EIB energy policy review – Time to lock out climate destructive investments for good

The European Investment Bank (EIB), the EU’s bank and also the biggest public financial institution in the world by lending volume, has launched a public consultation on its energy policy and is seeking views from the public and other stakeholders that should feed into a review of one of the EIB’s most crucial lending sectors.

The EIB’s energy policy review is taking place just as a string of major international agencies – including the United Nations, the World Bank and the European Environment Agency – have issued dire warnings about runaway climate change and the urgent need for major new investments into energy efficiency measures and clean renewable energy technologies.

This time last year, Bankwatch’s study ‘Carbon Rising’ revealed how EIB energy lending in recent years has failed to relate to long term EU climate protection objectives such as de-carbonisation of the energy sector by 2050 – and this from a bank intended to support EU policy objectives.

For example, as the Carbon Rising study showed, between 2007 and 2010 fossil fuels came out as the top beneficiary in the EIB’s energy sector lending, resulting in a high carbon ‘lock-in’ effect – such EIB investments notably involved the financing of coal-fired power plants, whether in Bielsko Biała in southern Poland or at the Sostanj coal power plant in Slovenia, and a number of other coal power plants that will lock in assets, as well as the countries themselves, into the dirtiest sources of energy for decades to come.

At the same time, though, the EIB has introduced its Climate Action program in an effort to mainstream climate considerations into its lending.

What is now at stake in the EIB energy policy review is whether instead of trying to satisfy competing demands, the EIB’s mandate should be better clarified and focused to make the bank a lead institution promoting the de-carbonisation of the energy sector and of our societies in general.

According to Anna Roggenbuck, Bankwatch’s EIB coordinator: “A new approach from the EIB is needed to ensure that its investments are in fact adding value to the sustainable development of the EU. In order to increase benefits for the EU as a whole, the EIB should be strongly prioritising projects that meet the requirements of monetising carbon assets, as well as the countries themselves, into the dirtiest sources of energy for decades to come.”

At the same time, though, the EIB has introduced its Climate Action program in an effort to mainstream climate considerations into its lending. This kind of clarity is long overdue, due to the fact that when it comes to energy, the EIB has been operating to date within the framework of the EU’s own energy policy that is based on three pillars: sustainability, security of supply and competitiveness. As an EU institution, in theory bound by EU policies and strategies, the EIB needs clear political guidelines to set the direction for its future energy sector lending and the types of projects it supports.

The proposed support, according to project information on the EBRD website, involves ‘unfunded risk participations’ for cases where farming companies cannot pay for seeds and agrochemicals that they have signed up to with Monsanto. The USD 40 million pot is to be aimed at medium-large farms and a small selection of key distributors in Bulgaria, Hungary, Russia, Serbia, Turkey, and Ukraine.

Since its initial announcement of the potential Monsanto deal, the EBRD has already moved the board date for a final decision on the deal from January next year to April.

Concerns have been mounting about why the world’s fourth largest agrochemical company, one that features in the Fortune 500 list of top global businesses, should be being considered for public financial support.

Serbian environment groups, including Bankwatch member CEKOR, protested outside the EBRD country office in Belgrade on November 30. Chief among their demands was that the EBRD refuse to finalise this support for Monsanto and instead focus in Serbia on developing financial programmes to assist small-scale green, organic and other producers in the country.

In Germany, Kirsten Tackmann, a member of the German parliament and responsible for rural affairs for the Die Linke party, has requested a statement from the federal government on its views regarding the potential deal – Germany being a key EBRD shareholder.

EBRD mulls latest mega-corp support – for Monsanto

Monsanto, the world’s largest seed producer and one of the most well-known promoters of genetically-modified crops worldwide, is in line to receive USD 40 million of public financial support from the European Bank for Reconstruction and Development (EBRD), the bank disclosed last month.

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It was no surprise when the European Council summit meeting dedicated to deciding the EIB’s budget for 2014-2020 took place in the afternoon of November 23 with no deal having been reached. The main surprises were how early on the Friday afternoon the EU’s 27 member states decided enough was enough, as the bloc declared a deal unachievable.

The general split was provided by European Council president Herman van Rompuy, whose Herculean mission had been to secure a deal on the EIB by the end of the year. It’s possible that Rompuy would keep Europe’s leaders locked up until the Sunday in an effort to bridge some firmly entrenched differences of opinion mainly centred on the size of the 2014-2020 budget pot. Van Rompuy’s post-summit statement tried to put the emphasis on the positives: “The bilateral talks yesterday and the constructive discussion within the European Council show a sufficient degree of potential convergence to make an agreement possible in the beginning of next year.”

And so it is widely expected that the EU budget wallets will be drawn up for more negotiations at another EU summit either in January next year or, more likely, February. What does seem to have been achieved is broad acceptance that the European Commission’s approximately EUR one trillion proposal figure will have to be cut, with van Rompuy again pointing out that the proposal he tabled during the summit is “80 billion euro below the Commission’s proposal and a cut compared to the 2007-2013 period. This is a first in EU budget talks.”

Commission president José Manuel Barroso also spoke, to have fallen back with this view, though the European parliament - for the first time having veto power over the seven year bloc budget - may still be shaping a fight for a new in the future. Bankwatch and other environment groups, that had been surveying the pre-summit budget battleground with a fair degree of incomprehension and frustration, are now stepping up their calls for the future negotiations to have quality EU spending squarely at the top of the agenda. The collapsed talks may have been yet one more example of Europe’s leaders letting down the continent, but if there is one vital lesson to be learned it is that squabbling over gross sums of money can now be overcome by a focusing instead on the huge potential of the budget to improve our health, environment and our economic prospects.

Going into the new year, we will be seeing another round of the EIB’s EU budget for 2014-2020 to go green spending (the Commission’s 20 percent climate mainstreaming commitment in intact under Herman van Rompuy’s last proposal document). Such a figure would cut out fossil fuel projects like energy savings and renewa-bles that can cut Europe’s greenhouse gas emissions, creates millions of new green energy jobs and reduces fuel poverty. The justifica-tion for going beyond 20 percent? Well, the new string of reports from such environmental institutions as Bankwatch and the International Energy Agency and the European Environment Agency on the eve of the failed summit, all painting an emphati-cally worsening climate change picture, are important indicators of the scale of the challenge now facing Europe and the world.

Now is not the time for half measures. A deal on the future EU budget must now be realised at the earliest opportunity, and that message appears to be sinking in. In the run up, the leaders have recognised that they cannot afford to let a positive, quality-driven, green deal go begging again does remain, scarcely, out, by some doubt.

BANKWATCH GEARING UP FOR THE ’BUSINESS END’ OF THE 2014-2020 EU FUNDING PERIOD

BANKWATCH, in cooperation with the ‘Steam for Sustainable Future’ and Friends of the Earth Europe, will hold a conference on Partnership in Cohesion Policy just before the finalisation of the legislative proposals for the future EU Cohesion policy and just before the Partnership Committee, which will present its report for the first time on the failed summit to the European Environment Agency on the eve of the failed summit, all painting an emphatically worsening climate change picture, are important indicators of the scale of the challenge now facing Europe and the world.

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The event will take place in Brussels on 19 February 2013 with key speakers and venues to be confirmed. Citizens from eight central and eastern European countries, in which the Bankwatch Contest for best ideas for sustainable use of the EU funds took place, will present their winning proposals for the future EU Cohesion Policy, and just as Partnership contracts are being finalised, open to some doubt.

Awards ceremony to honour European citizens’ best ideas for innovative, sustain-able, community-based EU projects

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How many IFIs – and how many millions – does it take to make a safe road?

Last month, residents in the village of Krupets in Ukraine blocked the Kyiv-Chop road that runs straight through the village. Their protest – the road was blocked off for more than 90 minutes – came as a result of horrifying car accidents (including ten fatal car accidents since the beginning of this year) that have taken place in their community due to the lack of a speed limit, street lighting and appropriate traffic signs. The regional prosecutor office has initiated a case against the regional roads agency for alleged violation of road and traffic safety standards.

Lethal car accidents, an increasing number of road traffic victims, 100s of villages along the route of the road – this is the current reality of the Kyiv-Chop highway, one of the most important arteries in Ukraine’s road network. You might be thinking that this is no doubt a very old and unsafe road, in need of rehabilitation and up-grading to European standards. In fact, for more than a decade now, the Kyiv-Chop highway has had over half a billion euros thrown at it for these very purposes.

Since 2000 the European Bank for Reconstruction and Development (EBRD) has been providing a loan of over EUR 200 million to the car manufacturer Ford in Turkey, coming just as the company was recognised this inconsistency and the need for better coordination between the EIB and Ford. Andor apparently intends to study EIB decision-making over its lending more closely and to discuss how the bank matches its financing decisions.

Commissioner Andor could of course start by asking a basic question: why is the EIB lending a large amount of money to a corporation whose parent company is posting huge dollar profits and, in the case of European companies, is subsidised by taxpayers?

Are PPPs simply another victim of the ongoing economic crisis? Or have government officials finally started to take heed of warnings issued by PPP critics for well over a decade now? Unfortunately the EIB’s update offers no answers to these questions. However, another recently published EIB document does comment that: “Since the onset of the financial crisis, commercial bank debt has become more difficult to secure and lending terms (e.g. pricing, tenors, loan volumes) have deteriorated significantly, affecting the bankability and value for money of PPP projects.”

It is undeniable that the crisis since summer 2008 has hit PPPs hard, as the example of the M25 motorway widening in the UK – an EIB backed project – shows. The UK National Audit Office found that the price of the contract increased by approximately EUR 826 million to roughly EUR 4.25 billion between the time when Connect Plus became preferred bidder and the contract letter was signed.

Financing terms for the M25 project were much more expensive than before the credit crisis and accounted for 67 percent of this price increase. While this project did – controversially – go ahead, many other PPP projects caught up in the crisis backwash did not.

The EIB has recently published a market update for PPPs in Europe for the first half of 2012. The update shows that during this period the European PPP market recorded its lowest volume for ten years: only seven EU states closed PPP deals during the first six months of this year, with the UK signing most contracts (10) but France, with 3 projects worth a total of EUR 2.9 billion, remaining the largest PPP market in terms of volume. Perhaps a ‘green vision’ document, to complement the ‘real’ NPD, was seen by many in Latvia as a green alternative, bringing green issues into the spotlight as well as sparking high level political debate. Above all, the green vision suggests that green development is feasible and it stresses the importance of energy efficiency and the use of renewable energy sources for Latvia’s future development.

Bankwatch has long been critical of PPP models of infrastructure financing, based on a fair amount of evidence of PPPs that have failed to deliver positive results in central and eastern Europe. Thus, fresh data that comes from the EIB itself that more and more EU governments are deciding not to ‘build now and pay heavily later’ is in many ways positive news.

All the same, the EIB’s findings do raise the question of what is going on? Are there fewer PPP projects being signed off lately? Are PPPs simply another victim of the ongoing economic crisis? Or have government officials finally started to take heed of warnings issued by PPP critics for well over a decade now? Unfortunately the EIB’s update offers no answers to these questions. However, another recently published EIB document does comment that: “Since the onset of the financial crisis, commercial bank debt has become more difficult to secure and lending terms (e.g. pricing, tenors, loan volumes) have deteriorated significantly, affecting the bankability and value for money of PPP projects.”

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Not a silver bullet for public infrastructure. Bankwatch’s website ‘Overpromised and Underdelivered’ exposes the hidden costs of PPPs. See: www.bankwatch.org/public-private-partnerships

Europe’s PPP crisis – European Commission and EIB magic up the ‘project bonds’ elixir

Although public authorities appear increasingly to be turning their backs on public-private partnerships (PPPs) for delivery of services and the provision of infrastructure, the beleaguered investment vehicle continues to be aggressively promoted by the European Commission and the European Investment Bank (EIB). An official in-depth evaluation of this financing model, however, remains long overdue.

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Financing terms for the M25 project were much more expensive than before the credit crisis and accounted for 67 percent of this price increase. While this project did – controversially – go ahead, many other PPP projects caught up in the crisis backwash did not.
As it moves into the southern and eastern Mediterranean region, the EBRD is reassessing the conditions that promote (privatisation, liberalisation and commercialisation) after the global economic crisis approach. We do that partly by developing the private sector, that means in some cases liberalising markets to help the private sector grow but it also means doing business ethically, properly. It may sound fundamentally privatisation as well.

We have supported that and we will continue to support good privatisation strategies but they have to be good, small, strong companies. There have been also privatisations, not that the EBRD supported them, that in some countries have not gone well – it is very important to support good privatisations, not bad ones. But, at the same time, in an open market economy to want growth and have to have very good state institutions. I don’t think what we’re doing is something like a watchman; state has to be there for us everything and, with institutions of governance that help economies grow – that has been the case in every successful economy.

The European Investment Bank (EIB) and the World Bank have both announced that this isn’t just about money: money doesn’t buy growth. It’s about the institutions that protect the rule of law and sound governance. It’s important to talk about policy reform and it’s very important, as we tend to these countries, to lend particularly to the really economic reformer, to the really strong growth countries.

We also talk very frankly with the governments about the policies that we need for reforms. That’s what I’m seeing and pushing during my visits. Second, when it comes to the new area of operations, the southern and eastern Europe, corruption remains a holy grail. What is the size of public coffers and the quality of public finances? What is the size of public sector. That’s one of the areas where the EBRD focuses on our region has gone to projects where the management has been so bad or sometimes investigated, of corruption (the most classical examples recently are Kolubara in Serbia and Sostanj in Slovenia). We need to evaluate publicly itself from projects where such serious breaches are noted? How can due diligence at EBRD be improved to make sure public money is not wasted in such ventures?

S.C.: I won’t talk about the particular projects, just about the general approach. I think that our bank is operating internationally, and certainly among our government shareholders. They’re not very good track record on these issues, partly because we have a really strong compliance function and very strong procedures designed to detect corruption in our projects. One of the things that struck me when I came to the bank was how strong the due diligence is. Secondly, I think there is a dual function – externally it’s very important for us to work with our government shareholders in such ventures.

S.C.: By being involved in the company there are internal mechanisms and external ones. Internally, when we’re involved with a project (whether it’s an equity stake or a loan) we would make our feelings very clear and look for improvements in management practices. Potentially in some cases we would look for changes in management, depending on how serious the cases are but, when it comes to our own procedures, we’re not going to agree on external ones. Internally, when we would be looking to improve the management practices.

I think any decent institution has an ethical framework, a code of conduct which is designed to try to minimise the damage of corruption. That doesn’t mean compliance and good practices, it’s about doing what you did in the past, but you test it, but you want to be satisfied with the process. If I think any decent institution would do some kind of review policy process, if I remember well, we invited about 500 NGOs to the comment; we had public meetings in five cities, over 120 consultations were submitted. This was just an unbelievably intensive in my view, we got back over 200 pages of transcript that we have to go through. And many issues, such as resource efficiency and many other comments were taken on board as far as I understood. But in the end, we’re not going to agree on everything. So even if the policy has been finalised, I think it’s a strong signal on environment, health, safety and social issues.

Suma Chakrabarti has been president of the EBRD since 2004. I think it’s very important for any president to get out and work on the ground, not just stay in London in the bank’s headquarters. The EBRD is quite different from other international organisations. Obviously, there are many points of view on private sector development, that’s the most important thing and this is fundamentally different from other organisations, and this gives us value added in our work. We are going to be working on a topic that we can help tackle in a very significant way.

First of all, in our traditional area, central and eastern Europe, there is a big crisis of confidence. People are factoring in terms of getting through this crisis and recovery going, so we have now been working with them for five years trying to get a plan with other IFIs (the European Investment Bank and the World Bank) and we have announced that this isn’t just about money: money doesn’t buy growth. It’s about the institutions that protect the rule of law and sound governance. And we’re not just going to do it, we’re going to have to do it because we have to help economies grow – that has been the case in every successful economy. So we’re not just doing interventions of the private sector only: we have to have a balanced approach and that is something I fundamentally we are about private sector growth.

In central and eastern Europe, corruption remains a holy grail. What is the size of public coffers and the quality of public finances? What is the size of public sector. That’s one of the areas where the EBRD focuses on our region has gone to projects where the management has been so bad or sometimes investigated, of corruption (the most classical examples recently are Kolubara in Serbia and Sostanj in Slovenia). We need to evaluate publicly itself from projects where such serious breaches are noted? How can due diligence at EBRD be improved to make sure public money is not wasted in such ventures?

We’ve not just head-bangers of the private sector only: we have to have a balanced approach on that, though fundamentally we are about private sector growth.

We’ve seen have so far, how could the bank improve its policy consultation processes to ensure that stakeholder input is more seriously taken into account?

S.C.: My objective is for dialogue. We have done a lot of good job in consultations and that all interested parties feel they’ve had a chance to be heard. Critics sometimes say that there isn’t always a running notice of. But as I’ve always understood. But in the end, we will see how that works, so let me know what you think about it.

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extraordinary in changing the EUR 450 million in renewables and energy security, decarbonisation, challenges of energy mix can lead us not followers, and because these public institutions to The reason why we always ask institutions like the EBRD and the EIB to do is that they often fail to respect these public institutions to be drivers of markets and not just financiers because following the national choice of energy mix can lead us to do things that are not sustainable. Why that’s why we keep pushing for more.

S:C: And you're pushing at an open door. We want to see a shift in the power balance over time, particularly with climate change in our minds, but we have to be realistic about the pace given the natural resource endowment of the countries. You know, it isn’t an accident that Poland is dependent on coal for over 70% of its energy generation. Poland has enormous coal reserves and it’s very difficult for them to change over to renewables. Sometimes, though, fossil fuels are a specific choice of these countries, which include Poland, have significant renewables and energy efficiency potential but choose not to pursue it out of comfort or lobby pressure.

I know the problem is Monsanto – the name, the red flag comes up immediately – but Monsanto has been quite innovative. It is worth trying this risk sharing approach to see if we can help farmers access the financing they need.

What is the EBRD’s vision for agricultural development in the countries of operation? The EBRD – initially created in the 1990s to fight the deep social and economic displacement of 107 individuals and the economic displacement of environmental & Social Impact Assessment”, is in response to the approval of the refinery extension due to pollution, diversion of water sources and planned evictions – de-construction of their homes in the construction work and not being satisfied with the removal of any houses or structures outside the complex.

The impacts of the refinery on the Egyptian economy are enormous potential for both Egypt and its Arab neighbors. Egypt is dependent on coal-fired power stations – it could feed a big chunk of Europe. At the same time, it’s always dangerous for the country to be too dependent on one sector, so we’re also trying to develop other sectors as well.

Editor’s note: The EBRD would like to be noted that – as we go to press – no decision has been made to proceed with the Monsanto project. Further, the bank intends to explore the project further, as with any other potential investments, it will conduct an in-depth analysis of the project’s compliance with EBRD requirements, including financial, legal, environmental, social and integrity due diligence. As part of this process, if the EBRD decides to proceed, it will also consult with a wide range of stakeholders in line with its Public Information Policy.

The EBRD is currently considering a USD 40 million loan for the refinery mega-project. It plans to involve EUR 100 million of the European Investment Bank (EIB) and western high-street banks like HSBC.

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What is the EBRD's vision for agriculture sector is to support the development of sustainable, production and sustainable is a very important part of our work. What this means is that we’re trying to help Poland reduce coal dependency, and in the process, any country that is dependent on food imports to try and redress the balance. We’re also trying to trust our return on the sort of economic diversification.

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Never a dull moment in Slovene power plant soap opera

On November 30, the same day as the national government was under fire in the most heated public protests Slovenia has seen in years, Slovenia’s ministers of finance and environment went to the flames by signing contracts with Simon Tot, director of the Šoštanj lignite power plant, for the controversial EUR 1.3 billion Šoštanj Unit 6. These contracts provide the groundwork for the signing of a state guarantee contract for a EUR 440 million loan from the European Investment Bank (EIB) for the project.

In July this year Slovenia’s parliament approved a state guarantee under certain conditions, such as having had no laid out by the government in February, including: keeping project costs below EUR 1.3 billion; completing Šoštanj Unit 6 construction within 3 years; keeping carbon emissions under a certain level and the maximum price of lignite at EUR 2.25/GJ, and ensuring that the present nominal rate of return of at least nine percent. These new contracts commit the Slovenian power plant company to ensuring that these conditions are met.

The main stumbling block, however, is that according to Slovene media the new lignite price has not been made public at the time of writing – the answer is that the government will hold its breath for no move the goalposts and accept lower profits and higher lignite prices.

A state guarantee for the EIB loan still has to be discussed by the Slovene government and ratified in the parliament. If that gets far, the EIB faces a serious test, as the bank has failed to be a potential EUR 100 million loan package for the plant’s construction.

In a report from February 2012, the Slovenian Commission for the Prevention of Corruption issued strong warnings that:

“The project (Šoštanj Unit 6) is designed and implemented in a non-transparent manner. Lack of supervision and is burdened with political lobbying influences, and as a result there has been (and still is) a high risk of corruption and conflict of interest.”

In the same report, specific concerns were raised about acts of corruption that may have involved the tender procedure for the plant’s construction, to the benefit of Alstom, the French company that won the construction contract in June 2008.

The EBRD is also warning the outcome of decisions on the state guarantee for the EIB’s financing of Šoštanj Unit 6 before disturbing its own hands, reduced to be a potential EUR 100 million loan package for the plant’s construction.

A carnival cartoon portraying directors past and present of the Šoštanj lignite power plant

Green area alert – IFI-sponsored PPPs the latest big thing in Kazakhstan

While it is not to be unexpected for the public to attempt to scrutinise the effective performance of governmental agencies, in recent years in Kazakhstan it has been far from obvious that many resources and services, projects and finances are being provided by international financial institutions (IFIs). Indeed, very often it has been as catalysts for various government programs, reforms and ideas that are subsequently adapted via the bureaucratic apparatus to Kazakhstan’s reality.

In this context, the IFIs are seen as convenient external agencies by Kazakh officials as they can always be referred to in terms of data, competencies, responsibilities and recommendations. At the same time, though, when asked to comment on the effectiveness of programs and projects the representatives tend to prefer leaving it to the responsibility of the country’s executive bodies, referring to the fact that these institutions only provide financial support and necessary competences while the national authorities themselves are responsible for taking these to the project implementation.

For projects to be successful, all stakeholders – the media, NGOs, sub-contractors, government agencies and the national government – should/shall help to resolve conflicts and prevent new ones from arising. Given the risks of corruption in Kazakhstan, as well as the traditional reluctance of the law enforcement agencies to investigate budgetary costs associated with international organisations, the main means of reducing project efficiency is primarily via the lack of control by the civil society.

Yet such involvement has been facing new challenges since a recent uprising in public-private partnership projects in Kazakhstan. 2011 saw the signing of a cooperation roadmap between Kazakhstan, the World Bank, the EBRD, the Asian Development Bank (the EIB), the USAID and others that are actively helping the country to upgrade national legislation in favour of PPP projects.

A national strategic investment vehicle, as PPPs go to deliver more problems than solutions in Kazakhstan, particularly as the government has announced its intention to vastly ramp up the number of PPP projects over the next few years and has established a national PPP centre.

More questions than answers as new EBRD mining policy is chiseled out

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When the EBRD’s board of directors is set to decide on December 12 whether or not to extend further credit to the Almaty’s Kapan mining firm from Dundee Precious Metals (DPM), the time the EBRD may invest up to USD 45 million in a five-year revolving corporate debt facility for DPM valued at USD 150 million.

This revolving fund is described as ‘regional’ on the EBRD’s website, and looks like independent financial support and development and expansion of DPM’s gold mining operations in Armenia, Bulgaria and Kazakhstan, when EBRD has already provided roughly USD 80m in loans.

While the nature of this type of fund raises concerns about transparency and the EBRD’s financial weight and influence, on paper the EBRD describes the financing as keeping to ‘standard standards in terms of transparency and environmental, social and health (ESHS) practices’. This is to say, the EBRD’s website also informs that “it has been agreed with the Company that disbursement of funds for use in Kazakhstan will only occur until such time as due diligence has been completed.”

The EBRD’s website tells us that “in Kazakhstan the EBRD will focus its assistance on expanding the mining sector and development of gold mining operations in the country. The EBRD will provide USD [28x180] 45 million in a five-year revolving corporate debt facility for DPM’s mining operations in Kazakhstan.”

More questions than answers as new EBRD mining policy is chiseled out

Detailed renovation and upgrading of the Kapan mine complex is aimed to increase its production capacity from the current 300,000 oz to 900,000 oz per year, which is expected to make it one of the largest gold mines in the region. The EBRD loan will support the completion of further significant financing to Canadian gold miner Dundee Precious Metals (DPM). For projects to be successful, all stakeholders – the media, NGOs, sub-contractors, government agencies and the national government – should/shall help to resolve conflicts and prevent new ones from arising.
Connecting Europe Facility – connecting who, and what, exactly?

The economic crisis has accelerated the development of new financial instruments for the next EU budget period in 2014-2020. The main intention behind these instruments is to deliver substantial levels of new investment money from increasingly limited public resources in order to plot a path towards Europe’s economic recovery.

The ‘Connecting Europe Facility’ (CEF) is one such EU sponsored mechanism that relies on these newly touted instruments. It is hoped, certainly by the European Commission, that in the 2014-2020 period the CEF will deploy EUR 50 billion to leverage private investments worth ten times more in transport, energy and telecommunication projects of European interest. In the words of European Commission president José Manuel Barroso: “The Connecting Europe Facility and the Project Bond initiative are a perfect demonstration of the value added that Europe can provide.”

Indeed, in many cases, the EU is in a comparatively better position to ensure time and cost efficient handling of certain policies than the sum of national authorities acting individually. Common action could be cost-saving in terms of access to financial resources, especially in the context of the ongoing economic crisis.

However, a closer look at the CEF throws up at least three reasons for being sceptical about the public benefits that may or may not accrue from this shiny new vehicle emblazoned with the EU flag.

Repackaging twentieth century projects

The first area of concern is bound up with uncertainties over what kind of transport, energy and telecommunication projects are to be financed by the CEF. Smart, sustainable and fully interconnected infrastructure is being promoted as the main objective in the Commission’s proposal. However, the recently concluded consultation on those priority energy projects to be financed by the CEF has raised doubts about the extent of the ‘smartness’ and ‘sustainability’ involved in the same projects.

The EU’s ambitious target to cut its greenhouse gas emissions by 80-95 percent by 2050 will require enormous efforts since a major shift in thinking is needed to ensure a rapid transition beyond modes of living based on constantly increasing energy consumption. The apparently easier path for solving this problem – if the priority energy projects consultation is anything to go by – involves securing more energy imports in order to cover the gap between demand and EU internal production.

Bankwatch’s review of the list of priority energy projects notes that securing increased electricity imports from neighbourhoud countries has already received a great deal of attention in the draft list of projects of community interest. It involves projects such as one connecting a nuclear power station in Kalingrad to bordering countries, as well as a series of new gas and oil pipelines for importing hydrocarbons from neighbouring countries.

Wrapped up in this is another troubling trend identified in the proposed list of projects: the strong focus on expanding infrastructure to support the expansion or increase of the lifetime of fossil fuel energy generators, such as in the case of high-voltage transmission lines for coal power plants in Bulgaria.

The current list of priority projects can be viewed, in fact, as little more than a compilation of outmoded and dated projects, many of which have uncertain financial feasibility, and are being developed by state authorities or large utilities for the purpose of national security of supply or export. Dubbing these as ‘innovative projects’ that will form the backbone of European infrastructure custom-built for EU 2050 ambitions is highly questionable.

More public guarantees for the private sector

The second critical aspect of the CEF initiative is economic – will the infrastructure built via the CEF cost less to the public than traditional direct investments?

The proposal supports many large private sector transport and infrastructure projects of low investment quality. There are, it has to be stated, a few energy projects in the frame that will clearly help support the linkage of renewable installations – yet these are decidedly marginal in the overall scheme of things. Bankwatch’s estimation is that 95 percent of the projects involve high-voltage transmission lines that appear to have very little to do with integrating small scale renewable schemes or ‘smart’ energy systems.

In terms of gross value for money, the financial instruments that feature within the CEF umbrella are distinctly devoted to securing profits and low risks for private investors engaging in infrastructure projects. For example, the heavily trailed ‘Project bonds’ instrument will be able to guarantee secure payments for gas flowing through the proposed Nabucco gas pipeline – bond holders will receive their fixed interest rates. If the demand for gas drops, and revenues fail to materialise, the EU budget will continue to pay interest rates to bond holders.

In other words, the Project bonds mechanism will make projects look profitable by subordinating the financial support and interests of the public in favour of private sector investors and bond holders who will be the beneficiaries of guarantees and subordinated debt.

Moreover, as if to add further to the risks that would be taken by the EU and the EIB under the CEF, it has been proposed that both institutions relinquish any controlling creditor position and simply allow private sector financiers – bond holders or private banks – to be the lead negotiators over any given project’s financial future as its lead creditors.

The public – seen but not really heard, again

The third major area of concern involves the transparency and accountability of the new financial instruments – the lack of such could undermine the CEF’s effectiveness at the EU level. Notably, however, the process of selecting the infrastructure projects under consideration has thus far been dominated by the member states and large energy utilities. Numerous projects in the current list are opposed by local communities or civil society on account of their potentially harmful environmental or social impacts.

The European Commission has attempted a public consultation, publishing the list of proposed projects at the end of July and providing EU citizens with roughly two months – in the summer period – to make comments on the proposal. Regrettably, this consultation was never seriously discussed at the national level or in national languages. Strikingly too, much of the proposed list of projects could well have major impacts on people and communities outside the EU – stakeholders that have not been effectively consulted in the recent process.

On the road to recovery from the economic crisis, Europe does need real innovative financial instruments that are able to address the needs of future generations, without endangering them with excessive financial debt. The currently available instruments foreseen within the CEF are not geared up to service smart, sustainable, low-scale energy provision. This is something that Europe needs to urgently address. The over-arching issue remains, though – smart, sustainable energy projects are a rare breed within the currently conceived CEF.