy dunes, pine forests, and specific cultural heritage. Curonian Spit has survived the mass industrial tourism and the National Park is being promoted as a candidate for the UNESCO world cultural heritage.

World Bank supports the operation of high-risk reactors in Eastern Europe

With its major projects in the Bulgarian energy sector, the World Bank (WB) appears to be one of the key financial players in high-risk energy sources. One of these projects, a 93 million USD loan for the Energy I project, includes the completion of the Chaira Pump Storage Plant and Iadenica Dam. The Chaira Plant was needed to ensure peak capacity for the units of the Kozloduy Nuclear Power Plant. According to information from the National Electricity Company, part of the money for Chaira also will be used for the construction of the Iadenica Dam, which will increase the utilisation of Chaira. The present utilisation is sufficient to ensure a proper active load management of the Bulgarian power system. Clearly the construction of the Iadenica Dam is needed only in the event of a new nuclear facility connected to the electricity grid.

CEE Bankwatch Bulgaria has been unsuccessful in getting a clear answer from WB representatives on the issue of money from the Energy I project used for the construction of Iadenica Dam. Also, the Bank did not achieve the main goals of the project -- to demonopolise the sector and increase the efficiency of the utilities. Rather, the money helped the local energy

company to strengthen its monopolistic position in the sector. In addition, the money for improving its efficiency disappeared in its highly non-transparent and ineffective structure.

The Bulgaria NGO, Za Zemiata, has filed a court case effectively halting any operations connected with the construction of the controversial Iadenica Dam in Bulgaria. The case is pending before the Bulgarian Supreme Administrative Court.

At the end of last year, the Bulgarian government approved the new energy strategy until 2010. In this strategy the need of a new nuclear capacity is envisioned by the year 2004. World Bank, together with IMF, was one of the main consultants for this strategy. Clearly this role of the Bank proves that WB doesn't comply with its own non-nuclear mandate. These two examples of the 'hidden' role of the Bank in favour of the existence and development of the nuclear power, show that there is a clear need for further pressure on the institution to keep its own policies and positions. It looks as though the Bank has started to feel too comfortable behind its "non-nuclear mandate."



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CEE Bankwatch Network is an international NGO of 12 environmental organisations from 11 CEE and CIS countries. The Network is monitoring the activities of International Financial Institutions in the CEE and the CIS region.



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