

Mind the infrastructure gap

A case of outrageous bad fortune, or a portent of things to come? The one thing that can be stated with any certainty about the collapsed Castor project, the underground gas storage plant in Vinaròs, Spain that was selected in 2013 as the lead-out project for the EU's Project Bond Initiative (PBI), is that the Spanish government has put its citizens on the hook to cover a compensation package of EUR 1.35 billion to ESCAL UGS, the project promoter.

The announcement of the compensation package in September coincided with a visit to the Castor project by participants in the first 'Toxic Tour', a three-day educational tour organised by the Network for Energy Sovereignty, a Catalan network formed by diverse social movements, NGOs and individuals that seeks to reclaim energy sovereignty for the public.

Indicative of growing public concern about the type of energy projects that continue to be developed, too often without due public consultation and now with the rapidly emerging risk that public money is expected – if not essential – to bail out projects that fail, the Network for Energy Sovereignty seeks to scrutinise and throw light on who decides on energy infrastructure and who stands to benefit from current energy policy. Taking in a

string of other energy 'black spots' in Catalonia, the Toxic Tour also aimed to promote alternative clean energies and illustrate to participants the victories of social movements that have stopped projects which posed a danger to the environment and to public health.

The Global NGO network ECA Watch, that campaigns for reform of public finance institutions such as export credit agencies, is also seeking to raise public awareness of sustainable infrastructure opportunities, including in the energy sector, with the recent publication of a new map featuring popular alternative proposals for envisioning infrastructure drawn from Africa, Latin America and Europe.

According to Mónica Vargas of ECA Watch member Observatory on Debt in Globalisation in Spain: "Infrastructure should be planned paying attention to issues such as: who decides? who benefits? The cases selected for the map show that there are alternative proposals, exemplary because of their ability to respect the needs of all stakeholders instead of just fulfilling capital interests in the north and the south."

If public awareness and concern over large energy infrastructure developments continues to build – and in their latest IPCC report UN climate scientists underscored the climate change urgency that is now central to infrastructure debates by insisting for the first time on the need for zero emissions from fossil fuel sources by 2100 – then it's safe to say that public views are being locked out of high level infrastructure discussions.

With the pilot phase of the PBI ending this month and a European Commission evaluation pending, a Commission-requested audit of the first year of the initiative from Ernst & Young published in June this year essentially rubber-stamps PBI as being fit for purpose, with the initiative's role in the Castor project being viewed as a financial success.

The so-called 'Ad-hoc audit' conducted by Ernst & Young appears to have resulted



▲ Another EU-backed initiative sparks public indignation in Spain

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EIB role in Juncker investment package draws more questions than answers for now

Here we go again. Having been called upon to ramp up its investments in 2009 and 2010 as part of Europe's initial financial crisis fire-fighting, and then in 2012 been a central cog in the EU's ambitious but ultimately lacklustre 'Growth Compact', the European Investment Bank now finds itself at the heart of new European Commission president Jean-Claude Juncker's three-year drive to boost investment in Europe, as unveiled on November 26.

The Juncker package, aiming to trigger EUR 315 billion over the next three years for infrastructure projects and small enterprises, provoked widespread scepticism in the lead up to its launch, with critics and the European press flagging up the 'financial engineering' that underpins the EU executive's latest efforts to address the EU's stagnant investment climate and boost growth. One notable headline referred to Juncker's 'New Deal' as a 'subprime gimmick'.

The Juncker package has, though, cleared its first hurdle, with most members of the European Parliament endorsing it during a parliamentary session that saw EIB president Werner Hoyer join Juncker to outline the plan and field questions about its workings and its feasibility. Endorsement for the Investment Plan for Europe from the European Council will be sought next month. At this stage in the process, however, many are far from convinced.

Philippe Lamberts, co-president of the Greens/EFA grouping, was scathing in his assessment: "In terms of ambition, the headline EUR 315 billion sum is clearly wishful thinking. The plan relies on wildly unrealistic projections on the ability to leverage private investment; it is hampered by the low level of public investment and doubts as regards whether many of the funds are fresh or merely recycled existing commitments. Reallocating EUR 21 billion of already committed funds will not mobilise EUR 315 billion: a leverage effect of 15 is not serious."

The NGO coalition Counter Balance voiced a wider concern that the Juncker investment package shifts risk from private investors to EU taxpayers, with the group's director Xavier Sol commenting: "The EU debt crisis was the consequence of

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in a somewhat ad hoc approach to stakeholder consultation – 13 stakeholder interviews form part of the audit, all featuring industry representatives, with no input from public authorities or NGOs.

This public averse – yet public money reliant – stance is being echoed by wider global initiatives and clamour to plug the multi-trillion dollar infrastructure gap.

Analysing the just launched G20 Global Infrastructure Initiative, Nancy Alexander of

the Heinrich Boell Foundation has flagged – beneath the mouth-watering headline investment sums – certain emerging G20 infrastructure preferences: in favour of public-private partnerships (PPPs) over conventional financing of public works; in favour of mega-projects over 'appropriate scale'; in favour of massive scale-up of PPPs versus a trial-and-error approach; against setting limits on how much public money should offset risks of private firms; in favour of creating an infrastructure 'asset class' for developing countries; against binding environ-

ment, social and gender safeguards; against adequate consideration of climate-related impacts, even though the G20 Initiative focuses on energy, transport and water sectors, and; against transparency, participation, and accountability in the scale-up of the G20 Global Infrastructure Initiative.

Find out more: A Counter Balance policy briefing (Sep 2014) on the Project Bonds Initiative is available to download at: <http://www.counterbalance.org/wp-content/uploads/2014/09/Briefing-on-Project-Bonds-Initiative-final1.pdf>

an unfair risk-reward balance. Big banks took the profit while the risks were borne by taxpayers. Instead of rebalancing this injustice, Juncker's package seeks to generalise this principle throughout the entire economy."

Pressed by journalists on the related point of how he could back a plan stuffed with 'casino capitalism' features responsible for the financial crisis in the first place, European Parliament chief Martin Schulz insisted cursorily that "we need this" because it will relaunch the European economy.

Looking under the bonnet of this latest high profile EU stimulus plan (Juncker himself described to MEPs how "Europe needs a kickstart, and today the Commission is providing the jump cable"), it's not difficult to see why it has split opinion so widely among politicians, bankers, analysts and civil society across the continent – and not simply because the key presence once again of the EIB fails to inspire confidence, based on its patchy post-crisis performance to date.

Timetabled to be operational by mid-2015, the Commission plan rests on the setting-up of the European Fund for Strategic Investment (EFSI). The financing foreseen piles one layer of financial engineering on another.

A basic pot of EUR 21 billion is to be organised, with EUR 16 billion to be covered by EU member states (effectively from already allocated public EU budget money) and EUR 5 billion to come from the EIB. Via the issuing of new bonds, the EIB is expected to be able to then raise EUR 60 billion in the private capital markets. From this vantage point, it is being assumed that projects worth a total of EUR 315 billion will then be realisable, with primarily private investors expected to jump at investment opportunities across Europe.

The starting point sum of EUR 21 billion in guarantees is seen as crucial. And as the Financial Times points out, "it will be mostly the EU budget that takes the hit when a project does not go right."

Of the controversial 1:15 leverage ratio, Societe Generale provided sobering commentary, noting that "similar infrastructure financing in the past had much lower leverage ratios. For instance, according to a recent [November 2014] Moody's research paper, the leverage ratio for the Project Bonds Initiative launched in 2012 ranged from 5 to a maximum of 7. As these projects were of relatively good quality (rated Baa3 to Ba1), even lower leverage should be expected for riskier

projects – which should be the case of many EFSI projects as the majority of them are expected to be in the South of Europe."

Beyond their riskiness, and as to what kinds of projects will emerge within the next three years, German Chancellor Angela Merkel has given the Juncker plan her blessing "in principle", while stressing to the German parliament that "investments are important, but that it has to be clear above all where the projects of the future lie."

Philippe Lamberts also warned about the "direction of the investments", and emphasised the need for the plan "to create a green energy union based on energy efficiency and renewable energy, to reorient our economy and to stimulate social and green innovation. It should be used to address social exclusion and poverty and empower all citizens to play a dignified role in our society."

E3G and other energy groups urged the Juncker commission to prioritise "demand-side flexibility, smart distribution grids and energy efficiency" within the EUR 315 billion investment package in order "to bolster jobs, growth and investment in Europe, and to build a resilient Energy Union with forward-looking climate policy."

The official line so far on project selection and criteria is of course positive but vague. EFSI will target "viable projects, with a real added value for the European social market economy", including the following project types:

- Investments boosting employment, in particular through SME funding and measures for youth employment.
- Environmentally sustainable projects (renewables and energy efficiency).
- Innovation and Research & Development.

Overseeing investment choices will be an 'independent investment committee' set up to scrutinise projects submitted by EU member states, with other related in-house advisory infrastructure (including a 'Hub') forming part of the new ESFI.

Where the boundary lines between the ESFI and the EIB itself start and end remains difficult to fathom at this early stage. However, according to a 'senior official' quoted in The Guardian: "Effectively we're building a new EIB within the EIB." This sentiment should in itself trigger alarm bells amongst European decision-makers alert to some of the institutional frailties that have dogged the EIB for decades, including the lack of transparency and accountability that prevails over its investment decision-making.

Very early days, then, for the Juncker plan and the fledgling ESFI being put forward to breathe life into the EU economy. German commentator Barbara Wesel strained to emphasise the plan's positives, describing it as "a big, nicely packed box which contains a few balls of wool along with a note saying they can be knitted into a lovely scarf."

However, as typified by a tweet from Stanley Pignal, banking editor for The Economist magazine, expectations remain lukewarm – at best – for now.

- Strategic infrastructure (digital and energy investments in line with EU policies).
- Transport infrastructure in industrial centres, education, research and innovation.



Stanley Pignal
@spignal

Follow

After ESM, EFSF, PSI, EFSM, OMT, LTRO, TLTRO and maybe QE, we now have EFSI. That ought to do it.

RETWEETS 42 FAVORITES 14



1:40 AM - 26 Nov 2014

In July 2013, the much-hyped joint European commission/EIB 'Project Bond Initiative' (PBI) had scarcely got off the ground – in its pilot phase at least – when unusual natural events took over.

Work at the EUR 1.7 billion Castor underground gas storage plant off the coast of Valencia commenced in summer 2013. But by mid-September the Spanish government was forced to halt work at the plant after 220 mini earthquakes in the area were detected in less than a month. Local residents reported the tremors following injections of natural gas to prepare Castor for operations. Subsequent research has found that the gas injection provoked 1,000 earthquakes in the region.

Work at the site has not since restarted. So has the Castor project simply been a victim of unforeseen, natural powers? Or might the man-made, financial artifice that provided the basis for pushing the project forward be said to share a certain – even high – degree of responsibility for this debacle?

EUR 1.4 billion worth of project bonds for Castor were issued in conjunction with the EIB, and although they were initially issued with a BBB+ credit rating, ratings agency Fitch ended up putting the bonds on negative watch as a result of the suspension of operations.

As the project's problems mounted, and the complexity of its financing unravelled, Spain's beleaguered taxpayers became aware that, under the terms of the project contract and a royal decree arranging the Castor concession, the Spanish government would be obliged to reimburse the operator Escal UGS, owned by Spain's ACS and Canada's Dundee Energy. The sum in question is EUR 1.7 billion, and the liability is now to be socialised by an increase in electricity bills in Spain.

This is quite an achievement for a project that was deemed to be a European priority project and which, campaigners maintain, was fundamentally unnecessary

Castor project sends Project Bonds Initiative shockwaves, taxpayers hit worst

due to declining demand for gas in Spain over the last decade. Yet are there lessons to be learned from Castor, lessons related to PBI itself and the suitability of projects it may support? And lessons too for financiers, chiefly the EIB?

The Castor project, on the planners' table for many years, had simply not been an affordable investment for Spain to progress with due to the acute economic problems the country has faced as a result of the economic

ment. If anything the reverse is true: the balance of financial risk is firmly weighted towards first of all encouraging and, if necessary, protecting private sector project promoters.

While the EIB has sought to deflect attention, not to mention responsibility, away from the PBI, in this case it is unarguable that the presence and issuance of project bonds made the Castor project viable, however briefly.

In spite of the Castor debacle, the EIB's project bonds

“In the short term at least, the Project Bonds Initiative may well provoke enthusiasm for just about any old project that the EIB opts to favour and prioritise.”

crisis and subsequent euro-zone crisis. The PBI was thus deemed to be an investment solution – a magic bullet – for the Castor project: another form of supposedly beneficial financial engineering that we are told to take on trust. The issue, the EIB maintains, is not the financing mechanism as such, and the PBI pilot phase is continuing, the bank insists.

However, as disaster has struck the project, the negative consequences – and risks to the public purse – of the project bonds mechanism, and the flawed investment it helped to catalyse in Spain, are becoming apparent.

Major projects can, and often do, go wrong, for a variety of reasons. And the project bonds approach is not set up to insulate unsuspecting Spanish and European taxpayers from picking up the bill for an ill-conceived and badly executed example of fossil fuel infrastructure develop-

pilot phase has continued, playing a key funding role in a UK offshore wind project signed off in late 2013, and in spring 2014 being central to the new 12 kilometre A11 motorway link between the Belgian port of Zeebrugge and the European motorway network – 'the first greenfield PPP in Europe to benefit from the EC-EIB Project Bond Initiative', according to the EIB.

The wider finance sector, too, appears to be enthusiastic about and fully behind PBI, if an investment note from Deutsche Bank in spring 2014 is anything to go by.

Deutsche Bank, like many of its competitors, is participating and looking to be further involved in the kinds of multiple investor infrastructure projects that project bonds, in the jargon, are designed to 'anchor'. The German institution does not, however, appear to have been involved in the Castor proj-

ect, which it astonishingly describes as "a successful refinancing of a gas storage deal in Spain."

Nonetheless, the Deutsche Bank investment note does get to the heart of what project bonds are all about: "... project bonds have been used to re-finance existing bank debt ... Another sign of shifting sentiment is that investors, who no longer have the guarantee of monoline insurers, are prepared to take on construction risk." Such a frank assessment of the golden opportunity now being established for private sector investors and project promoters invites the observation that they would be foolish not to be optimistic – what's not to like about project bonds?

Deutsche Bank's conclusion is also worth quoting in full: "Long-term investors are eager to match long term assets and liabilities and have the resources to get involved in project bonds, but the infrastructure pipeline is not flowing fast enough, perhaps because of the period of retrenchment inflicted upon European governments over the past few years.

"So far, project bond transactions have been relatively modest in size, but once confidence is fully restored and the European Union becomes more stable, over a longer period, more substantial transactions are likely to become commonplace. How they appeal to investors will depend on the quality of the project, but at the moment, cautious optimism for the future of project bonds is very much the order of the day."

As we await a rush of these 'quality' projects, one immediate conclusion to be drawn is that EIB-backed project bonds, given the extent to which they are set up to not only favour but also cushion major investors, may well – in the short-term – provoke enthusiasm for just about any old project that the EIB opts to favour and prioritise.

And there are a lot of 'any old projects' out there right now, clamouring for finance. Have you seen the EU's current list of 'Projects of Common Interest'?

European Ombudsman hammers EIB over Bosnian bridge maladministration

An unprecedented ruling and serious tough talking emanated from the European Ombudsman at the end of October following an investigation into the EIB's involvement with a bridge construction project in Bosnia and Herzegovina. Describing the approach taken by the EIB in the case as "wholly unacceptable", the Ombudsman's conclusion pulled no punches in asserting that the bank's "maladministration risks putting into question the European Union's commitment to strengthening the rule of law in Bosnia and Herzegovina."

During the investigation the Ombudsman, Emily O'Reilly, found that the EIB opted to finance the project – a bridge crossing the River Sava in Bosnia and Herzegovina – in spite of complaints from an Italian company Impresa Pizzarotti & C. SpA which had been excluded from the tender despite having offered the lowest bid.

The EIB's Complaints Mechanism, an internal body set up in recent years to ensure that the institution complies with its own policies, had ruled that the Italian company's complaint was valid. However EIB management chose to ignore the ruling from its own policy-enforcing body.

The European Ombudsman found that the EIB management decision was based on an incorrect interpretation of the tender

documents. O'Reilly also suggested that she was considering opening an own-initiative inquiry into the "systemic issues" raised by the case.

This latest embarrassment for the self-styled 'EU bank' follows related sensitive and controversial cases such as the Mopani mines in Zambia, the Bujagali dam in Uganda, and the Šoštanj coal power plant in Slovenia where EIB management has given the impression of interfering with the work of the Complaints Mechanism.

In the Mopani case, evidence has emerged that management went against a Complaints Mechanism decision to disclose an investigation report and, in the case of Bujagali, EIB president Werner Hoyer has had to formally remind EIB staff to ensure the independence of and cooperation with the Complaints Mechanism office.

In a previous ruling from 2013, the European Ombudsman found that huge delays in the Bujagali case were caused by insufficient staffing of the Complaints Mechanism office and that the release of the Complaints Mechanism assessment of the case was caused by internal pressure within the EIB.

Welcoming the prospect of an European Ombudsman own-initiative inquiry, Bankwatch's EIB coordinator Anna Roggenbuck commented: "The Complaints Mechanism was created to give people and affected stakeholders an opportunity to defend their rights, yet this purpose is defeated if the EIB management itself prevents the body from functioning as intended. NGOs have

for years complained about this kind of bad practice within the EIB, but it looks like management chooses to run counter to its own standards for the short term interests of its clients, often major corporations."

Italian job

With the EIB now set to be increasingly in the spotlight as a result of its central role in the newly announced EUR 300 billion EU investment plan, it is coming under increasing pressure to distance itself from and take credible action to prevent its involvement in dubious projects.

However, in July this year Counter Balance urged the EU's Anti-Fraud Office (OLAF) to open an investigation into the EIB's handling of the Passante di Mestre project, a motorway bypass around the city of Mestre in northern Italy. The project has attracted notoriety as a result of an ongoing police investigation into possible fiscal fraud and Mafia infiltration via the main sub-contracting companies.

Counter Balance alleges that a EUR 350 million EIB loan approved in 2011 and disbursed in 2013 may have been used to refinance a debt related to the principal sub-contracting companies which were under police investigation by the Italian courts at the time.

Yet the EIB has at no stage considered pulling out of the project, which has also been approved by the EIB's board as the first Italian project to receive co-financing via the Project Bonds Initiative.

Read more: The final ruling of the European Ombudsman on the Sava Bridge in Bosnia and Herzegovina is available at: <http://www.ombudsman.europa.eu/cases/decision.faces/en/58171/html.bookmark>

EIB and EBRD transparency nosedive needs fixing – and fast

Operational transparency standards at the European Investment Bank and the European Bank for Reconstruction and Development continue to deteriorate, according to the 2014 Aid Transparency Index (ATI) published in October by aid watchdog Publish What You Fund (PWYF).

PWYF's fourth annual transparency rankings, that assessed 68 key global aid donors on how revealing – or otherwise – they are about their funding, placed the EIB and the EBRD in 16th and 17th places respectively out of 17 multilateral organisations. Overall, the European development banks now languish in 44th and 45th position, scoring

24.6% and 24.5% for transparency – a drop on their 2013 scores – and occupy the bottom places in PWYF's 'poor' classification segment.

Commenting on this year's research, which sees UNDP rated as the number one institution with a 91% transparency score, Rachel Rank of PWYF points out a longer-term, worrying trend: "A lot of progress was made at the political level in the early days of aid transparency, including a promise to publish aid information to an internationally-agreed common standard by the end of 2015. But with a year to go until that deadline, progress has stalled. The ranking shows that no matter how many international promises are made, and no matter how many speeches there are around openness, a startling amount of organisations are still not publishing what they fund."

Linda McAvan, Chair of the European Parliament's Development Committee, reacted to the 2014 ATI by urging action: "Greater transparency on aid flows is absolutely critical to enabling parliamentarians and civil society organisations to hold policy-makers to account. We need to en-

sure we are able provide European taxpayers with assurances that their money is being spent in the most effective way possible."

Breaking down their analysis of both banks' transparency performance, PWYF notes of the EBRD that it "performs best on organisation planning information, with scores above the poor category average. It lags on commitment indicators, organisation financial information and basic activity and classifications information." While for the EIB, it "performs relatively well on organisation planning but does not score on performance information (results, conditions and impact appraisals) and scores on less than half the activity-level indicators."

For the EBRD, then, while its blushes may have been spared slightly by being outsourced by an aid agency from only one of its countries of operations (Estonia), this kind of drop in standards is alarming as it continues to expand and push into the middle east and north Africa region and as it hypes its role in extremely sensitive countries such as Ukraine. Indeed, the EBRD's scaling up of support for Ukraine has involved the signing in May this



Results

Donor Ranking ↓

AID
TRANSPARENCY
INDEX 2014

45. EIB 24.58%
46. EBRD 24.5%

- RESULTS
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2. UK, DFID
3. U.S., MCC
4. GAVI
5. AsDB
6. Sweden, MFA-Sida
7. World Bank, IDA

GOOD

8. AIDB
9. IADB
10. Global Fund
11. Canada, DFATD
12. EC, FPI
13. EC, DEVCO
14. UNICEF
15. EC, ELARG

FAIR

16. EC, ECHO
17. Germany, BMZ-GIZ
18. Switzerland, SDC
19. Netherlands, MFA
20. Germany, BMZ-KfW
21. Spain, MAEC
22. Denmark, MFA
23. Gates Foundation
24. Finland, MFA
25. Australia, DFAT
26. New Zealand, MFAT
27. Ireland, IrishAid
28. France, MAEDI
29. UN OCHA
30. U.S., PEPFAR
31. U.S., USAID
32. U.S., State
33. Japan, JICA
34. Korea, KOICA
35. UK, FCO
36. U.S., Treasury
37. IMF
38. U.S., Defense
39. World Bank, IFC
40. Czech Republic, CzDA
41. Estonia, MFA
42. Norway, MFA
43. Portugal, CICL
44. France, AFD
45. EIB
46. EBRD

VERY POOR

47. Austria, ADA
48. Latvia, MFA
49. Belgium, DGCD
50. Luxembourg, MFA
51. Slovakia, SAIDC
52. Slovenia, MFA
53. Japan, MOFA
54. Italy, MAE
55. Poland, MFA
56. Croatia, MFA
57. Romania, MFA
58. France, MINEFI
59. Brazil, ABC
60. UK, MOD
61. Germany, AA
62. Hungary, MFA
63. Bulgaria, MFA
64. Malta, MFA
65. Lithuania, MFA
66. Cyprus, CyprusAid
67. Greece, HellenicAid
68. China, MOFCOM

year of an anti-corruption initiative with the Kiev administration. When it comes to scrupulous financial disclosure, accountability and related matters, so much for practising what you preach.

As Fidanka Bacheva McGrath, Bankwatch's EBRD coordinator, points out: "Ranking last among multilateral development institutions speaks for itself and should be a strong motivator for the EBRD to improve its practices, especially now that it has a president who has personally committed to transparency. Some aspects are improving over the years, but the EBRD lags way behind its peers, and it has increasingly delegated disclosure responsibilities to its clients."

Moment of truth for the EIB

What better timing for the EIB to have had its transparency difficulties highlighted, though, than at the very moment when it is reviewing its own transparency policy, due to be adopted in early February next year following a public consultation that is currently ongoing?

Tapping into this process, PWYF recommends the EIB to "ensure that its revised Transparency Policy reflects best practice on presumption of disclosure, exceptions, public interest overrides and independent appeals processes." Will this be sufficient incentive for the EIB to sort out what campaigners feel could even be an imminent downgrading of the bank's much discussed and much disputed approach to information disclosure?

Ten years ago, European Commission president – then Prime Minister of Luxembourg – Jean-Claude Juncker was agreeing with activists demonstrating outside the EIB's annual meeting that the bank had to clean up its act, including on transparency and information disclosure. And while, over the intervening years, the bank has made attempts to improve its practices, campaigners who follow EIB operations have sensed of late that the bank has

become slower at disclosing information – if not determined to restrict information.

In a totemic case this year, the EIB has continued to withhold important information about tax evasion allegations surrounding its USD 50 million loan to the Mopani copper mine in Zambia. Following accusations of tax evasion against the mine in 2011, more than 50 MEPs, in an open letter to the EIB, called for a moratorium on public financing for mining projects. The bank subsequently announced an investigation of the tax evasion allegations against Mopani Copper Mines plc, a Zambian company which is predominantly owned by Glencore.

Yet despite complaints by civil society organisations to the bank and the European Ombudsman, an open letter to the EIB president and the advice of the bank's own complaints mechanism to make the investigation public, the content of the report still remains secret. Mopani is just one case in point of how the bank is failing to meet transparency and accountability standards expected from a public institution.

Yet, surprisingly, the bank's current draft of its new transparency policy, as it was released to the public at the beginning of July, would mean a major step backwards and a dilution of the actual policy in terms of access to information and the public disclosure of information.

Campaigners have identified the following most concerning elements of the draft:

- The EIB plans to apply access to information requirements only when exercising its 'administrative tasks', but ignores the fact that there is currently no commonly agreed definition of what EIB administrative and non-administrative tasks mean – neither in EU legislation nor in the recent jurisprudence. Rather than hiding behind a restrictive interpretation of EU regu-

lation 1049/2001, campaigners are calling for the requirements on access to information – a right stated in the EU Charter on Fundamental Rights – to be applied to all activities performed by the publicly owned EIB.

- The EIB is proposing to significantly expand its existing exemptions to information disclosure and go beyond what is requested by EU legislation. As a result, EU citizens would be unable to access most of the EIB's internal documents, even if they are of public interest.
- There is a new 'presumption of confidentiality' that all documents related to internal investigations, reports and audits are confidential and not to be disclosed, even if they concern matters of public interest.

Apart from simplification of the text, according to civil society analysis the EIB has actually proposed no improvements to its existing transparency policy. Little wonder that Joseph Stead, Senior Economic Justice Adviser at Christian Aid, has slammed the EIB's "planned lurch towards secrecy," while despairing that "at a time when the rest of the world has recognised that companies behave better when the public can find out what they're doing, the Bank is proposing to conceal more than ever."

While the policy review process has been attracting the critical eye of the European Ombudsman, the inescapable conclusion for now is that the EIB's policy draft is less concerned with transparency than it is with confidentiality. An ever more expanding role for the EIB – as foreseen for instance in the Juncker investment package – must not be accompanied by shrinking accountability and fast disappearing transparency.

Read more: For full rankings and background information on the 2014 Aid Transparency Index, visit: <http://www.publishwhatyoufund.org/index/2014-ati/>

Eight things to give the EIB's forthcoming climate policy meaning, purpose and ambition

The European Investment Bank, as the EU's lending arm, needs a lending policy on climate protection which properly reflects the EU's climate policies and legislation.

With climate protection set to be a high priority for the EU in the next five years and beyond, the EIB needs to streamline climate considerations across its lending to different sectors and in different regions as quickly as possible. Such a policy needs to deliver on multiple objectives, with the combating of climate change and the promotion of sustainability absolutely central to these.

The draft version of the new EIB climate policy has recently been published and put out for consultation with the public. How far the policy – in its draft version at least – will allow the EIB to get its climate change priorities and responsibilities fully in order remains a moot point.

The draft text released in January contains the encouraging signal that the EIB is developing a methodology to assess the emissions impact of its lending for airports, though it also points out that such climate criteria for 'intermediated loans', one of its largest portfolio sectors, will not yet be applied. For these EIB loans, extended to small- and medium-sized enterprises via intermediary banks, the policy draft states that the EIB will continue "to examine ways in which, where relevant and reliable, the GHG impact of SME lending can be assessed and reported."

There are some further gaps too. The climate policy in draft form at least brings no new proposals for additional instruments that the EIB could deploy to keep the most damaging projects out of its portfolio. Bearing in mind the acute climate change implications for developing and developed economies alike, the draft policy falls short on committing to sector-wide assessments at EU level. For instance, exactly how many airports could the EIB finance across Europe between now and 2020 when member state economies and the general EU economy need to be on a very low carbon footing by 2050?

The draft policy also fails to consider a full phase out of EIB lending for fossil fuels extraction and power generation, gas and oil transmission and greenhouse gas (GHG) intensive transport infrastructure by 2020.

Which is why we've put together an eight point list that would help take the forthcoming climate policy to a new, more coherent and ambitious level.

1. As the guardian of EU Treaties and the house bank of the EU28, the EIB needs to

develop a comprehensive strategy that supports EU long-term (2030 and 2050) objectives for greenhouse gas emission reductions.

In June 2014, the European Council confirmed the validity and importance of the EU 2050 objectives for GHG emission reductions. At the European Council in October 2014 it was further agreed that by 2030 the EU will increase energy efficiency by 27 percent (compared to 2005 levels), cut emissions by at least 40 percent (compared to 1990 levels) and provide at least 27 percent of the EU's energy from renewable sources. The EU cannot follow this path unless the EIB both addresses the total climate impact of its financing operations within and outside the EU and drastically reduces the GHG impact of its loans in the short, medium and long-term.

The EIB needs a climate policy that will ensure its portfolio is compatible with the EU 2030 and EU 2050 climate objectives at the project level as well as taking into account the cumulative climate implications of its entire portfolio and of some of the sectors within it. For example, what impact do all the oil pipelines and highways financed by the EIB have on the 2050 climate objectives and the EU 2050 Transport Roadmap? How many highways in total can the EIB finance without taking the EU economy generally or a particular member state beyond its 2050 decarbonisation trajectory? And how to ensure that the EIB sticks to providing financial support to only those airports and not more?

These type of calculations cannot be made via project by project assessment. Nor are the member states themselves able to assess how their own specific development choices affect the EU as a whole. The EIB, however, is uniquely placed to have an overview of the financing sought by specific types of project promoters across the EU over time – when excessive levels of GHG intensive infrastructure appear in its project pipeline and on its books, it would be able to take concrete steps to restrict further lending of this kind.

The new climate policy requires an obligatory macroeconomic analysis into the impact of EIB lending on EU member states' decarbonisation trajectories. This would include not only the impact of projects on a single country's emissions but also giving due consideration to the GHG emissions produced by transboundary projects – such as oil and gas pipelines – that affect more than one EU country, as well as taking into account the emissions produced by EIB financed projects outside of the EU, which often serve the energy needs of the block.

Such an analysis is needed to minimise the risk of generating 'stranded assets' (see point 5 below), both at member state level and, more widely, at EU level. It would also contribute towards ensuring maximum benefit from EIB loans for the EU economy and the wider public.

2. An EIB climate policy addressing and aimed at the long-term perspective would lay the ground for the introduction of tools and instruments that would not only serve climate objectives but also ensure long-term financial stability.

A long-term climate perspective, enshrined in the new EIB climate policy, would have consequences for the way in which project finance is conducted, especially when it comes to infrastructure projects that do not result in significant direct GHGs yet still result in high-carbon economic development, i.e. airports, highways, oil pipelines, certain industrial facilities, oil refineries, major gas supply pipelines and LNG terminals. A long-term perspective would duly consider indirect GHG emissions in total project costs, helping in turn to promote more rational use of EU funds.

Thus the EIB climate policy must include an obligation to periodically review Emission Performance Standards of power plants, it must put a cap on the EIB's annual emissions from projects and must establish a trajectory – or a road map – for a gradual but constant increase of investments in demand side energy efficiency and dispersed renewable energy technologies that benefit local economies and communities.

3. The EIB needs a climate policy that will help to interpret the objectives of the EU.

The EIB needs a climate policy that will help to interpret EU objectives related to energy security or transport infrastructure as these can often appear contradictory due to vague definitions. The EIB needs to make order in this chaos, otherwise it will finance investments that contradict one another or cancel out each other's effects. For example, EIB support for airport extensions or motorway network developments may undermine emissions reductions generated via other bank support extended to public transport.

4. A stable climate is a global public good and GHG emissions do not recognise borders.

The EIB needs a climate policy that will assist and guide the bank to apply the same strict climate criteria for its operations

in the Enlargement and Neighbourhood countries as those it applies to loans and operations within the EU itself.

5. The EIB needs a climate policy to avoid its assets becoming stranded in carbon intensive infrastructure and to avoid the risk of a new market bubble – this time, a carbon bubble.

Currently, companies involved in oil and gas extraction and coal and lignite mining are valued based on the assumption that all the reserves on their books will be burned. This is at odds with the science of climate change and with the EU 2050 climate objectives, thus creating a risk of a so-called carbon bubble. If EU climate commitments are upheld and other global players agree to stabilise the rise of GHG emissions to below 2 degrees, then 80 percent of the fossil fuel reserves now on the books of fossil fuel companies cannot be burned – their de facto value should thus be zero, whatever the current valuations may be.

This poses a systemic risk not only to these companies that will face a loss of value but also to any financial institutions holding their assets in the form of equity or bonds, or that are exposed to these companies in any other form.

Further loans to companies extracting fossil fuels, constructing or operating fossil fuel enabling infrastructure (including refineries, roads, airports and ports) or using fossil fuel generation or heating facilities only exacerbate the risk of a carbon bubble further. The EIB must address this risk in its climate policy and it must devise a new pattern of lending that reduces the carbon bubble risk.

6. The EIB needs a climate policy to be able to improve the effectiveness of its financing and must address the problem of disadvantaged regions within the EU.

This especially refers to smart grids enabling demand-side energy efficiency, with a particular focus on the housing sector, as well as small-scale dispersed com-

munity-owned renewable energy sources. There is a gap between the financing that is currently on the table for such projects and what is required to implement the EU's ambitious energy efficiency, renewable energy and GHG reduction targets for 2030, not to mention the 2050 climate objectives.

Investment needs in energy efficiency, renewable energy and sustainable transport across Europe are huge, particularly in central and eastern Europe (CEE) – the EU region where most clean energy progress needs to be made.

The EIB is best placed to fill this financing gap and thus provide a cue for action to the private and public sector. For this it could and should develop tailored solutions for the renewables and energy efficiency markets in the CEE region. The case for such action is compelling given that the financial markets in CEE and in the EU Neighbourhood region are small and underdeveloped compared to their equivalents in western European member states.

Interestingly, already existing EIB instruments for financing energy efficiency in the CEE region, such as ELENA and JESSICA, have found limited use. This makes it imperative for the EIB to consider the obstacles that existing instruments have faced, assess the setting up of new instruments and develop a new approach to lending in the CEE region. The EIB climate policy would be the perfect tool through which to ensure that the bank's financing for energy efficiency is well tailored to the needs of beneficiaries in the CEE countries.

7. The EIB needs to boost energy efficiency and renewable energy in its Climate Action investment programme.

Energy efficiency has far reaching implications going way beyond the energy sector – it is the cheapest and the most secure long-term way of ensuring EU energy security, creating new innovative jobs and supporting the micro, small and medium sized companies that are the backbone of the EU economy and that provide the bulk of jobs across the continent.

Changes in operating support, administrative barriers and insufficient grid capacity have led to the withdrawal of investors from CEE sustainable low-carbon markets due to low rates of return and high investment risks. At the same time, interest among communities and municipalities in locally owned renewable energy installations and energy saving measures has risen as they are perceived as solutions to securing energy and jobs for citizens.

Even though the multiple benefits of local energy projects and smart technologies have become more and more accessible, the initial investments needed are still a significant burden for a small community. While EU structural and investment funds are to some extent covering such projects, the lack of experience of institutional investors and various administrative burdens continue to make raising capital problematic.

8. The EIB needs a climate policy that reflects on the environmental impact of the bank's operations.

There is a tendency to argue that the need to combat climate change justifies loosening environmental standards, especially when it comes to nature protection. This issue is vital in the context of hydropower developments, wind energy's sometimes negative impacts on birds as well as other adverse influences on protected sites and habitats that renewable energy installations can have. The EU is losing its biodiversity every year and thus cannot afford to make any compromises related to nature protection.

The EIB climate policy should ensure that nature and environmental protection standards and legislation are fully respected in all EIB lending operations.

Get involved: Find out about the public consultation process for the new EIB climate policy, including the opportunity to send written comments up to March 16, at: <http://www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eib-approach-to-supporting-climate-action.htm>

Civil society aiming to clamp down on EIB tax haven evasiveness

Pressure is mounting on the European Investment Bank to take swift action that addresses weaknesses in its policy on lending to businesses based in tax havens.

Recent media investigations and a new report from European Network on Debt and Development (Eurodad) have thrown further light on the

billions of euros provided by development finance institutions (DFIs), and intended for projects in developing countries, that are being routed through tax havens.

As Mathieu Vervynckt, Policy Analyst at Eurodad and author of the 'Going Offshore' report, points out: "Developing countries lose hundreds of billions of euros every year through tax avoidance and evasion by companies. It therefore seems very contradictory for DFIs – whose mandate is to promote development and end poverty – to route so much support through notoriously secretive financial centres that maintain these practices. In doing so, bilateral and multilateral DFIs are essentially providing income and legitimacy to the offshore industry."

As well as assessing the tax haven proclivities of national level DFIs, the new Eurodad report examines the dealings of multilateral DFIs in the shadowy world of offshore jurisdictions. For the period 2009-2013, the International Finance Corporation – the World Bank's private finance arm – extended EUR 1.7 billion in support to financial intermediaries registered in tax havens that feature in the top 20 jurisdictions listed under the Tax Justice Network's Financial Secrecy Index.

Eurodad research, however, drew a blank with the EIB: the 'EU bank' does not even disclose the countries where the companies it invests in are domiciled. "Due to the EIB's lack of transparency about its operations," explains the report, "it is

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Another Polish road construction in Natura 2000 site, another David and Goliath fight to save protected nature

Road construction in Poland can be a cause for great controversy, particularly when incomprehensible road designs clash with nature.

In mid-September this year, the Polish NGO Workshop for All Beings (Stowarzyszenie Pracownia na rzecz wszystkich istot) won another court case against Polish authorities: a court declared that the road construction permit for a section of the S7 expressway, to be routed through a Natura 2000 site, was illegal. Workshop for All Beings had been arguing this case for years.

The S7 is to be one of Poland's main roads, running from the Baltic Sea in the north to the country's southern border and connecting Poland's major cities – Gdansk, Warsaw and Krakow.

However, according to Workshop for All Beings, a planned section of the road linking the town of Skarżysko-Kamienna and the Swietokrzyskie-Mazowieckie region border violates both national and European legislation.

The main problems with this section of the S7 expressway are:

- The planned route disturbs a major ecological corridor of European importance – many species, including the wolf and the moose, depend on the corridor's survival.

- A junction planned in a problematic section of the expressway, just north of Skarżysko-Kamienna, would cut into a Natura 2000 site and destroy the habitats of several butterfly species protected under national and European legislation.

- The construction of this controversial section is advancing in spite of serious doubts about the need for it and in spite of Workshop for All Beings proposing an alternative route that would not threaten nature.

- Preparation by the General Directorate for National Roads and Motorways (the promoter, and a governmental body) for the construction of this section of the road has been advancing even though environmental and construction permits have been annulled by the courts and other successful legal actions initiated by Workshop for All Beings. The General Directorate is, however, able to get the necessary permits reissued, as a result of a special feature of Polish legislation that gives Polish road legislation precedence over other national regulations.

This David versus Goliath fight over the S7 is far from over.

The court ruling in September suggested that Workshop for All Beings had strong grounds on the legal arguments, but – in what was a rather surprising formulation of the ruling – stated at the same time that it is up to the authorities to implement the court's decision.

This in fact means that the national authorities may decide to go ahead with construction in spite of the road construction permit being declared invalid.

Workshop for All Beings, meanwhile, remains determined to keep up its challenge to protect the



natural environment. The group has submitted a complaint about the road section to the European Commission in light of the breaches of European legislation.

A further expression of concern has been sent to the European Investment Bank, the 'EU bank', which plans to co-finance the S7 expressway.

This is an enormous amount of controversy for just 8 kilometres of road. Yet the impact on nature from this one section of road could be huge, for little or no ultimate benefit. Precisely why the Polish authorities are pushing this project forward, when clear alternatives exist, remains hard to understand.

With construction just about to start, it is still not too late for the Polish state to do the right thing.

However, if it insists on proceeding as planned, Poland risks once again turning itself into Europe's black sheep when it comes to the environment.

Read more: A briefing paper 'S7 – A road to nowhere' is available in pdf at: <http://bankwatch.org/sites/default/files/briefing-s7-15Sep2014.pdf>

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very difficult to judge the extent of its support for companies that use tax havens."

Indeed, lurking beneath the seemingly benign project descriptions and blandly named beneficiary entities that feature heavily in the EIB portfolio are some unpalatable 'development' realities.

One such case thrown up in a recent investigation by George Turner of the 'Illicit Finance Journalism Programme' spotlights the importance of hundreds of millions of euros in loans provided by the EIB for Qalaa, an African investment fund – a company Turner claims has been built on tax havens and that continues to be a heavy user of tax havens.

Rarely fond of acknowledging that its funds can, and often do, end up with tax haven incorporated entities, the EIB has made little effort in recent years to move beyond the limited set of international standards set up by the OECD Global Forum. For some years now the Forum's criteria have guided EIB and other DFI decisions on investing in companies and funds registered in secretive jurisdictions – even if many developing countries in which the banks invest are not part of the Forum.

Despite the EIB having taken important steps back in 2009 to tighten up restrictions on investments reaching tax havens or 'non-cooperative jurisdictions', campaigners are concerned that the bank has dropped the ball in recent years and

failed to keep up with wider European momentum aimed at clamping down on corporate tax evasion.

Counter Balance believes that the EIB can readily pull its socks up on tax matters and align itself with important advances in EU law by focusing on corporate transparency, and two essentials in particular.

In its assessment of potential clients, the EIB should insist on the disclosure of information that identifies the beneficial ownership of clients – that is, who ultimately owns, controls or benefits from a company or fund that receives EIB support? The second priority should be to introduce mandatory requirements for all clients to report on a country-by-country basis.

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