Public money vs. pristine rivers

The European Investment Bank's hydropower financing and the need for tighter environmental and social standards

CEE Bankwatch Network

save the blue heart of europe

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Mojanska hydropower cascade built in Komovi Regional Park, Montenegro
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Executive Summary

The European Investment Bank (EIB) is positioning itself as a climate bank,[1] a development bank[2] and a leader in tackling the global biodiversity crisis. It describes climate and biodiversity as 'two fronts in the same war'.[3] Yet on the ground, EIB-financed projects show that there is still a long way to go to put these words into action.[4]

Controversial EIB projects include numerous hydropower plants – some financed directly and others via intermediaries such as commercial banks, national promotional banks or equity funds. Due to a lack of transparency by the Bank it is impossible to say how many hydropower projects have been financed. Forty-two direct EIB energy sector investments that have been signed since 2010[5] appear to include the construction of new hydropower plants, but the amount of support remains unclear due to vague project descriptions that often include groups of investments in different energy sources.

There are also hidden investments via intermediaries. In southeast Europe alone, the EIB has provided at least 27 intermediated loans for hydropower plants since 2010, though the names of many of the projects remain unknown.[6]

This report presents eight hydropower schemes in central and eastern Europe either financed or under consideration by the EIB:

- **Blagoevgradska Bistritsa 1-8, Bulgaria**, impacting the Rila National Park and two Natura 2000 sites. The EIB supported the plant's operation in 2012 once it had been built.
- **Ilovac, Croatia**, built in the River Kupa Natura 2000 site.
- **Nenskra, Georgia**, fiercely resisted by the local Svan indigenous people, also impacting an Emerald site and the proposed Upper Svaneti National Park. The EIB approved a loan in 2018, but has yet to sign it.
- **Mojanska 1-3, Montenegro**, built in the Komovi Regional Park, with impacts on three Emerald sites and proposed Natura 2000 sites.
- **Bistrica (Tearce) 97-99 and Brza Voda 1-3, North Macedonia**, both built in the Shar Planina Emerald site, also now protected in national law as the Shar Planina National Park.
- **Beli Kamen and Komalj, Serbia**, built on the Crni Rzav river inside the Zlatibor Emerald site, also protected nationally as a Nature Park.
- **Tashlyk pumped storage completion project, Ukraine**, which would damage the Bugzkyi Gard National Nature Park and Emerald site, a Regional Landscape Park and an Ichthyological Nature Reserve. The EIB has not yet approved financing for the project.

The cases demonstrate clear gaps in the EIB's Environmental and Social Policy and Standards, which are currently being revised. Yet the consultation drafts published in June 2021[7] are unambitious, show a lack of willingness to change and do not demonstrate that the Bank is learning from its past mistakes. The report therefore provides additional evidence for the following recommendations:

1 European Investment Bank, Climate and Environmental Sustainability.
2 European Investment Bank, EIB strengthens global development focus and backs EUR 4.8 billion new financing for energy, transport, COVID vaccines and business investment, 15 September 2021.
3 European Investment Bank, EIB Vice-President Ambroise Fayolle: Biodiversity and climate are two fronts in the same war, 10 September 2021.
4 For an extensive report on this topic, see CEE Bankwatch Network and Counter Balance, *Can the EIB become the "EU development bank"? A critical view on EIB operations outside Europe*, *CEE Bankwatch Network*, November 2020.
5 European Investment Bank, Financed Projects, last accessed 27 September 2021.
6 CEE Bankwatch Network, EuroNatur and Riverwatch, *Financing for hydropower in protected areas in Southeast Europe: 2018 update*, *CEE Bankwatch Network*, March 2018. This report identified five plants financed via intermediary sub-projects and 22 which could not be identified. In March 2020, the EIB disclosed a limited amount of additional information enabling the identification of 11 more sub-project beneficiaries.
7 For more details, see here.

Overall

- Improve the disclosure of project information to clearly demonstrate which exact projects are being financed.
- Clarify within the Standards or Environmental and Social Policy that the 2019 Hydropower Guidelines are binding.
- Make crystal clear in the Policy that all projects must comply with EU law, EIB Standards and all EIB sectoral policies, including projects outside of the EU and intermediated projects.
- Clearly state in the Policy that the EIB will not approve any operation until its Standards are fully met, and until Environmental and Social Impact Assessments (ESIAs) are completed.

Biodiversity

- Apply the precautionary principle for all EIB finance. Where there is insufficient data to evaluate risks for biodiversity, the project should not be approved.
- Specify areas that the Bank will not finance (i.e. no-go areas), in particular outside the EU, following adequate criteria such as those outlined in the categories at: http://banksandbiodiversity.org/.
- Treat all natural habitats and habitats of species protected at the national, European or international level as 'critical habitat' or 'high-value biodiversity' and require Appropriate Assessments, including outside the EU, when projects may impact such areas. The projects must align with the requirements of Article 6 of the Habitats Directive.
- Require all projects to be part of publicly consulted and coherent spatial plans and sectoral strategic plans, which have been informed by sensitivity analyses of threats and have been subject to strategic environmental assessments.

Indigenous Peoples

- Require promoters conducting ESIAs to include screening for social or human rights risks, including detailed mapping of vulnerable stakeholders and Indigenous Peoples.
- Require the identification process for Indigenous Peoples to be consultative and to take a precautionary approach in cases where governments deny a group's indigenous status.
- Clearly articulate who is responsible for obtaining Free Prior and Informed Consent from Indigenous Peoples and stipulate that it is a condition for project financing.

Financial intermediaries

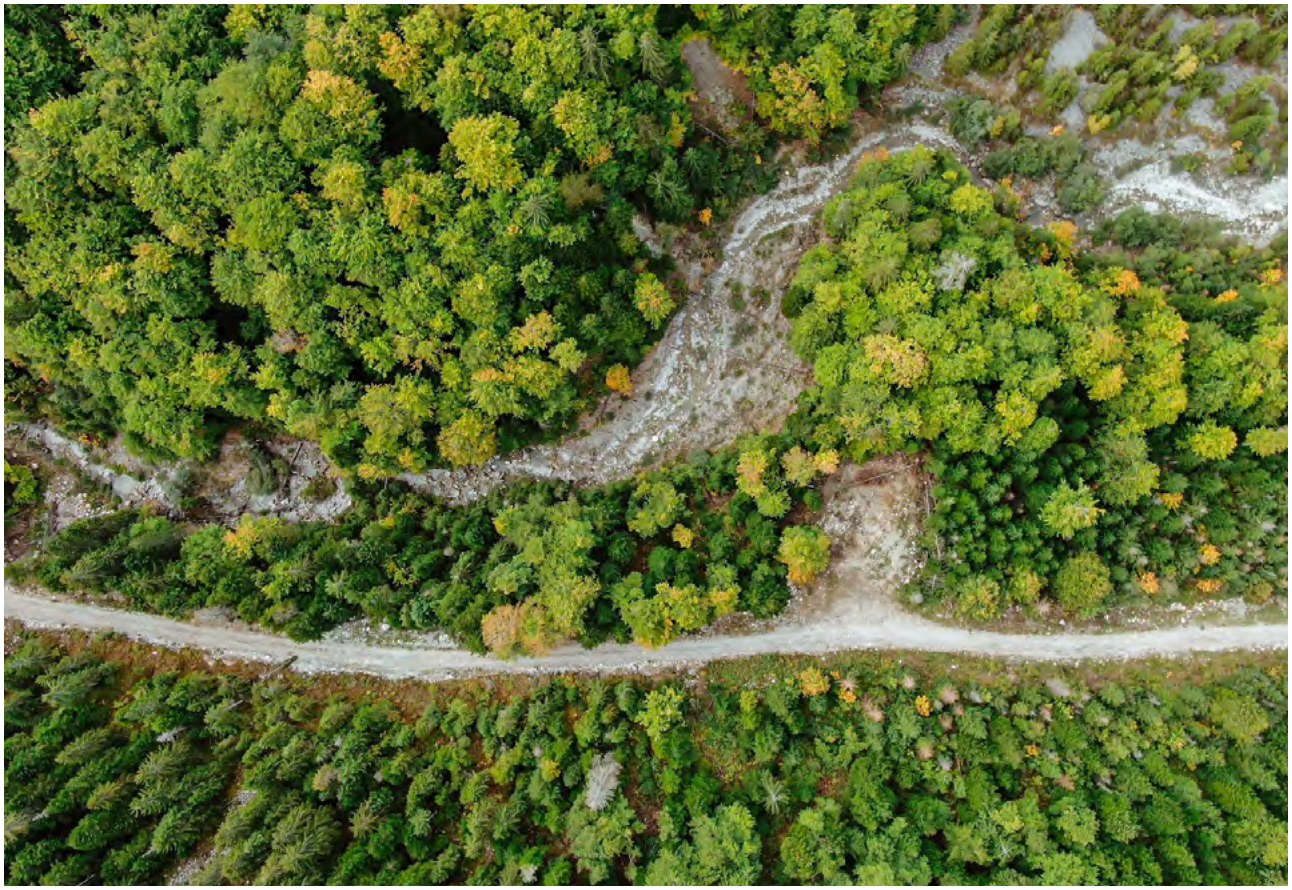
- Adopt a 'referral list' approach, where higher-risk sub-projects are clearly defined and automatically referred to the EIB for due diligence, risk appraisal and monitoring.
- Require EIB clients to publish the name, sector and location of at least sub-projects which are likely to have significant environmental or social impacts, such as hydropower projects, before they are approved.
- State that the EIB will be involved in monitoring and ensuring any corrective action for intermediated sub-projects on the referral list and include this in loan contracts.

Introduction

The European Investment Bank (EIB) is the largest multilateral lender in the world. As the financial arm of the European Union, the EIB is best known for its role in financing infrastructure projects across Europe. But it is also a major development bank: in 2020, the EIB signed projects worth EUR 66.1 billion, of which EUR 56.8 were in the EU and EUR 9.3 billion in the rest of the world – mainly in Africa, the Balkans, the Middle East and Europe's Eastern Neighbourhood.[8] In September 2021, the EIB Board of Directors also approved a proposal to set up a development branch to increase the impact of its activities outside the European Union.[9]

At the same time, the EIB also aims to be the EU's Climate Bank,[10] and more recently, it has also sought to show leadership in tackling the global biodiversity crisis, extending its Sustainability Awareness Bonds to cover biodiversity protection and restoration[11] and describing climate and biodiversity as 'two fronts in the same war'.[12]

In January 2021, EIB Vice President Ambroise Fayolle stated that: *'Sustainable finance must be a pillar of the global response to the challenge of climate and environmental degradation. EIB is at the forefront, leading by example in lending and funding within the framework of ground-breaking EU legislation. Biodiversity is a core objective.'*[13]



Dobrica Mitrović

Mojanska River, Montenegro

8 European Investment Bank, Crisis Solutions: Activity Report 2020, 2021.
9 European Investment Bank, EIB strengthens global development focus and backs EUR 4.8 billion new financing for energy, transport, COVID vaccines and business investment, 15 September 2021.
10 European Investment Bank, Climate and Environmental Sustainability.
11 European Investment Bank, First 2021 Sustainability Awareness Bond highlights EU-EIB push for Biodiversity at Paris One Planet Summit, 13 January 2021.
12 European Investment Bank, EIB Vice-President Ambroise Fayolle: Biodiversity and climate are two fronts in the same war, 10 September 2021.
13 European Investment Bank, First 2021 Sustainability Awareness Bond highlights EU-EIB push for Biodiversity at Paris One Planet Summit, 13 January 2021.

However, the on-the-ground reality proves that there is a long way to go to put high-level political statements into action. The EIB's capacity to effectively screen and assess its investments for environmental and social compliance, and thus its suitability to act as a development bank, has repeatedly been called into question.[14]

The Bank is currently revising its Environmental and Social Policy and Standards, an opportunity for the EIB to improve its practices and avoid financing harmful projects. Unfortunately, the consultation drafts of the Policy and Standards published in June 2021[15] are worryingly unambitious and do not demonstrate that the Bank is willing to change and learn from its mistakes.

Among the controversial projects the EIB has financed are numerous hydropower plants. Larger projects are financed directly, while smaller projects are financed via intermediaries – usually commercial banks, national promotional banks or private equity funds. There is a lack of information about individual beneficiaries who have been financed through intermediaries. The EIB is currently not publishing this information and therefore this report cannot say how many hydropower projects have been financed via intermediaries globally. In addition, some projects consist of investments in several smaller projects by the same company, with limited information provided by the EIB about the exact plans, so it is difficult to assess how many hydropower plants are really being financed.

Forty-two EIB energy sector investments signed since 2010[16] appear to include the construction of new hydropower plants. These can be found in Annex 1. Sixteen projects which include the rehabilitation of existing hydropower plants, listed in Annex 2, are also identified.[17] It is expected that the number of investments will be higher due to investments which are financed via intermediaries, as well as a many vaguely defined 'renewable energy' projects listed on the EIB's website, which may include hydropower even if it is not explicitly mentioned.

In southeast Europe, the EIB has provided at least 27 loans for hydropower plants through financial intermediaries since 2010, though the exact number and many of the names of the plants remain unknown.[18] A list of such loans and plants identified so far is provided in Annex 3.

In addition to the signed projects, in 2018 the EIB also approved a loan for the highly controversial Nenskra power plant in Georgia, which as of September 2021 has yet to be signed. In 2020, the Bank also announced it was considering financing for a project to complete the Tashlyk pumped storage in Ukraine – although a financing decision has yet to take place.

This report brings together eight case studies of controversial hydropower projects in central and eastern Europe, of which six have already been financed by the EIB, one has been approved, and one is awaiting a decision by the Bank. Each of the cases provides lessons for the EIB's revision of its Environmental and Social Policy and Standards, and if the Bank is to take its development role seriously and avoid making more serious mistakes, it is high time to take note and tighten its requirements.

14 For an extensive report on this topic, see CEE Bankwatch Network and Counter Balance, *Can the EIB become the "EU development bank"? A critical view on EIB operations outside Europe*, November 2020.

15 For more details, see here.

16 European Investment Bank, Financed Projects, last accessed 27 September 2021.

17 Two loans appear in both tables as they involve both rehabilitation and new-build.

18 CEE Bankwatch Network, EuroNatur and Riverwatch, *Financing for hydropower in protected areas in Southeast Europe: 2018 update*. This report identified five plants financed via intermediary sub-projects and 22 which could not be identified. In March 2020, the EIB disclosed a limited amount of additional information enabling the identification of 11 more sub-project beneficiaries.

Case studies

Thirsty hydropower: misuse of drinking water pipelines has destroyed a river in Bulgaria

Country: Bulgaria

Location: Blagoevgradska Bistritsa River and tributaries, Blagoevgrad Municipality

Hydropower plants: Blagoevgradska Bistritsa Hydropower Cascade

Protected areas affected: Rila National Park, Rila Natura 2000 site, Niska Rila Natura 2000 site

EIB financing purpose: financing the company's trade receivables after the cascade was built via an Allianz BG (Financial Intermediary) Loan for SMEs and Mid-Caps[19]

Status: In operation since 2012

Year of loan signature: 2012

Amount: EUR 6.1 million

For a longer and more detailed case study: see here

Andrey Ralev

Kartala intake in Rila National Park, Bulgaria

Project overview and issues

The Blagoevgradska Bistritsa hydropower cascade in Bulgaria consists of eight small hydropower plants installed on pipelines that supply the town of Blagoevgrad with drinking water. It uses five water intakes to divert water from the Blagoevgradska Bistritsa River and four of its tributaries. Two of the intakes are located in Rila National Park and one in Niska Rila Natura 2000 site.

19 European Investment Bank, Allianz BG Loan for SMEs and MIDCAPs, accessed 23 February 2021.

When the cascade was first proposed, it was not immediately obvious that it would have a serious environmental impact because it planned to use mostly existing infrastructure. No environmental impact assessment (EIA) was conducted, so there was no way for the public to understand in advance how it would impact the river.

However, following the construction of the cascade, the river hydrology has largely changed, suggesting that more water is being extracted than before. A resolution to this problem has been seriously delayed. The public did not know that the EIB had become involved supporting the cascade once it was built. The Bulgarian institutions did not address the environmental problems, e.g. excessive water extraction and the drying of the riverbeds, so the Bank could have played a crucial role in ensuring the issues were tackled. However, because its involvement was not known, the issues could not be addressed to the EIB in a timely manner.

The project was 'salami-sliced', and in 2007 the construction of each of the eight power plants was authorised separately, which made it easier to avoid carrying out an environmental impact assessment. They were approved based on the assumption that no additional water would be used for electricity production. ***'The exploitation of the hydropower plant would not have its own impact on the water balance of the river, because it will work on a subordinate schedule compliant with the regime of drinking water consumption'*** is written in all eight decisions to not carry out an EIA and Appropriate Assessment.[20]

However, 13 field visits by non-governmental organisations between 2015 and 2020 found that the cascade uses a lot more water than necessary for the town. The plants were operating at full capacity even at times of presumably low water usage in the town (10 to 11 a.m.). In theory, since the plants use drinking water for the turbines, once the water has passed the last plant, it should continue towards the town. But footage[21] from the lowest plant of the cascade shows **a large pipe which discharges water used in the hydropower production process directly back into the river, thus proving that the energy production is using water that is not carried further for the town's water consumption**. Thus, the plants were not built in line with the environmental permitting conditions from the EIA screening decisions.

To understand the impacts of the cascade on Blagoevgradska Bistritsa River and its tributaries, a survey was conducted between December 2020 and January 2021. Based on 30 interviews with local fishermen, hunters and farmers, we conclude that the upper stretches of the river were very attractive for fishermen before, but after the construction of the cascade they lost importance. Many people said that they have seen the river completely dry in the stretch between the four lowest hydropower plants, and that there was *'no life at all, not even frogs'*. In the upper stretch, the impacts of the cascade have also been very severe: only in spring can fishermen catch any fish, but mostly very small individuals. Stone crayfish (*Austropotamobius torrentium*), one of the most threatened species in Europe, was once abundant in the river, but can hardly be found now. There has been an impact on all aquatic species even in the stretch below the cascade. We assume that this is because of the discharge into the river from the lowest plant and because the river is dry upstream and cannot serve as a biocorridor for spawning fish. Two fishermen have seen fish getting to the fish passes and unsuccessfully trying to migrate upstream, because the passes were improperly designed.

Lessons for the EIB's new Environmental and Social Policy and Standards

When the credit line for Allianz BG was signed in 2012, the EIB's 2010 Environmental and Social Handbook was the document that stipulated how the EIB would assess compliance with the EIB Statement.

The overarching requirement is that all projects, including financial intermediary sub-projects, need to comply with national and EU law. However, the problem arises in the EIB's abdication of responsibility for due diligence and monitoring of global loans, such as the Allianz credit line that financed the Blagoevgradska Bistritsa plants. Under the 2010 Handbook, the Bank did not commit to carry out in-depth due diligence on intermediaries' sub-projects, only leaving it open as an option. The EIB confirmed in a response to Bankwatch dated 12 March 2021 that it had not undertaken environmental due diligence on the Blagoevgradska Bistritsa project and that it had not carried out any field visits. The EIB's new draft financial intermediary standard unfortunately also leaves it completely open whether the EIB will carry out due diligence and monitoring for selected intermediated sub-projects. This must be changed if the Bank is to avoid causing more damage via its intermediaries.

Another issue is that the loan was for the company's trade receivables, not the construction of the plant itself. Since the company is a special-purpose vehicle set up for the sole purpose of building and operating the plant, the EIB loan must be seen as supporting the operation of the project, but neither its 2010 policy nor its current draft Policy or financial intermediary standard is clear on what environmental due diligence the EIB must do in such cases.

20 Ministry of Environment and Water, Official EIA register, accessed 23 February 2021.
21 Dimiter Koumanov, 0358 - ВЕЦ Бл.Бистрица - 2016-06-24 - 7, accessed 23 February 2021.

Croatian hydropower plant in Natura 2000 area highlights EIB policy loopholes

Country: Croatia

Location: River Kupa, near Ozalj

Hydropower plants: Ilovac small hydropower plant

Protected areas affected: Kupa Natura 2000 site

EIB financing purpose: construction of a small hydropower plant by raising the level of an existing weir, financed via the Croatian Bank for Reconstruction and Development (HBOR) as an intermediary

Status: operating since 2015

Year of loan signature: 2014

Amount: EUR 4 million

For a longer and more detailed case study: see here

Pippa Gallop

The Ilovac hydropower plant, Croatia

Project overview and issues

In 2012, the EIB signed a loan for the Croatian Bank for Reconstruction and Development to use for financing smaller projects. One of these was Tekonet's 1.4 MW Ilovac hydropower plant in the river Kupa Natura 2000 site, for which a sub-loan was signed in 2014. The plant went online in 2015.

The EIB was able to provide only a summary of the EIA, and not the whole study, which illustrates the lack of attention the EIB pays to the EIAs of its sub-projects through intermediaries.

The full EIA was obtained from the Croatian authorities, but turned out to be of poor quality. For example, it failed to establish whether the Danube Salmon (*Hucho hucho*) was present at the project site or not, despite the fact that it is endemic to the Danube basin; is considered endangered in Croatian law and by the IUCN; and is protected under Croatian law, the Habitats Directive and the Bern Convention.

Three more fish species endemic to southeast Europe which need fast-flowing water to live in[22] were identified at the site, however. Despite the fact that the dam would clearly decrease the speed of the river flow, thus threatening their habitat and living conditions, the EIA concluded that there would be no impact on them. Altogether, 15 fish species were identified by the EIA as being protected by the Habitats Directive or the Bern Convention, and five species as being strictly protected under Croatian national law. It is scientifically proven that several of these fish species are highly sensitive to the construction and operation of hydropower plants,[23] and it is therefore inexcusable that the EIA did not state this.

Comparing studies carried out at the site before and after 2015, one fact is indisputable: there has been a loss of biodiversity in the river Kupa at the location of the Ilovac hydropower plant. The studies, however, differ in their assessment of the scale and significance of the loss.

The monitoring studies commissioned by the investor[24] claim that the drop from 17 species found in the river in 2009 to 15 found below and only 9 above the dam in 2018 can be explained by normal statistical variance and the limitations of the surveying method.[25] This study claims that the habitat remained conducive to species attracted by fast-moving water.

However, another study shows that the habitat has already changed into one supporting limnophilic fish species (those living in slow moving, still or stagnant waters), with a drop from 18 species surveyed in 2010 and 2011[26] to 11 in 2019, with some of the characteristic fast-water species disappearing.[27] The number of species of Community interest found during the sampling dropped from seven to three.[28]

This study also established that four small cascades seem to have been flooded, in violation of the environmental permit for the project. These are characteristic habitats for *Alburnus sarmaticus*, considered endangered by the IUCN[29] and protected under the Habitats Directive. This was one of the species for which the River Kupa was declared part of the Natura 2000 network. The population in the River Kupa was in 2017 even described as a distinct endemic species, *Alburnus sava*,[30] which as of early 2020 was known only from six locations in the Kupa, Sava and Dobra Rivers.[31]

Another survey carried out in 2019 at a spot next to the village of Orljakovo, 7 kilometres upstream from the dam, illustrates what has been lost. The survey showed a much better ecosystem status compared to the dam location: 16 species in total, and 7 of those species of Community interest. It also identified the presence of the common dace (*Leuciscus leuciscus*) and *Alburnus sava*.[32]

Normally, civil society organisations would have alerted HBOR and the EIB to their concerns before the plant was built and would have tried to ensure its impacts were properly assessed. But this was impossible, because neither the EIB nor HBOR disclosed their role in the project.

So far, the EIB has disclosed only a summary of the EIA on request, and has directed all other questions about the project to HBOR. HBOR systematically refuses to disclose information to the public about its projects and other

22 *Cobitis elongata*: https://www.fishbase.se/summary/26618, *Rutilus virgo*: https://www.fishbase.de/summary/Rutilus-virgo.html, *Barbus balcanicus*: https://www.fishbase.se/summary/Barbus-balcanicus.html

23 For a useful summary, see the table on p.23ff in Weiss S, Apostolou A, Đug S, Marčić Z, Mušović M, Oikonomou A, Shumka S, Škrijelj R, Simonović P, Vesnić A, Zabric D., Endangered Fish Species in Balkan Rivers: their distributions and threats from hydropower development, Riverwatch & EuroNatur, 2018.

24 Mrakovčić, Milorad, Davor Zanella, and Zoran Marčić, Praćenje faune riba rijeke Kupe (mHE Ilovac) kod pregrade Zaluka iznad Ozlja, Prirodoslovnomatematički fakultet, Sveučilišta u Zagrebu, Biološki odsjek, Zoologijski zavod, 2017. Mrakovčić, Milorad and Zoran Marčić, Monitoring i ispitivanje riba rijeke Kupe (mHE Ilovac) kod pregrade Zaluka iznad Ozlja, Prirodoslovno-matematički fakultet, Sveučilišta u Zagrebu, Biološki odsjek, Zoologijski zavod, Zagreb, 2018.

25 Mrakovčić, Milorad and Zoran Marčić, Monitoring i ispitivanje riba rijeke Kupe (mHE Ilovac) kod pregrade Zaluka iznad Ozlja.

26 By the Croatian Institute for Biodiversity, cited in Vucić, Matej and Dušan Jelić, Istraživanje ihtiofaune rijeke Kupe na području mHe „Ilovac", BIOTA, September 2019, 24-25; English version available here. The 2019 survey was carried out with the same effort as the one in 2010-2011, so they are comparable. Some of the fish species that were not detected could still be there, but in very small numbers.

27 Including species found both above and below the dam.

28 Vucić, Matej and Dušan Jelić, Istraživanje ihtiofaune rijeke Kupe na području mHe „Ilovac"; English version available here. The survey was carried out with the same effort as the one in 2010-2011, so they are comparable. Some of the fish species that were not detected could still be there, but in very small numbers.

29 IUCN Red List, Pontian shemaya - Alburnus sarmaticus, last accessed 18 September 2021.

30 Bogutskaya, Nina G., et al., Description of a new species of Alburnus Rafinesque, 1820 (Actinopterygii: Cyprinidae: Leuciscinae) from the Kolpa River in the Sava River system (upper Danube drainage), with remarks on the general distribution of shemayas in the Danube, *ZooKeys* 688 (2017): 81 – 110.

31 Vucić, Matej, Ivana Sučić, and Dušan Jelić, New distribution data for Alburnus sarmaticus Freyhof & Kottelat, 2007 and Telestes souffia (Risso, 1827) in the Western Balkans, *Croatian Journal of Fisheries*, no 4 (2017): 137-142; personal communication by Igor Vejnović with Dušan Jelić on Dobra.

32 Vucić, Matej and Dušan Jelić, Istraživanje ihtiofaune rijeke Kupe na području mHe „Ilovac"; English version available here.

Pippa Gallop

By raising the level of the weir, several fish species were impacted

activities, despite having lost 31 court cases on access to information by early 2020.[33] Thus, both financiers of the project are trying to deny their responsibility for the project. This is all the more concerning given that HBOR is a frequent recipient of EIB financing.[34]

Lessons for the EIB's new Environmental and Social Policy and Standards

The Ilovac case has much in common with other examples of small hydropower projects financed by the EIB through financial intermediaries. Neither its intermediary banks nor national institutions are as efficient at ensuring compliance with national and EU law as the EIB would like to believe and action is urgently needed to make sure that the Bank takes responsibility for its intermediary sub-projects.

Unfortunately, its new draft Environmental and Social Policy and Standards,[35] particularly its new Standard on Financial Intermediaries, would not bring significant changes in this regard.

The draft financial intermediary standard still does not ensure that the EIB would get involved in due diligence and monitoring for higher-risk projects such as those requiring an environmental impact assessment, only stating that the Bank 'may' do so.

It also does not require either the EIB or the financial intermediary to disclose any information about sub-projects, so the public can neither raise concerns before project implementation, nor use the Bank's Complaint Mechanism in a timely manner.

At the very least these points need to be amended in order to bring the EIB's intermediated lending into line with national and EU law.

In addition, the case shows that building in protected areas and areas of high biodiversity is extremely risky and that impacts are often higher than expected. While EU law in principle provides clear instructions on how to act in such cases, time and again projects' negative impacts are underestimated and positive impacts overestimated. If it truly wants to contribute to biodiversity protection, the EIB should therefore take a precautionary approach and define no-go areas for financing in its Biodiversity Standard. This would not replace thorough due diligence outside of those zones, but would save much time and effort in assessing projects that ultimately should not be built.

33 For more details, see here.
34 For more details, see the EIB's website here.
35 For drafts of the new Policy and Standards, see here.

Georgia's billion dollar dam violates EIB environmental and social standards

Country: Georgia

Location: Nakra and Nenskra Rivers, Upper Svaneti Region

Hydropower plant: Nenskra Hydropower Project

Protected areas affected: Svaneti 1 Emerald site, Upper Svaneti proposed national park

EIB financing purpose: construction and operation of a 280 MW hydropower scheme

Status: construction stalled, loan contract pending

Year of loan approval: 2018

Amount: USD 150 million[36]

For a longer and more detailed case study: see here

Andrey Ralev

Local Svan fishing in the Nakra River, Georgia

Project overview and issues

JSC Nenskra Hydro, a joint venture between Georgia's state-owned Partnership Fund (10 per cent) and the Korean state-owned company K-Water (90 per cent), plans to implement this USD 1 billion project. Since it was proposed, the 280 MW Nenskra hydropower plant has caused significant controversy and concerns among the indigenous Svan communities living near the proposed plant, as well as the general public in Georgia.

The EIB and EBRD both approved loans for the project in 2018, while the Asian Development Bank is also considering financing.[37] Since the approval of the EIB and EBRD loans, construction works have stopped and remain at a standstill. Meanwhile, the costs of the Nenskra project continue to grow and pose a threat to the fiscal stability of Georgia.[38] The electricity prices in the contract are fixed in US cents, whilst the depreciation rate of the national currency is extremely high.

36 European Investment Bank, Nenskra HPP, 13 June 2016.
37 Asian Development Bank, Georgia: Nenskra Hydropower Project, accessed 12 October 2021.
38 CEE Bankwatch Network, Nenskra hydropower plant project profile, accessed 12 October 2021.

In November 2020, the EIB published an article[39] on its website announcing its decision to give the green light to Korea's Hyundai E&C to participate in the construction of the Nenskra hydropower plant, despite its track record of corruption and bribery.[40] The other main contractor, Limak Holding, has also been involved in corruption schemes[41] concerning gas pipelines, water channels and other large-scale infrastructure projects. It remains to be seen whether the project will move ahead.

Threat to biodiversity

The project would flood 400 hectares of pristine mountain forests, key habitats for the brown bear, Caucasian lynx and protected birds, and would cause downstream impacts on 17 kilometres of the river Nenskra and 9 kilometres of the river Nakra. As a result of the drastic changes in the water flows and sedimentation regime, many river and riparian habitats would be destroyed.[42] The Nenskra hydropower plant is the main reason these river valleys have been excluded from the Emerald network and from the future Svaneti National Park. Since 2016, a Bern Convention complaint has been on stand-by for threats by the project to the Svaneti 1 Candidate Emerald Site.

The project is an example of the destruction of nature in one extremely valuable area (Upper Svaneti) and offsetting it by declaring three completely different Emerald sites as 'compensation' in other parts of Georgia. This is in violation of Article 4 of the Habitats Directive and Recommendations of the Bern Convention by using criteria of a non-scientific nature for excluding the area of the Nenskra plant from the Emerald site. By not assessing the impacts on the Emerald site, Article 6 of the Habitats Directive was also violated, as the project is clearly likely to have significant impacts. Although the EIB has committed to apply EU law for all its financed projects, the proposed new EIB Biodiversity and Ecosystems standard does not make this sufficiently clear.

Social impacts glossed over

After more than two years of investigation, the accountability mechanisms of the EIB and EBRD released their final reports on the project's compliance with the banks' environmental and social standards in the summer of 2020. Both mechanisms found the project non-compliant with a significant number of the banks' environmental and social policies, relating to the protection of the rights of indigenous peoples, cultural heritage, gender impacts, the assessment and management of environmental and social impacts, labour influx, information disclosure and participation of local communities and other stakeholders.

The complaint mechanisms of both banks found that their policy requirements regarding indigenous peoples were violated by not carrying out a sufficient analysis of whether Svans qualify as Indigenous Peoples, in which case they would have a right to Free Prior and Informed Consent. According to the EBRD Project Complaint Mechanism's expert consulted, good international practice is to:

> *consult a self-proclaimed indigenous community concerning the application of any eligibility criteria that will be used in the determination of whether the group constitutes an indigenous people. Such consultation would be part of the project due diligence and demonstrates good faith when determining whether the eligibility conditions have been met.*

The EIB Complaints Mechanism considered both the assessment of risks and impacts as well as the measures defined in the project's Environmental and Social Management Plan (ESMP) to address such problems as insufficient.

The Complaints Mechanism also concluded that the EIB did not take adequate steps and failed to conduct the required project due diligence to ensure the proper application of its standard on the rights and interests of vulnerable groups, including in the context of the rights and interests of Indigenous Peoples. The EIB underestimated the social challenges associated with the project, particularly related to the assessment and management of the potential impacts of labour influx on communities.

In addition, the report found that the EIB accepted an insufficient alternatives analysis without sufficient documentation of the rationale for selecting that particular course of action.

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39 European Investment Bank, Agreement reached between the European Investment Bank, JSC Nenskra Hydro and Hyundai Engineering & Construction Co., Ltd. in relation to the Nenskra hydropower plant project in Georgia, 5 November 2020.

40 Rusudan Panozishvili, Nenskra: new players, new risks, *CEE Bankwatch Network*, 4 December 2019.

41 Lorenzo Bagnoli et al, Risky Business - Who Benefits from the Southern Gas Corridor?, *CEE Bankwatch Network*, December 2016.

42 CEE Bankwatch Network and Green Alternative, Update paper regarding the Nenskra hydropower plant (Georgia) Possible threat to "Svaneti 1" candidate Emerald site (GE0000012), *CEE Bankwatch Network*, December 2017.

Andrey Ralev

River Nenskra - one of the largest free-flowing rivers of the Caucasus, Georgia

Lessons for the EIB's new Environmental and Social Policy and Standards

The EIB's due diligence must ensure that consideration of all environmental, social and human rights impacts and risks are duly taken into account. This should include a consideration of alternatives that begins early in the process, before the project type, scale and location have been agreed on. The Nenskra case shows that in order to ensure project compliance with the Bank's standards, the EIB should not approve any operation until all its standards are fully met, and until Environmental, Social and/or Human Rights Impact Assessments are completed.

The project also clearly shows that the EIB's biodiversity, environmental and social impacts and risks as well as indigenous peoples standards need to be improved substantially. The concept of 'No Net Loss' of biodiversity, as proposed in the Standard 4 on Biodiversity and Ecosystems, and applied in the Nenskra project, is a concept that is proving ineffective, difficult to monitor and even more difficult to control, and should not be used in the Standard. The word 'Net' allows the destruction of biodiversity in a particular place, on the completely unenforceable assumption that biodiversity will be protected somewhere else.

The Bank needs to have a clear vision for no-go areas for financing. It should not finance projects like Nenskra that would destroy the pristine forests and glacier rivers of Upper Svaneti which are unique in Europe.

The standard should also be much clearer in applying the precautionary principle – when there is not enough data on the impacts, for example on fish species, the activities should not be carried out. In the case of Nenskra, the potential effects on downstream biodiversity were not understood in the ESIA: *'After a number of years of operation, the first reservoir sediment flushing operation will be required. As part of the preparation for this event an impact assessment will be performed to understand the potential effects which may occur on downstream biodiversity.'*[43] But still, the EIB approved the project.

Regarding Indigenous Peoples, the EIB's Standard 1 on Environmental and/or Social Impacts and Risks must require project promoters to include screening for specific social and human rights risks when carrying out environmental and social assessments, including detailed mapping of vulnerable stakeholders. Standard 7 on Vulnerable Groups and Indigenous Peoples is particularly weak when it comes to safeguarding the rights, self-determination and cultural integrity of Indigenous Peoples, especially in cases where national authorities fail to recognise them as indigenous. The Standard needs to clearly articulate who is responsible for obtaining Free Prior and Informed Consent from Indigenous Peoples and must be clear that in cases when it is required but has not been achieved that the project cannot move forward.

43 JSC Nenskra Hydropower, Nenskra Hydropower Project Supplementary Environmental & Social Studies Volume 4 Biodiversity Impact Assessment, February 2017, 157.

Never mind the protected areas in Montenegro!

Country: Montenegro

Location: Mojanska River, Andrijevica Municipality

Hydropower plants: Mojanska 1, Mojanska 2, Mojanska 3

Protected areas affected: Komovi Regional Park, 3 Emerald sites, 3 proposed Natura 2000 sites

EIB financing purpose: loan for construction of three small hydropower plants via the Investment and Development Fund of Montenegro (IDF) as intermediary

Status: operating since 2020

Year of loan signature: 2019

Amount: EUR 5.9 million

Dobrica Mitrović

Dry riverbed below Mojanska 1 intake, Montenegro

Project overview and issues

On 2 June 2014 Montenegro's then Minister of Economy Vladimir Kavarić awarded concessions for the construction of small hydropower plants on six watercourses in Montenegro, including two concessions to the Kutska and Mojanska[44] consortium, for plants on the rivers Kutska and Mojanska. In 2016, Mojanska 1, 2 and 3 were awarded construction permits,[45] and they received operating permits in April 2020.[46]

The Investment and Development Fund of Montenegro (IDF), acting as a financial intermediary of the EIB, funded the latter stages of construction of the plants with a loan of EUR 5.9 million in 2019.

Already in 2020, the first year of operation of the plants, the riverbed was left dry, leading to irreversible impacts to fish and other aquatic fauna. In a statement at the time, WWF Adria commented that:

44 Government of Montenegro, Concession agreements for construction of ten small hydro power plants in Montenegro awarded (archived content), 2 June 2014.
45 Government of Montenegro, Izdate građevinske dozvole - 2016. Godina (archived content), accessed 12 October 2021.
46 Government of Montenegro, Izdate upotrebne dozvole - 2020. Godina, accessed 12 October 2021.

It is very uncertain whether anything from the living world can survive. It is of special importance to point out that the Mojanska River has been declared a protected fishing area, as an area of the greatest importance for the spawning of brown trout. This means that this river was a natural breeding ground for trout before the construction of the small hydropower plants, while now the river is permanently damaged and it is most likely that this species will completely disappear in it.[47]

When the loan from the IDF was agreed, the environmental damage done by the Mojanska plants could easily have been anticipated. In May 2016, EIA studies of very poor quality were prepared for the plants.[48] These include a map of 10 hydropower plants on the Mojanska, Kutska and their tributaries, but no assessment of their cumulative impact or strategic environmental assessment (SEA) was carried out. According to the national Law on SEA [49]and the SEA Directive of the EU, this should have been done for the Concession Plans of the three plants since they constitute plans relevant to both the energy and water management sectors.

The plants are located in Komovi Regional Park. The Decision on the Proclamation of Komovi Regional Park for the territory of the Municipality of Andrijevica was approved in August 2015.[50] In the EIA studies, the Park is mentioned only once, when the authors admit that the plants are '*located within the boundaries of the regional nature park*'. But the only thing that follows is: '*Therefore, it is necessary to apply all measures to protect all segments of the environment*'. There is no explanation about the Park's management regimes and no reference to the fact that the Mojanska 2 powerhouse and Mojanska 1 intake are in zone 2 of the Park, where only traditional and temporary construction is allowed, according to Article 31 of the Montenegrin Law on Nature Protection.[51]

The upper part of Mojanska River is in the Komovi Emerald site (ME000000X)[52] proposed in 2006 according to the Bern Convention, and the Komovi Mountains Natura 2000 site[53] proposed in 2019 according to the EU Birds Directive under the IPA project 'Establishment of Natura 2000 network, Montenegro'. The lower part of the river is located in the Visitor and Zeletin (ME000000O) Emerald site and the proposed Natura 2000 site with the same name. Further downstream is the Lim River Emerald site (ME000000H) and the proposed Lim Valley and Plavsko Lake Natura 2000

Dobrica Mitrović

Mojanska 1 intake and Mojanska 2 powerhouse

47 Jelena Jovanović, 'Mojanske rijeke skoro da nema, ukinuti podsticaj za mHE', *Vijesti*, 24 June 2020.
48 Institut "Sigurnost"- Podgorica, Environmental Impact Assessments of Mojanska 1 and Mojanska 2 plants.
49 Montenegro, Law on Strategic Environmental Impact Assessment, Official Gazette of the Republic of Montenegro, no 80/05 of 28.12.2005, no 73/10 of 10.12.2010, 40/11 of 08.08.2011, and 59/11 of 14 December 2011.
50 Opština Andrijevica, Odluka o proglasenju RP Komovi, 21 August 2015.
51 Law on Nature Protection, Official Gazette of Montenegro, no. 054/16 of 15 August 2016. These provisions are not written explicitly but stem from practice: community development is allowed in zone 3 and not in zone 2; thus, in zone 2 temporary structures have been accepted. In zone 2, rehabilitation and restoration activities are allowed, which has been interpreted to mean that only traditional structures can be rebuilt.
52 Emerald Standard Data Form, ME000000X Komovi, accessed 12 October 2021.
53 Borut Rubinić, Peter Sackl and Mladen Gramatikov, Conserving Wild Birds in Montenegro - A first inventory of potential Special Protection Areas, Agency for Nature and Environmental Protection, Montenegro, April 2019.

site. The hydropower plants will most probably impact aquatic species that migrate between those sites. None of the sites is mentioned in the EIA studies and no appropriate assessment of the impacts on these sites of European importance was carried out as prescribed by the Montenegrin Law on Nature Protection.

The only field research described in the EIA reports was on the Eurasian otter (*Lutra lutra)* – one day of field research was conducted for each plant in different seasons. An otter was found at Mojanska 1 and not at Mojanska 2. The conclusion that there is only one otter in the lower part of the river is not scientifically based. There are no measures proposed for the otter, nor for the stone crayfish (*Austropotamobius torrentium*), although the latter is protected according to the Bern Convention and the Habitats Directive and mentioned in the EIAs as inhabiting the Mojanska River.

Regarding fish species, the EIA reports lack baseline studies, but most likely the impacts of the plants are very serious. Bankwatch's fieldwork in June 2021 showed that the installed fish pass on the intake of Mojanska 1 is dry even during the spring season and does not ensure fish migration. The 10 per cent minimum residual flow stipulated by the environmental permits and the fish pass design are not scientifically based as no fieldwork on fish species was carried out and none of the activities were consulted with the local fishing organisation as prescribed in the EIAs. Furthermore, the construction of the hydropower plants was carried out in violation of other measures prescribed in the EIAs: '*It is necessary that the buildings be constructed in such a way that it is impossible to drain the watercourse at any time*'. But the river was completely dry in June 2020,[54] most probably leading to the death of fish over several kilometres of river before it was even known what species were inhabiting it.

Last but not least, three endemic invertebrate species (*Drusus siveci*, *Torrenticola tenuirostris* and *Dina lineata montana*) are mentioned in the EIAs as '*expected to be endangered by the planned water intake*'. Yearly monitoring is prescribed but no baseline studies were carried out, so most probably these have disappeared before their population size was known.

Lessons for the EIB's new Environmental and Social Policy and Standards

This case illustrates the inadequacy of the EIB's environmental standards for projects outside of the EU, and especially those financed via intermediaries. Neither the national authorities nor the IDF were equipped to ensure project assessment in line with EU law, and it is unclear how the EIB thought that they would be able to do so. This points to a need for the EIB to take responsibility for due diligence and monitoring of its intermediated projects, and to ensure that an appropriate assessment is carried out for projects likely to have an impact on Emerald and Natura 2000 sites, including for non-EU-member states in line with Article 6.3 of the Habitats Directive.

The case also illustrates why there is a need for the EIB to introduce the concept of no-go areas for financing into its Biodiversity Standard. By the time the environmental permits for the plants were issued, the nature park had been created and it was clear that even part of the active management zone would be impacted. The Emerald sites were proposed even earlier, whilst the Natura 2000 sites were proposed before the loans from the financial intermediary were signed. Several endemic species of invertebrates were also described in the EIA reports.

As with the other case studies from the Balkans, the financing of the plants via financial intermediaries gave no time for the public to react before damage to the rivers was done. The EIB's involvement in the projects was revealed to the public only in March 2020, after several information requests and a complaint to the EIB's Complaints Mechanism by Bankwatch. The EIA studies were not public and were only provided to Montenegrin NGOs in 2021 after an application for access to public information was sent to the Ministry of Environment. The EIB's new draft financial intermediary standards unfortunately does not improve the transparency, due diligence and monitoring of intermediated sub-projects. This must be changed if the Bank is to avoid causing more damage via its intermediaries.

54 Jelena Jovanović, 'Mojanske rijeke skoro da nema, ukinuti podsticaj za mHE'.

Cutting deep into the heart of Shar Planina National Park

Country: North Macedonia

Location: Bistrica and Brza Voda Rivers, Tearce and Tetovo Municipalities

Hydropower plants: Tearce 97, Tearce 98, Tearce 99, Brza Voda 1, Brza Voda 2, Brza Voda 3

Protected areas affected: Shar Planina National Park, Shar Planina Emerald site, Shar Planina proposed Natura 2000 site

EIB financing purpose: loan for construction of small hydropower plants via the Development Bank of North Macedonia[55] as intermediary

Status: Tearce operating since 2014 but currently idle; Brza Voda since 2015, also currently idle

Year of loan signatures: 2013 and 2015

Amount: EUR 3.5 million for the Bistrica cascade (together with another plant, Lipkovo) and EUR 2 million for the Brza Voda cascade[56]

Andrey Ralev

Tearce 97 intake blocking the Bistrica River even when the plant is not producing electricity, North Macedonia

Project overview and issues

Twenty-two years after the first proposal, the Shar Planina National Park was finally formally protected in 2021.[57] Such protection was set as a high priority in North Macedonia's National Biodiversity Strategy and Action Plan from 2004.[58] Meanwhile, the mountain obtained the status of Important Plant Area (2005),[59] Emerald site (2006)[60] and Important Bird Area (2008).[61]

55 Previously named the Macedonian Bank for Development Promotion.
56 EIB response to Bankwatch information requests, 04 February 2016 and 10 March 2020.
57 СОБРАНИЕ НА РЕПУБЛИКА СЕВЕРНА МАКЕДОНИЈА, ЗАКОН ЗА ПРОГЛАСУВАЊЕ НА ДЕЛ ОД ШАР ПЛАНИНА ЗА НАЦИОНАЛЕН ПАРК, 6 July 2021.
58 Министерство за животна средина и просторно планирање, Measure A.3.1.2, National Biodiversity Strategy and Action Plan, 2004.
59 PlantLife, Shara Mountain Important Plant Area, accessed 13 October 2021.
60 European Environmental Agency, Shar Planina Emerald - Standard Data Form, accessed 13 October 2021.
61 BirdLife International, Shar Planina Mountain IBA, accessed 13 October 2021.

Andrey Ralev

Brza Voda 2 intake with no fish pass, North Macedonia

Yet these recognitions of natural value were not enough to ring a bell for decision makers that building hydropower plants might have devastating impacts on the area. In 2014, the Tearce (Bistrica) cascade was put into operation, followed by the Brza Voda cascade in 2015. Each cascade consists of three interconnected hydropower plants which cut deep into the heart of the Shar Planina National Park, leaving irreparable scars. New roads and transmission lines were cut into high-value sweet chestnut forests and old-growth beech forests, both protected under the EU Habitats Directive.

The Tearce/Bistrica cascade was financed with a EUR 3.5 million loan from the EIB via the Macedonian Bank for Development Promotion as financial intermediary. The Brza Voda cascade was partially financed by the EBRD[62] and co-financed with EUR 2 million by the EIB, also via the Macedonian Bank for Development Promotion.[63]

Field visits carried out by CEE Bankwatch Network and partners in 2017, 2018 and 2021 found that the problems with the cascades have continued for years.[64] Even in the summer when there is so little water that the hydropower plants are not producing electricity, the dams block fish migration. Water does not run over the dams and the fish passes are either missing (Brza Voda 1, 2 and 3) or so high above the river bed that fish cannot enter them (Tearce 97 and 98). The only fish pass that is operational is at Tearce 99, but the water quality there is worse than in the other plant locations, probably indicating cumulative impacts from the operation of the plants above.

The forests around the new roads are very degraded. New unsustainable logging has occurred since the hydropower plants were built, likely facilitated by the improved access roads. In satellite images it can be seen that the road used for building the Tearce cascade was dug out in 2013 and logging of old trees was done in 2014 and 2015. In 2021, we discovered that the road was extended through a pristine beech forest all the way to the upper treeline and logging was ongoing along the Chaushichka river tributary in the newly declared strict protection zone of the National Park.

The Tearce and Brza Voda cascades have opened the door to other unsustainable projects in the Shar Mountain region and public discontent over their construction and operation has led to mass protests.[65] A total of 11 plants have now been built in the National Park and 15 more are planned, but the public was not informed on time as no proper environmental impact assessments were carried out for any of the plants. The so-called 'Elaborat' studies are not subject to public consultation and do not meet the requirements of the EIA Directive.

62 Green Economy Financing Facility (GEFF), Boosting hydro power in North Macedonia, accessed 13 October 2021.
63 EIB response to Bankwatch information request, 10 March 2020.
64 For details about our findings in 2017, see CEE Bankwatch Network, *Broken rivers: the impacts of European-financed small hydropower plants on pristine Balkan landscapes*, December 2017.
65 Igor Todorović, 'Protest announced against small hydropower plants in North Macedonia', *Balkan Green Energy News*, 25 September 2020.

No cumulative impact assessments have been carried out even for these cascades which each impact around five continuous kilometres of rivers. A document named 'Strategic Impact Assessment' exists for each of the spatial plans of the plants separately. However, it is not clear why these were done for each plant separately, and they do not analyse cumulative impacts.

In 2017, Bankwatch published the *Broken Rivers* report,[66] which includes the results of the field visit to Tearce cascade and hydrobiological studies of the river status. The recommendations sent to the national authorities and the EIB on Tearce have yet to be taken into account and the problems with the plants continue.

A field visit in September 2017 confirmed that the Bistrica River above the highest intake (Tearce 97) is in pristine, natural condition with well-developed riparian vegetation. The presence of adult specimens of the sensitive Limnius volckmarii (Coleoptera) additionally indicate favourable, undisturbed conditions. Two individuals of the very rare white-backed woodpecker (Dendrocopus leucotus) were found, a species inhabiting exclusively old-growth beech forest. The biological diversity of macroinvertebrates and ecological status was assessed as 'poor' (the worst possible rating) below the third intake (Tearce 99). The drastic reduction of aquatic invertebrate species may be the result of cumulative effects from the Tearce cascade system. The three plants continued to block the biocorridor for aquatic species.

Lessons for the EIB's new Environmental and Social Policy and Standards

All of the hydropower plants visited are in urgent need of increased impact monitoring as well as restoration measures. Violations of national laws, the Habitats Directive and the Bern Convention have led to impacts on many river valleys in the Shar Planina National Park.

However, the Tearce and Brza Voda cascades also show that further tightening of the EIB's policies is urgently needed. The Bank assumes that diligent environmental studies will prevent the construction of hydropower projects with extreme detrimental effects, and that for the rest they will devise effective mitigation measures. This is very far from the truth in the Balkans. Most of the hydropower projects are labelled as small – even though they can entail significant impacts and land-take – and do not undergo a full environmental impact assessment procedure. The environmental permitting process is not in line with the EU EIA and Habitats Directives and cumulative impact assessment and Appropriate Assessment of impacts on proposed Emerald and Natura 2000 sites do not exist. A clear policy on no-go areas for financing should be implemented by the EIB, especially for high biodiversity value areas such as the Shar Planina National Park.

The EIB is presumably building relationships with its clients on the basis of goodwill, assuming that they will act according to national legislation and the Bank's standards. But for companies that are operating in such a weak governance context, there is an incentive to break rules in order to maximise electricity generation and increase profits.

The environmental authorities in North Macedonia and other Balkan countries are not strong enough to detect and sanction violations of the local legislation. Environmental regulations in the country are not fully compliant with EU directives and even when they are clear, there is a lack of implementing legislation and procedures, for example there is no methodology for determining the residual water flow. This prevents effective monitoring of the construction and operation of the plants. There are also ambiguities regarding competences and a lack of coordination among different institutions, resulting in, for example, environmental inspectors having no authority to assess poor construction practice that has caused erosion, or a poorly designed fish pass that directly affects aquatic species.

For all these reasons, the EIB must be much more proactive in its scrutiny during the planning, construction and operation of potentially harmful projects, especially those financed via intermediaries. It also needs to clearly ensure that all the projects comply with the EU law, whether they are in the EU or not, as local legislation is clearly insufficient in many cases.

66 CEE Bankwatch Network, *Broken rivers: the impacts of European-financed small hydropower plants on pristine Balkan landscapes*.

Scientific studies reveal river 'sickness' from small hydropower plants in Serbia

Country: Serbia

Location: Crni Rzav and Ribnica Rivers, Čajetina Municipality

Hydropower plants: Beli Kamen, Komalj

Protected areas affected: Zlatibor Nature Park, Zlatibor Emerald site

EIB financing purpose: loan for construction of two small hydropower plants via Crédit Agricole Srbija AD as intermediary bank[67]

Status: operating since 2016 (Beli Kamen) and 2018 (Komalj)

Year of loan signature: 2017

Amount: EUR 3.5-7.8 million (Beli Kamen: EUR 1.7-2.5 million[68]; Komalj: EUR 1.8-5.3 million[69])

For a longer and more detailed case study: see here

Nataša Milivojević, Ekološko udruženje Rzav

Komalj small hydropower plant, Serbia

Project overview and issues

The Beli Kamen and Komalj small hydropower plants are built on the Crni Rzav and Ribnica rivers in the Drina basin in western Serbia. Both plants are interconnected as they use water from the same intakes and were financed by the EIB via a Crédit Agricole Srbija credit line for SMEs and priority projects. The project promoter is Zlatiborske elektrane ltd, which also has plans to build a third plant just below Komalj called Peta.

A total of 9.2 kilometres of rivers are seriously impacted between the intakes and Komalj powerhouse. Results from hydrobiological studies carried out by WWF Adria show serious additional impacts downstream from Komalj. The

67 European Investment Bank, Credit Agricole Loan for SMEs and priority projects, last accessed 16 March 2021.
68 The pledge register lists two loans, one for EUR 3.6-5.4 million and the second one of EUR 1.7-2.5 million. Only the second one appears to be from the EIB.
69 The pledge register gives both basic and maximum values.

impacted river stretches are in the Zlatibor candidate Emerald site,[70] first proposed in 2006 under the Bern Convention on the Conservation of European Wildlife and Natural Habitats, and Zlatibor Nature Park, declared in 2017.[71]

On 18 January 2018, an inspection carried out by the National Inspectorate for Environmental Protection found that all three plants are in zone 2 of the Zlatibor Nature Park, where construction of hydropower plants is forbidden. However, as all permits were obtained before 2012 and the Nature Park was only founded in 2017, no infringements were found.[72]

In 2011 and 2012, the Municipality of Čajetina had given construction permits for the three plants and decided that it was not necessary to carry out EIAs. Nowhere in the permits is the Emerald site or the proposed nature park mentioned.

In July and August 2020, WWF Adria organised hydrobiological studies of eight rivers in Serbia, including the Crni Rzav. The hydropower plants had very seriously altered the river habitats as proven by changes in the algae communities. The lack of any algae below the Komalj plant means lack of food and shelter for many aquatic animals. The overgrowth of algae above Komalj and a change in species composition indicate a totally modified river stretch there with stagnant water.

The ecological status of the rivers in the EU is classified from I (high) to V (bad). Below the two hydropower plants the status based on macroinvertebrate communities was poor to bad. Between the two plants it was moderate. The upper river stretch not impacted by hydropower had good to high status. A very important indicator of the impact of hydropower was the disappearance of stone crayfish (*Austropotamobius torrentium*) between 2018 and 2020 when the Komalj plant started operation.

The analysis of fish communities showed a drastic decline in biomass and ichthyoproduction recorded below the plants. This is a direct consequence of habitat fragmentation, changes in the hydromorphological characteristics of the river flow, construction of inadequate fish passes that prevent spawning upstream and variable water levels. Moreover, Balkan Eco Team, the user of the fishing area of the rivers Crni Rzav and Ribnica, was not consulted in the decision-making process for the hydropower plants. According to the Law on Protection and Sustainable Use of Fish Stock[73] in Serbia, the management of fish stock is carried out by users of fishing areas in accordance with the principle of sustainable use, which contributes to preserving the diversity of ichthyofauna and ecological integrity of aquatic ecosystems.

The impacts on fish will also have had serious consequences on other species that prey on them and are protected in the Emerald site – Eurasian otter (*Lutra lutra*), black stork (*Ciconia nigra*) and kingfisher (*Alcedo atthis*).

Nataša Milivojević, Ekološko udruženje Rzav

Almost dry Crni Rzav riverbed, Serbia

70 Site code: RS0000034.
71 Government of the Republic of Serbia, Уредбу о проглашењу Парка природе „Златибор" , 10 October 2017.
72 Ministry of Environmental Protection of the Republic of Serbia, Minutes from inspection 18-01-2018, 18 January 2018.
73 Republic of Serbia, Zakon o zaštiti i održivom korišćenju ribljeg fonda ("Sl. glasnik RS", br. 128/2014 i 95/2018 - dr. zakon).

Lessons for the EIB's new Environmental and Social Policy and Standards

An overarching requirement of the EIB's existing environmental and social policy is that all projects, including intermediary sub-projects, need to comply with national and EU law. However, the problem arises in the EIB's abdication of responsibility for due diligence and monitoring of intermediated loans such as this one. Under the 2010 Handbook, the Bank did not commit to carry out in-depth due diligence on intermediaries' sub-projects, only leaving it open as an option.

It is not clear whether the EIB judged that the intermediary followed an acceptable approach to nature conservation issues, or how the EIB would have carried out its assessment on their capacity, as the EIB's Environmental and Social Handbook gives no guidance on this. In any case, the Čajetina local authority should have requested EIA studies to be carried out because of the location of the plants within a proposed Emerald site and a potential nature park. By 2012, the local authority already knew that an area of 32,130 hectares was proposed as a nature park.

The division of the project into three pieces for the purpose of EIA screening should also have been a clear red flag, indicating an attempt to play down the plant's impacts. Yet the EIB most likely never found out about this because it does not usually participate in due diligence for intermediated projects, even ones that can be environmentally or socially damaging. Now that the negative impacts of the two built plants are scientifically proven and that the environmental status of river Crni Rzav is assessed as poor below the plants and moderate between the plants, appropriate mitigation measures and a monitoring plan should be set up, but as of September 2021 this had not been done.

CEE Bankwatch Network by chance discovered in Serbia's pledge registry[74] that the two plants in question were financed with funds from the EIB. We sent information about the plants and their impacts to the EIB on 26 March 2021 but so far have not received any reply from the Bank.

The EIB needs to make its lending through financial intermediaries fully transparent, at least for projects which may have significant negative impacts on the environment, such as hydropower plants. For higher-risk projects, such as those from Annex I or II of the EIA Directive, or any projects situated in sensitive areas, such as Emerald sites, at the very least the EIB needs to require that the projects be referred to the EIB for environmental and social appraisal, and the Bank needs to be included in project monitoring. The Bank should also create no-go areas for financing in protected areas or other areas of high biodiversity value.

The EIB also needs to make clearer the relationship between its Environmental and Social Standards and its Hydropower Guidelines and ensure that the provisions for financial intermediaries set in the Guidelines are included in loan contracts.

74 Agencija za privredne registre, Založno pravo, last accessed 16 March 2021.

Illegally flooding a national park in Ukraine

Country: Ukraine

Location: Pivdennyi Buh River, Mykolaiv Region

Hydropower plant: completion of the Tashlyk Hydro Pumped Storage Plant (HPSP)

Protected areas affected: Bugzkyi Gard National Nature Park, Granitno-Stepove Pobuzhzhya Regional Landscape Park, Pivdennobuzky Ichthyological Nature Reserve, Bugzkyi Gard Emerald site

EIB financing purpose: loan to increase the existing pumped storage plant's peak capacity up to 906 MW, among others by increasing the size of the reservoir

Status: planned

Year: under appraisal as of 2020

Amount: EUR 176 million[75]

For a longer and more detailed case study: see here

Viktoriia-Anna Oliinyk, Ecoaction

Pivdennyi Buh River above Tashlyk pumped storage plant, Ukraine

Project overview and issues

On 12 May 2020, the European Investment Bank (EIB) announced that it is considering financing the completion of the Tashlyk Hydro Pumped Storage Plant (HPSP) project.[76] The Ukrainian state-owned enterprise National Nuclear Energy Generating Company (Energoatom) is the project promoter. The project that the EIB plans to finance would increase the plant's peak capacity from 302 MW to 906 MW by raising the level of the Oleksandrivske Reservoir at the Tashlyk pumped storage plant up to 20.7 metres compared to the current 16 metres above sea level.

Even the current water level is illegal. In 2010, the administrative court of Ukraine declared illegal and cancelled a 2006 decision which allowed Energoatom to make indefinite use of land plots for the outlet area of the Oleksandrivske

75 Of a total amount of EUR 359 million.

76 European Investment Bank, Completion of Tashlyk HPSPP, 12 May 2020.

Reservoir and partially flood the Granitno-Stepove Pobuzhzhya Regional Landscape Park.[77] Since this land is a nature reserve, permanent use can only be permitted under a complicated procedure with the parliament's approval. In this case, Ukraine's parliament, the Verkhovna Rada, did not approve the requested allocation of 27.72 hectares of the Regional Landscape Park for permanent use by Energoatom, and the State Department of Ecology and Natural Resources in the Mykolaiv Region ultimately rejected the land management plans for land allocation. In 2012, the Supreme Court confirmed the illegality of the 2006 decision.[78]

The initial water level increase of the Oleksandrivske Reservoir was therefore unlawful, carried out despite the court proceedings ongoing at the time. Yet Energoatom considered it impossible to reduce the water level, as it would threaten the functioning of the Tashlyk Pumped Storage Plant, which was already operating by then. The court ruling was never implemented.[79]

Now the pumped storage expansion project seeks to raise the water level even further. This entails flooding of an additional 254 hectares, part of which belongs to the Bugzkiy Gard National Nature Park, the Granitno-Stepove Pobuzhzhya Regional Landscape Park, the Pivdennobuzky Ichthyological Nature Reserve and the Bugzkyi Gard National Nature Park Emerald site (UA0000040).

These protected areas contain rich biodiversity and endemic flora species and have a unique geological history and microclimate features. The Pivdennyi Buh area creates a unique landscape: a relatively narrow canyon with granite outcrops and numerous ledges, rapids and islands.[80] The area attracts tourists with its breath-taking views and favourable conditions for water tourism and climbing. It has the potential to receive 382,200 tourists every summer, [81]especially since Bugzkyi Gard, located in the area, is one of the Seven Natural Wonders of Ukraine. [82]

The Pivdennyi Buh River Valley is also important for 12 plant species and 25 animal species listed on national and international red lists and in conventions, such as the Red Data Book of Ukraine, European Red List, IUCN Red List and Bern Convention. Ukrainian legislation on nature reserves prohibits any activity that may adversely affect natural and historical-cultural complexes but the Tashlyk pumped storage plant completion will clearly do so.

Part of the area was included in the Emerald Network and has been protected by the Bern Convention[83] since 2016. The Convention obliges Ukraine to ensure the conservation of natural habitats, which is not compatible with the Tashlyk plant completion. The project would also threaten or cause local extinction of protected species, e.g. the otter (*Lutra lutra*); little bittern (*Ixobrychus minutus*); western marsh harrier (*Circus aeruginosus*); booted eagle (*Hieraaetus pennatus*); kingfisher (*Alcedo atthis*); and endemic plant species *Moehringia hypanica*, *Gymnospermium odessanum* and *Dianthus hypanicus*.

The Bern Convention Secretariat is currently processing a complaint[84] by the Ukrainian Nature Conservation Group, who allege that the project violates several articles of the Convention.[85] This proceeding is also relevant for the environmental impact assessment which will be decisive in whether the project can go ahead.

In June 2021, the Ministry of Environment refused to issue the decision on the EIA. The project's EIA was of poor quality, with significant mistakes and inaccuracies. It does not provide a proper description of alternatives to the project, nor does it sufficiently analyse the Project's impact on the protected areas or cultural heritage. The Ministry of Environment noted that activities contradicting the requirements of applicable legislation are unacceptable. They recommended that Energoatom *'considers alternative solutions to the Project, with a comparative analysis of the economic benefits and environmental consequences for the environment, particularly, and refrains from implementing the Project.'* Despite this, Energoatom can still submit another EIA report while the Ministry of Environment can still grant the development consent.

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77 District Administrative Court of Kyiv, Resolution, On declaring illegal and revoking the Resolution no. 841 of 20.6.2006, case no. 2a-9770/10/2670, 9 November 2010. See also: Odesa Administrative Court of Appeal, Order, On declaring illegal and revoking the decision of the Mykolaiv Regional Council of 6.7.2006, case no. 2-a-5-615/07/1423, 6 November 2012.

78 District Administrative Court of Kyiv, Resolution, On declaring illegal and revoking the Resolution no. 841 of 20.6.2006., adjudicated by non-appealable judgement of the Supreme Court of Ukraine dated 29.5.2012 case no. 21-6a12, case no. 2a-9770/10/2670, 9 November 2010.

79 'Environmentalists have recaptured reserved lands from nuclear engineers, but it is impossible to fulfill the court ruling', *Nature in Ukraine*, 6 August 2012.

80 National Nature Park Buzk's Gard, Official Park Site, accessed 1 December 2020.

81 Bandura, I., Poletaeva, L., Екологічно орієнтовані форми рекреаційнотуристичної діяльності на прикладі парку "Бузький Гард", 5, 2018.

82 Seven Natural Wonders of Ukraine, All Nominations, accessed 1 December 2020.

83 Standing Committee of the Bern Convention on the Conservation of European Wildlife and Natural Habitats, Updated list of officially adopted Emerald sites, December 2019.

84 Standing Committee of the Bern Convention on the Conservation of European Wildlife and Natural Habitats, Register of Bern Convention Complaints, 2020.

85 Standing Committee of the Bern Convention on the Conservation of European Wildlife and Natural Habitats, Complaint, Presumed threat to Emerald site "Bugzkyi Gard National Nature Park" (UA0000040) (Ukraine), no. T-PVS/Files, 18 June 2020.

The area is also of great archaeological value due to the Neolithic monuments located there, and the historical administrative centre of the Zaporizhzhya Army (1734-1775) at Buho-Gardivska Palanka is a cultural monument of national importance, protected by law.[86] Historical artefacts preserved there provide evidence about the life of the Cossacks who lived in these areas. The increase of the water level for the Tashlyk project would flood the heart of the historical site, Gard Island.

Energoatom promises to compensate for the environmental damage,[87] but it did not estimate the costs for this during the project development and it is doubtful this will be done at all. Even if it is, compensatory measures will in no way be able to save the rare ecosystems and species in these areas. Nor will they be able to compensate for the loss of tourism that will be caused by the increased water levels needed for the project.

One of Energoatom's arguments for the completion of the Tashlyk pumped storage plant is that increasing the water level to 20.7 metres above sea level will improve the water supply for households. However, the National Ecological Centre of Ukraine argues[88] that this could instead cause the flooding of the surrounding area and an increase in irreversible water losses due to evaporation.[89] Considering that conditions are becoming more arid in this part of the country, this may influence the overall water balance, affecting more than 180,000 local people living in the area of influence.

Lessons for the EIB's new Environmental and Social Policy and Standards

It remains to be seen whether the EIB will finance the project, so it is difficult to draw conclusions from this particular case on whether the Bank has failed to follow its existing Environmental and Social Policy or whether there are weaknesses in the Policy itself.

In an answer sent by the EIB to Ecoaction on 3 March 2021, the Bank said that:

> *Projects would have to demonstrate compliance and alignment with applicable EU and national laws and regulations, as well as with the EIB's Environmental and Social Standards... The EIB is aware of the ESIA performed by Energoatom, but understands that additional studies are currently being carried out.*

The problem is that the EIB's Environmental and Social Standards do not have no-go areas for financing and cannot ensure that such projects as Tashlyk are not financed, even though from the beginning it has been clear that the existing project has already impacted and will continue to impact a national park, a regional park, an ichthyological nature reserve and an Emerald site.

Additionally, Ukrainian environmental law is not in line with EU Law and the new EIB biodiversity standard proposed in 2021 is too weak to ensure compliance with the Habitats Directive for countries outside the EU.

Ukraine signed an Association Agreement[90] with the EU in 2014 that entered into force in September 2017.[91] According to the Agreement, Ukraine should have developed environmental legislation that more closely aligns with EU legislation, but the country is way behind schedule regarding the Habitats Directive, the Birds Directive, and the Water Framework Directive. This means it does not ensure adequate protection of the Emerald Network, achieving a good water status of the rivers or undertaking a good quality assessment of alternatives to projects.

For example, the additional studies performed by Energoatom do not include an Appropriate Assessment of the impact of the project on the Bugzkyi Gard National Nature Park Emerald site as required by article 6.3. of the Habitats Directive for projects that are likely to have a significant impact. Consequently, there is no way to ensure that the Tashlyk project will not impact the Emerald site.

The EIB's draft Policy and Biodiversity Standard do not make sufficiently clear the need for all projects to comply with EU law, nor do they underline the need for projects to comply with countries' bilateral agreements with the EU.

86 Cabinet of Ministers of Ukraine, Resolution, Про занесення об'єктів культурної спадщини національного значення до Державного реєстру нерухомих пам'яток України, no. 928, 3 September 2009.

87 Інформаційно-аналітичний огляд матеріалів оцінки впливу на навколишнє середовище (нетехнічний зміст) щодо підвищення рівня Ольксандрівського водосховища до проектної позначки 20,7 м, South-Ukraine Nuclear Power Plant, 30 October 2017.

88 Зауваження та пропозиції громадськості щодо запланованих заходів, Unified Environmental Impact Assessment Register, 2018.

89 The Oleksandrivske Reservoir area is characterised by high humidity, which, combined with high temperatures and low wind speeds, can adversely affect the conditions of water cooling.

90 European Commission, Association agreement between the European Union, the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part, Official Journal of the European Union L, 161(3), 0001–2132, 2014.

91 European Council and Council of the European Union, EU Relations with Ukraine, last accessed 22 December 2020.

Poor implementation or a need for policy improvements?

As the EIB revises its Environmental and Social Policy and Standards in 2021, this report tries to understand whether the problems arising from the cases outlined here are due to poor implementation of the Bank's current environmental and social safeguards or whether the safeguards themselves need improvement. The cases highlight issues in three main areas: financial intermediaries, biodiversity and indigenous peoples, although some issues are cross-cutting.

Financial intermediaries

Projects are hidden from public scrutiny

Most of the cases outlined in this report – Ilovac (Croatia), Tearce and Brza Voda (North Macedonia), Mojanska (Montenegro), Blagoevgradska Bistritsa (Bulgaria), Beli Kamen and Komalj (Serbia) – demonstrate that the first problem with the EIB's investments through financial intermediaries is a lack of transparency. This is a missing fundamental block that enables information to be gathered from the public on sub-project risks and also for the Bank's accountability. Without the public knowing what the Bank finances, any due diligence undertaken on sub-projects is incomplete as it fails to make use of the public's on-the-ground input. And by hiding around one-third[92] of its investments from the public, the EIB evades public scrutiny and accountability.

For example, since 2015, Bankwatch has been requesting a full list of hydropower projects in southeast Europe financed by the EIB via intermediaries. The information received so far illustrates that the EIB has financed more than 27 such plants through financial intermediaries since 2010, though the exact number and many of the names of the plants remain unknown.[93]

In 2016, the Bank disclosed information that only two projects had required environmental impact assessments: the Ilovac plant in Croatia and the Tearce 97-99 and Lipkovo projects in North Macedonia.[94]

During subsequent research on 43 EIB intermediaries in southeast Europe, intermediaries were asked for environmental information on the hydropower projects financed with EIB credit lines. Not one of these intermediaries was able to demonstrate that they had done so. Twenty of them responded that they had not financed any hydropower plants with EIB funds; one shared information by e-mail but did not indicate whether it was available on its website; nine refused to share the information and 13 did not respond at all.[95]

Therefore, it is not clear what the 'requirement' for the intermediary to publish environmental and social information consists of, or in other words, what the EIB requires of its intermediaries in its contracts.

In 2018,[96] the EIB shared redacted versions of contracts with selected financial intermediaries. Some of these contracts were signed after the 2013 Handbook entered into force, and should have therefore required environmental and social information to be disclosed. However, the only provision in the contracts that relates to information disclosure is a general provision that projects need to be in line with 'Environmental Law'.

This general clause in the finance contract does not constitute a requirement to publish environmental and social documents by the intermediary as required by the 2013 Handbook. Furthermore, neither EU environmental law nor national environmental law requires financial institutions (or other private entities or undertakings) to

92 European Investment Bank, EIB financing and borrowing activities 2020, 59.
93 CEE Bankwatch Network, EuroNatur and Riverwatch, Financing for hydropower in protected areas in Southeast Europe: 2018 update. This report identified five plants financed via intermediary sub-projects and 22 which could not be identified. In March 2020, the EIB disclosed a limited amount of additional information enabling the identification of 11 more sub-project beneficiaries.
94 EIB response to Bankwatch information requests, 4 February 2016.
95 CEE Bankwatch Network, Outsourcing Accountability? The EIB's failure to enforce environmental information disclosure in its intermediated loans, 2017.
96 Response to request from CEE Bankwatch Network, 6 March 2018.

publish environmental information. Therefore, the Bank cannot rely on EU or national law if it has committed that intermediaries should publish such information.

The EIB's Environmental, Climate and Social Guidelines on Hydropower Development (Hydropower Guidelines),[97] published in October 2019, took a step forward, by recognising that the financial intermediary should disclose information on its website. However, unless this provision is included in loan contracts, it will not have any impact, particularly as the Guidelines are not binding. It is unclear whether this is already happening as no further information from the EIB has been shared or made public.

Moreover, the EIB's new draft financial intermediary standard (Standard 11)[98] includes no such provision, and it is not clear whether the Handbook will also be updated, given that it was not part of the public consultation carried out in 2021.

The conclusion is therefore that the transparency of financial intermediaries is both an implementation problem (of the 2013 Handbook and possibly also the Hydropower Guidelines) and the result of a policy gap. Unless the Financial Intermediaries Standard and Handbook incorporate provisions on the need for intermediaries to publicly disclose information about sub-projects, or unless loan contracts oblige financial intermediaries to adhere to the Hydropower Guidelines, it will not happen.

Project screening, assessment and monitoring

The second common feature that all of the intermediated sub-projects have in common is that the EIB does not appear to have been involved in their environmental and social due diligence, and it is not involved in monitoring them.

The EIB's 2009 Environmental and Social Statement is clear on the need for all EIB-financed projects to comply with national and EU law:

> *The EIB requires that all projects that it finances comply at least with:*
> - *Applicable national environmental law;*
> - *Applicable EU environmental law, notably the EU EIA Directive and the nature conservation Directives, as well as sector-specific Directives and "cross-cutting" Directives,*
> - *The principles and standards of relevant international environmental conventions incorporated into EU law.*

The EIB's approach is to assess whether a financial intermediary has the capacity to carry out due diligence in line with its Standards and national and EU law. Due diligence on the sub-project level is then left to the financial intermediary, irrespective of the type of project proposed.[99] However, it is unclear which criteria the EIB is using to assess the capacity of financial intermediaries. Moreover, as long as the public does not know what intermediaries are financing, there is little incentive to carry out thorough due diligence. As long as the intermediary gets its loan back and local law enforcement institutions do not do their work adequately, there is no real incentive to undertake detailed environmental and social checks or project monitoring, as there is little financial or reputational risk for the intermediary.

While it is not clear how the EIB carried out checks on the capacity of the intermediaries involved in the cases described in this report, the impacts of the projects show that the assessments were not accurate.

Therefore, there is clearly an implementation problem. However, due to a lack of incentives for intermediaries to carry out thorough checks on sub-projects, delegating environmental and social due diligence is not likely to work for projects that may have significant harmful impacts. For this reason, it is recommended that the EIB follows its peers[100] and commit in its financial intermediary standard to get involved in project screening, due diligence and monitoring of selected sub-projects.

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97 European Investment Bank, Environmental, Climate and Social Guidelines on Hydropower Development, October 2019.

98 The draft subject to public consultation in summer 2021 can be found here.

99 EIB Social and Environmental Handbook 2013: '64. When lending through financial intermediaries and particularly outside the EU, the EIB assesses the financial intermediaries and their capacity to on-lend the EIB funds in line with the EIB's E&S standards and particular requirements, including those outlined in the Statement of Environmental and Social Principles and Standards 2009.' And: '65. The compliance of projects financed through intermediaries with EU directives/national legislation, as applicable, and with the EIB's E&S Standards, is addressed by the EIB ex-ante in the context of the due diligence of each financial intermediary (whereby the EIB obtains comfort that the intermediary has the capacity to conform to EIB standards, including presenting only sub-projects for allocation which comply with EU/national law). In addition, the finance contract signed between the intermediary and the EIB, includes contractual clauses by which the final beneficiaries must comply with all the relevant national laws and regulations, international conventions to which the host country is party to, and if applicable the Community acquis.'

100 CEE Bankwatch Network, Counter Balance, EuroNatur and Recourse, Why can a third of European Invesment Bank leading avade the Bank's environmental and social rules?, 21 September 2021.

Furthermore, given the lack of capacity for the EIB to be engaged with all sub-projects, it is recommended that the Bank provides clear instructions to intermediaries about which projects are off-limits by updating its 2013 List of Excluded Activities and further defines areas in which the EIB will not finance (see below).[101] This will save time on assessing projects that should never be implemented in the first place.

For the remaining potential projects, a referral list of higher-risk project types should be included in the financial intermediary standard, including projects from Annex I and II of the EU Environmental Impact Directive and any projects which may have significant social impacts.

Furthermore, the EIB lacks monitoring of sub-projects. For example, for the Ilovac and Blagoevgradska Bistritsa projects, the Bank has stated that it does not have the relevant information.[102] Neither the EIB's current policies nor the draft financial intermediary standard require the EIB to be involved in monitoring and rectifying any problems related to intermediary sub-projects. However, national authorities have not rectified the problems. Even where issues have been highlighted, such as in the Tearce plants (North Macedonia)[103] and the Ilovac plant,[104] the plants still have no operational fish passes and even when the plants are not working, they still block the river for fish migration.

This is a clear and unacceptable policy gap that allows the EIB to abdicate any responsibility for around one-third of its investments. The EIB's financial intermediary standard must require the intermediary not only to refer higher-risk projects to the EIB for due diligence but must also make it clear that the EIB will be involved in monitoring and rectifying any deficiencies found.

Dobrica Mitrović

The Mojanska riverbed, almost dry due to the hydropower cascade, Montenegro

101 European Investment Bank, Excluded Activities, 22 April 2013.
102 EIB responses to Bankwatch dated 29 November 2019, 19 June 2020, 12 March 2021.
103 CEE Bankwatch Network, *Broken Rivers: The impacts of European-financed small hydropower plants on pristine Balkan Landscapes*, December 2017.
104 CEE Bankwatch Network, Gone with the Flow - A case study of biodiversity loss caused by Ilovac Hydropower plant, Croatia, April 2020.

Biodiversity and ecosystems

Lack of precautionary approach

All of the projects described in this report cause significant impacts on high-biodiversity areas, yet most of them have already been built, and the Nenskra plant has been approved by the EIB, albeit not signed. There are several reasons for this, outlined below, but an overarching one is the fact that the EIB does not take a sufficiently precautionary approach in its Biodiversity and Ecosystems Standard. Halting global biodiversity loss has never been more urgent and financial investments must protect existing habitats and species. However, the EIB still does not clearly state that its goal is no loss of biodiversity, instead allowing 'No Net Loss of Biodiversity' – even though projects like Nenskra show that this is being used so flexibly as to be meaningless. The word 'net' allows the destruction of biodiversity in a particular place, on the assumption that biodiversity will be protected somewhere else.

The precautionary principle[105] has to be followed to ensure that if there is no prior data on biodiversity that can illustrate no significant impact to site integrity or to species populations, projects should not be constructed. Therefore, for all potential EIB projects 'where scientific data do not permit a complete evaluation of the risk' or when the project promoter cannot prove the absence of future impacts, financing should not be approved.

Lack of no-go areas for financing

In order to ensure that protected and high-biodiversity areas are truly protected, the EIB should set a clear standard that these should be avoided when financing projects. All the projects described in this report are in areas of high biodiversity value, most of which are also legally protected to some extent. This raises the question as to why hydropower projects have been allowed to go ahead in such locations at all. In most cases this has happened because the impacts were underestimated during the permitting processes. Nevertheless, once they are built and there is greater damage than expected, national authorities are reluctant to take decisive action to restore the area. For this reason, given that these areas are highly sensitive, as a precaution, projects in areas of high biodiversity value should not be financed by the Bank, particularly those projects which are scientifically proven to have negative impacts, such as hydropower.[106]

Andrey Raley

Stone crayfish (*Austropotamobius torrentium*)

In the Environmental and Social Safeguards Framework consultation in 2021, regarding Standard 4 on Biodiversity and Ecosystems, the EIB has stated that it does not recommend no-go areas for financing given that it would be difficult to list all the specific types of areas needing to be included.[107] However, no-go areas for financing do not replace strong safeguards for project assessment. Instead, it ensures that highly biodiverse areas can be protected, supports implementing the EU's nature legislation, and aligns with the EU Biodiversity Strategy to protect at least 30 per cent of the EU's land and sea by 2030, including strict protection for at least 10 per cent of the EU's area.

105 The precautionary principle: Summary of Communication (COM(2000) 1final) on the precautionary principle, EUR-Lex, last updated 30 November 2016.

106 Emilio F. Moran, Maria Claudia Lopez, Nathan Moore, Norbert Müller, and David W. Hyndman, Sustainable Hydropower in the 21st Century, *Proceedings of the National Academy of Sciences*, November 20, 2018 115 (47) 11891-11898, 20 November 2018; Valerio Barbarossa, Rafael J. P. Schmitt, Mark A. J. Huijbregts, Christiane Zarfl, Henry King, and Aafke M. Schipper, Impacts of current and future large dams on the geographic range connectivity of freshwater fish worldwide, *Proceedings of the National Academy of Sciences* 117 (7), 3648-3655, 18 February 2020.

107 European Investment Bank, Environmental and Social Safeguards Framework consultation questionnaire, June 2021.

Furthermore, it helps save time and effort on assessing projects that should never be given the go ahead, leaving more capacity to concentrate on projects for which the situation is less clear.

The Nenskra reservoir, for example, would flood intact primary forests of the Caucasus with many endemic species of flora and fauna. The Nenskra and Nakra are free-flowing rivers – bodies of water whose flow and connectivity remain largely unaffected by human activities. The area of the Nenskra project can also be considered as an Indigenous Peoples and Community Conserved Area (ICCA), as the local Svans have lived there in harmony with nature for centuries.

The Tashlyk expansion would flood Bugzkiy Gard National Nature Park, a category II protected area, according to IUCN, as well as archaeological sites. It would also destroy the habitats of the endemic plants *Moehringia hypanica*, *Gymnospermium odessanum* and *Dianthus hypanicus*.

The six hydropower plants of the Tearce and Brza Voda cascades (North Macedonia) are built in another category II protected area – Shar Planina National Park. Although the park was not declared at the time financing for the plants was signed, it was clear that this declaration would happen sooner or later and Shar Mountain was already identified as an Important Plant Area, with dozens of endemic plants, as well as an Important Bird and Biodiversity Area (IBA). As per EU jurisprudence, once a site is identified as an IBA, it has the same level of protection as a site designated as a Special Protected Area under the Birds Directive. Unfortunately, the Tearce cascade access road has also facilitated logging of intact old-growth beech forests. The EIB should apply the same rules to accession countries and should have avoided financing these hydropower plants.

Providing simple and clear rules by including no-go areas for financing in the EIB Biodiversity and Ecosystems Standard would help better implement EU environmental legislation, in particular given the current ecological crisis, and aligns the Bank with the EU's Biodiversity Strategy for 2030.

Lack of compliance with EU law for non-member states

Five out of seven case studies in this report are located in non-member states. Serbia, Montenegro and North Macedonia are in the EU enlargement process. Ukraine and Georgia have signed Association Agreements with the EU. Moreover, at the time the environmental impact assessment report of Ilovac was written, Croatia was not a member of the EU. The EIB has committed to follow EU law for all projects, even those outside the EU, but these cases show that in practice the Habitats and Birds Directives are not implemented.

All five non-EU cases described in this report are located in Emerald Network sites, but for none of the hydropower plants was an Appropriate Assessment (AA) conducted for potential impacts on species and habitats protected in these sites. This assessment is obligatory according to Recommendation No.16 (1989)[108] of the Bern Convention and Article 6.3. of the Habitats Directive[109] when there is a risk of substantial negative impacts on the sites. In fact, the EU produced the Habitats Directive in 1992, and subsequently set up the Natura 2000 network in order to fulfil its obligations arising from the Convention.

The lack of AA brings two important consequences. First, it is not clear what protected species and habitats from Annex 1 and 2 of the Habitats Directive, Annex 1 of the Birds Directive and Resolutions 4 and 6 of the Bern Convention are present in the project-affected areas. Second, it is not clear what percentage of the populations and what area of the habitats would be impacted and whether these impacts would be significant.

Projects with significant negative impacts cannot proceed according to Article 6.3. of the Habitats Directive and the Recommendations of the Bern Convention.[110] The only exceptions are for projects for which it can be proven that there are no other alternatives and that these are of overriding public interest and only in cases where the site concerned does not host a priority natural habitat type and/or a priority species. This means that a study needs to be presented demonstrating that there are no other alternatives for energy production and that the energy generated cannot be generated with already existing energy installations. Furthermore, most hydropower projects cannot be considered of overriding public interest and/or impact priority habitats and species (for example the stone crayfish Austropotamobius torrentium and habitat 91E0* Alluvial forests with *Alnus glutinosa* and *Fraxinus excelsior*); therefore, they cannot legally proceed.

The biodiversity standard needs to be substantially improved to require AAs for projects outside the EU, especially when projects take place in areas of high biodiversity value (including Emerald sites) and when there is a risk of substantial negative impacts on the sites.

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108 Council of Europe, Resolution No. 16 (1989) of the standing committee on areas of special conservation interest, last accessed 27 September 2021.

109 Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora.

110 Standing Committee of the Bern Convention, Recommendation No. 16 (1989) of the standing committee on areas of special conservation interest, adopted 9 June 1989.

Lack of cumulative impact assessment

One of the major problems with hydropower energy production in Georgia, Ukraine and the Balkans is the scale of its development and the cumulative impacts amongst several planned hydropower plants, as well as other activities that take place in the areas and also decreases the resilience of the ecosystem. For example, the Mojanska project in Montenegro failed to assess the cumulative impacts of the 10 different hydropower plants that were planned in the same river basin. One of the key issues in the Nenskra complaint to the Bern Convention is the lack of strategic planning of hydropower in Georgia.

The EIB's Hydropower Guidelines recognise the cumulative impacts and introduce guidance on the issues, but the Bank's draft Biodiversity and Ecosystems Standard is missing any reference to strategic level planning and assessment. Concentrating solely on environmental impact assessment is unlikely to prevent cumulative impacts and fragmentation, particularly outside of the EU.

Lack of strategic planning, poor spatial planning and unacceptable cumulative impacts is a common problem in most countries. The EIB needs to set out an approach that financing for projects will not take place unless clear strategic planning has been undertaken, which includes a sensitivity analysis of protected species and habitats. Furthermore, mitigation measures and restrictions for other activities should be planned before financing is approved.

Andrey Ralev

Subsistance agriculture by Svans in the Nenskra hydropower project area, Georgia

Vulnerable groups and Indigenous Peoples

The EIB's Standard 7 on Vulnerable Groups and Indigenous Peoples is particularly weak when it comes to safeguarding the rights, self-determination and cultural integrity of indigenous peoples. The Nenskra case illustrates the difficulties of cases where a government denies a group's indigenous status, as is the case with the Svans in Georgia. Such cases are not at all well-covered by the EIB's existing Environmental and Social Policy and Standards, and the drafts of its new Standards 1 and 7 need to be improved to take a more precautionary approach in such cases and to clarify the process for identifying and consulting vulnerable stakeholders.

Conclusions

The EIB's high-level political aspirations to be the EU's climate bank and development bank are not yet matched by its project due diligence and monitoring. Its current Environmental and Social Statement, Policy and Standards all suffer from poor implementation, leading to a situation where many EIB-financed projects do not comply with EU law and/or the Bank's standards, even though this is stipulated in its Environmental and Social Statement.

This is particularly the case with intermediated investments, where the EIB is clearly over-estimating the capacity of intermediary banks in the countries covered by the case studies to carry out environmental due diligence. The findings by the Bank's Complaints Mechanism on the Nenskra hydropower plant also underline failures in the due diligence for the project.

However, it is not only implementation which is the problem. The Bank's Policy and Standards need to be strengthened and made more internally consistent. Yet the drafts which were provided for public comment in June 2021 are in some respects weaker than the EIB's current rules, notably in their weaker wording on the need for all projects to comply with EU law, and their reliance on an outdated project exclusion list from 2013 which does not include all excluded activities from the Bank's sectoral policies. Loopholes in the proposed standards, particularly on biodiversity, would allow many hydropower projects outside the EU to proceed, when they would not be allowed in EU Member States.

The draft Policy and Standards also do not take into account the Bank's 2019 Hydropower Guidelines, which have helped to clarify how to better apply the EIB's rules in the hydropower sector. It is not clear whether the Guidelines' provisions are included in loan contracts, and consequently, whether they are enforceable.

Viktoriia-Anna Oliinyk, Ecoaction

Tashlyk pumped storage plant, Ukraine

Recommendations

Overall, the EIB needs to clarify in the text of its Environmental and Social Policy and Standards that its Hydropower Guidelines are binding, in order to cement their status.

It also needs to drastically improve the project level information disclosed on its website, including on the due diligence undertaken,[111] so that it is possible to tell what exact projects are being financed with the EIB's funds, not just generic descriptions such as 'renewable energy, mostly solar and wind'.

In its Environmental and Social Policy, the EIB needs to:

- Make crystal clear the requirement for all projects, including those financed via intermediaries, to comply with EU law, as is currently written in the Environmental and Social Statement that will be superseded by the Policy.
- Clarify responsibilities for the EIB and for project promoters regarding due diligence.
- Make clear that contracts must enshrine the Standards in all EIB operations, enabling suspension of contracts if the Standards are not met.
- Clearly state that the EIB will not approve any operation until its Standards are fully met, and until Environmental and Social Impact Assessments (ESIAs) are completed.

In Standard 1, Environmental and Social Impacts and Risks, the EIB needs to:

- Require promoters conducting ESIAs to include screening for specific social and human rights risks, including detailed mapping identifying stakeholders that are vulnerable, marginalised, discriminated against or excluded on the basis of their socio-economic characteristics, including evaluating the indigeneity of affected persons/groups.

In Standard 4, Biodiversity and Ecosystems, the EIB needs to:

- Adequately address the seriousness of the global biodiversity crisis by applying the precautionary principle of the EU[112] for all EIB finance – 'where scientific data do not permit a complete evaluation of the risk' or when the project promoter cannot prove the absence of future impacts, the project should not be approved.
- Make much clearer for projects outside of the EU the requirement to comply with EU law. Among others, Appropriate Assessments must be required outside the EU when projects take place in areas of high biodiversity value (including Emerald sites) and/or when there is a risk of substantial negative impacts on such sites. The projects must align with the requirements set out in Article 6 of the Habitats Directive.
- Ensure that not only projects in EU candidate and potential candidate countries need to be in line with national obligations towards the EU regarding implementation of the EU acquis, but also those in countries which have bilateral agreements with the EU entailing environmental obligations. For example the Association Agreements signed with Georgia, Moldova and Ukraine include obligations to apply parts of the Habitats Directive, Birds Directive and Water Framework Directive.
- Ensure that all projects are part of publicly consulted and coherent spatial plans and sectoral strategic plans, which have been subject to strategic environmental assessments (SEA). Sectoral strategies and plans also need to truly justify the need for the project, not simply to state that projects are 'strategic'. The Hydropower Guidelines are much stronger on this issue and at least some general requirements need to be included in the Standard.

111 This point has also been made by NGOs during the public consultation on the revision of the Bank's Transparency Policy, which is still ongoing as of 13 October 2021.

112 Summary of Communication (COM(2000) final) on the precautionary principle.

» Implement no-go areas for financing: In particular outside the EU where environmental governance is often very poor, providing simple and clear rules is much more likely to bring results than putting too much faith in assessments, mitigation measures and monitoring. Therefore, the EIB should include no-go areas for financing in its Standards, following adequate criteria such as those outlined in the categories at: http://banksandbiodiversity.org/.

» State that all protected natural habitats and habitats of species will be treated as 'critical habitats' or 'high-value biodiversity'. These include, but are not limited to, habitats and species listed in Resolutions 4 and 6 of the Bern Convention, Annexes 1 and 2 of the Habitats Directive, Annex 1 of the Birds Directive and in similar international legislation outside Europe, as well as those listed in national, international or regional red data books.

In Standard 7, Vulnerable Groups and Indigenous Peoples, the EIB needs to:

» Clearly require the identification process to be consultative and to take place even for projects which do not require an environmental and social impact assessment, and also require a precautionary approach in cases where national governments deny a group's indigenous status. It needs to clearly articulate who is responsible for obtaining Free, Prior and Informed Consent (FPIC) from Indigenous Peoples and must be clear that in cases when it is required but has not been achieved that the project cannot move forward.

In Standard 11, Intermediated Finance, the EIB needs to:

» Stipulate the need for ring-fencing of financial intermediary investments to support specific projects that have low environmental and social risk and a genuine impact on achieving EU policy goals. Ensure this ring-fencing is legally enforceable and traceable.

» Clarify the need for all EIB-financed operations, including intermediated ones, to comply with EU law, the EIB's Environmental and Social Standards and all EIB sectoral policies.

» Adopt a 'referral list' approach, where higher-risk sub-projects are clearly defined, and therefore automatically referred to the EIB for due diligence, risk appraisal and classification, setting conditions and monitoring. This should include sub-projects which may have human rights implications, affect indigenous or vulnerable communities, involve displacement of affected communities; projects which fall under Annex I or II of the EIA Directive; or those which impact protected areas and areas of high biodiversity value. Standard 11 needs to include a requirement for the EIB to carry out site visits, engage with affected communities and arrange third party audits in such cases.

» Require EIB clients to publish information (name, sector and location) on their websites, at least on sub-projects which are likely to have significant effects on the environment (Annex I and II of the EIA Directive) and projects which may have serious social impacts, before they are approved for financing by the EIB.

» Require clients to provide full environmental and social information to the EIB so it can effectively review intermediaries' due diligence.

» Clearly state that the EIB will be involved in monitoring and ensuring any corrective action for ongoing financial intermediary sub-projects on the referral list and require this to be included in loan contracts.

Annex 1 - Projects including new hydropower construction signed by the EIB since 2010

Name	Region	Country or Territory	Signature Date	Signed Amount[113]	Description
DOLOMITI ENERGIA 2021 - 2024 INVESTMENT PLAN	European Union	Italy	04/05/2021	EUR 74,990,000	Investments in electricity networks, integrated water service, hydropower plants and public lighting
BPCE ACTION POUR LE CLIMAT	European Union	France	24/07/2020	EUR 125,000,000	The project consists of an intermediated lending in support of small to mid-sized renewable energy projects in France (onshore wind, photovoltaic, geothermal, hydro, biomass and waste treatment/ biogas).
RUZIZI III REGIONAL HYDROPOWER PPP &TRANSMISSION	Africa, Caribbean, Pacific countries + OCT		04/03/2020	EUR 9,100,000	The project consists of the construction of Ruzizi III, a 147 MW run-of-river hydropower plant on Ruzizi River bordering DR Congo and Rwanda. It will be developed as a Public Private Partnership (PPP) through a concession to a private investor to develop, finance, build, operate and maintain the plant. The plant will be the third hydropower development on the river, following Ruzizi I (29.8 MW) and Ruzizi II (43.8 MW). Also included in the project is a public sector component of 220 kV transmission.
BPCE ACTION POUR LE CLIMAT	European Union	France	11/12/2019	EUR 125,000,000	The project consists of an intermediated lending in support of small to mid-sized renewable energy projects in France (onshore wind, photovoltaic, geothermal, hydro, biomass and waste treatment / biogas).
ACSM-AGAM ENERGY EFFICIENCY & CLIMATE ACTION	European Union	Italy	09/12/2019	EUR 17,000,000	The project, being part of the 2019-2023 investment programme of ACSM-AGAM, will comprise a number of investments geographically dispersed throughout the service areas covered by ACSM-AGAM. This is a multi-sector operation including integrated water sector, solid waste, electricity distribution, district heating, public lighting, hydro, energy efficiency, IT and cyber security and smart city schemes.
BDMG CLIMATE ACTION FL II	Asia and Latin America	Brazil	21/10/2019	EUR 70,000,000	Framework Loan to part-finance a series of climate action projects in the state of Minas Gerais, Brazil, including solar PV, small-scale hydropower and other renewables.
IREN CLIMATE ACTION & CIRCULAR ECONOMY LOAN	European Union	Italy	29/07/2019	EUR 32,400,000	Financing of the Promoter's 2018-2022 climate action and circular investments in the solid waste and hydro-electric sectors.
AKUO MULTI-COUNTRIES RENEWABLE ENERGY PROGRAMME	European Union	France	21/02/2019	EUR 50,000,000	Multi-component investment programme articulated into sub-projects of construction and operation of several small-scale, mature RE technologies such as wind farms, photovoltaics, hydropower and biomass, geographically dispersed throughout France as well as in Poland and Croatia, up to a total capacity of ~300 MW. The EIB financing will be bank-intermediated.
TAMEGA IBERDROLA HYDROPOWER AND STORAGE PORTUGAL	European Union	Portugal	08/02/2019	EUR 150,000,000	The project concerns the construction of 3 new large dams and 3 hydropower plants with a total capacity of 1,158 MW in the Douro River Basin in northern Portugal.
NACHTIGAL HYDROPOWER PLANT	Africa, Caribbean, Pacific countries + OCT	Cameroon	08/11/2018	EUR 50,000,000	Construction of a 420 MW hydroelectric power plant on the Sanaga river, approximately 65km north of Yaound

113 The figure relates to the whole project and not only the hydropower element. The sum of these figures cannot therefore be taken as a figure for EIB hydropower support.

BRDE CLIMATE ACTION FL	Asia and Latin America	Brazil	28/09/2018	EUR 37,050,000	Framework Loan to part-finance a series of climate action projects in the southern states of Brazil, including small-scale hydroelectric power plant projects as well as energy efficiency and mobility projects in urban areas, which could benefit from technical assistance under the FELICITY (Financing Energy for Low-Carbon Investment - Cities Advisory Facility) Initiative.
TAMEGA IBERDROLA HYDROPOWER AND STORAGE PORTUGAL	European Union	Portugal	23/07/2018	EUR 500,000,000	The project concerns the construction of 3 new large dams and 3 hydropower plants with a total capacity of 1,158 MW in the Douro River Basin in northern Portugal.
PPCR FRAMEWORK LOAN FOR RENEWABLE INVESTMENTS	European Union	Greece	20/12/2017	EUR 85,000,000	Framework loan for the financing of (i) wind farms as well as (ii) small hydropower plants geographically dispersed throughout mainland Greece and the islands, for an indicative total capacity of 90 MW.
HYDRO AND WIND POWER IN STYRIA	European Union	Austria	12/12/2017	EUR 83,000,000	The project consists of the construction of a hydropower plant with a capacity of 16 MW located in the city of Graz, a wind park with a nominal capacity of 39 MW (located in the mountainous area of Deutschlandsberg) as well as investments in the electricity and gas distribution network in Styria.
GLENNMONT CLEAN ENERGY FUND EUROPE III	European Union		30/11/2017	EUR 45,000,000	A pan-European renewable energy infrastructure fund investing in PV solar, bioenergy, small scale hydro, onshore and offshore wind
GLENNMONT CLEAN ENERGY FUND EUROPE III	European Union		30/11/2017	EUR 45,000,000	A pan-European renewable energy infrastructure fund investing in PV solar, bioenergy, small scale hydro, onshore and offshore wind
HYDRO AND WIND POWER IN STYRIA	European Union	Austria	31/03/2017	EUR 57,000,000	The project consists of the construction of a hydropower plant with a capacity of 16 MW located in the city of Graz, a wind park with a nominal capacity of 39 MW (located in the mountainous area of Deutschlandsberg) as well as investments in the electricity and gas distribution network in Styria.
EDF GAVET HYDROPOWER	European Union	France	13/12/2016	EUR 225,000,000	The project comprises the construction of a new 92 MW run-of-river hydropower plant (Romanche-Gavet) replacing a cascade of six existing facilities in the Isère Department (south-eastern France), around 80 km from Grenoble.
GEMEINSCHAFTSKRAFTWERK INN	European Union	Austria	23/12/2015	EUR 150,000,000	Construction and operation of a new 89 MW hydroelectric plant on the river Inn in the Upper Inn region on the Swiss-Austrian border.
KELAG ENERGY PRODUCTION AND NETWORKS	European Union	Austria	03/07/2015	EUR 100,000,000	Investment programme in district heating, wind and hydro power production, and electricity distribution to be implemented over 2014-2017 by the regional multi-sector energy company of Carinthia.
JIJI MULEMBWE HYDROPOWER BURUNDI	Africa, Caribbean, Pacific countries + OCT	Burundi	11/12/2014	EUR 70,000,000	The Jiji and Mulembwe Hydropower Project consists of the construction of two run-of-the-river hydropower plants Jiji (31.5 MW) and Mulembwe (16.5 MW) in southern Burundi as well as an 80 km 110 kV transmission line to evacuate the power to the capital, Bujumbura, which is interconnected at a national and regional level. The project will increase the supply of clean and affordable electricity to the national grid. The project also includes the electrification of rural communities in the vicinity
RENEWABLE ENERGY HPP VRANDUK[114]	Enlargement countries	Bosnia and Herzegovina	30/06/2014	EUR 37,500,000	Construction of a 20 MW hydro power plant
OBERVERMUNTWERK	European Union	Austria	24/06/2014	EUR 280,000,000	The project comprises two pumped storage schemes, Obervermuntwerk II of 360 MW and Rellswerk with 13 MW, for hydroelectric power generation, located in the valley of Montafon in the Austrian region of Vorarlberg, and required reinforcements of the substation in Bürs. The investment will add balancing capacity to the German power system and contribute to security of supply.
A2A AMBIENTE	European Union	Italy	13/03/2014	EUR 28,750,000	Investment programme in waste collection and treatment activities and in hydro-energy production plants
KEYAL KHWAR HYDROPOWER PROJECT	Asia and Latin America	Pakistan	27/11/2013	EUR 100,000,000	Keyal Khwar Hydropower comprises a medium-sized (122 MW) run-of-river hydropower plant with a small 1.5 ha reservoir for daily regulation (dam height of 38 m). It is located on a tributary of the Indus River in northern Pakistan. This operation is proposed for co-financing with KfW as Lead Financier under the Mutual Reliance Initiative (MRI).

114 The main contractor, Strabag, withdrew from the project in 2017 so the project is not currently moving forward. Balkan Green Energy News, 'Austrian Strabag withdraws from HPP Vranduk project in Bosnia and Herzegovina', *Balkan Green Energy News*, 11 July 2016.

CENTRAL AMERICA CLIMATE CHANGE FL II	Asia and Latin America		21/08/2013	EUR 166,250,000	The Framework Loan will support renewable energy and energy efficiency projects in Honduras, Nicaragua, El Salvador, Guatemala, Costa Rica and Panama. The majority of the projects are expected to be hydropower, wind, geothermal and photovoltaic.
SREI CLIMATE CHANGE FL	Asia and Latin America	India	23/07/2013	EUR 40,000,000	Framework Loan supporting renewable energy and energy efficiency investments that contribute to climate change mitigation. The operation is expected to finance mainly wind, solar, hydropower and high efficiency cogeneration projects.
NEPAL TANAHU HYDROPOWER PROJECT	Asia and Latin America	Nepal	07/05/2013	EUR 62,293,881	The project comprises the construction and operation of a 140 MW storage hydroelectric power scheme and its interconnection to the national grid. It is designed to help meet peak electricity demand in Nepal during the dry winter months and to operate as a baseload plant during the remainder of the year. In addition, it will provide an alternative to expensive fossil-fuel-based power generation with cleaner energy, help stabilise Nepal's power supply system and reduce transmission losses.
AGSM VERONA NETWORKS & RENEWABLES	European Union	Italy	22/03/2013	EUR 25,000,000	Investments for the development of the gas and electricity distribution networks in the concession areas of the promoter and small to medium electricity generation plants from renewable energy sources (wind and small hydro)
AGSM VERONA NETWORKS & RENEWABLES	European Union	Italy	21/12/2012	EUR 80,000,000	Investments for the development of the gas and electricity distribution networks in the concession areas of the promoter and small to medium electricity generation plants from renewable energy sources (wind and small hydro)
ITEZHI-TEZHI HYDRO PROJECT	Africa, Caribbean, Pacific countries + OCT	Zambia	10/12/2012	EUR 50,000,000	The project consists of a new 120 MW hydropower plant, benefiting from the use of an existing dam and reservoir, and a ca. 280 km transmission line to connect the plant to the national grid.
VERBUND PSP REISSECK II	European Union	Austria	12/11/2012	EUR 150,000,000	The project is a 430 MW pumped storage scheme for hydroelectric power generation, located within the boundaries of the municipalities of Mühltal, Reisseck and Zandlach (Kärnten) at an altitude between 1,600 m and 2,300m. It makes use of existing reservoirs and consists mainly of a new underground system of around 6 km-long water and access tunnels, the new Reisseck II pump and turbine house and a 3.5 km-long underground high voltage transmission cable.
DOLOMITI ENERGIA NETWORKS & HYDRO	European Union	Italy	31/10/2012	EUR 50,000,000	Investments for the upgrading and development of the gas and electricity distribution networks and small hydro power installations in the Trentino Alto Adige region over the period 2012-2016.
DOLOMITI ENERGIA NETWORKS & HYDRO	European Union	Italy	31/10/2012	EUR 50,000,000	Investments for the upgrading and development of the gas and electricity distribution networks and small hydro power installations in the Trentino Alto Adige region over the period 2012-2016.
BARRAGE RESERVOIR DE LOM PANGAR	Africa, Caribbean, Pacific countries + OCT	Cameroon	07/09/2012	EUR 30,000,000	Construction of a 46 metre high control dam on the Sanaga River, a hydroelectric plant at the foot of the dam with a capacity of 30 MW and a 105 km HV transmission line.
CENTRAL AMERICA CLIMATE CHANGE FL	Asia and Latin America		15/12/2011	EUR 100,000,000	The Framework Loan will support renewable energy and energy efficiency projects in Honduras, Nicaragua, El Salvador, Guatemala, Costa Rica and Panama. The majority of the projects are expected to be hydropower, geothermal and wind.
HYDRO POWER IN STYRIA	European Union	Austria	11/05/2011	EUR 80,000,000	Construction of two 19 MW hydro power plants in Styria (locations of Goessendorf and Kalsdorf).
LAJA HYDRO POWER PLANT PROJECT	Asia and Latin America	Chile	05/05/2011	EUR 55,314,417	The project comprises the development, construction, commissioning and operation of a run-of-river weir hydro power plant (Laja, 35 MW), including a large dam in the sense of the ICOLD definition, located 450 km south of Santiago de Chile.
LANDSVIRKJUN BUDARHALS HYDROPOWER	EFTA countries	Iceland	23/03/2011	EUR 70,000,000	The project consists of the development, construction and operation of the 80 MW Budarhals HPP located in the lower highlands on the Tungnaa and Kaldakvisl rivers about 150 km east of Reykjavik. The electricity will be used for aluminium production.
COMPAGNIA VALDOSTANA ENERGIA&AMBIENTE	European Union	Italy	09/12/2010	EUR 50,000,000	The 2010-2016 investment programme in the rehabilitation and capacity expansion of hydro-power plants and (for a minor part) in solar photovoltaic
COMPAGNIA VALDOSTANA ENERGIA&AMBIENTE	European Union	Italy	09/12/2010	EUR 150,000,000	The 2010-2016 investment programme in the rehabilitation and capacity expansion of hydro-power plants and (for a minor part) in solar photovoltaic

Annex 2 - Hydropower plants involving rehabilitation signed by the EIB since 2010

Name	Region	Country or Territory	Signature Date	Signed Amount	Description
KPONG DAM RETROFIT	Africa, Caribbean, Pacific countries + OCT	Ghana	30/12/2019	EUR 12,500,000	Rehabilitation and upgrade of the electromechanical equipment and systems of the 160 MW hydropower plant on the Volta river
QAIROKKUM HPP CLIMATE RESILIENCE UPGRADE	Asia and Latin America	Tajikistan	24/05/2019	EUR 30,000,000	Rehabilitation of the Kairakkum Hydropower Plant in Tajikistan to increase its safety, efficiency and capacity
JIRAMA ANDEKALEKA HYDRO EXPANSION	Africa, Caribbean, Pacific countries + OCT	Madagascar	08/12/2017	EUR 30,600,000	Expanding an existing hydropower station (Andekaleka) by two further turbines (unit size 33 MW), including associated equipment and an upstream sand trap; reinforcing existing substations and networks, associated transformers, switchgear, cables and various auxiliary and control equipment to enable evacuation of the additional power to the main network.
ALPERIA HYDROPOWER	European Union	Italy	06/12/2017	EUR 80,000,000	The refurbishment of 5 hydropower plants in the Autonomous Province of Bolzano with a total installed capacity of 457 MW. The project will enable the Promoter to maintain and increase the production of renewable energy, to improve safety and reliability and to comply with mandatory requirements laid out in the concession agreements.
VARDNILI & ENGURI HYDRO REHABILITATION	Eastern Europe, Southern Caucasus	Georgia	27/06/2017	EUR 3,500,000	Rehabilitation works at the Enguri and Vardnili cascade of hydropower plants located in the breakaway republic of Abkhazia.
DOLOMITI ENERGIA NETWORKS & HYDRO II	European Union	Italy	19/10/2016	EUR 100,000,000	Investments for the modernisation, upgrading and development of the electricity and gas distribution networks, as well as the repowering of small hydropower facilities in the autonomous province of Trento over the period 2017-2020.
REHABILITATION WARSAK HYDROELECTRIC PROJECT	Asia and Latin America	Pakistan	17/11/2015	EUR 50,000,000	The Project comprises the modernisation and upgrade of a 50-year old hydropower plant, including a comprehensive rehabilitation programme designed to restore the plant to its original capacity of 243 MW and to achieve an additional 40 years of safe, reliable and cost-effective energy production.
ENEL HYDROPOWER GENERATION	European Union	Italy	15/12/2014	EUR 250,000,000	Investment programme for the revamping and repowering of hydropower plants in Italy
MOUNT COFFEE HYDRO GEN REHABILITATION	Africa, Caribbean, Pacific countries + OCT	Liberia	28/12/2012	EUR 50,000,000	The project aims at rehabilitating an inoperative hydropower plant, located on the St. Paul River approximately 27 km northeast of Monrovia in Montserrado County, with capacity of up to 80 MW, re-establishing the reservoir and reconstructing the associated two transmission lines to Monrovia
VERBUND PSP REISSECK II	European Union	Austria	12/11/2012	EUR 150,000,000	The project is a 43 0MW pumped storage scheme for hydroelectric power generation, located within the boundaries of the municipalities of Mühltal, Reisseck and Zandlach (Kärnten) at an altitude between 1,600 m and 2,300 m. It makes use of existing reservoirs and consists mainly of a new underground system of around 6 km-long water and access tunnels, the new Reisseck II pump and turbine house and a 3.5 km-long underground high voltage transmission cable.

HYDRO POWER PLANTS REHABILITATION	Eastern Europe, Southern Caucasus	Ukraine	21/09/2012	EUR 200,000,000	The Project aims at upgrading and refurbishing 21 hydropower units owned by Ukrhydroenergo (UHE) along the Dniepr river. The Project is part of a larger long-term rehabilitation programme of all UHE's generation assets.
EDP REPOWERING II	European Union	Portugal	11/01/2011	EUR 300,000,000	The project concerns the repowering of Alqueva and Venda Nova pumped storage hydropower plants in the Guadiana and Cávado rivers respectively with an additional capacity of 256MW and 736MW each.
VARDNILI & ENGURI HYDRO REHABILITATION	Eastern Europe, Southern Caucasus	Georgia	28/12/2010	EUR 20,000,000	Rehabilitation works at the Enguri and Vardnili cascade of hydro-power plants located in the breakaway republic of Abkhazia
COMPAGNIA VALDOSTANA ENERGIA&AMBIENTE[115]	European Union	Italy	09/12/2010	EUR 50,000,000	The 2010-2016 investment programme in the rehabilitation and capacity expansion of hydropower plants and (for a minor part) in solar photovoltaic
COMPAGNIA VALDOSTANA ENERGIA&AMBIENTE	European Union	Italy	09/12/2010	EUR 150,000,000	The 2010-2016 investment programme in the rehabilitation and capacity expansion of hydropower plants and (for a minor part) in solar photovoltaic

115 The last two loans appear in both tables because they involve both rehabilitation and new build.

Annex 3 - Small hydropower projects financed by the EIB via intermediaries in southeast Europe since 2010

Country	Project Sponsor	Name of Plant(s)	Intermediary	Year of Signing	Loan Amount	Capacity
Bosnia and Herzegovina	ECCO-CRIMA d.o.o. Prozor	Crima[116]	Intesa	2010	EUR 1.3 million	1.5 MW
Bosnia and Herzegovina	ING-Eko Prozor Rama	Dušćica[117]	Intesa	2011	EUR 0.25 million	0.5 MW
Bosnia and Herzegovina	*Not identified*	Not identified	Unicredit	2012	EUR 0.25 million	*Not identified*
Bulgaria	Blagoevgradska Bistritsa o.o.d.	Blagoevgradska Bistritsa 1-8[118] - trade receivables	Allianz BG	2012	EUR 6.1 million	6.3 MW
North Macedonia	SOL Hydropower	Tearce 97/ Bistrica 97	Macedonian Bank for Development Promotion	2013	EUR 3.5 million	2.6 MW
		Tearce 98/ Bistrica 98				3.2 MW
		Tearce 99/ Bistrica 99				3.3 MW
		Lipkovo/ Kamena reka				2.4 MW
Serbia	*Not identified*	*Not identified*	Intesa	2013	EUR 3.2 million	*Not identified*
Serbia	*Not identified*	*Not identified*	Erste Bank	2013	EUR 2.6 million (for two plants)	*Not identified*
Serbia	*Not identified*	*Not identified*	Erste Bank	2013	EUR 1.7 million	*Not identified*
Serbia	*Not identified*	*Not identified*	Erste Bank	2013	EUR 0.25 million	*Not identified*
Serbia	*Not identified*	*Not identified*	Erste Bank	2013	EUR 0.57 million	*Not identified*
Serbia	*Not identified*	*Not identified*	Erste Bank	2013	EUR 1.7 million	*Not identified*
Croatia	Mala hidroelektrana Pleternica d.o.o.	Pleternica	Croatian Bank for Reconstruction and Development (HBOR)	2013	EUR 0.33 million	0.2 MW
Croatia	Tekonet d.o.o.	Ilovac	HBOR	2014	EUR 4 million	1.4 MW
Serbia	*Not identified*	*Not identified*	Erste Bank	2014	EUR 1.3 million	*Not identified*
Serbia	*Not identified*	*Not identified*	Erste Bank	2014	EUR 1.37 million	*Not identified*
Bulgaria	Chernogorovo Enerdzhi E.O.O.D	Chernogorovo	Allianz BG	2014?	EUR 1.9 million	1.3 MW

116 Name of plant and plant capacity are assumed based on the project sponsor and date of loan signing and have not been confirmed by the EIB.

117 The name of the plant and plant capacity are assumed based on the project sponsor and date of loan signing and have not been confirmed by the EIB.

118 The EIB loan financed the company's trade receivables, not the construction of the plant, but considering the company is a special purpose vehicle, any funds clearly supported the company's operation of the newly-built plants.

Croatia	Eucon d.o.o.	Čabranka 1[119]	HBOR	2015	EUR 0.7 million	1.26 MW
North Macedonia	BNB Energi d.o.o.	Brza Voda 1[120]	Development Bank of North Macedonia	2015?	EUR 2 million	0.46 MW
		Brza Voda 2[121]				0.96 MW
		Golemoilinska[122]				0.72 MW
Serbia	Not identified	Not identified	Agroindustrijska komercijalna banka (AIK)	2016	*Not identified*	*Not identified*
Serbia	Not identified	Not identified	Halkbank AD Belgrade	2016	*Not identified*	1 MW
Serbia	Not identified	Not identified	Unicredit Bank Srbija AS	2016	*Not identified*	*Not identified*
Montenegro	Nord Energy d.o.o.	Šeremetski Potok[123]	Investment and Development Fund of Montenegro	2017	EUR 1.2 million	0.75 MW
Serbia	Zlatiborske elektrane d.o.o.	Komalj[124]	Crédit Agricole Srbija	2017	EUR 1.76-5.27 million	0.6 MW
		Beli Kamen[125]		2017	EUR 1.66-2.48 million	1.7 MW
Montenegro	Viridi Progressum	Paljevinska	Investment and Development Fund of Montenegro	2018	EUR 0.85 million	0.5 MW
Montenegro	BB Hidro	Bistrica (Kolašin)	Investment and Development Fund of Montenegro	2019	EUR 1.5 million	0.9 MW
Montenegro	Small hydro power plant Mojanska d.o.o.	Mojanska 1	Investment and Development Fund of Montenegro	2019	EUR 5.9 million	2.6 MW
		Mojanska 2				2.6 MW
		Mojanska 3				0.8 MW

Sources of data: EIB responses to information requests by CEE Bankwatch Network, dated 20 July 2015, 4 February 2016, 12 December 2017 and 10 March 2020, and for Beli Kamen and Komalj, Agencija za privredne registre, Založno pravo, last accessed 16 March 2021.

119 The name of the plant and plant capacity are assumed based on the project sponsor and date of loan signing and have not been confirmed by the EIB.
120 The name of the plant and plant capacity are assumed based on the project sponsor and date of loan signing and have not been confirmed by the EIB.
121 The name of the plant and plant capacity are assumed based on the project sponsor and date of loan signing and have not been confirmed by the EIB. Brza Voda 3 is known to have been financed by the EBRD so we assume the EIB financed other plants by the same sponsor (see here for details).
122 The name of the plant and plant capacity are assumed based on the project sponsor and date of loan signing and have not been confirmed by the EIB.
123 The name of the plant and plant capacity are assumed based on the project sponsor and date of loan signing and have not been confirmed by the EIB.
124 As of 27 September 2021 the EIB has not confirmed its involvement in financing the plant. The information comes from the Serbian pledge registry.
125 As of 27 September 2021 the EIB has not confirmed its involvement in financing the plant. The information comes from the Serbian pledge registry.

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