People abandoned at the edge of Bulgaria’s largest coal basin expect accountability from the multilateral development bank that financed the mine expansion.

In October Bulgaria’s Maritsa East Mines celebrated a record 1 622 556 tonnes of lignite extracted. Rising gas and electricity prices at the start of winter have provided a boost to the inflated esteem of the coal industry as one of strategic national significance. Meanwhile at COP-26 in Glasgow, the financier of this coal bonanza, the European Bank for Reconstruction and Development (EBRD) boasted of its climate action and alignment with the Paris Agreement. Negotiations at COP-26 resulted in the Glasgow Climate Pact’s call for accelerated phasing out of coal and subsidies for fossil fuels.

Since 2016 the Maritsa East mine has been expanding with grant support from the EBRD. At its edge the village of Beli Briag is still not fully resettled. Pressed by the mine coming, the last remaining people in the village are preparing for another winter in their abandoned village. Without fair compensation, they cannot move to another place or restore their standard of living.

So property owners in the village, together with civil society organisations, requested that the EBRD’s Independent Project Accountability Mechanism (IPAM) review the never-ending resettlement process for compliance with the bank’s policy requirements.

Failed mediation

The bank’s mechanism had previously facilitated a mediation between village complainants and the Maritsa East Mines company (MEM). The deadline for completing voluntary resettlement was December 2019. The dialogue between the parties stalled and the threat of forced expropriation loomed in the start of 2020. However, in the middle of a COVID lock-down in August 2020, when uncertainties for Beli Briag households were greater than ever, IPAM closed the mediation.

The main bottle neck in the mediation process was MEM’s claim that Bulgarian law was not compatible with the EBRD’s standards for resettlement and livelihood restoration. The company refused to discuss the details and possible options for what this might look like, so fair compensation was unattainable.

The bank’s legal counsel and independent third-party consultants also failed to provide guidance on how the EBRD policy could be reconciled with the provisions of Bulgarian law. Importantly, MEM had agreed with the bank a Resettlement Action Plan (RAP) that committed the mining company to implement EBRD standards. These standards require restoration or improvement of living conditions.

Moreover, the Bulgarian Energy Holding (BEH), the parent company of MEM, also committed to implement the bank’s environmental and social standards as conditionality for two EBRD loans in 2016 and 2018 totalling EUR 180 million. The investments are a good example of EBRD support for coal-heavy utilities.

Beli Briag complainants repeatedly appealed to the Ministry of Energy and BEH to support a solution through the mediation process. These calls remained unanswered, suggesting that the EBRD loans came with no responsibilities attached. Did the EBRD expect BEH to play a role? Did the bank leverage the support of its client BEH to ensure fair resettlement of Beli Briag? These are questions IPAM is expected to look into.

The Bulgarian villagers’ chronic limbo over coal mine expansion continues unresolved. The remaining people in Beli Briag live with constant vibrations, noise and dust from the huge open pit mine. Their water supply and electricity are regularly interrupted. There are no shops or public transport. The village is overgrown and not maintained properly, so the remaining houses and farms are threatened by summer fires.

There is a suffocating sense of injustice that the subsidies to the coal industry are not only exacerbating the climate crisis, but they also result in violation of the basic human rights to housing and normal living conditions.

At the edge of the largest coal basin in Bulgaria the climate crisis is a human rights crisis. Now people are asking for justice. They expect IPAM to hold the EBRD and its clients in Bulgaria to account. The bank can still act to ensure an effective remedy through fair compensation for complainants.

A lifeline to a dying coal industry

The role of public finance in this crisis is evident. The EBRD presents itself as a climate action champion, as it masterfully obscures fossil fuels subsidies with new types of corporate finance, crisis recovery funds and projects for improvements of efficiency of fossil fuel infrastructure. These EBRD investments often result in capacity increases and lifetime extensions of potentially stranded fossil fuels assets. The role of the bank in the energy sector in Bulgaria is a case in point.

In 2016 the Maritsa East Mines company was desperately looking for money to buy new excavators. The project would be the first heavy equipment modernisation at the coal mine in twenty-six years. Half of the investment of EUR 25.8 million for the project was granted to MEM by the EBRD. The bank manages grants from a fund established by the European Commission to compensate Bulgaria for decommissioning old reactors at the Kozloduy nuclear power plant (the Kozloduy International Decommissioning Support

Fund, KIDSF).
When a commercial loan was not possible, MEM implemented the modernisation project with its “own participation”. But it’s a mystery where the money came from. Who would lend to a dying industry that runs on debt and losses for years?
EBRD came to the rescue again. In 2016 the bank invested Euro 80 million of the Euro 550 million bond issue by the Bulgarian Energy Holding (BEH). This investment refinanced a bridge loan recently incurred by BEH, whose proceeds supported the commercial liabilities of BEH’s key subsidiary National Electric Company (NEC).
The EBRD loan through the bond issue enabled NEC to pay back its debt to the two privatised thermal power plants, Maritsa East 1 and Maritsa East 3. Once the plants received the money for electricity they sold to NEC, they could pay back their debt to MEM for the coal supply. Then MEM could pay back its debts, including EUR 65 million debt to BEH. And it could modernise the excavation technology at the lignite mines, so they could reach new records of extracting coal.

A mountain of debt to dig and burn more coal

The EBRD was not blind to the sorry state of the coal sector in Bulgaria. Its involvement was intended “as part of a comprehensive reform plan aiming to restore the financial viability of the electricity sector and to promote electricity market liberalisation in Bulgaria”. Then in 2018 the EBRD invested a further EUR 100 million in the seven-year EUR 550 million senior unsecured bond issuance, in order to support improving the financing structure for BEH.
The two BEH projects received derogations for full environmental and social due diligence from the bank’s board of directors. According to the agreements between BEH and the EBRD, however, the loan contracts included environmental and social conditions, committing BEH to EBRD’s safeguards policies. Furthermore, the EBRD funds could not be used for coal-powered plants or nuclear plants. Importantly, the limitation did not cover BEH’s coal mines.
At the time the EBRD could no longer invest in coal power, so the BEH loans are a curious example of fossil fuels subsidies that have shifted from direct project finance, to more obscure forms of corporate finance.
This was tried and tested also in the energy sector of neighbouring Serbia and in Central Asia. The pandemic only brought more opportunities for corporate level support to fossil-fuels heavy utilities, this time under the guise of recovery funds for existing clients.
The IPAM is not the mechanism that can hold the EBRD accountable on the hidden subsidies for fossil fuels, nor on the results of the energy sector reforms in Bulgaria. What it

can do is to reveal the human rights violations that result from this type of hidden fossil fuels investments and to suggest an effective remedy.

IPAM's investigation should remind decision-makers at the EBRD that corporate level loans for energy utilities are not exempt from the responsibility and commitments of the bank, its shareholders and its clients to safeguard people and the environment. If they can manage this, there's hope for the climate, too.

Source: bankwatch.org