EU budget 2014-20: The only way is up for climate allocations

The debates, discussions and negotiations over the EU budget for 2014-20, the so-called Multiannual Financial Framework (MFF), have been bubbling behind the scenes for many months now, but in many senses they are just getting underway. This is crunch time now.

The ‘Triilogue’ negotiating process, being lead by the Cypriot Presidency of the EU, and involving the European parliament, the European commission and the European council (the member states), started for real in September, and the race is on for binding conclusions to be agreed by the end of the year that will frame the ways in which roughly 1 trillion euros is spent all over Europe.

A clear indication of how tortuous the whole process is going to be was provided by European Council president Herman van Rompuy’s recent announcement of a newly scheduled European summit meeting for November 22-23 that is intended to be purely dedicated to the MFF 2014-20.

So far things are shaping up to be a repetition of the same sad old story we’ve seen during EU budget preparations for previous funding periods: instead of acknowledging that the EU budget – relatively small compared to national government budgets – should serve primarily European objectives and policies, member states are instead opting for a narrow-minded approach and pursuing purely national interests during the negotiations.

While the European Commission’s MFF proposal gave a clear qualitative and strategic direction for future EU spending, the member states are either solely showing an interest in how to trigger as much cash as possible out of the common EU pot, or playing to their domestic audiences by promoting a cut of their contributions to the common budget.

Reaching agreement on the overall budget figures may see the “Friends of Cohesion” (a group of member states, mainly from CEE, that receive more EU funding than they transfer to Brussels in late night, last minute horse-trading where they have to defend their share against the so-called “friends of better spending”. The latter grouping of states may rather be categorised as “friends of cutting the EU budget”, a group of member states lead by Germany and the UK (the “net payers” to the EU budget) who want to downscale the future EU budget while maintaining their rebates.

Climate mainstreaming

It was of course the European commission that started the budget ball rolling in earnest with the publication of its Budget for Europe 2020 package last summer. In it the commission recommended that in order to reach the EU’s agreed climate and energy targets by 2050, at least 20 percent of the future MFF 2014-2020 should support climate action.

Environment NGOs such as Bankwatch that have worked on EU funds issues over many years, and that are actively engaging in the current negotiations, strongly support this ‘climate mainstreaming’ initiative – only they are asking to increase it to 25 percent of the next MFF. This proposal was supported by a recent report from the European parliament’s Environment committee calling for at least 30 percent MFF dedication to climate action.

In tandem, NGOs are insisting on a robust implementation of this climate mainstreaming to ensure that all relevant EU funds maximise their climate benefits. Among the measures that would enhance delivery of these benefits are rewarding projects that have the best climate performance with certain financial incentives,

The EU’s pie in the sky: New analysis questions further funding support for aviation

A recently published analysis from Bankwatch that examines existing EU funding support for airports in Poland concludes that such EU support for airport infrastructure in Poland and other EU countries has to be phased out in the next EU budget period 2014-2020.

The study, ‘Flights of fancy: A case study on aviation and EU funds in Poland’, also recommends that EU investments in rail infrastructure should be redirected from connecting airports – particularly smaller ones – to railway lines that serve the mobility needs of regional communities, currently lacking much-needed investment.

According to the Bankwatch study, Poland’s existing airport network is not as dense as those in EU-15 countries. Nonetheless, the network currently manages to satisfy air transport demand and none of the airports have reached their capacity limits. Yet, with EU support of up to EUR 800 million, major investment is taking place in the 2007-2013 budget period, including the upgrading and extensions of existing Polish airports.

As identified in Flights of fancy, of more concern are proposed investments in new Polish airports, most of which are unlikely to attract sufficient traffic in order to be profitable. Their construction is set to increase the burden on regional budgets: regional authorities need to provide co-financing to the EU investments, and as shareholders they will bear the costs of maintaining and operating these airports.

“The only big Polish airports are financially viable,” says Patrycja Romanik, Bankwatch’s EU Funds coordinator in Poland. “The smaller airports do not attract sufficient traffic. In some cases, in order to attract any passenger traffic at all, re-
and ensuring that climate change is a specific selection criterion in the programming of projects and programmes for member states next year and if the MFF is settled.

These demands are vital, because here is the thing: in spite of the commission’s 20 percent proposal, NGOs calculate that currently only 3 percent of the Union budget on climate change is spent in the next MFF.

This funding gap may cause extra headaches for member states at a later stage, as is currently proposed by the European Commission, according to NGO estimates, the most pressing demand that “the visibility of contributions to the Cohesion Facility (33 percent) All climate spending in the next MFF.

This, we believe, can only be ensured if the European Parliament’s proposal to expand the scope of the Cohesion Facility towards the aim of spending at least 20 percent of the Union budget on climate change mitigation is achieved for member states at a later stage, in order to support member states in which Bankwatch operates.

But only 3.7 percent currently for climate action on EU level, according to NGO estimates, is the most pressing demand. It is by far the most worrying EU fund in terms of climate mainstreaming.

Cohesion needs to be more than just a sticking plaster

As EU budgetary spending under Cohesion policy is of prime importance for the new member states in which Bankwatch operates, our focus during the Trialogue process is on ensuring that these particular EU funds contribute to reaching the EU 2020 energy and climate targets, as opposed to supporting projects that have little or no environmental benefits.

We recommend a minimum of 22 percent of the European Regional Development Fund (ERDF) to develop regions, with 12 percent to go less developed regions (or areas where the carbon footprint from the Cohesion Fund is taken into account), as is currently proposed by the European Union.

The European Parliament’s proposal to expand the scope of the Cohesion Facility to Spending on climate and energy efficiency in the Cohesion Facility is important, but will not be sufficient to limit the scope of climate change impacts and climate impacts of major projects.

EU leaders have repeatedly committed to halt the decline of biodiversity, while at the same time, governments across the European continent are spending far too little money on the implementation of the Natura 2000 scheme – the backbone of nature conservation in Europe. In central and eastern Europe, there are multiple cases of Natura 2000 sites being threatened by infrastructure projects such as major road projects and airports that seek EU funding support.

More tougher protective measures need to be taken at the heart of the future Cohesion policy. We also support the European Parliament’s proposal to expand the scope of the Cohesion Facility to the environment protection. This has the following main suggestions to the variety of various aims – all aimed at peacefull, economic and sustainable outcomes derived from future Cohesion policy spending.

Ensuring the Partnership Principle

In order to ensure the equal engagement of the environmental and social partners throughout MFF 2014–20 program and funds deployment, we support the European Parliament’s proposal for a more flexible and inclusive decision making process in the Partnership agreements.

In the context it is of particular importance that all stakeholders of the Partnership and the Cohesion Policy remain under the Commission’s oversight, especially those related to evaluating environmental and social impacts of the Cohesion Facility.

Therefore, the European Parliament should adopt the entire Partnership agreement as part of the Commission’s proposal for a “green” budget agreement, particularly in the areas of the Partnership agreements, operational programmes, and technical assistance money available for communities. Broader, more inclusive engagement in these processes – when allowed to happen – could change the discussion of projects inside this edition of Bankwatch Mail.

Furthermore, the European Commission should request that the European Parliament’s oversight is maintained under the Partnership agreements.

The need to ramp up the quality of Cohesion policy investments

The Council is proposing to weaken ex-ante conditions attached to Cohesion investments. This would have repercussions for the Cohesion Facility’s valuable environmental investments. Instead we would like to see an improvement in the results orientation of the Cohesion Facility, as well as adequate performance framework based on targets and indicators.

Ensuring the European Regional Development Fund delivers its low carbon potential

Within the Cohesion policy, the ERDF is an important spending instrument that reaches all corners of the EU. We are calling first for a higher thematic focus on climate change. Secondly, the ERDF should be committed to sustainable energy, energy efficiency and climate change.

We recommend a minimum of 22 percent of the European Regional Development Fund (ERDF) to develop regions, with 12 percent to go less developed regions. In the context of the Cohesion Facility, the environmental performance in the past and the remaining smaller airports operate at a loss. Europe’s larger airports (Warsaw, Krakow, Katowice, Gdansk, Wrocław, Poznan) generate profits, while the remaining smaller airports operate at a loss: Profitability is closely linked to the number of passengers served – the airport in Poznan, with 1.4 million passengers in 2011, is slightly above the profitability threshold. The poor financial performance of airports is a burden on shareholders, including those regional and local budgets concerned.

The role of the EU funds in the expansion of Poland’s airports is even more concerning. The European Parliament’s proposal for stronger language on sustainable transport and the biodiversity impacts of major transport projects is essential. The Cohesion policy framework, including the Cohesion Fund spending, is within the draft text that will guide CoHesion Fund spending, there is a European Parliament proposal to expand the scope of the Cohesion Facility to the environment protection. This has the following main suggestions to the variety of various aims – all aimed at peacefull, economic and sustainable outcomes derived from future Cohesion policy spending.

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Within the complex, inter-related regulatory framework, Bankwatch has been assessing and monitoring the environmental adaptability of policies and measures that have resulted in numerous new connections and agreements. The EU has been monitoring the development of the regions concerned, although the provision of this evidence was thin. The evaluation also mentions certain important reservations about ERDF funding for airports, based on two case studies carried out in Europe.

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The European Parliament has called for ‘sustainable transport’ to be a top priority for the next round of EU cohesion spending. Does this mean that we’ll be seeing a new generation of genuinely clean transport projects across Europe? Not just yet, argues Nina Kreshaw of sustainable transport campaign group T&E.

The negotiators arguing over how EU co-
hesion money should be spent between 2014 and 2020 have been left to decide among themselves of exactly how much the EU should spend on transport projects. Compared to how much of their own national govern-
ments put into transport projects, this isn’t huge, but what is for sure is that the rules regarding how EU funds can be spent are a game changer.

As Bankwatch’s ‘Flights of Fancy’ report pointed out, preferential funding rates for certain kinds of project can tip the balance. In the case of Poland this has led to the building of regional airports to serve airports that might not have got off the ground otherwise.

EU transport spending is at a cross-
roads. Do we choose the path to promote projects which will cut transport green-
house gas emissions and last at least 60 percent to 2050, or do we stick to the usual route and continue pumping out emissions projects that will last a decade or less, leaving the need to change for sustainable transport not to be a part of the equation? Planned and ongoing projects in Poland and elsewhere signal that the need to change will be the most urgent needs and the potential to attract passengers.”

Bankwatch coordinator Patrycia Rumiak

"The EU funding could really make a difference bridging the gap between local schemes that lack finance but that have every likelihood of succeeding.”

Making sure EU funds pave the way to cleaner transport

The negotiations about how much of the current £100bn of planned EU regional spending will actually be spent on transport projects. Compared to how much of their own national government-
Back in August, the Czech Republic’s handling of municipal waste attracted criticism from the European Commission, when it was identified as one of several EU member states not doing enough to recycle as well as actually infringing European legislation.

Of these failing waste states, the Commission notes: ‘failings include poor or non-existent waste prevention policy, lack of incentives to divert waste from landfills and inadequate waste infrastructure. Heavy reliance on incineration as the primary waste management options as such – re-use and recycling are consistently underex- pressed.’

This outlook will remain poor if the Czech Republic doesn’t start reconsidering its fondness for waste incineration.

Bankwatch has campaigned – often suc- cessfully – against several such projects. The most recent scrutiny comes in the Czech Repub- lic in August with the announced abandon- ment of plans to develop the GBP 185 million Karvina municipal waste incineration plant with support from EU funds allotted in the current EU programming period 2007-2013. But while the project will not be mov- ing forward at this stage, it’s not unlikely that Karvina will get another chance for EU funding in the next programming period 2014-2020, since the current Czech government still proposes to favour incinerators over recycling.

The Karvina incinerator, officially called the Regional Integrated Centre for recovery of municipal waste in the Moravian-Silesian Region (in Polish: Centrum Zarządzania Zmieszanej Odpadów Śmieciowych w ZSMP), has been intended to be ready for operations in late 2015. The promoter company is KICOd, the waste management operator for the City of Karvina. The €150 million, as income from low-quality recyclables (EUR 3 million) is exceeded by the costs of burning RDF and disposal of CLO. The cost-benefit analysis of the project con- firms that the major project risks relate to RDF and CLO market value. This gap in revenues would have to be covered by increasing the waste tax (EUR 120 million), as income from high-value recyclables (EUR 5 million) and RDF and CLO. The ‘producer responsibility’ system for household waste prevention, or setting tough standards for existing public street containers, as well as pay- as-you-throw waste tax.

If the current Czech government improved resource management by 2015 could yield over EUR 8 mil- lion annually from high-value recyclables and over EUR 6 million from RDF and CLO (EUR 2 million). The incinerator will provide a consistent supply of RDF and disposing of CLO.

The advantage of the MBT plant is that it can only be hoped that the Commis- sion will maintain close scrutiny of these developments, and not incentivize more ill-conceived, unpopular projects with the promise of future EU funding.

Feeding the fire: EU money blocked for one Czech incinerator, yet more still in the pipeline

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Latest waste plans set to keep Sofia bottom of Europe’s waste pile

In recent years Sofia municipality has been looking for a modern waste management solution, but all in the wrong direction. At the end of 2011, the Bulgarian capital submitted its latest proposal to the European Commission. Regrettably, this featured a capital-intensive waste treatment facility and virtually no measures directed at higher levels of the so-called ‘waste hierarchy’ namely prevention and reuse.

The waste facility in question is a mechanical biolog- ical treatment (MBT) plant estimated to cost at least EUR 107 million, with EUR 83 million of this being sought from the EU funds under the European Re- gional Development Fund, supplemented by a EUR 27 million loan from the European Investment Bank.

The envisaged MBT plant would take in the bulk of the municipal solid waste generated within the Sofia region and, according to the Commission’s environmental decision that stipulates a legal action brought by environmen- tal NGOs and experts is concerned about the insufficient assessment of alter- natives to this plan. The gross plan prescribed energy from waste technologies, mainly two thirds of the output promise to be a

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EU budget debate: Some on-trillion euro questions and answers

Paweł Swidlicki

I agree with you that the EU budget fails to reflect the worries and anxieties of those countries that have been changed since the EU was first established, with the bloated nature of this instrument. Agricultural Policy probably is the best example of this. It is a very bad example of its substance - well represented in academic, business and journalistic circles - that has not been properly reflected at the EU policy-making level.

Unfortunately, due to the nature of EU projects (largely dependent on EU spending and the EU institutions’) and policy uncertainty, there is a great deal of uncertainty as to the situation quo – partially driven by fear that member states would undermine their competences - means that this is a real struggle.

However, I think that the size of the budget is just as important as its substance, notably as the vast majority of national budgets are under unprecedented strain. In the current context of the very stringent cost-cutting measures, all energy policies are all well-accepted, as well as the size of the budget.

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It is often said that EU politics exists in its own unique bubble removed from the real world, and unfortunately the negotiations over the EU budget for 2014-2020 deliver higher added value and potential savings in many spheres – and kick starting riskier innovation and research. But many of the smaller items – the European Parliament’s ‘communications’ budget to meet monitoring and ex-ante conditionality, effective implementation and result-answers

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I agree that in some areas there is also a coherence gap between EU policy and EU spending, such as between supporting carbon intensive developments while also funding and legislating for counterexamples. Another good example is the EU funding anti-smoking health campaigns while at the same time providing subsidies to tobacco farmers. Many of these instances are the result of effective lobbying and special pleading by vested interests, and it is an area where the incoming Parliament really needs to step up its game.

On a final note, while I also agree with you on the need to invest in skills, training and research needed to serve to undermine one another as is sometimes the case.

Keté Medarova-Bergstrom

Indeed, there is evidence showing several cases where there has been a big pot of money available for a great deal of things. But let’s not forget that more than 80 per cent of the EU budget is managed at national and regional levels. Decisions on spending priorities under two main sources for Latvia: the EU budget and co-financing of national initiatives, to complement the ‘real’ NDP, was put forward on 24 September 2012, and ended on September 21 and whether or not the plan failed to appear. This was the spur for Latvia’s valuable forests and meadows, the EU funds suffer from a number of fundamental issues even though we come from different perspectives. We both point to the urgent need for genuine reform of the EU budget. Similar aspirations have changed over time. As you also pointed out earlier, can be in direct conflict with one another. In this context your proposal for diversifying funding instruments away from only using grants is interesting and deserves to be explored in greater depth.

A quick point regarding EU spending on ‘administration’ of course this should be cut back blindly. Yet while also enabling the essential functioning of EU institutions, regulatory framework, and with associated risks being well managed, financial instruments could offer better value for money in certain instances. It is interesting that we both agree on a number of fundamental issues even though we come from different perspectives. We both point to the urgent need for genuine reform of the EU budget. Similar aspirations have changed over time. As you also pointed out earlier, can be in direct conflict with one another. In this context your proposal for diversifying funding instruments away from only using grants is interesting and deserves to be explored in greater depth.

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Czech transport investments going nowhere fast

Investments in transport infrastructure, particularly in the road sector, in the Czech Republic are stark reminders of a questionable decision making that has left public confidence in national officialdom at all time lows. Some of these investments have also led to hefty penalties being imposed by the European Commission. With planning underway for future EU funding in the road sector, now is the time for the Commission to take its eye off the ball.

The financing of transport infrastructure in the Czech Republic is exorbitant for a number of reasons. First, existing infrastructure is technically unlight as a result of historical underfinancing for maintenance and rehabilitation that lasted for decades under communist rule. Second, the whole sector has been blighted by ineffectiveness in the preparation and construction of transport projects – and the lack of a clear, strategic determination of priorities at national level is blame here.

The upshot has been, for example, that certain motorway projects have been proposed and constructed despite lacking the necessary traffic volumes, or even being necessary at all. Often poorly built, one infamous motorway project is the D47 near Ostrava.

A major concern is that many of the transport projects currently being planned are duplications of existing roads system. Worst of all, the D47 duplicating the existing D47A near Ostrava.

There are a variety of cases where original expected construction costs have doubled – or even been quadrupled – when project implementation began. At the same time, the inhabitants of dozens of towns and municipalities suffer from excessive noise and pollution. The number of vehicles rose between 1995 and 2010 from 57 to 79 percent, and the number of road deaths also increased. A key reason for this is the growing negative impacts of transport, particularly in the road sector, on the environment and people’s well-being and health as a result.

The European Investment Bank and the European Bank for Reconstruction and Development have been working closely with the Czech transport authorities to improve effectiveness in transport planning. However, a number of steps must be taken to prevent the waste of public funds that has so far resulted from ineffective transport spending.
The storming of the US embassy in Cairo has diverted attention once again from the real issues facing Egypt. It couldn’t have come at a better time for those who want to obscure the country’s economic problems, and accept an International Monetary Fund loan and other western IFI interventions, and thus extend former president Hosni Mubarak’s liberalisation of the economy.

While the western media and politicians seem to view Egypt through the prism of political rights versus Islam, the economic causes of the revolution, the waves of strikes and economic demands of the activists are barely discussed.

This allows the US and European governments to portray the USD 4.8bn IMF deal that will shortly start flowing into post-Soviet eastern Europe, trying to extend its mandate to north Africa – not to mention their sovereign legislatures – as a start towards providing proper solutions.

The loan is also causing heated debates in Cairo’s coffee shops and on the blogosphere. The IMF says it has changed its ways since working with Mubarak to restructure the Egyptian government in the 1990s, and won’t ask for many conditions this time around.

However, many people remain sceptical about the IMF’s agenda – privatisation, indirect taxation, removal of subsidies (many of which are corrupt, but some of which do genuinely support the poor) and an economic policy with a strong emphasis on one government insider said last week: “In Egypt, we call privatisation what it is – stealing.”

This is consistent with the wider campaign of the organisation in Egypt that “there is no alternative.”

Many of those who helped to organise this mobilisation are aware of the need to focus on the economy.

“The question is not whether to take a loan, but who will run this country for the next five years,” Amr Adly from the Egyptian Initiative for Personal Rights told an anti-privatisation conference in Cairo. He’s right: what will happen to the IMF’s plan to push through new loans to Egypt so that it can continue to pay (rather than question) Mubarak’s debts, and use this influence to impose a whole host of liberalisation policies.

Indeed, the IMF’s plan is already moving forward. On 9 September, 35 US corporate representatives arrived in Cairo, including representatives from Boeing, and the US Arms Export Control Act (AECA) 100-strong delegation, the largest US business mission to Egypt, urged the government to accept its demands for a high-level restructuring partnership. Prime Minister Hisham Qandil told them: “We want you here to invest and make profits.” He promised easier profit repatriation for companies coming into Egypt.

Certainly, Egypt’s foreign currency reserves are depleting, and problems remain with its balance of payments. But it does have real alternatives. There’s support – even from within the ruling party – for suspending payments on Mubarak-era debts and holding a public consultation to decide which debts should be repudiated.

An economy that benefits Egyptians people depends on a national and regional development strategy similar to those that are being pursued in many Latin American countries. Countries such as Ecuador and Bolivia have shown that such policies are not only more create growth, but lead to much fairer distribution of wealth in society and falling poverty. Incidentally, they are also supported by the IMF, which has instigated a ‘judgement is anything but economy being proposed by the IMF. An economy that benefits Egyptians people is an economy where genuine development is open – in many ways, it will never offer better or clearer alternatives. But all of this is possible if the IMF gets its ways. Ironically, the supposed political challenge to the west represented by the US IMF might actually help deter companies from forcing western power in the region represented by the campaign against the IMF loan.

How the facts got in the way of a good EBRD Roma headline

Belgrade authorities have an alarming tendency to settle Roma families without proper prior notice and consultation, in the process separating families and relocating people to far away places and in improper conditions. Amnesty International has repeatedly condemned the manner in which such resettlements are done, claiming that Serbia is breaking its international human rights obligations.

It was therefore surprising to read the EBRD conglomerate’s claims this week, published as a recycling initiative offering Roma people employment in Belgrade. While the recycling initiative is certainly laudable, what was striking about this bit of news was the EBRD’s claim that the project has allowed Belgrade to become a role model for social inclusion of Roma.

The recycling centre in question is intended to help the reintegration of Roma, including those that have been resettled by the Belgrade government, planned to be financed by the EBRD with the resettlement technical assistance carried out by the EBRD. The Belgrade resettlements were a huge human rights scandal, and a recycling centre – as welcome as it is – can only be viewed as a start towards providing proper solutions for these forcibly displaced people.

Here, unfortunately, is what else has been happening late to Roma communities in Belgrade.

On 26 April this year, 100 out of more than 240 families from the Belgian-Greek settler (a community resettled because of construction - of the Sava Bridge) and who were not Belgrade residents were forced out of the capital and taken to towns and cities across the country. Five families were returned to the southern Serbia province of Nis – with 12 people in all, including children and a new-born baby – ‘they had a particularly hard time. They spent three months in an abandoned warehouse, with no water supply, running water, and only in late July finally received access to running water. For this, Amnesty International has accused the Belgrade authorities of breaching their international human rights obligations.

Moreover, as part of the resettlement processes related to both the Gazela and Sava projects, the Belgrade authorities have been very reluctant to provide proper accommodation containers to the Belgrade people far from their income source of recycling activities. Here they have not been permitted to collect or store waste items that they can recycle or sell at the sites.

In the case of the Gazela Bridge, 61 families have been bussed to southern Serbia from the Gazela bridge entrances in spite of already having emigrated from there due to the lack of income opportunities. Around 114 families from Gazela Bridge were bussed to the outskirts of Belgrade and Sava projects, where residents have been made to pay much closer to Islamic ideas of what constitutes a ‘community’.

The Oil Road – How a ‘Done Deal’ continues to unravel

The air of cover-up resonates throughout the case of Minio-Paluello, a small town in southern France where an environmental lobby of activists and critics alike by security services, through to covering up environmental and security breaches. Compensation efforts via other means are currently ongoing. And in particular: The EBRD and the IFC also had to bend their rules in order to provide former BP CEO John Browne not just half a billion dollars of public money to shill for the pipeline, but for the entire BTC saga. It resulted in an outburst of self-congratulatory artifice, with the EBRD performance, they would be made to pay.

The table above shows the levels of compensation for BTC workers in orange and green.

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Trust us, we’re euphoric – Private equity and a tax haven part of the EBRD’s first post-Arab Spring swoop

Public investment millions provided to a private equity fund based in a tax haven – these days, with the buccaneer activities of private equity firms and the use and abuse of tax havens very much in the public spotlight, this kind of thing could validly be expected to provoke a public outcry.

Yet when such investments are made under the cloak of international ‘development finance’, as the European Bank for Reconstruction and Development did last week, there is not only cursory media reporting but, by the sounds of it, some hearty back-slapping within the EBRD itself.

The deal in question, a EUR 20 million equity investment in Maghreb Private Equity Fund III, is part of the EBRD’s first raft of signed-off investments for the Middle East and North Africa (MENA) region.

Private equity may set some alarm bells ringing (just ask the Obama presidential campaign) but the Maghreb Private Equity Fund III is also based in Mauritius, a renowned tax haven, a fact not alluded to in the EBRD’s press materials. It is, however, cited in the bank’s project summary document that was published unusually late: not months in advance of the EBRD’s board meeting to discuss it, as is the norm, but on the same day as the board approved it.

Accompanying the press announcement of this private equity deal, and two others involving ‘intermediated finance’ (see below) in the EBRD’s new region of operations, was a Tweet from the bank’s recently appointed president, Suma Chakrabarti:

> “An IFC review of its private equity portfolio has concluded that any correlation between high profits and wider positive development outcomes was relatively weak, and that the most pronounced impact of private equity investments was in ‘improvements in private sector development’, such as encouraging changes in the law favourable to the private sector. In effect, what is good for private equity is good for private equity – but not necessarily for the wider public.”

What’s more, a May 2011 report of the World Bank Independent Evaluation Group, Assessing IFC’s Poverty Focus and Results, found that less than half of the projects reviewed (the IFC invests only in the private sector) were designed to deliver development outcomes, and just one third of the projects addressed market failures, such as enhancing access to markets or employment of the poor.

Black hole development finance

Last week’s private equity deal and the two other accompanying investments in Jordan and Morocco see the EBRD relying on intermediary institutions to select and pass on loans to thousands of final beneficiaries, usually in the small- and medium-sized enterprises (SME) sector.

While the intention of these investments is to spur economic development by lending to SMEs, the investment model (so called ‘intermediated finance’) raises more questions than answers.

For one thing, based on the EBRD’s track record in eastern Europe over more than a decade, accountability for this type of lending is nowhere to be seen due to commercial confidentiality. The EBRD is not compelled to (and very rarely does) reveal publicly who the final beneficiaries are, or what they have been doing with the funding, nor do the intermediary institutions, be they commercial banks, private equity firms or hedge funds.

And yes, the World Bank’s private lending arm, the IFC, has invested in a hedge fund under the ‘development’ banner. As Nick Hildyard of The Corner House has recently pointed out, though:

> ‘An IFC review of its private equity portfolio has concluded that any correlation between high profits and wider positive development outcomes was relatively weak, and that the most pronounced impact of private equity investments was in ‘improvements in private sector development’, such as encouraging changes in the law favourable to the private sector. In effect, what is good for private equity is good for private equity – but not necessarily for the wider public.’

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A further red flag

If you’re new to intermediated finance, then, it doesn’t exactly seem to add up. But there’s the added red flag that the investments announced by the EBRD include a client that is registered in a tax haven. In spite of its development bank status, and similar to other institutions such as the World Bank and the European Investment Bank, the EBRD is still permitted to provide financing to entities based in tax havens. The risks of doing so, particularly in a development context, are becoming increasingly well documented – as usual the peerless Tax Justice Network has been leading the way.

More evidence is provided in a recently published report from the development NGO Eurodad.

Private profit for public good? Can investing in private companies deliver for the poor? maps out the recent rapid growth in the intermediated finance sums being doled out with a ‘development’ stamp by the international financial institutions, and has uncovered the alarming trends that come with it.

As the Eurodad report points out, “Unfortunately development banks and private financial institutions have a spotty record when it comes to the development impact of their projects, so “trust us” does not qualify as an effective method of monitoring and evaluation.”

Development ineffectiveness

The UK Department for International Development (DfID), the UK government agency responsible for interacting with and channelling UK development money to the EBRD and other agencies, has arrived at similar conclusions regarding the EBRD and development. DfID’s 2011 multilateral aid review rated the EBRD among the bottom ten of 43 institutions assessed in ‘contributing to UK development objectives’.

At the time of this review EBRD president Chakrabarti was the top civil servant at DfID, so these findings can not have escaped his attention. Transforming the EBRD into an institution that delivers much more effectively on development goals is surely one of the key challenges for Chakrabarti’s presidency.

What’s in store for Egypt?

It is highly concerning that the EBRD has opted to signal its entry into a new region of operations with these type of investments. More of the same can now be expected, involving not millions but billions of public money. With EBRD investments expected shortly to commence flowing into Egypt, where tax haven abuse by Hosni Mubarak, his family and other cronies was rife, the people of the region must be scratching their heads about the west’s post-revolution response.

The EBRD’s dubious infant steps into North Africa and the Middle East, not to mention its already very grey-tinged footsteps in eastern Europe, could be set on a more appropriate path. To do so requires this development bank to grant full public disclosure of where these funds are going, who is benefiting and what the real added value in terms of job creation and environmental sustainability actually is.

Read more: Eurodad’s report ‘Private profit for public good? Can investing in private companies deliver for the poor?’ is available at: http://eurodad.org/1543000/