

The EU is currently extending financial support to address the pandemic's fallout, which comes with a set of conditions such as respect for democratic principles, human rights, and rule of law. Serbia is straying ever further from this path, and the country has recently fallen into the category of "transitional or hybrid regimes" — no longer a democracy — according to Freedom House's new assessment.

And that's probably the reason Serbia is the only country in the Western Balkans not benefiting from the European Commission's COVID-19 assistance package, even though the country's president claimed it had refused the EU support, saying that "this is not EU aid, these are loans."

"A friend in need is a friend indeed" goes the old saying, but should it really apply when one friend only takes, never gives back, and breaks all promises?

As part of its COVID-19 response, the European Bank for Reconstruction and Development, or EBRD, is considering support for electricity utilities in the Western Balkans. Among them is Elektroprivreda Srbije, or EPS, a client of the bank for nearly two decades. It appears that Serbia's state-owned electricity company may have access to a €50 million (\$55 million) short-term loan with a two-year disbursement period. But history shows that coal-reliant EPS, a serial environmental offender, has not been the most reliable partner.

In theory, EBRD requires respect for democratic principles too, but it has a rather low threshold, with countries such as Belarus and Egypt still able to access public sector loans. Yet over the past 20 years, EBRD has been pampering EPS with over half a billion euros through a long list of loans, several of which have been subject to complaints under the bank's independent grievance mechanism for violations of environmental and social safeguards.

Falling short of commitment to sustainability, standards

In 2018, Bankwatch and our Serbian member group CEKOR filed a complaint regarding a €200 million corporate restructuring loan. It argued that EBRD's financial aid to Serbia's energy utility had fallen short of the bank's commitment to sustainability, rule of law, and EU standards.

The compliance mechanism's investigation found evidence of harm associated with EPS' operations, as well as evidence of inadequate due diligence and monitoring of the EPS restructuring project. It showed that EBRD had done a poor job at assessing and mitigating risks and potential harm, "which do not adequately mirror the magnitude of some of the environmental and social challenges faced by EPS, especially as they continue to be

reflected in the series of PCM [project complaint mechanism] complaints against EBRD operations supporting EPS.”

The bank seems to be turning a blind eye to many of the energy utility’s other practices, even when it breaches national laws and international treaties, makes affected communities’ lives miserable, and raises concerns over the company’s influence on the application of environmental laws. Worse, there has been little to no improvement in the company’s way of operating and doing business in recent years.

For example, while neighboring North Macedonia and Montenegro have scrapped plans for new coal capacity — nearly all EU countries view coal as a liability and are phasing out coal use in electricity generation — Serbia, through EPS, is the only country in the region with a new coal power plant under construction.

This project, Kostolac B3, has seen several legal issues in the last six years, from issuing construction permits before the completion of an environmental assessment to breaking up the project into pieces, making legal challenges more difficult. EPS has also just signed a preliminary agreement for yet another new coal plant, Kolubara B. News reports from March mention a €385 million project for a 350 megawatt coal unit at Kolubara.

And in the Kolubara mining basin, EPS has started developing a new lignite field before the results of an environmental impact assessment are released. The company has already changed the course of a river and a road and moved its diggers into a mining field that hasn’t been permitted for operation.

Finally, at the existing Kostolac power plant — the largest sulfur dioxide polluter in Europe in 2016 — new equipment for the reduction of SO₂ pollution was fitted. Yet nearly three years after the desulfurization equipment was officially inaugurated, it is still not functional. More worryingly, the Serbian Ministry of Environmental Protection last December organized a new public consultation on the environmental impact of the desulfurization facility, which had already been built. This is such a blatant violation of the environmental impact assessment law that it alone should trigger an investigation for environmental crimes.

All of these examples show EPS’ power over Serbia’s environmental authorities, which keep finding ways of legalizing the company’s damaging practices, even when flying in the face of all logic. They should also serve as a hard lesson for EBRD that its “friend” has no intention of enacting serious reforms or even upholding the bank’s own environmental and social safeguards.

Without serious reforms, no more financial aid

In a letter to EBRD's board of directors, we argue that the bank had better get out of this toxic relationship and cut off the lifelines that have been feeding EPS for nearly 20 years. EPS' environmental and social damage is far from the only problem. While EBRD has been trying to justify its support to EPS by citing a "transition impact," the company has been resistant to implementing all kinds of reforms, including those that could increase its efficiency and profitability.

Financial support will be worth considering only if EPS — and the Serbian state, in fact — at some point shows some convincing signs of wisdom by stopping all unauthorized operations, halting all environment- and health-damaging plans to develop coal, and putting forward a clear rehabilitation plan.

Any kind of financial aid to an unresponsive company such as EPS is a blank check to continue business as usual in expanding coal infrastructure and cutting environmental corners while accelerating climate change and making the lives of people in affected communities a misery.

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