Residents of the heavily polluted village of Vreoci, Serbia have been promised they would be relocated for nearly a decade, but almost all remain stranded in the shadow of the notorious Kolubara mines. The details of a new loan proposed by the European Bank for Reconstruction and Development (EBRD) could decide their fate and that of the wider Kolubara mining basin.

Vreoci, a small village 60 kilometres south-west of Belgrade, is probably the closest thing to a dictionary definition for the idiom ‘between a rock and a hard place’. Located at the heart of the Kolubara mining basin, home to one of Europe’s largest lignite mines, the 3000 strong community has been suffering from unbearable noise and limited access to running water coupled with dust pollution and smoke from spontaneous combustion of coal in the nearby mine.

But not only have the conditions not improved, the local residents, who were promised that they would be resettled nearly a decade ago, are still stuck waiting in the same place. So far, out of 1180 households, only 140 have been resettled to a new neighbourhood on the outskirts of the town of Lazarevac, less than a 20 minute drive away.

The prime culprit behind this tragedy is undoubtedly Serbia’s electric utility Elektroprivreda Srbije (EPS), which has been operating the mine for over five decades and is therefore heavily invested in coal-based energy. But at least since 2001 this operation has been to a large degree sustained by millions of euros in development funds – mostly from the European Bank for Reconstruction and Development (EBRD) and the German development bank KfW.

A comprehensive study released by CEE Bankwatch Network in September found the EBRD had failed to enforce some of its own standards on involuntary resettlement, and both banks failed to fully carry out a social impact assessment.

In 2011, the EBRD extended an EUR 80 million loan to EPS for new mining equipment. What was then dubbed ‘environmental improvements’ ended up boosting the amounts of lignite extracted – and in turn burned. As a result, the plight of the local community has been made ever more urgent.

On Wednesday, the EBRD’s Board of Directors met to decide on a new, EUR 200 million loan for EPS. The bank itself acknowledges the Serbian utility EPS did not live up to all its obligations. “Implementation of EBRD’s E&S [environmental and social] requirement has in the past been mixed,” reads the project’s description with its characteristic understatement, “but has improved steadily in recent years, in part driven by the Bank’s investments, TCs [technical cooperation] and monitoring work.” In light of this assessment, as well as the findings in Bankwatch’s and from the bank’s report, decision-makers should seriously

consider the impact of this investment.
Surely, some would argue that injecting more money – public money – into the utility that caused the problem in the first place would do little to help Kolubara’s ailing communities. But EPS has a responsibility to clean up the mess it has caused and this loan could indeed be an opportunity to bring long overdue justice to local residents and the environment. Specifically, if made a condition to this loan, an ambitious, comprehensive new environmental and social strategy could translate past commitments to ensuring a resolution for impacted communities into action.
No less important, the EBRD’s board could also make this loan the starting point for Serbia’s true long-term transition away from dirty coal and into cleaner, more sustainable energy sources. Conditioning the disbursement of this loan, officially meant for restructuring EPS, on the company developing a strategy for diversification of the energy sector would make the goal of this investment truly meaningful. Such strategy would need to include increased investment in energy efficiency – for example, reduce losses in electricity distribution, which reached 14 percent in 2014 – as well as expanded deployment of renewable energy, in turn helping to gradually shrink the share of coal in the country’s energy mix.
A member of the Energy Community, Serbia has already undertaken to raise its energy-related environmental standards to be in line with some of the existing ones in the EU. But so far implementation has been bogged down by lack of political will. If the EBRD genuinely wants to play a constructive role in improving the Serbian energy system it has to set the bar high enough. Otherwise, this loan and others of its kind will only end up perpetuating a terminally ill energy sector, and possibly further aggravating the human tragedy in Kolubara.