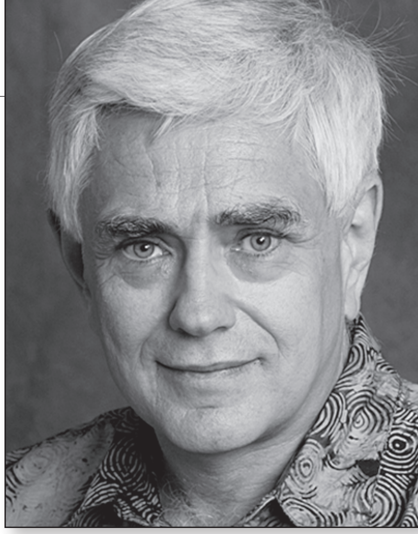

By Bruce Rich

A Test Case for Export Finance

A large dam on the Tigris River in southeastern Turkey has become a test case for upholding environmental and social standards in export finance worldwide. The $1.64 billion Ilisu Dam will forcibly displace upwards of 65,000 ethnic Kurds, inundating some of the most important archeological treasures in Anatolia. Turkey has no agreement on downstream water use for the Tigris with Syria and Iraq, and in the past officials from both countries have protested not only Turkish plans for the project itself, but prospective western involvement in its financing.

The project is so environmentally, socially and politically risky that no international private bank will support it without government guarantees. But the export credit agencies of Austria, Germany, and Switzerland have approved nearly $600 million in loan guarantees for Ilisu. ECAs are agencies that support through state guarantees and direct loans the exports and investments abroad of companies in their home countries. Every industrialized country has one (for the United States it's the U.S. Export-Import Bank), but their worldwide environmental impact is neglected. Their activities have a much bigger financial and environmental footprint in developing countries and economies in transition than all foreign aid.

An international non-governmental campaign to hold ECAs accountable helped pressure governments to agree to voluntary environmental standards (the OECD "Common Approaches on Environment" for ECAs) in 2003, standards which were strengthened in 2007 to incorporate the environmental and social performance standards of the World Bank's private sector affiliate, the International Finance Corporation. The IFC performance standards have become a proxy for minimal international good practice in project finance in areas such as environmental assessment, resettlement of project-displaced people, and protection of cultural heritage and indigenous minorities. Over 50 leading international private banks have also committed to adhere to a version of the IFC standards through the Equator Principles.

Ilisu is now a crucible for the credibility of the ECAs' commitments to these standards. Already in 2002 a consortium of companies from Germany, Switzerland, and the United Kingdom attempted to obtain public guarantees for Ilisu. In the face of growing international outcry the project collapsed as key contractors and banks withdrew.

An egregious breach of the spirit if not the letter of the OECD "Common Approaches"

In 2007 a new consortium of companies and ECAs in Austria, Germany, and Switzerland resurrected the dam proposal, using a technical escape clause in the OECD's ECA environmental agreement that allows any member ECA to deviate from international/World Bank–IFC standards if it justifies the deviation in annual reports to the OECD. The three ECAs did require that the Turkish government meet 153 separate conditions dealing with resettlement, cultural heritage, and environment, and three committees of experts were established to monitor their implementation. Meanwhile, local protests in the Ilisu region grew stronger; over a hundred people from the dam site traveled to Ankara on behalf of thousands of others to announce to the three countries' embassies that if their governments continued to support the dam, when they were flooded from their homes they would apply for asylum in those nations as refugees.

In March and August 2008 the monitoring committees released their first reports, and the findings were devastating. The resettlement program is a shambles — planning was absent for the most basic elements such as identifying new land for the displaced and restoring incomes for affected people. The reports found that the government even lacked the capacity for such planning, "entailing serious risk of impoverishment, destitution, and social disorganization for the massive population inhabiting the reservoir." There was also disarray in fulfilling environmental and cultural heritage requirements.

In early October, the ECAs of Austria, Germany, and Switzerland sent the Turkish government an official Environmental Failure Notice, giving it 60 days to fulfill the conditions or else face withdrawal of ECA support. If the three ECAs are steadfast in this ultimatum, it would indicate that such voluntary agreements among major economic actors in the OECD can be implemented and are implementable — a question which remains doubtful. But the economic and political pressures to continue with the project may be insurmountable.

The approval in 2007 of export finance for Ilisu appears increasingly to be an egregious breach of the spirit if not the letter of the OECD "Common Approaches." Committing hundreds of millions in public guarantees for such an egregiously ill-prepared project, with 153 post-facto conditions purporting to make it viable as construction proceeds, was a terrible precedent that should never be repeated.

Bruce Rich is an attorney at the Environmental Defense Fund. His email is brich@edf.org.