

EBRD Country Strategy Comments

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CEE Bankwatch Network comments on the draft EBRD strategy for Armenia

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CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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CEE Bankwatch Network welcomes the opportunity to comment on the draft EBRD country strategy for Armenia 2012–2015. We hope that this document will lead to changes to the strategy, in order to ensure that the Bank's expertise and funds will be used for the development of environmentally and socially friendly projects in Armenia, projects that put Armenia on a sustainable development path.

Compliance with Article 1

Over the past few years, both the European Commission and PACE reported progress in the area of political dialogue and reforms in the aftermath of the political crisis that ensued following the flawed elections of 2008. This progress included an increase in transparency of the Armenian judiciary and the development and strengthening of the public defender's office, as well as some limited improvements in terms of freedom of expression and information. Negotiations on the EU–Armenia Association Agreement were launched in July 2010 and reportedly also progressed at a good pace.

However, a number of issues remain in a number of areas including the transition to an open market economy, the promotion of private and entrepreneurial initiatives, and the principles of multi-party democracy. The key issues include widespread corruption, restricted independence and transparency of the Armenian judiciary, influence of local oligarchs on ruling political parties, and restricted media freedoms.

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According to Freedom House's 2012 report Armenia is 149th in the world in the area of Freedom of Media, and is considered as "Not Free." Despite constitutional and legal protections, press freedoms are restricted and the media environment in Armenia remains oppressive and has not improved since

2008 presidential election. The government proposed amendments to the Law on Television and Radio in 2010, further consolidated its control over the broadcast media, and enables the regulator to revoke licenses without any justification and impose broadcasting restrictions, and also specify that only one digital television license will be issued for each region outside the capital. Therefore, most of the dominant media are controlled by the government or government-friendly individuals.

There were nearly no improvements in the socio-economic life of Armenia. According to the United Nations Human Development Report (2011), Armenia ranked 89 out of 169 countries, with widespread poverty up to 39% (an increased from 28% since 2008). Only 67% of extremely poor families and 26% of poor families receive family benefits on a regular base, while the Gini index already reached 0.35.

According to the IMF's report (2011) the price of imported goods increased by 46.8% over the last three years, while the rate of inflation for food in Armenia is around 17%. The country largely relies on remittances from migrant workers abroad to keep the economy afloat.

The issue of widespread corruption (Transparency International Corruption Perception Index ranked Armenia 129th in 2011) and the involvement and influence over the ruling party and executive power of oligarchs (described in the EBRD's draft strategy as prominent businessmen) also raises specific concerns with respect to the potential development of a multiparty democracy and market economy, and could be considered as the most dangerous form of political corruption.

In addition, according to Transparency

International and Anticorruption Center Armenia, the Parliament (2007–2012) failed to adequately live up to its legislative duties, and has essentially been dependent on the executive authority, not carrying out its supervisory function.

EBRD's role

EBRD support for and investment into the Armenian economy lead to the development of local real economy, through Small and Medium Size enterprises, encouraging the production of goods based on the principles of sustainable development, as well as to improve the livelihood of the local impoverished population and contribute to the prosperity of the country as a whole.

The Bank is considering the following major strategic priorities for the next strategic period that we would like to comment on:

- Improving municipal and urban transport infrastructure,
- Developing Agri-business and huge value added, export oriented industrial companies,
- Improving the regulatory and institutional framework for sustainable energy and increasing value added in the mining sector.

Municipal and Urban Transport Improvement

Bankwatch welcomes the EBRD's interest to invest in municipal and urban transport infrastructure development. We fully understand the existing challenges, including problems related to tariff methodologies in water supply, sanitation and solid waste management sectors, as well as the need to improve the safety, quality and availability of public urban transport infrastructure.

We recommend that customer surveys be conducted to ensure that people's actual needs in

terms of municipal and environmental infrastructure are correctly identified.

With respect to water, waste and the urban transport sector, it's important to ensure the existence of relevant safeguards, in order, not to create an unbearable burden for an already poor population. This could be done through the development of a public supervisory mechanism as a condition for loans where significant changes such as tariff increases or private sector participation are included in the project. Local CSOs and authorities should be able to participate in key decision-making processes, including project design, tariff setting, investment obligations, etc.

In general, the EBRD is still looking to increase private sector participation in the MEI sector, without clear or realistic justification for it. We would like to stress here that previous involvement of private companies in the region, e.g. in the water sector, is not known to have brought any significant public benefits in the form of improved access to drinking water and improved efficiency (e.g. Bulgaria, Georgia).¹

Indeed, private sector participation in the water sector has been extremely controversial and the results have not been particularly impressive globally. An overview of studies comparing public and private operation of water supply globally found that private sector participation has not reduced costs, although this has been one of the main advantages cited in favour of private sector participation. Meanwhile in the more advanced market economies, there have been indications that private water management contracts may not provide good value for money, for example in Paris, which has re-municipalised its water supply, and in Berlin where a contract has been published that appears to guarantee profit to the private water operator.

¹ Comments on the EBRD's Municipal and Environmental Infrastructure Strategy:
<http://bankwatch.org/sites/default/files/comments-EBRD-MEI-policy-06May2012.pdf>

The EBRD should concentrate on basic public procurement and more flexible outsourcing structures instead of PPPs in countries where public sector capacity and corruption are an issue.

The EBRD should look to models of management, that would allow for improved access to safe drinking water and sanitation, improved waste management as well as improved public transport where there should also be emphasis on environmental outcomes.

We expect the EBRD concentrate on the 3Rs in relation to the waste treatment. While waste-to-energy in the form of biogas obtained following the separation of bio-wastes can make a useful and sustainable contribution to both waste management and energy production. At the same time incineration with energy recovery should not be financed by the bank.

In terms of transport – new bridges, bypasses, improved junctions and other road links should only be considered where public transport improvement plans indicate their necessity.

EBRD and sustainable energy

Armenian legislation requires distribution grids to purchase renewable energy from small hydro for 15 years after their installation at high prices with a feed-in tariff scheme. This program is the only one of its kind in the South Caucasus region and should be further supported.

Through the implementation of the 200 MW Small Hydropower Plants (SHPP) scheme it could be possible partially to cut Armenia's reliance on imported gas and oil supplies.

However, development of this scheme may also come with potential problems and negative impacts on the environment, the water ecosystem and the public due to a number of issues not taken into account during construction of the HPPs. Feasibility and preparatory studies have been insufficient; multi-year, multi-seasonal data of the river's actual flow has is non-existent; HPPs are being constructed in protected areas, diverting up to 90% of annual average flow; access to water for down stream villages is lacking, as is adequate compensation for local municipal lands.

Therefore, EBRD involvement in the area should be

based on the development of small HPPs that are not only a renewable energy source in name, but that do indeed consider all relevant social and environmental aspects in order to ensure project sustainability.

Bankwatch welcomes the decision of the EBRD to support energy efficiency projects, considering that the residential sector is one of the largest energy users in Armenia responsible for about 44% of the electricity consumption and 37% of total heat consumption, while emitting 40% of the country's GHGs emissions.

Therefore, EBRD should look to play an active role in the promotion and support of energy-saving measures in residential as well as official buildings, including investment schemes for the insulation of buildings.

EBRD's existing and future involvement in the mining sector

While the EBRD draft strategy paper acknowledges the fact that the mining sector is one of the most prominent sectors for the country's economy, this is not reflected in the state budget incomes, and this is primarily due to the fact that the companies have almost never paid a fair price for resource exploitation. Promotion of EITI in Armenia is a step forward, however it will not be able to solve all existing irregularities in government-corporate relations, especially due to the level of corruption within the mining sector.

Given the fact that EBRD is looking to ensure an increase in added value in the mining sector, *the Bank should look beyond improvements in the licensing procedures and a proper investment climate for the mining companies. Rather it should start a policy dialogue to ensure the regulatory framework adequately reflects the benefits for the country and brings a sustainable transition for its population through fair taxes and ensuring benefits and by no means should it allow for the lowering of environmental safeguards, requirements and standards.*

For instance, the legislative framework in terms

of benefits for the country is at present deteriorating – as of January 1, 2012 the new Code on Natural Resources for Armenia entered into force. The new Code no longer mentions the notion of concession payments for mining activities, even though the mining companies had already been waived from paying any of the fees in the past.

The EBRD has already been involved in a number of controversial mining projects in Armenia: Deno Gold which saw a number of environmentally problematic measures being implemented as part of the project, and the new greenfield Amulsar gold mining project where the project is at a preliminary stage and the company is failing in its attempt to get a social licence for its work because it has not been engaging with all stakeholders.

Moreover, the public in Armenia also associates the EBRD with other controversial projects such as the Georpromining Gold company project, that resulted in the contamination with toxic metals of Lake Sevan, the biggest fresh water reserve of Armenia, as well as Teghut Molibden Copper project that is set to destroy a forest and river ecosystem over more than 2000 ha. Both projects (250 mln USD and 270 million USD accordingly) are financed by the Russian Vneshtorgbank (VTB), that also received a 10 million USD credit line from EBRD.

The EBRD claims that the USD 10 million allocated to VTB is destined to support small and medium-sized businesses. However, given the EBRD's mandate to foster sustainable development, this should lead towards increased scrutiny of the environmental performance of its financial intermediaries.

There were a number of alarming reports, including from the State Inspectorate, about compensation and abuse of worker's rights at the Kapan Deno Gold mine. These reports have yet to be properly addressed.

The EBRD should not concentrate on the mining sector in the country, but rather diversify its portfolio to ensure social and environmental benefits for the country and its population, with a proper sustainable transition.

EBRD and Public Participation

The EBRD in its country strategy paper stresses the importance of policy dialogue with the government in order to improve the business environment in Armenia. It includes activities to strengthen the regulatory and institutional frameworks e.g. to facilitate access to credits in rural and agricultural areas, or to facilitate the progress of tariff reforms and strengthen the governance and institutional capacity of public utilities through water rehabilitation programs and regulators, etc.

In almost all sectors it is looking to get involved in, the Bank is planning policy dialogues with governmental structures, with no mention of the importance of involvement of CSOs in these policy dialogues. The involvement of CSOs should work as a safeguard, ensure that local communities have an opportunity to voice their concerns, and ultimately ensure the correct use of the EBRD's funds. Without opening policy dialogues on so-called technical issues to more public scrutiny and participation, control will over the process will be concentrated in the hands of the national managing authorities, authorities that within the given political framework does not deserve public trust.

Enhanced CSO involvement in the EBRD policy dialogues, planning and monitoring of investment activities would help the Bank to better understand the impact of its projects on the local population, the environment and the development of a real economy in Armenia.

Gender

CEE Bankwatch Network welcomes the Bank's aim to support women's entrepreneurship in line with the EBRD's Gender Action Plan, to increase access to finance for women-owned and women-managed SMEs, and to address barriers that impede access to credit, in particular, in rural areas. ***We advise the EBRD to prepare a more detailed plan and discuss it with Armenian human rights groups, to ensure wider promotion of gender equality within all EBRD projects and the adoption of gender-balanced approaches.***