



CEE BANKWATCH NETWORK

Annual report
2008



Dear Friends,

Few years will go down in history the way 2008 will, a year that started with one global crisis that was soon to be dwarfed by another. The year started with the global food crisis, the direct impact of which in the central and eastern European (CEE) region was,

for the most part, 'tolerable'. The message however was loud and clear: environmental issues and badly conceived efforts to mitigate their effects (such as rapid biofuel development) are causing suffering and unrest among the world's poor and most marginalised communities.

After the summer break, a series of events suddenly made the food crisis look like ancient history – the global economic crisis hit us. The impact of this crisis was much more direct in CEE, and by the end of 2008 economies in Hungary, Latvia and Ukraine were facing serious problems. It was also apparent by then that others in the region were soon to follow.

Questions began arising about the sustainability of the transition model promoted in CEE, especially as currencies in several CEE countries tumbled and households saw their debts suddenly jump. Governments east and west were scrambling to come up with solutions. Staggeringly, and set against all of this, one of our target institutions, the EBRD, was declaring Hungary's economy to be top of the class in its annual rating of all CEE economies.

The year ended with us facing a challenge that in a way doubled as an opportunity. There were strong signals that environmental and social standards were to be lowered to inject money into the economy as fast as possible – signals that money needs to be injected at any cost. At the same time, due in no small part to years of 'NGO whining' about climate issues, European decision-makers had environmental rhetoric very much at the top of their minds and they began to mumble about a 'Green New Deal', a 'green recovery', etc. in which EU funds and IFIs, including the EIB and EBRD, were to play a prominent role.

Where were we while all this was happening?

Bankwatch business as usual, with its strong focus on climate and energy, was more relevant than ever. Our campaign successes in 2008, like the decisions of the EBRD to not consider a loan for the Kaniv pumped storage plant in Ukraine or its withdrawal from a loan for the development of the Vlora Industrial and Energy Park in Albania, both exemplified the contribution Bankwatch is capable of making towards ensuring that IFI lending in the region is in line with environmentally sound energy policies. At the same time, we were advocating solutions by first commissioning and then promoting alternative energy scenarios for the Baltics and Bulgaria. We also managed to ensure that climate would from now on be firmly on the agenda of EU cohesion policy.

On the issue of the impact of IFIs on the world's poor and

marginalised communities, our engagement with the EIB during the review in 2008 of its Statement of Environmental and Social Principles and Standards resulted in an historic breakthrough for indigenous peoples affected by EIB projects.

From now on, the EIB requires project promoters to: "prepare an acceptable Indigenous Peoples Development Plan. The plan must reflect the principles of the UN Declaration on the Rights of Indigenous Peoples, including free, prior and informed consent to any relocation." The word 'consent' – rather than simply 'consultation' – is long overdue language at all of the IFIs, and is also now present in the EBRD's new Environment and Social Policy, also finalised in 2008. From 2009 on we will be vigilant in ensuring that these rights of indigenous peoples are complied with by the EIB, the EBRD and other IFIs, and will look to pressure the laggards to fully recognise these rights in their policies.

We also continued to show the EIB's non-EU or external lending mandate to be problematic in terms of benefits for the communities in the countries where the funding goes. In this respect, it is all the more significant that we have a Bankwatch staff member, Manana Kochladze, on the EIB's own Wise Person panel discussing the future of the bank's external lending mandate.

One further area of concern is that public private partnerships continue to be touted by both the EU and the key IFIs as ideal constructs for various infrastructure projects in the region. Here too our role in highlighting risks posed by PPPs, including workshops throughout our region and research on specific problematic PPP projects, has become all the more relevant. IFIs and the EU are looking for ways to boost CEE economies in recession and the potential private sector beneficiaries of PPPs, many facing their own financial problems in this crisis, are more than happy to push for these partnerships. Yet these byzantine arrangements have an unnerving tendency to be based on contracts that are of little benefit to the public but consistently ensure a (tax-payer) guaranteed profit to the private sector partner.

Further afield, we continued to have an impact on the more serious problems posed by IFI and EU funded infrastructure projects in our region. Be it the decision of the EBRD to withdraw from Tbilisi water privatisation in Georgia, thus suspending that project, or the fact that plans for the Zagreb incinerator have been put on hold as the EIB removed it from its list of projects being considered, Bankwatch has continued to respond to environmental and social issues relevant to its region.

After years of campaigning Bankwatch and other campaigners celebrated the Polish government's decision to by-pass the Rospuda valley, a Natura 2000 site, in the construction of its EU funded Via Baltica expressway. Bankwatch also joined forces with NGOs from around the world working in communities where Arcelor Mittal operates steel mines – several of which have received EBRD investment – to create the Global Action on Arcelor Mittal. ▶

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

Bankwatchers young and old during our annual meeting in Smolenice, Slovakia – Autumn 2008



In 2009, this young coalition has already started to show that it is capable of bringing pressure to bear on the global steel giant both directly and through the EBRD.

The response of European governments to the economic crisis has been to increase the political and financial clout of IFIs and the EU's structural and cohesion funds in general. The very targets of our monitoring and advocacy have suddenly been given stronger backing, and the message they are hearing is "Spend! Spend! Spend!" The track records of these financial institutions give us cause for concern.

Looking at the developments since the economic crisis began, it's clear to me that our work is more relevant than it has been in some time and the need for monitoring of public finance has rarely been greater in recent history. I am confident this is a challenge that Bankwatch, given our track record, is very much able to live up to. Our work, guided by our strategy, will continue to be relevant to both regional issues and the global economic crisis.

Of course none of this crucial work we do would have been possible without our financial supporters and this clearly holds true for the future as well. I would therefore like to take this opportunity to thank all those who funded and supported our work in 2008. ■

Mark Fodor, Executive director, CEE Bankwatch Network

Member groups:

Atgaja, Lithuania
 Centre for Environmental Information and Education, Bulgaria
 Centre for transport and energy, Czech Republic
 Eco-sense, Macedonia
 Estonian Green Movement-FoE
 Friends of the Earth - Center for Environmental Public Advocacy, Slovakia
 Green Alternative, Georgia
 Hnuti Duha, Czech Republic
 Institute of Environmental Economics, Poland
 Latvian Green Movement
 National Ecological Centre of Ukraine
 National Society of Conservationists, Hungary
 Polish Green Network
 Terra Mileniul III, Romania
 Za Zemiata, Bulgaria

Bankwatch's executive committee in 2008:

Ana Colovic, member group representative
 Ivaylo Hlebarov, member group representative
 Roman Havlíček, member group representative



► **Rospuda Valley saved in Poland**

After several years of struggle from Polish and international environment groups – including Bankwatch - the Polish government announced that it no longer plans to build a road across the Rospuda Valley which is a Natura 2000 site protected under EU law. This good news about Rospuda should serve as a wake-up call to governments and road-builders around central and eastern Europe that the region's natural beauty can not be sacrificed to bulldozers.



► **No finance for destructive hydro in Ukraine**

The Kaniv and Dniester pump storage plant projects in Ukraine were dropped from the financing plans of respectively the EBRD and the World Bank. Bankwatch's member group NECU worked intensively on the two cases, bringing analysis to the EIA processes and cooperating on a range of activities with other NGOs in Ukraine including the promotion of alternative energy sector development that limits nature and biodiversity degradation.



► **Local residents before oil terminal in Albania**

Following a Fact Finding Mission on extractive industry projects in Vlora, Albania, Bankwatch's production of a report and an accompanying short film hit the mark at the EBRD. Our requests were for more thorough investigations by the bank into involuntary resettlement and treatment of residents living in the vicinity of the project. The response was not long in coming: the EBRD announced that it would no longer be considering the Vlora terminal project.



► **PPPs and water do not mix in Georgia**

Our work on the Tbilisi Water Supply Improvement Project showed that it is possible to prevent the negative impacts of public private partnership (PPP) projects in EU- neighbouring countries and to ensure a transparent process and public participation in decision making. Our assessment of the project's social, environmental and economic impacts on people living in Tbilisi and engagement with the government and the EBRD led to the bank withdrawing from the project.



► **Waste incinerator plans up in smoke in Croatia**

Concerted campaigning involving regular street actions spearheaded by our Croatian partners Green Action led to a U turn from the EIB which had been showing interest in financing the 385 000 tonnes per year Zagreb municipal waste incinerator. In 2007 the EBRD had also stepped back from the project following major concerns raised about the project's EIA process. Given such doubts over the financing, the city of Zagreb is being urged to opt for cheaper, more sustainable alternatives.

A team of Bankwatchers participated at the UN climate talks in Poznan, Poland, 12 months before the crucial Copenhagen meeting where a global deal to succeed the Kyoto treaty is being sought. Top of our agenda was the call to keep the World Bank – and its longstanding and ongoing support for carbon intensive investments – at arm's length from any post-Kyoto climate finance arrangements. And we also launched our campaign calling for an end to all EIB support for fossil fuels by 2012.

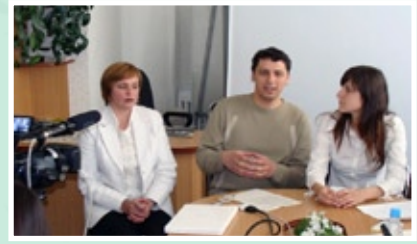


The second year of the **Bankwatch-led coalition** “Counter Balance: Challenging the European Investment Bank”, that brings together partners from France, Germany, Italy, the Netherlands and the UK with Bankwatch groups, saw increased momentum and visibility.

None more so than when we took to the streets of Luxembourg, the EIB's home turf, bearing copies of a pastiche newspaper to mark the EIB's 50th anniversary.

“ We hope that the EIB has grown out of its youthful indulgences, backing dodgy projects without being accountable to anyone. Now that it’s entering middle age, the EIB will hopefully slow down and start to behave more responsibly.”

Bankwatch organised a training in Kiev for 12 journalists from the countries of the Former Soviet Union previously unfamiliar with the EBRD that was holding its annual meeting in the Ukrainian capital. The journalists were able to take the knowledge gained into the EBRD meeting itself, which provided them with various story opportunities. For the various partner groups from around the Central Asia and Caucasus that we continued to support in 2008, it was also an opportunity to present their campaign and policy work to journalists from their own countries.



▲ Ukrainian campaigners conduct a mock press conference during the training...



▲ ...the real thing during the EBRD meeting: Kazakh activists brief the gathered press corps about abuses at Arcelor Mittal owned coal mines.

“The EIB needs to be doing a lot more to help deliver what a majority of Europeans want, namely more recycling and fewer incinerators.”

Our media coordinator gets quoted in the influential Brussels weekly newspaper *The European Voice* in May 2008 as we launch a study detailing the EIB's heavy tendency to finance harmful waste incinerators. Achieving high profile coverage for our key reports and major campaigns is a key component of our media team's work – in this case, a notable increase in the EIB's willingness to discuss waste issues with us ensued.



Balance Sheet as per 31.12.2008

Assets	EUR
Material Fixed Assets	9,952
Claims - Project Advances	61,811
Claims - Business	10,490
Claims - Other	2,650
Cash in Hand	8,439
Bank Accounts	706,406
Interperiod Active Clearances	15,975
Total Assets	815,723

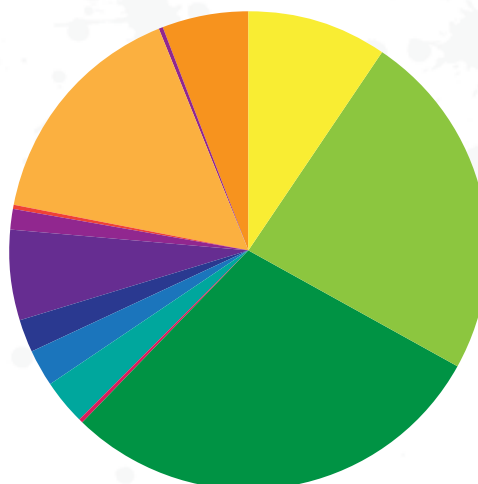
Liabilities	
Basic Capital	7,877
Reserve Fund	233,381
Grant Fund	272,229
Committed Transfers 2008	151,723
Short Term Liabilities	142,644
Interperiod Passive Clearances	7,867
Total Liabilities	815,723

Income	
Operating Cost Grant Drawing	870,387
Earnings from Services	13,732
Income on Short Term Bank Deposits	12,117
Other Income	-210
Earnings from Differences in Rates	88,268
Total Income	984,294

Expenditures	
Office Materials, Energy and Repairs	19,619
Travel cost - Bankwatch headquarters	87,249
Travel cost - Bankwatch coordinators, paid through Prague	36,651
Salaries and contracts - Bankwatch office	154,544
Salaries and contracts - Bankwatch coordinators, paid through Prague	318,670
Consultants	71,364
Services	189,731
Production of publications and promotional materials	57,238
Other costs	7,033
Contractual fines	34
Losses from Differences in Rates	31,773
Amortization and Deficiency	10,388
Total Expenditures	984,294

Accumulated Financial Result of Current Year	0
Expenditures of member groups and cooperating organisations	431,609

Grants received in 2008 (1,398,240 EUR)

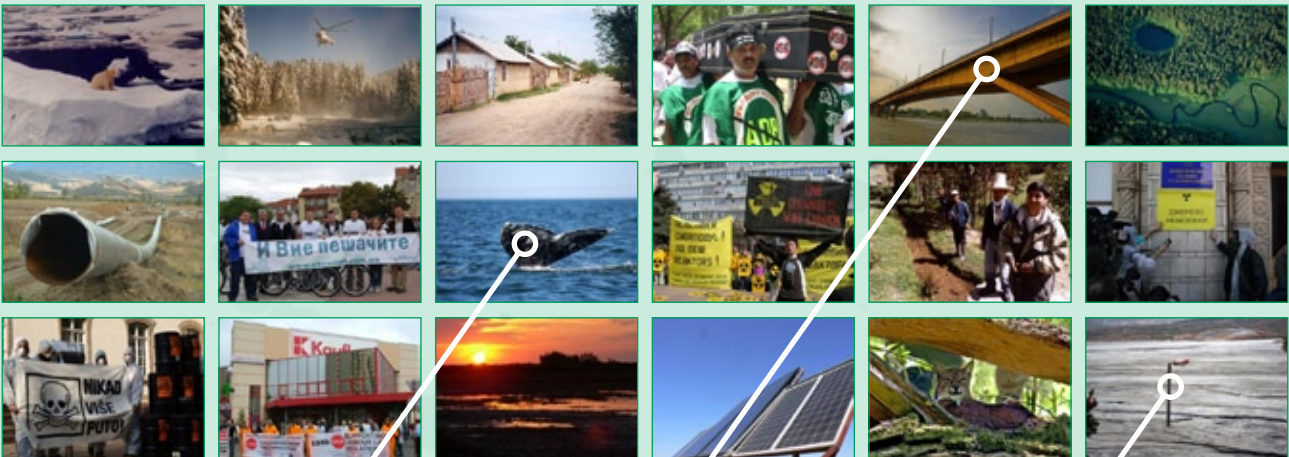


EC, Europe Aid	9.48%
EC, DG development, project EIB	23.64%
EC, DG environment	29.10%
Foundation Partnership	0.29%
Milieudefensie	3.15%
EC, DG justice	2.48%
CS Mott Foundation	2.27%
Oxfam Novib	6.10%
OSI Assistance Foundation	1.49%
PSO	0.32%
Sigrid Rausing Trust	15.58%
Swedish Secretariat on Acid Rain	0.49%
VROM	5.60%

A big thank you to all the funders who supported our work in 2008.

Adding to our web presence, we launched the **Bankwatch online photo gallery** - a collection of 4000 (and growing) photos from our activities over the last thirteen years. The images, reflecting central and eastern Europe's stunning natural diversity, and also featuring the efforts of communities around the region who continue to show determination and courage to stand up for their environmental and social rights, are free to use for the public and have been attracting a healthy amount of web traffic already.

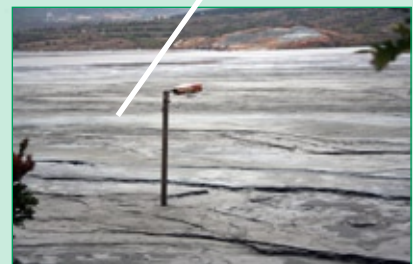
From the glorious **Rospuda Valley in Poland**, via the enchanting **Rhodopi region of Bulgaria** threatened by cyanide use in gold mines, to the majesty of the few remaining western gray whales off the coast of **Sakhalin Island** - the Bankwatch gallery is a highly useful new resource for anyone concerned with economic, environmental, human rights and social issues in central and eastern Europe.



▲ Western pacific grey whales still feeding off the coast of Sakhalin Island thanks to Sakhalin Environment's Watch's efforts to make big oil accountable for its investments.



▲ The Gazela Bridge reconstruction in Belgrade, the scene of harsh treatment for impoverished Roma communities and of Bankwatch efforts to help secure just resettlement.



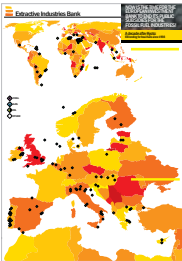
▲ The management of cyanide mining waste knows no bounds in Bulgaria. Bankwatch continues to press for comprehensive public consultations on the expansion of this controversial approach (in line for EBRD financing) to resource extraction.

In 2008 **Bankwatch** produced and disseminated a range of publications which are available on our website, including the following:



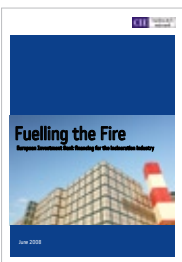
◀ **Hellfire economics: multinational companies and the contract dispute over Kashagan, the world's largest undeveloped oilfield (January 2008)** Describes how the contract for developing the Kashagan field, signed in 1997, was heavily weighted in favour of the oil companies. It argues and shows how the companies took advantage of Kazakhstan's weakness in the immediate post-Soviet period to lock the country into unfair terms for 40 years.

The Gilgel Gibe affair: an analysis of the Gilgel Gibe hydroelectric projects in Ethiopia (February 2008) The study illustrates the dangers that accompany large energy infrastructure projects whenever the interests of a major private company coincide not only with weak governance in the host country but also very clear willingness from financial institutions to provide funding, in spite of alarming project oversights and impacts. ▶



◀ **Extractive Industries Bank map (November 2008)** The map, also available at the interactive website www.fossilfreeeib.org, presents 130 fossil fuel projects from around the world that have received EIB financial support since 1997. While the EIB's record for financing renewable energy projects is improving, since the adoption of the Kyoto Protocol in 1997 the EU's house bank has loaned over EUR 17 billion to fossil fuel projects. The map is the centrepiece of a Bankwatch campaign calling on the EIB to stop fueling climate change by phasing out its investments in fossil fuels by 2012.

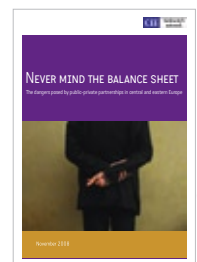
In the wake of ArcelorMittal – the global steel giant's local impacts (May 2008) Describes how local residents, workers and the environment pay the price for ArcelorMittal's global success. The compilation contains case studies examining Mittal's IFC- and EBRD-financed plants in Romania, Ukraine, Bosnia-Herzegovina, the Czech Republic and Kazakhstan. ▶



◀ **Fuelling the fire: European Investment Bank financing for the incineration industry (May 2008)** The European Investment Bank is mandated to promote EU policy with its project investments and invested over EUR 1.5 billion in 33 waste management projects between 2000 and 2006, the majority of which were in the EU. If the EIB is to truly support the implementation of EU policy, this bias towards incineration investments must be halted.

Never mind the balance sheet – the dangers posed by public-private partnerships in central and eastern Europe (November 2008) In recent years public-private partnerships (PPPs) have been heavily promoted in central and eastern Europe, often giving the impression that where infrastructure is concerned, PPPs are the only game in town. Yet behind the plethora of conferences, workshops and publications, few CEE countries have implemented more than two or three PPP projects, and even fewer truly successful projects.

Available in nine languages from our region, this analysis lays bare the problematic aspects of the PPP model, makes recommendations to the public banks that are promoting them and, above all, seeks to generate some much-needed debate across the region about these obscure yet highly controversial investment vehicles. ▶



Bankwatch produced a range of films and video clips in 2008. These are available on our website and on our YouTube channel www.youtube.com/user/Bankwatch



Report from the EBRD environmental and social policy consultations

“ We discovered that the new EBRD policy fails to address a number of gender-related issues. ”



Life begins at 50 for the EIB

“ We looked at some of the rash, youthful behaviour that the EIB has taken on. They go to these Washington DC soirees, they wake up the next morning, all they remember are a lot of free market promises ... development ideas ... and what's lying next to them? Big, ugly, totally unsuitable corporations. ”



Energy Matters

“ From Vlora to Shengjin, the seaside is completely clean. All other countries take care of their seas for tourism. But here it's different. We are desperate for tourism and they are bringing pollution. ”



Open your eyes to renewables!

“ People in the Baltic countries are opposing the construction of new nukes, as nuclear is expensive, even dangerous technology. The only real long-term sustainable solution is with decentralised energy systems, using renewable energy. ”



Live from central Europe - EIB and extractive industries speakers' tour

“ During the speakers' tour I want to sensitise a wider spectrum of the European populace because their money is coming into these projects. And they must know the truth behind these projects so that they can call their representatives at the EIB to account. ”

“ The European Ombudsman highlighted the 'valuable role' played by the NGOs in bringing previously unnoticed issues to the EIB's attention, and urged the institution to 'engage constructively with NGOs' within and outside the EU in future. ”

Bankwatch's Polish member group's vigilance in monitoring loose EIB environmental oversight earns praise, from EurActiv, January 2008

Cover image: Piotr Malczewski

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