



Friends of
the Earth
International

Under the Banner of Regional Integration and Poverty Relief:
**The European Investment Bank
and its relationship to IIRSA**

By Adriana Martinez, with Elisangela S. Paim and Janneke Bruil

Friends of the Earth International
November 2006

Table of Contents

1	The IIRSA and its Impact	2
	1.1 What is IIRSA?	2
	1.2 IIRSA impact: integration at risk	2
2	The European Investment Bank and its impact	3
	2.1 What is the European Investment Bank	3
	2.2 EIB's inconsistencies and impact: benefiting European corporations	4
3	IIRSA and EIB	5
	3.1 Memorandum between the EIB and the IDB: infrastructure first	5
	3.2 European Parliament Resolution: political support for the alliance between IIRSA and the European Bank	6
4	Conclusion	6
5	Additional reading	8

Regional Integration and Poverty Relief

The European Investment Bank and its relationship with IIRSA

Under the banner of poverty relief and regional integration, international financial institutions have been promoting and justifying their investments in developing countries, ignoring issues such as the environment, sustainability and social justice.

This article analyzes the role the European Investment Bank (EIB) is beginning to play within the Initiative for the Integration of Regional Infrastructure in South America (IIRSA). First we present a brief summary describing IIRSA and the European Bank, then we investigate how the IIRSA and the EIB are related, and lastly we analyze the support the European Parliament is giving to these types of initiatives through the European Parliament Resolution about Strengthening the Relationship between the European Union and Latin America.

1. The IIRSA and its impact

1.1 What is IIRSA?

The IIRSA initiative was created in 2000 following a summit of South American presidents in Brazil, with the official goal of striving for South American Regional Integration through infrastructure related to transportation, energy and telecommunications. This initiative is coordinated by 12 South American governments with the technical and financial support of the Inter American Development Bank (IDB), the Andean Development Corporation (CAF) and the Del Plata Basin Development Fund (FONPLATA), as well as other development banks, including the European Investment Bank (EIB). IIRSA has identified ten integration areas. They are:

- Andean area
- South Andean area
- Capricorn area
- Amazon area
- Guyana area

- South area
- Paraguay-Parana waterway area
- Mercosur Chile area
- Peru, Brazil, Bolivia area

The IIRSA initiative has been working on seven processes of integration designed to harmonize regulatory frameworks among countries:

- Instruments to finance physical regional integration projects
- Energy integration
- Easing of border crossings
- Information and communication technology
- Operation systems for air transport
- Operation systems for sea transport
- Operation systems for multiple modes of transport

1.2 IIRSA's impact: integration at risk

Why is the IIRSA initiative a risk based on the terms it is framed? These are some considerations of what is really behind the Regional Integrations, which is used as a shield to achieve economic and financial goals.

- i. Because the transport, waterways and agribusiness network projects are having a direct impact on biodiversity. For example, the impact in the Andes, the Amazon Basin, the Mato Grosso, the Pantanal, and the Paraguay and Parana rivers, will be significant, and in many cases irreversible.
- ii. Because they would be affecting the existing agrarian system placing the products of peasant communities at a greater disadvantage (such as the introduction of soy).
- iii. Because the grand infrastructure projects have been drawn up without due environmental, social and cultural standards, which should have a true

dimension of Regional Integration (keeping into account all the variables and needs of each of the social actors, not just those of the private sector).

- iv. Because of the lack of responsibility of governments and banks to incorporate appropriate environmental, social and cultural standards in large infrastructure projects.
- v. Because IIRSA could follow the same path as other large infrastructure projects financed by international financial institutions. These projects continue to cause harm to indigenous communities (Camisea gas pipeline) and the environment (Bolivia-Brazil gas pipeline), and can rack up devastating national debts (Yacyreta hydroelectric plant).
- vi. Because the role played by European transnational corporations in Latin America has generated conflicts between consumers of public services, putting access to basic services (such as water, electricity, telecommunications) at risk, and promoting the privatization of public services.
- vii. Because IIRSA offers little access to information about their projects and reforms.
- viii. Because IIRSA does not have monitoring and evaluation programs in place that comply with the necessary standards to demonstrate that poverty will be reduced or that sustainable societies are being promoted.
- ix. Because IIRSA does not make concrete connections between their large projects and the reduction of poverty and the improvement of the environment.
- x. Because IIRSA has a logic that is purely economic (trade liberalization) instead of a logic that is truly integrating and about sustainable development.

2. The European Investment Bank and its impact

2.1 What is the European Investment Bank

The European Investment Bank (EIB) was created in 1958 by the Rome Treaty, together with the European Community. Its formal goal is to lend money for projects of European interest, particularly in less wealthy areas, countries that are candidates to join the European Union (EU), and developing countries.

Financing is done through financial markets and its shareholders, EU member states, which pool their capital through contributions that reflect their economic weight in the European Union.

The EIB is a public institution established within the cooperative structure of the EU. As the European Commission recognizes, the EIB has the responsibility to promote sustainable development and guarantee benefits to the population in the countries where it invests. In Africa, Latin America and Asia it must operate in a manner that is coherent with the policy of cooperation of the EU (Cotonou Accord and Council Rules). This frame of reference also includes accords and priorities related to development between the EU and non-member countries (in the so-called National Strategic Reports) and particularly the priorities related to the reduction of poverty and to social and environmental development.

The projects are selected according to the following criteria:

- They must help to achieve EU objectives such as making European industries and small businesses more competitive; create trans-European networks (for transport, telecommunications and energy); promote the information technology sector; protect the natural and urban environment; improve health and education services;
- They must mainly benefit less privileged regions;

- They must help attract other sources of financing.

Finally, the EIB is the main shareholder in the European Investment Fund.

The EIB is an autonomous institution that makes its own loan and investment decisions based on each project's characteristics and on the opportunities offered by the financial markets. Each year it presents a report on all its activities.

The bank cooperates with EU institutions: for example, its representatives may participate in parliamentary commissions and the president of the EIB may attend the council's meetings.

The bank's decisions are reviewed by the following bodies:

- The Council of Governors, made up of ministers (usually of finance) of all member states, defines the general loan policy, approves the annual balance and report, authorizes financing for projects outside the EU and decides about increases in capital.
- The Administrative Council approves loan operations and assures that the bank is managed correctly. It is composed of 26 directors, one from each member state of the EU and one for the European Commission. The Board of Directors is made up of nine members and is the bank's executive body, in charge of managing its daily activities.

2.2 Inconsistencies of the EIB and its impact: benefiting European corporations.

In Latin America the EIB mandate is based on the so-called "common interest" that the bank interprets as the development of the external market and the financial backing for European businesses. In this region the loans are destined to sectors or clients that are well established and financially secure. The loans do not reach the poorer countries (financially risky) nor local, small businesses.

Between 1993-2004, more than 90% of EIB loans to Latin America were given to

businesses whose headquarters are in Europe, or to large transnational corporations. So, Gas de France, Repsol, British Gas and Shell received millions of Euros in contracts in the oil and gas sectors. In Latin America local private businesses received around 2% of EIB loans for individual projects. Those investments are generally targeted for export-oriented activities, while the support for the creation and improvement of the local infrastructure, such as electric networks or local ground transportation systems, have been ignored.

In practice, the EIB has become an institution guided by the demand and needs of its clients, which above all finances projects with guaranteed high economic yields. Often projects financed by the EIB harm communities and the environment, as is the case of an investment in a cellulose plant in Brazil.

The EIB refuses to adopt modern environmental and public responsibility standards, even after having carried out various consultations. Despite the EU requisites, the EIB has not established appropriate policies for different environmental sectors and proceedings for the different types of projects it finances. Seeing that the EU policies are no longer enough to guide the activities within the member states (or they are not implemented), they definitely are not complied with outside of the EU, especially in countries in the South.

The Aarhus Convention's dispositions about access to environmental information, together with the EU Directive on Evaluations of Environmental Impact, establish that the public must have access to the documentation and information related to any proposed project, and to have the opportunity to express their opinion before the project is begun. Notwithstanding, the EIB refuses to release vital information even to groups or communities that would be most affected by the projects it is financing. The EIB alleges that confidential information is solely limited for internal use.

The EIB offers 'Global Loans' to national or local banks, also known as intermediaries, with which the Bank has associated. In the

last ten years the global loans represented 14.5% of the total loans from the EIB to Latin America. These intermediaries frequently are not able to share information about what is being financed with EIB loans, and it is impossible to determine if they follow EIB or EU policy. Civil society has been denied access to documentation regarding the relationship between the EIB and its intermediaries, and to the loan's real destination. Finally, the EIB activities are not centered on financing that promotes environmental protection, such as recognizing the threat of projects affecting climate change. They tend to direct loans to technological "fixes" to existing environmental problems.

3. IIRSA and the EIB

3.1 EIB Memorandum with the IDB: infrastructure first

In 1998 the EIB granted a 55 million euro loan to the Transportadora Brasileira Gasoducto, a consortium formed by Brazilian Petrobras, Enron and Shell. With this loan, the EIB and the Inter American Development Bank co-financed a very controversial gas project: the Bolivia-Brazil gas pipeline. The 3000-km-pipeline – the largest investment in Latin America – goes through various large ecosystem, including the Gran Chaco, a dry tropical forest area in Bolivia that was recently declared a protected zone; the Pantanal, the largest wetland area in the world; and the Mata Atlantica tropical jungle in Southeast Brazil. Through the years, the project's development has been marked by numerous conflicts with respect to indemnity and the lack of effective supervision and the application of environmental and social safeguards. This cross-border pipeline is an example of the type of regional project that the EIB and the Inter American Development Bank (IDB) will potentially carry out within the framework of IIRSA. Through a Memorandum of Agreement signed on December 13, 2004, between these banks, the EIB has free access to participate directly in the IIRSA initiative.

Among the goals established in this memorandum, the role of the EIB in the

IIRSA is clearly mentioned. "Developing and modernizing the regional infrastructure and financing regional integration projects carried out with the participation of the private sector and public-private associations," which ratifies once more the development model that has been implemented in Latin America.

On the other hand, in line 3.2 of the same document regarding modes of cooperation, the following was agreed upon:

- "The pursued goal is the application of an integrated focus with regional infrastructure development, having the private sector intervene in the financing, construction and exploitation of infrastructure projects. Investments will be concentrated on certain projects that are essential to integration and to dedicate special attention to social and environmental considerations in the conception and development of projects."
- The EIB sees the IDB's activities in favor of the PPP and IIRSA initiatives with approving eyes, and is willing to participate in the financing of projects developed by the IDB within the framework of such initiatives on the condition that private operators from the EU intervene in them.
- The EIB can directly or indirectly provide technical assistance to the IDB in the areas of policy, transnational projects and issues of spatial planning.
- The experience acquired by the EIB to finance trans European networks and infrastructure projects through public-private associations can be very useful for PPP and IIRSA initiatives.
- The skills gained by the EIB in financing infrastructure projects through public-private associations (in Europe and other regions) are found in numerous EIB departments, many of which are not related to Latin American operations. Therefore, the availability of resources has to be studied for each individual case. They will adopt suitable financial provisions for contributing technical

assistance, for deployment and participation in joint missions, including programming and personnel exchange.

As we can see, this Agreement is directed toward the development of the private sector through European businesses, increasing loans to “projects of exceptional interest” beyond the financing cap established by the EIB mandate as set by the European Commission.

Issues like sustainable development or poverty reduction do not appear as a central component in the agreement between these two banks. So the question remains: How can these types of initiatives and agreements between the “banks of the North” really affect or impact living conditions in social and environmental terms?

3.2 European Parliament Resolution: political support for the alliance between the IIRSA and the European Bank.

We understand that this resolution supports free trade between continents, as expressed in one of its points: “Considering that Latin America – with which we share a common commitment to human rights, democracy and multilateralism – is a privileged partner for a Union that tries to establish itself as a global actor and that has become the top foreign investor in Latin America, the top provider of funds for the region and the first trade partner of many countries, particularly within the Mercosur.”

The resolution clearly promotes processes of regional integration in Latin America saying that “we are pleased that the Commission maintains regional integration as a priority in support of the region’s development and supports proposals that strengthen the processes of regional integration by means of the conclusion in Vienna of negotiations on the Agreement of Association and Free Trade with the Mercosur and the immediate opening of negotiations for various agreements of the same kind with the CAN and Central America.”

On the other hand it states that “the mere perspective of an Agreement of Association

with the Union has already contributed in a decisive manner to the progress of Andeans and Central Americans in diverse aspects of economic integration, particularly referring to customs unions and customs proceedings; it expresses its conviction that such advances will intensify with the negotiation of future agreements, which would mean tangible and decisive support to regional integration in Latin America.”

It proposes “to the Vienna Summit to move toward a more long term strategy to achieve an Agreement of Global Inter Regional Association and the creation of a Euro-Latin American Area of Global Inter Regional Association in the medium term; to that end it recommends the immediate launch in Vienna of a viability study about both initiatives.”

We also state that this resolution supports the European Bank in its interest of financing infrastructure projects, given that the same resolution backs “the European Commission’s proposals to support territorial integration in Latin America and the interconnection of its diverse infrastructure networks, particularly those of the energy, water, transport, telecommunication and research sectors; it urges the European Investment Bank (EIB) to provide decisive assistance in the matter within the context of the “Latin American Think Tank” that is mentioned below.”

It proposes to initiate actions of association through:

- The opening of EU markets in line with the goals of the Agreement of Association.
- The creation of a Bi Regional Solidarity Fund and a “Latin American Think Tank”.
- The promotion of regional markets and fair trade projects.

4. Conclusion

Given the European Bank’s history, strategies, relations, interests and trends, the role that this bank plays within IIRSA will not produce any sustainable integration nor poverty relief. The proposals, including the

strategy the IIRSA is presenting, as well as the European Investment Bank's proceedings, are not based on sustainable principles nor do they take into account standards of environmental and social monitoring that assure sustainable development. Neither do they clearly show the way in which the EIB would be effectively promoting sustainable development in the areas involved in the IIRSA.

On the contrary: if the EIB and the proponents of the IIRSA keep pushing for "integration" in the way that they have been doing it, it will have serious social, environmental and economic consequences for Latin American countries.

The real interest is given primarily to promote and strengthen foreign investment (including European) in mega infrastructure projects, contributing once again to a widening of the gap between rich and poor, leaving issues such as health, education, gender, environment, cultural diversity and human rights in the background. Instead of achieving integration this will contribute to social disintegration, more poverty, more inequality, and it will strengthen the coffers of large European businesses.

5. Additional reading:

Memorandum between the IDB and the EIB
http://www.eib.eu.int/attachments/thematic/mou_eib_idb_es.pdf

European Parliament Resolution on Strengthening the Association between the European Union and Latin America
http://www.europarl.europa.eu/omk/sipade3?SAME_LEVEL=1&LEVEL=1&NAV=X&DETAIL=&PUBREF=-//EP//TEXT+TA+P6-TA-2006-0155+0+DOC+XML+V0//ES

The EIB in the South: In whose interest?
<http://www.foei.org/esp/publications/pdfs/eibenelsur.pdf>

Friends of the Earth International web page on the EIB
<http://www.foei.org/esp/ifi/eib.html>

CEE Bankwatch Network website on the EIB
<http://www.bankwatch.org/issues/meib.html>

Information booklets on the EIB (FoEI and Bankwatch):
<http://www.foei.org/esp/publications/financial/index.html>

EIB project in the South (civil society site):
www.eibprojects.org

EIB Website (in English, French or German)
<http://www.eib.org>

IIRSA. Another step in the exploitation of South American people and territory, Friends of the Earth Uruguay and the Sustainable Uruguay Project:
http://www.redes.org.uy/modules/UpDownload/store_folder/Material_para_Descargar/IIRSA2.pdf

BICECA: Building Informed Civil Incidence for the Conservation of the Andean Amazon
<http://www.biceca.org/es/Page.About.Biceca.aspx>

Bank Information Center pages on IIRSA
http://www.bicusa.org/bicusa/issues/america_latina/2622.php
http://www.bicusa.org/bicusa/issues/la_iniciativa_para_la_integracion_de_infraestructura_regional_en_sur_america_iirsa/index.php

Rios Vivos pages on IIRSA:
<http://www.riosvivos.org.br/canal.php?canal=290>

IIRSA official Web page:
www.iirsa.org