

CLEAN UP

THE EUROPEAN INVESTMENT BANK IN THE

SOUTH

IN WHOSE INTEREST?



THE EUROPEAN INVESTMENT BANK IN THE

SOUTH

IN WHOSE INTEREST?

BY Jaroslava Colajacomu

WITH CASE STUDIES BY

Mae Buenaventura and Bubut D. Palattao (Freedom from Debt Coalition, Philippines), Domitille Delaplace (Equipo Pueblo, Mexico), Korinna Horta (Environmental Defense, USA), Chris Lang (World Rainforest Movement), Gary Lee (TERRA, Thailand), Peter Sinkamba (Citizens for a Better Environment, Zambia), P. Raja Siregar (WALHI/ Friends of the Earth Indonesia).

The author of this publication owes a great deal to Hannah Ellis and Janneke Bruil (Friends of the Earth International) and Magda Stoczkiewicz (CEE Bankwatch Network), for their invaluable support in terms of conceptual and stylistic choices made throughout the publication. Without their help this publication would not have been the same. The author would also like to thank Martin Koehler and Antonio Tricarico (CRBM) and Klaus Schilder (WEED) for their help in the research and drafting of a previous study whose main findings are echoed in the present publication. Special thanks also go to Longgena Ginting (Friends of the Earth International), James Barnes, Ndoumbe Nkotto (Focarfe), Jean Marie Ferraris (LRC/Friends of the Earth Philippines), and case study writers for their contributions and their commitment to supply original and up-to-date information about the impact of EIB lending activities otherwise not known.

AUTHOR CONTACT:

Jaroslava Colajacomu
e: jaro@playapart.it
e: jaro@crbm.org

© CEE Bankwatch Network, Campagna per la riforma della Banca Mondiale (CRBM), Friends of the Earth International (FoEI) and World Economy, Ecology & Development (WEED).

EDITOR: Rowan Mackay, UK

PRINTING: Tiskárna Brouček, Czech Republic

DESIGN & LAYOUT:

Tania Dunster, onehemisphere, Sweden

PHOTOS BY: Cover image:

Janneke Bruil, Bubut Palattao, CEE Bankwatch Network, CED/FoE Cameroon, Elaine Gilligan, Frédéric Castell, FIVAS, Magda Stoczkiewicz, Melquíades Spinola/ CEPEDES, onehemisphere, Photographic Archives/ El Universal - Mexico: Rodolfo Perez, Oswaldo Ramirez and Luis Garcia Soto, Peter Sinkamba, Proyecto Gato, Sebastian Godinot, TERRA, WALHI/Friends of the Earth Indonesia and Woody Simbeye.

PUBLISHED BY:

Friends of the Earth International

PO Box 19199
1000 GD Amsterdam
The Netherlands
tel: +31 20 622 1369
fax: +31 20 639 2181
e: foei@foei.org
www.foei.org

Campagna per la riforma della Banca Mondiale (CRBM)

Programma di Mani Tese
Via Tommaso da Celano 15
00179 Roma, Italy
tel: +39 06 78 26 855
fax: +39 06 78 58 100
e: info@crbm.org
www.crbm.org

CEE Bankwatch Network

Jicinska 8, Praha 3, 130 00,
Czech Republic
tel: +32 2 542 01 88,
fax: +32 2 537 55 96
e: main@bankwatch.org
www.bankwatch.org

WEED e.V.

World Economy, Ecology & Development (WEED)

Torstr. 154, D-10115
Berlin, Germany
tel: +49 30 2758 2163
fax: +49 30 2759 6928
e: weed@weed-online.org
www.weed-online.org



EXECUTIVE SUMMARY	4
INTRODUCTION	6
1. THE EIB OUTSIDE EUROPE: LEGAL AND POLICY FRAMEWORKS	7
BASIC FACTS ABOUT THE EIB	7
THE LEGAL FRAMEWORK	7
THE POLICY FRAMEWORK	8
2. AFRICA: PRIORITY SUPPORT FOR OIL, MINING AND GAS	10
MINING IN ZAMBIA	14
THE CHAD-CAMEROON OIL AND PIPELINE PROJECT	16
3. LATIN AMERICA: PUTTING INDUSTRY AND ENERGY IN THE HANDS OF EUROPEAN COMPANIES	19
EUROPEAN INVESTMENT BANK LENDING IN MEXICO: IN WHOSE INTEREST?	22
THE MEXICO 'VOLKSWAGEN' PROJECT	24
THE 'MEXI-GAS' PROJECT	26
VERACEL PULP MILL, BRAZIL	28
4. ASIA: PROMOTING WATER PRIVATISATION AND LARGE DAMS	30
JAKARTA'S WATER PRIVATISATION	32
WATER IN THE PHILIPPINES: LESSONS FROM A FAILED PRIVATIZATION EXPERIENCE	34
THE NAM THEUN 2 DAM IN LAOS	37
5. CONCLUSION	40
6. RECOMMENDATIONS	41
7. GLOSSARY	42
8. ANNEXES	43
9. USEFUL RESOURCES	47
10. END NOTES	49



EXECUTIVE SUMMARY

Less than 50 years old, the European Investment Bank (EIB) has become one of the most powerful International Financial Institutions in the world. Acting on behalf of European citizens and the European Union Governments that own it, the EIB lends about €45 billion a year of public money for projects that claim to help development and cohesion of the European Union (EU). In the 1960's the EIB started to finance projects in Africa and today about ten percent of the EIB's financing is outside Europe, in countries from China to Brazil. This lending covers a wide spectrum of project investments including in energy, water, communication, industry and financial intermediaries. But in whose interests are these projects?

The EIB is a public institution established within the European Union co-operation framework and has responsibilities in ensuring sustainable development and positive benefits for people in the countries where it lends, as originally recognised in the Treaty for Europe. In Africa, Latin America and Asia the EIB is supposed to operate in coherence with EU co-operation frameworks (Cotonou Agreement and Council regulations). These frameworks are embedded in EU agreements and priorities for development agreed with the respective countries (in so called Country Strategy Papers). These priorities include poverty alleviation and social and environmental improvement.

Through analysis of original data, this report evaluates the EIB's activities in African, Latin American and Asian countries. The report draws on a recent European Parliament study¹ and on case studies written by civil society groups from eight countries in the global south where the EIB operates; Zambia, Chad, Cameroon, Laos, The Philippines, Indonesia, Mexico and Brazil.

This report argues that the EIB appears to be in practice a fundamentally demand-driven institution responding to the needs of its clients, readily financing projects where economic returns are high and guaranteed instead of prioritising lending for poverty alleviation or environmental protection. The EIB has for example, rarely subsidised environmental projects, or invested in renewable energy. Furthermore, case studies illustrate how EIB financed projects have often been damaging to communities and the environment, for example in investments in plantations for pulp production in Brazil.

In Latin America and Asia the EIB's mandate is based on so called 'mutual interest'. The EIB appears to interpret this 'mutual interest' as primarily development of an external market and support for EU companies. In these regions, EIB loans have targeted well-established and financially secure sectors or clients, thus tending not to reach out to the poorest (and financially risky) countries or small local companies.

In Latin America, more than 90% of EIB loans since 1993 have been given to either subsidiaries of EU-based companies or to big trans-national corporations. This report illustrates that these investments are often directed towards export, with profit for the EU companies, while support for creation and improvement of local infrastructure such as electricity networks and local transport systems is neglected.

In Africa the EIB manages a significant share of EU commission budget money for development co-operation (up to €13.5 billion during last ten years) and this tendency is increasing with the creation of the new EIB's Cotonou Investment Facility, expected to disburse €2.2 billion of the EU budget between 2003 and 2008. This report shows how the first few loans disbursed by the Facility went predominantly to the private sector, to large European corporations or large local companies, including the recent loan for the copper and titanium mines in Zambia and Mozambique.

In Africa, as in Latin America, the preferred targets of EIB loans are within the extractive industries sector. The Chad-Cameroon Oil Pipeline was the largest project ever funded by the EIB in Africa, with €144 million, representing four percent of its total lending in the ACP region countries. In 2006 the EIB is considering financing another risky fossil fuel project, the West African Gas Pipeline extending from Nigeria to Ghana. The EIB's loans for extractive industry projects described in this report indicate how the EIB has often failed to deliver local development benefits in terms of jobs or basic services. This report also found this to be true in other sectors, such as loans to Volkswagen in Mexico and water companies in Asia. The EIB's significant investment in Private-Public Partnership water privatisation projects in Indonesia and the Philippines have had no benefits to those lacking access to safe water supplies or to the poor.



Children in Ghana
© Janneke Bruil.



Inhabitants of the fishing harbour of Jakarta.
© Janneke Bruil.

This report finds that EIB financed projects in the global south have often received inadequate environmental and social assessment resulting in detrimental impacts on local communities and the environment. In Africa and Asia, a priority area of lending for the EIB has been in hydropower production and large dams, often at the expense of the environment. The Nam Theun 2 Dam in Laos, reviewed in this report, was financed in disregard of its violation of internationally recognised standards.

The EIB claims that its selection of projects financed outside the EU is rigorous and that all projects it finances must comply with EU environmental policies and standards (for example on environmental and social assessment) and take into account local conditions and law. However, the case studies in this publication show that in reality EU standards are not met, nor are best practices followed. There are no mechanisms in place to properly assess the coherence of the EIB's operations with EU policies prior to or post loan approval. Moreover, there are cases where EU policies are insufficient or do not apply to non-member countries. Unlike other International Financial Institutions like the World Bank or the Asian Development Bank, the EIB has no internal safeguard policies, such as a resettlement or indigenous peoples' policy, nor an independent complaints mechanism for affected people for projects outside Europe.

Despite international calls to meet the Millennium Development Goals to address the needs of the poor, the EIB's support for basic social needs (such as access to water and sanitation, health, and education) has been minimal in its total lending in the global south. In Africa, the EIB is obliged to adhere to EU strategies for poverty alleviation and social development – with strong reference to the MDGs – yet, so far there is little indication that EIB lending activities have contributed to this goal.

Furthermore, the EIB remains one of the least transparent and least accountable institutions within the EU. This report shows how the EIB denies vital information to the public (including whether the EIB is considering financing a project and key environmental and social impact assessments) and concludes that EIB clients have primary disclosure control regarding project information.

The EIB's accountability to the EU Commission and Parliament needs urgent attention. Although the European Commission reviews annually EIB operations, and the European Parliament is free to pass resolutions regarding the EIB or to come forward with its own reports, the EIB is not bound to comply with Parliament's recommendations. For example, although over a year ago the European Parliament called on the EIB to adhere to the findings of the World Bank's Extractive Industries Review (EIR), the EIB has not implemented these recommendations.

This report recommends a dramatic shake up of the EIB in its choice of projects, its relation to affected people, its accountability to the European Union, its procedures and processes, and its monitoring of projects and policies regarding lending in the global south. The EIB must take full responsibility for the consequences of its lending and it must ensure that the projects it finances deliver benefits to people and the environment. The full set of recommendations is on page 41.



Brazil.
© Melquiades Spinola/CEPEDES.

CLEAN UP



INTRODUCTION

In recent decades, the European Investment Bank (EIB) has become an important player among international financial institutions' (IFIs) lending to countries in the global south. The EIB is increasingly involved in lending operations outside the European Union, in particular to the private sector. Of all IFI lending in Latin America from 1997 to 2002, the EIB's private sector support ranked third after the World Bank and the Inter-American Development Bank. It was ranked the fifth largest IFI private sector lender in Asia.

While activities in the global south are still a relatively minor part of the overall portfolio of the EIB – which continues to operate mainly within the Member States of the European Union (EU) – they have, nevertheless, resulted in the EIB being among the main players within the Union's external development and economic co-operation programmes. Accordingly, the European Parliament and the European Commission are called upon to exercise their institutional powers² whenever the EIB is acting on behalf of the European Community and towards the advancement of the political objectives of the European Union.

In its Development Policy Statement of 2000, the European Commission tried to reorient its co-operation with non-EU countries towards poverty alleviation. It prioritised the promotion of equitable access to social services, transport, food security, sustainable rural development and institutional capacity-building, particularly in the area of good governance and the rule of law.³ The European Investment Bank is supposed to follow this EU development strategy. Specifically, the EIB operates in the global south under the EU-ACP Cotonou Agreement and within the framework of EU Council Resolutions.

This report⁴ analyses the real poverty alleviation impact of EIB lending operations in African, Caribbean, Pacific, Asian and Latin American countries. It illustrates how European companies are the main beneficiaries of EIB loans, exposes the significant social and environmental problems surrounding EIB's projects, details various instances of fundamental policy incoherence and highlights the serious non-transparency and the systematic lack of development impact assessments of the EIB's lending in the global south.

This report provides an overview of eight projects funded by the EIB in Zambia, Chad, Cameroon, the Philippines, Indonesia, Laos, Mexico and Brazil. The projects cover a variety of sectors, including oil, gas, mining, water, the car industry, and pulp and paper. In most of these cases, requests by local and/or international civil society for pre- and post-appraisal studies, monitoring reports and project evaluations were rejected by the EIB on the grounds of confidentiality requirements. This report

highlights that in general, civil society did not have – and was actively denied – a voice in any decision-making procedures concerning these projects, even though the EIB claims civil society has been among the main beneficiaries of the projects.

The World Bank's 2003 Extractive Industries Review⁵ found that large-scale oil, mining and gas projects are not likely to contribute to poverty alleviation in countries that are corrupt, do not have law enforcement mechanisms in place, and do not respect human rights. These governance elements are lacking in many countries in Africa, Asia and Latin America where the EIB is active in these sectors. In 2000, the prestigious World Commission on Dams⁶ already presented similar findings for large-scale hydro dams, recommending among its seven strategic priorities, the principle of "gaining public acceptance" before any new dam is built. Both studies recommended obtaining consent from indigenous and local communities before pushing ahead with large-scale pipelines, oil extraction, mines or large dams. This report illustrates how the EIB actually failed to obtain communities' consent for such projects.

If the Millennium Development Goals⁷ are to be achieved, involving local communities in development projects and analysing the impacts of development lending are of critical importance. This is particularly true for scarce public financial resources that should be directed to their best use. Moreover, lending to southern countries' governments contributes to the creation of debt and must therefore be carefully evaluated against its benefits if principles of poverty eradication and sustainable development are to provide the basis for EIB's lending outside Europe.

The EIB has an opportunity to avoid the mistakes made by its sister organisation, the World Bank, whose controversial projects and policies in southern countries around the world have generated widespread outrage and protest. As the EIB is setting out to revise its mandates outside the European Union (its present mandates expire in 2007), this report highlights critical mistakes to avoid in the future, and steps the EIB could take to do things better.



THE EIB OUTSIDE EUROPE: LEGAL AND POLICY FRAMEWORKS

BASIC FACTS ABOUT THE EIB

Created in 1958, the European Investment Bank is one of the largest existing international financial institutions. It is owned by the European Union member states and, with its current annual lending portfolio of €45 billion, it is responsible for almost double the amount of financial investments made by the much better known World Bank.

The EIB was originally set up to finance the physical infrastructure linking the national economies of the EU member states, and to provide investment in less-developed areas of the European Union. Its portfolio, mission, and area of investment has grown substantially since then, and now the EIB is also a major financier of development projects around the world, with €3.5 billion or 7% of its overall portfolio lent outside the EU in 2004.

The EIB governing bodies include:

Board of Governors – composed of Ministers from 25 EU member states who guide general EIB development and mandate its activities.

Board of Directors – composed of 26 Directors (one per member country and one representing the European Commission) and a number of alternate (substitute) directors and advisors. The mandate of the Board includes ensuring the EIB's adherence to European Treaties, its Statute, and coherence of directives given by the Board of Governors. Hence, it has a crucial legal role in approving projects. Unlike the equivalent decision making bodies in other IFIs, however, this Board is non-resident, part time and meets only ten times a year.

Management Committee – this is the EIB's full-time executive body and oversees day-to-day business under the authority of the President, currently Philippe Maystadt. The President and eight Vice-Presidents have an immensely powerful role within the EIB, as they recommend decisions to Directors, including the approval and appraisal of projects and policy areas.

Article 21 of the EIB's Statute states that "Applications made through a Member State shall be submitted to the EU Commission for an opinion"⁸ before the EIB Board approves a loan. This article limits the role of the EU Commission to voice its opinion only on individual projects – known also as the "inter-service consultation"⁹. Other co-operation between the EIB and the Commission appears to be characterised by highly informal conduct via Memoranda of Understanding and rather loose co-ordination at policy level, with institutional responsibilities left open to interpretation by the EIB and the Community.¹⁰

While generally the European Parliament has no formal institutional powers to hold the EIB accountable on projects and policies, members of the EIB's Management Committee are occasionally invited to attend meetings of various parliamentary committees – namely the Committee on Economic and Monetary Affairs (EMAC) and the Development Committee. EMAC has been authorised for the past five years to draw up a report – pursuant to Rule 163 of the Parliament's Rules of Procedure – on the European Investment Bank.

EIB lending is spread throughout various sectors including energy, agriculture, water, transport, and industry projects, with a client base increasingly from the private sector. The EIB often co-finances projects with other international financial institutions, such as the World Bank or the European Bank for Reconstruction and Development (EBRD). In recent years, the EIB has funded large projects outside the European Union with major negative economic, environmental, social and political impacts, some of which are described in this publication.

THE LEGAL FRAMEWORK

Since its creation under the Treaty of Rome in 1958 the EIB's operations have expanded to include investments in many regions outside the European Union. The EIB's investments in Africa began in the early 1960s and investment in Latin America and Asia began in 1993. All though the EIB has, by virtue of its Statute¹¹, always had the right to initiate lending operations outside the European Union, its recent globally expanding activities are the result of political decisions by the European Union's Council, responsible for the mandates entrusted to the EIB as indicated in table 1.



*EIB reform social posters exhibition in Luxembourg 2005.
© CEE Bankwatch Network.*

CLEAN UP



THE EIB OUTSIDE EUROPE: LEGAL AND POLICY FRAMEWORKS

These mandated activities are based on the co-operation frameworks established between the EU and the non-EU-member states. In African, Caribbean and Pacific Countries (ACP), the EIB lends under the framework of the EU-ACP conventions (previously called Yaoundé and Lomé, now Cotonou convention). In Asia and Latin America, or ALA countries, it operates under mandates from the European Council, which are embedded in the EU co-operation policy with those countries. In the Republic of South Africa, which became an associate member of the EU-ACP Conventions in 1998, the EIB lends under a specific bilateral agreement. These frameworks are embedded in the EU policies for development co-operation, which find practical application in the so-called Country Strategy Papers (CSPs) jointly prepared by the Commission and the borrower countries.

The Constitution for Europe Treaty of 1958 states that the European Investment Bank shall contribute to “the implementation of development co-operation policy, which may relate to multi-annual co-operation programmes with developing countries or programmes with a thematic approach”¹². However, although development objectives are, to varying degrees, embedded in regional co-operation frameworks, the European Council has thus far failed to regulate a global development mandate for the EIB.

Since the 1990s, various European Council decisions¹³ have mandated the EIB to invest a set amount of its own resources in regions outside Europe within a set period of time. The first global mandate was given to the EIB by the Council in 1997 and the current mandate, issued in 2000, covers EIB operations outside Europe until 2007. In Asian and Latin American countries, the Council mandated the EIB to lend up to €4,405 million¹⁴ of its own resources. Operations financed in the EIB’s own portfolio in these regions have additionally been guaranteed against so called political or commercial risk¹⁵ by the European Commission budget, through the creation of a Loan Guarantee Fund.¹⁶ These guarantees provide financial backing for EIB investments in Asia and Latin America.

The European Council also entrusted the EIB with direct management of European Community budgetary resources on behalf of the EU Commission. This has been the case for a number of programmes, especially in African and Mediterranean countries.

THE POLICY FRAMEWORK

Although the EIB, as a public institution, claims to be driven by the policy objectives and guidelines of the European Union, there are no mechanisms in place to properly assess the coherence of its operations with EU policies prior to – or post – loan approval. Moreover, there are many cases where EU policies are insufficient, such as in relation to resettlement issues or indigenous peoples. The EIB has no internal environmental or social policies with which to fill this gap.

Although the EIB claims that in those cases where European Union regulations do not provide adequate policy guidelines it follows World Bank and other IFI policies, no mechanisms or expertise exist within the EIB to ensure compliance with these policies. Furthermore, unlike the World Bank and the Asian Development Bank, the EIB has no independent complaints mechanism for people who are negatively affected by its projects outside Europe.

In its Social Statement 2004, the EIB stated that ‘issues of discriminatory practice (including gender-related), indigenous peoples, involuntary resettlement and disputed territories are addressed by the EIB with reference to the standards and practices advocated in the safeguard policies of the World Bank as well as those of the Asian Development Bank (AsDB) and the African Development Bank (AfDB)’.¹⁷ By failing to have its own procedures, independent expertise, and in-house capacity to thoroughly assess projects, the potential negative impact of its lending on development is increased.

EIB financed projects claim to ‘... comply with EU environmental policies and standards, take into account local conditions and law, comply with the EU’s Directive on Environmental Impact Assessment; apply ‘best available techniques’, apply good environmental management practices during project implementation and operation; adhere to international good environmental practice’¹⁸. Furthermore, the European Commission annually reviews compliance of EIB operations outside Europe under the Council mandates with EU policies and guidelines.¹⁹ However, the case studies in this publication clearly show that in reality EU standards are not met, nor are best practices followed.

The EIB's Environmental Statement (2004) says that 'it does not fund projects that have a significant negative environmental or social impact and takes social issues into account in its project financing'.²⁰ However, there are no evaluation mechanisms in place to properly anticipate environmental and social impacts: the main assessment indicator that the EIB uses for agreeing to fund a project is the Economic Rate of Return (ERR) of the investment.

Moreover, general documentation regarding environmental impact assessments, social assessments, poverty reduction assessments, or other instruments identified in the EIB's 'Social Statement' has not been disclosed to local or international NGOs, or affected people. The EIB Operations Evaluation Department carries out evaluations of project performance only for a sample of the projects financed and does not disclose disaggregated information. Although the EIB is required by its mandate²¹ to take social issues into account in its project financing, only the recent March 2005 'Development Impact Assessment Framework of the Investment Facility'²² sets out important development principles for EIB lending in Africa.²³ Unfortunately the implementation of these new guidelines is still to be seen.

Despite the fact that the EIB is a public institution of the European Union, it remains one of the least transparent institutions established within the EU framework. On a project level the EIB denies vital information to the public (including whether it is considering financing a project, environmental and social assessments, and its opinion on measures to mitigate environmental damage and social impacts). The fact that EIB's private or public borrowers are to decide if information about a project can be disclosed to the public, highlights how the EIB prioritises its clients' interests over affected people's interests. This approach also undermines citizen's basic 'right to know'. Without timely access to information on EIB financed projects, it is impossible for affected communities and interested NGOs to be properly consulted. This lack of transparency and consequential lack of public participation in EIB-financed projects has resulted in the EIB lagging far behind other financial institutions and compromising on the rights of people affected by its projects.

*The people that will be impacted
by the Nam Theun dam.
© Sebastian Godinot.*

In 2005, the EIB undertook a revision process of its information policy with its first ever public consultation. There is also a debate as to whether the EIB is going to be covered by the Aarhus Convention on access to environmental information, public participation and justice. The final results of both processes are yet to be seen.



*Children in Indonesia.
© Janneke Bruil.*

CLEAN UP



AFRICA: PRIORITY SUPPORT FOR OIL, MINING AND GAS

The EIB operates in African, Caribbean and Pacific (ACP) countries under the EU strategy described in the Cotonou framework.²⁴ This framework's primary aim is to eradicate poverty and promote sustainable development. The EIB is legally obliged to respect these goals when lending to these countries. With this in mind, the EIB has been mandated by the EU to manage the large budget of the European Development Fund (EDF) of up to €13.5 billion in 2004 – see annex table 2. This Fund is the financial co-operation instrument under the EU-ACP Agreement. The EIB administers it either directly, or by way of risk-capital operations (concessionary loans with special conditions) and interest subsidies.²⁵

In thirty out of the seventy-five ACP countries that the EIB has operated in over the last ten years, the EIB has not funded any of the defined priority sectors for lending. In many cases, local priorities established by the European Union and the borrower country jointly focused on institutional capacity building and social cohesion. However, the EIB's interest in the ACP countries was mainly devoted to developing commercial industries - such as the extraction of fossil fuels.

European Union priorities and EIB lending in Zambia²⁶

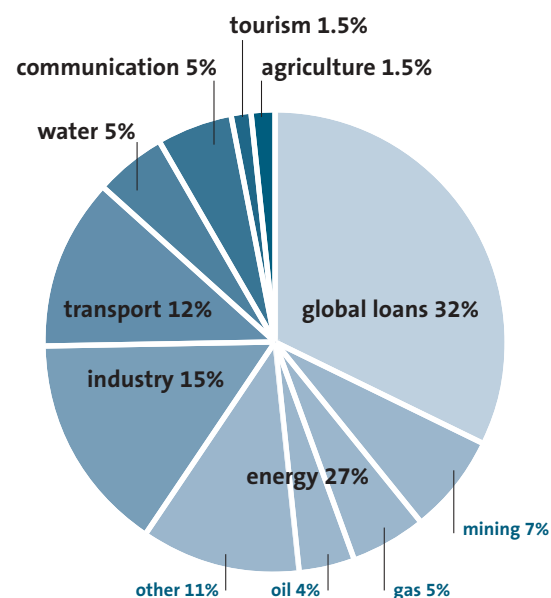
The EIB's role in Zambia is a perfect example of the incoherence between EIB activities and EU co-operation policy in an ACP country. In Zambia, transport and institutional development/capacity building have been identified as EU development co-operation priorities for the period 2001-2007²⁷. This has been formalised in the Country Strategy Paper for the country. But instead of directing resources to meet these EU priorities, since 2000, the majority (around €63 million) of EIB resources have been directed towards the extractive industries sector.

EIB activities in the country have focused on the construction and rehabilitation of energy facilities (establishing an oil refinery/pipeline and the rehabilitation of hydropower facilities), copper mining development (see Zambia case study), and the modernisation of agricultural processing plants for maize and cotton. None of the loan contracts have, so far, addressed the transport and infrastructure development or have helped institutional development.

The European Commission has provided €1.1 billion in the form of 'development assistance' to Zambia since 1975 and although the EIB is meant to contribute to the implementation of this assistance, the lack of coherence is obvious.

During the last ten years the extractive industries have been some of the sectors most heavily funded by the European Investment Bank in the ACP countries, receiving 16% (€772 million) of the total amount of lending to the region (€4,594 million) (see Annex, table 3). Most of the projects financed in the extractive sectors have been large, capital-intensive projects with a particular emphasis on mining projects (7% of the total) mainly in Zambia (see Zambia case study), Mozambique, Mauritania and Uganda. Within Africa, Mozambique received the highest amount in loans (€317 million) followed by Kenya and then Zambia (see Annex, table 4). The establishment of the new Cotonou Investment Facility (see box, page 11), may result in further increases in lending in the sector.

PIE 1: Total ACP lending by sectors (1994 - 2004)*



* Source: "The development impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework." (Project no.EP/ExPol/B/2004/09/06).

Sectors traditionally beneficial for poverty alleviation in Africa – such as agriculture and food processing – received little EIB support in the ACP region over the last 10 years - 1.5 % and 3% respectively (see Annex table 3). It is alarming that projects in these two sectors consisted only of industrial export-oriented products like sugar, shrimp aqua-culture, and banana plantations, since benefits for local people remain unclear.

The new Cotonou Investment Facility

The EIB Investment Facility (IF) was established in June 2003 with the specific aim of directing more European investment into the ACP countries. A special focus was placed on providing support to the private sector – in particular local small and medium enterprises (SMEs). Between 2003 and 2008 the IF is expected to disburse €2.2 billion of EU budget money (raised through the European Development Fund) and the EIB has been entrusted to manage this. Additionally, in the same timeframe, the EIB is to make €1.7 billion available from its own resources. In 2004 the IF received nearly 70 % of the almost €500 million that went for the ACP countries and South Africa.²⁸ The first few loans disbursed by the Facility went to large European corporations or large local companies, including the recent loan for the Kansanshi copper mine in Zambia (see case study page 14) and a further €40 million for the Moma Titanium mine in Mozambique.

The 2003 Extractive Industries Review (EIR)⁹ found that 20 years of lending by the World Bank to the extractive industries sectors had produced no significant outcomes in terms of poverty alleviation and sustainable development in the fossil fuel and mineral-rich countries in the global south. The study recommends that the World Bank's support for oil and coal projects be phased out by 2008 and that conditions for future financing of extractive industry projects include among others: respect for human rights, free, prior informed consent, revenue transparency, and the establishment of no-go areas in places of high biodiversity and of spiritual value. **In March 2004, the European Parliament adopted a Resolution calling on the EIB to respect the findings of the Extractive Industries Review.**³⁰

However, the EIB has not, as yet, implemented these recommendations, and is in fact currently considering financing a project in West Africa that is in clear breach of the EIR. The West African Gas Pipeline (WAGP) – commencing in Nigeria and travelling through Benin and Togo to deliver gas to industrial consumers in Ghana – already is the subject of controversy in the region.³¹ Project proponents claim the WAGP will reduce dangerous gas flaring in Nigeria, but no evidence has been provided to support this claim. In any event, new laws in Nigeria prohibit gas flaring altogether and the Federal High Court in Nigeria ruled in

November 2005 that any continuation of flaring is illegal. There is generally significant concern that the project will exacerbate existing conflicts over oil and gas in the Niger Delta. Furthermore, the gas delivered through the WAGP to Ghana will be used to support industries – such as gold mining – that do not serve the energy needs of the Ghanaian people nor meet EU guidelines in relation to sustainable industry. The WAGP has already breached EIR recommendations on public consultation, compensation, grievance procedures and transparency, is incoherent with EU guidelines in these areas, and crucially, lacks clear benefits for affected communities.

Lending related to water supply and water infrastructure sanitation – a sector potentially more suitable for poverty alleviation – amounted to only 5% of total EIB lending in the ACP region over the last 10 years³² - mainly in Swaziland, Burkina Faso and Senegal (with drinking water projects receiving only 1% of total lending. See Annex, table 3). However, this lending is set to increase in Africa from 2005 as a result of the new EU-ACP Water Facility. At the same time, the water facility, along with the Cotonou Investment Facility, will lead to EIB loans in the ACP region being almost exclusively offered to the private sector. As an illustration, in the first four months of 2004, nearly 80 percent of EIB lending to the ACP region and South Africa went to the private sector or the commercially run public sector – often to support activities in the power sector and privatised water infrastructure.

Although failures of the Public Private Partnership model (see chapter 4) have been partially acknowledged by the EIB³³, it has not reformed its lending in this area. Under the new Investment Facility, water projects will be primarily directed at the private sector rather than at government-owned water utility companies and they will no longer carry interest subsidies.

Over the last ten years, Global Loans (loans to financial intermediaries) have accounted for 32 % of the EIB's total lending to ACP. No data on the final beneficiaries of these loans has been provided by the EIB nor by the financial intermediaries. Detailed analysis of the final beneficiaries of these loans is therefore impossible.



Niger Delta 2004.
© Elaine Gilligan.

CLEAN UP



AFRICA: PRIORITY SUPPORT FOR OIL, MINING AND GAS

West Africa has a history of oil development which has generated ruinous corruption, armed conflict, human rights violations, and environmental degradation. *Excessive external dependence on foreign capital, linked to extractive industry operations, is a key problem that must be addressed when developing and implementing any financial support in Africa purportedly for poverty or debt reduction.* Under the Cotonou Agreement, the EIB has the possibility to lend to the ACP countries, and be paid back in local currency. That can help to protect the countries against financial crisis due to over-dependence on foreign currencies. Unfortunately, the cases presented below show that this system has not been favoured by the EIB.

Despite international calls to meet the Millennium Development Goals, aid for basic social needs (such as water and sanitation, health, and education) as a proportion of total bilateral disbursements has been declining both in Chad, Cameroon and Zambia. EIB lending shows the same picture. From 1994 to 2004, the EIB allocated a total of €205.7 million to Zambia, over half of which was for the large scale energy and mining sectors (see Zambia case study page 14).

The Mkubwa, Kansanshi and Mopani Mines are clear examples of incoherence with international best practice, including the OECD Guidelines for Multinational Enterprises.³⁸ In the Chad-Cameroon Pipeline project, as with mining in Zambia, the EIB has not set up any independent monitoring bodies of its own. With a total of €144 million in EIB-financing, the Chad-Cameroon project was the single largest project funded by the EIB in the ACP countries (see Chad-Cameroon case page 16). In fact, it represents 4% of the total lending of the EIB in the ACP region during the last ten years. This case clearly illustrates the failure of the EIB to ensure coherence of its lending with its aims of poverty alleviation and sustainable development. The lack of effective monitoring and assessment together with the problems of the project associated with public health, the environment, and indigenous rights, all require urgent attention by the EIB.

The EIB claims that environmental assessments of projects include an analysis of their expected effect on poverty.³⁹ For the Chad-Cameroon Pipeline, the EIB has not disclosed any information to verify its statement that an assessment has been carried out. It is also clear that mining operations in Zambia have not yielded direct local development benefits. The evidence outlined in these cases appears to indicate that neither has achieved positive development benefits.

Without empirical evidence to the contrary, it can not be claimed that EIB lending in Zambia, Chad and Cameroon is contributing to the development priorities identified by the EU in terms of poverty alleviation and sustainable development. This makes a compelling case for the European Commission and the European Parliament to exercise more control over EIB operations in these countries, and to ensure compliance with long-term sustainable development objectives.

The EIB Renewable Energy Strategy: The Dubious Inclusion of Large Hydropower Dams

At the 2002 Earth Summit in Johannesburg, the EIB stated that European Union climate change objectives would be integrated into its policies and practices. The EIB later set an objective that by 2010, fifty percent of its energy lending within the EU will be directed to renewable energy and energy efficiency.³⁴ Although this commitment was only for Europe and accession countries, it is worth noting that only one renewable energy project was financed in Africa over the last ten years: this was for a geothermal power station with associated electricity transmission lines and sub-stations in Nairobi. Although the EIB claims to have financed twenty-four renewable energy projects outside Europe³⁵ in the last ten years, this primarily included the building, expansion, and refurbishment of some very controversial large dams that are non-compliant with the World Commission on Dams recommendations and therefore generally not considered to generate sustainable 'renewable' energy.³⁶ Total EIB lending for large dams in Africa amounted to 8% of ACP lending over last ten years (see Annex table 3).

Large hydro-dams financed in Africa since the 1960s include the Lesotho Highlands Water Project (Muela Dam, 1994 and 1998), Zambia's Kariba North and Victoria Fall Plant (1998), as well as dams in Mali (Electro-mechanical equipment for the Manantali Dam, 1998), Ghana (rehabilitation of Akosombo Dam, 1990), Tanzania (Kihansi Dam, 1994), and South Africa (Berg Dam, 2004).

In 1998, the EIB gave a loan of over €20 million for the Zambia Victoria Falls hydroelectric plant. The project was aimed at regenerating equipment and improving the quality of the plant. However, an assessment carried out by the Zambian NGO 'Citizens for a Better Environment'³⁷ shows how this project now presents a range of significant environmental problems. Polycarbonates (PBCs), contaminated oils, and equipment replaced through EIB funding, were being disposed of without any plans for their final destination and without any process of on-going monitoring by the EIB or the European Commission. This behaviour is in violation of the 'precautionary principle' and the principles that preventive action should be taken, that environmental damage should be rectified at its source and that the polluter should pay, contained in the European Community Treaty (Article 174). The EIB promised to abide by this principle in its Environmental Statement 2004 but in this case has failed to do so.

Shell oil spill at Rukpoku in Nigeria.
© Elaine Gilligan.



CLEAN UP

2

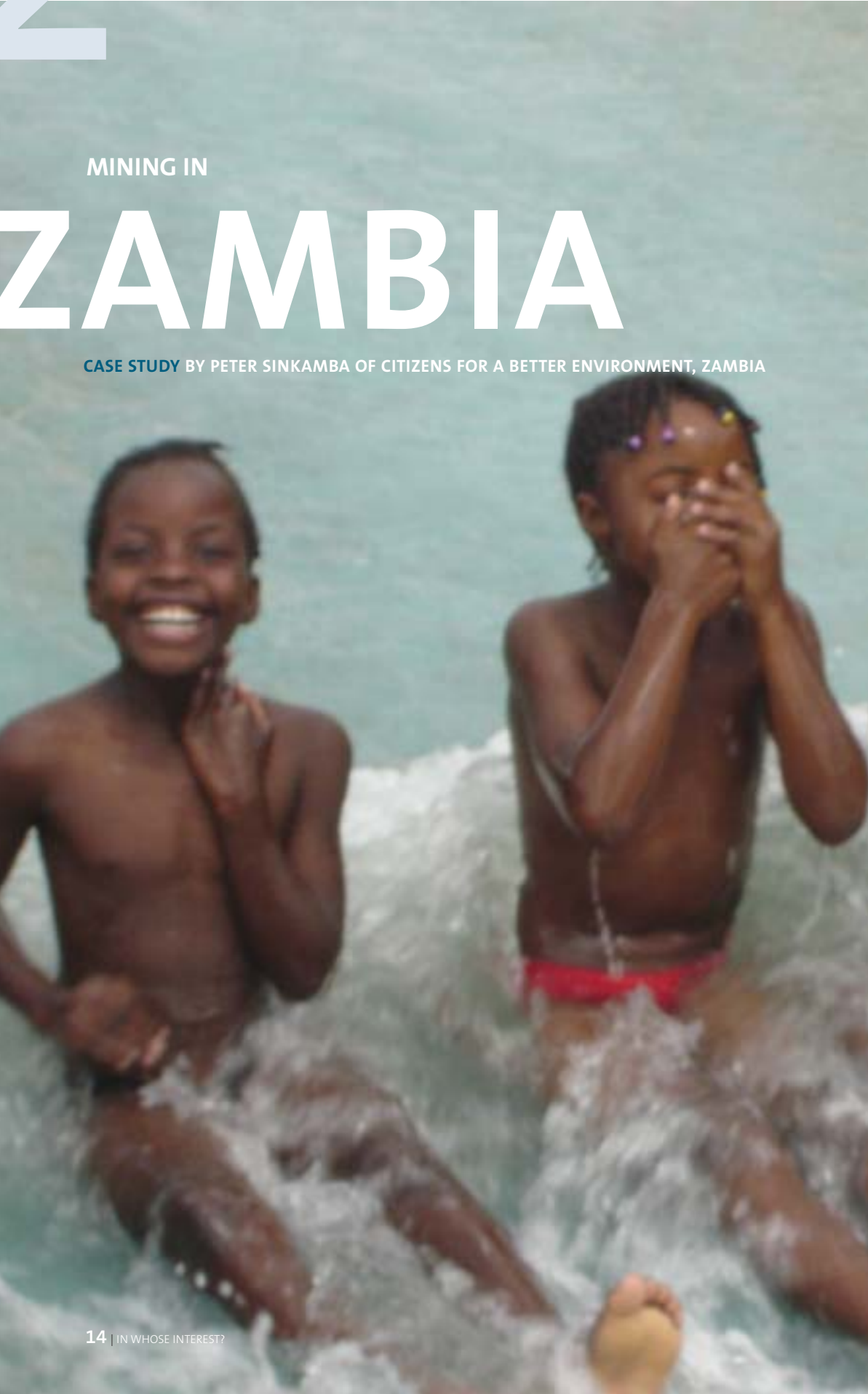


AFRICA: PRIORITY SUPPORT FOR OIL, MINING AND GAS

MINING IN

ZAMBIA

CASE STUDY BY PETER SINKAMBA OF CITIZENS FOR A BETTER ENVIRONMENT, ZAMBIA



Left: Children playing in the Munkulungwe Stream in Zambia where the water is a blue/green colour due to increased copper levels through contamination by the EIB financed Bwana Mkubwa Copper Mine. Above: A channel discharging effluent from Mopani Copper Mines at the Mufurila Plant. Families of Kankoyo Compound depend on this contaminated water for domestic use. © Woody Simbeye and Peter Sinkamba.

The Bwana Mkubwa Mine is in the copper belt of Zambia and is operated by First Quantum, a Canadian/Australian mining firm. In August 2002, the EIB disbursed a loan of €14 million to the project via Bwana Mkubwa Mining Ltd. through the Lomé Convention and this was used for the expansion of an existing copper production facility. Another €34 million was then borrowed from the EIB through the Cotonou Investment Facility for the Kansanshi Copper Mine, located in North Western Province. Also operated by First Quantum, it involves developing an open-pit copper mine. Funds disbursed for the Mopani Copper Mine financed rebuilding and modernising the copper smelter and updating the associated infrastructure at the Mufurila mine in the copper belt. The Mopani Copper Mine is a joint venture of Glencore (Switzerland) and, again, First Quantum. The EIB contributed €50 million to the Mopani mine in 2005.

ENVIRONMENTAL, SOCIAL AND ECONOMIC PROBLEMS

Both EU guidelines and Zambian national legislation require an Environmental Impact Assessment before any mining-related developments, yet in the case of the Bwana Mkubwa mine, no Environmental Impact Assessment (EIA) was done prior to approval by the EIB. An Environmental Management Plan was only developed and approved in February 2004, almost two years after disbursement of the EIB loan.

The Bwana Mkubwa Mine has been a major source of air and water pollution in the local area through its acid plants, electro-winning operations, and its leach operations. Contamination of the Munkulungwe stream from leach operations has significantly impacted upon the Munkulungwe and Mutalula farming communities. Polluting activities are in breach of national Zambian legislation.⁴⁰ Furthermore, crop yields have been reduced and local communities face destroyed ecosystems and disabled public infrastructure, including damage to access roads and a bridge. The affected community has taken the Bwana Mkubwa mining company to court: the trial is pending.

In 2005, in-situ leaching operations at Mufurila mine caused the contamination of underground aquifers. As a result, the domestic water supply was cut-off. Some Mufurila communities went for weeks without tap-water.



A channel discharging effluent from Mopani Copper Mines at the Mufurila Plant. Families of Kankoyo Compound depend on this contaminated water for domestic use. The blue/green colour is copper sulphate, indicating that it contains elevated copper levels. © Woody Simbeye and Peter Sinkamba.

ACCESS TO INFORMATION

Access to project documentation related to the EIB's mining projects by local civil society (even those with support from the European Parliament) was limited due to Zambian government bureaucracy, and to restrictions imposed by the EIB on Mkubwa and Kansanshi Copper Mines to answer questionnaires or release project-related documentation. In view of this limited access to information, neither the Bwana Mkubwa nor the Kansanshi Copper Mines projects could be fully assessed for the report to the European Parliament.

CONCLUSION

There is little indication that EIB loan activities in Zambia have contributed to social objectives towards health (particularly HIV/AIDS) or education development as outlined in the CSP. Direct local development growth has not been created and the minimal trickle down effects are vastly outweighed by the negatives. In particular, project promoters consistently failed to set up Community Benefit Sharing Funds or other such measures that would directly and consistently distribute project benefits to local communities. Moreover, the promotion of sustainable energy technology has not been prioritised.

EIB lending activities in the mining sector of Zambia are in the interest of some commercial operations but neglect the interests of the population at large. Due to the lack of clear environmental, social, and economic targets and goals such as verifiable benchmarks, monitoring, and evaluation of EIB projects, poverty alleviation and the achievement of sustainability will remain an uphill, rather than simply an ongoing, challenge.

2



AFRICA: PRIORITY SUPPORT FOR OIL,
MINING AND GAS



THE

CHAD -

CASE STUDY BY KORINNA HORTA OF ENVIRONMENTAL DEFENSE

CAMEROON

OIL AND PIPELINE PROJECT

Pygmy children in Cameroon.
© Frédéric Castell.

The Chad-Cameroon Oil and Pipeline Project, a 1070 km-long pipeline from southern Chad to neighbouring Cameroon's Atlantic Coast, represents the single largest international investment in Africa to date.

Construction of the project was completed more than a year ahead of schedule, but social and environmental mitigation measures continue to suffer serious delays and threaten to undermine the poverty-alleviation goals of the project. The World Bank's official project-monitoring bodies⁴¹ and the World Bank's Inspection Panel have documented many of the project's problems and found serious violations of World Bank policies – especially in the area of environmental assessment and public health.



Pygmy children in Cameroon.
© Frédéric Castell.

THE ROLE OF THE EIB AND OTHER FINANCIERS

The World Bank Group's participation in the project was the pre-condition for the Exxon Mobil-led consortium to go ahead with the US\$3.7 billion project. Additionally, the EIB provided loans in 2001 not only to the Chad and Cameroonian Governments (€35.7 million and €20.3 million respectively) but also provided an additional €34 million to Chevron and €54 million to Exxon.

THE PROMISE

The World Bank promised that the Chad-Cameroon project would be based on an unprecedented framework to transform oil wealth into benefits for the poor.⁴² The EIB also stated that the project would alleviate poverty and promote economic growth in both countries.⁴³

REVENUE MANAGEMENT AND GOOD GOVERNANCE

According to the U.S. State Department's Annual Country Reports on Human Rights and Transparency International's annual Corruption Perception Index, both Chad and Cameroon are run by dictatorships known for their severe human rights abuses and pervasive corruption. This project is nominally expected to generate US\$2 to US\$3 billion in revenue for Chad and US\$550 million for Cameroon over its 28-year operating period. Things got off to an embarrassing start when it became public in January 2001 that Chad had used part of a US\$25 million signature bonus from the Oil Consortium for weapons purchases.

Both Chad and Cameroon have for many years occupied top positions on Transparency International's Corruption Perception Index.⁴⁴ Yet the banks did not require provisions for transparent revenue management for Cameroon. In the case of Chad, the World Bank did require adoption of a revenue management law as well as the establishment of an Oversight Committee, which is responsible for authorising expenditures.⁴⁵ This system, intended to ensure transparent revenue management, has now broken down. In October 2005, the Chadian Government announced that it will substantially modify the law to include spending for security expenditures and will abolish a fund that had been set aside for future generations in the post-oil era.⁴⁶

PUBLIC HEALTH

Poor sanitary conditions, a growing migrant work force, and increasing prostitution have led to the spread of diseases, including HIV and AIDS. In view of global concerns about HIV and AIDS in Africa, it is particularly disturbing that the project did so little to address the accelerated transmission of communicable diseases, which is known to occur as a result of major construction projects.

THE ENVIRONMENT

The current impact of the pipeline on biodiversity and wildlife suggests that environmental considerations have not been well managed. The World Bank's own monitors warn that greater access to remote areas created by the project represents a serious threat to endangered gorillas and chimpanzees. The sponsors sought to compensate for the loss of biodiversity along the pipeline route by establishing two so-called 'offset' areas, the Campo Ma'an and Mbam-Djerem national parks. But funding for the management of these parks has not been forthcoming and their viability is now open to question. Furthermore, potential oil spills and the treatment of effluents at the off-loading terminal threaten marine life and fishing activities. Coastal communities have received little information about how to respond in an emergency situation. Severe dust pollution is adding to public health problems, and bad waste management of the oil and drilling fluids threaten groundwater supplies in the oil field region.

INDIGENOUS PEOPLES

The EIB has no policies or procedures to protect indigenous peoples. For Cameroon, the World Bank's Operational Policy on Indigenous Peoples requires that an Indigenous Peoples' Plan be undertaken in a participatory manner. However, the World Bank has not complied with its own policy and the semi-nomadic Bakola 'pygmy' people, whose traditional forest lands are crossed by the southern portion of the pipeline, were not adequately consulted. As a result, the Indigenous Peoples' Plan does not address the critical question of land security on which the survival of the Bakola depends. There is no indication that the EIB is taking steps to address this problem.



AFRICA: PRIORITY SUPPORT FOR OIL, MINING AND GAS

PUBLIC PARTICIPATION

The World Bank's Inspection Panel concluded that 'full and informed consultation is impossible if those consulted perceive that they could be penalized for expressing their opposition to, or honest opinions about, a Bank-financed project'.⁴⁷ According to Amnesty International, Chadian security forces carried out large-scale massacres of unarmed civilians in the oil-producing region in the late 1990s at a time of intense project preparations.⁴⁸ Ever since then, intimidation and threats against villagers have been common. As referred to above, genuine consultations are not possible under such conditions. The EIB, however, still claims that 'compensation settlements have been the subject of extensive local and regional discussions, including involvement of local and international NGOs'.⁴⁹

REGIONAL DEVELOPMENT AND NEW OIL

A Regional Development Plan was supposed to address issues of health, energy, housing, and water supply in southern Chad. Yet, five years after project approval, the regional development plan has still not been completed. As a result, disruptions created by construction, including a massive public health crisis, have not been adequately addressed.

CONCLUSION

In addition to public pressure on the two governments to ensure that oil revenues in the case of Chad, and royalty payments in the case of Cameroon, reach the poor, urgent measures must be taken to address the environmental and social harm already created. The public health situation, the regional development plan for Chad, and the Indigenous Peoples' Plan for Cameroon, all require immediate attention, as do the outstanding compensation issues and environmental problems. There is no indication that the EIB is addressing these problems. The EIB simply relies on World Bank monitoring and assessment, which has proven to be inadequate. Without urgent measures, the Chad-Cameroon project will do little more than write another chapter in the tragic history of Africa's plundered resources. In January 2006, the World Bank Group suspended loan disbursements after the Chadian government expressed intentions to use the funds generated by the pipeline for state security purchases. This is a gross violation of the project agreements and the spirit of the Cotonou Convention. It remains to be seen what the EIB will do.



Pygmy settlement in Cameroon.
© Frédéric Castell.



Pygmy dwelling in Cameroon.
© Frédéric Castell.



© ced/foe cameroon.



LATIN AMERICA: PUTTING INDUSTRY AND ENERGY IN THE HANDS OF EUROPEAN COMPANIES

The EIB's mandate to operate in Asia and Latin America (ALA) dates back to 1993. So far, 65% of the total amount allowed by the mandate under the EU guarantee has been allocated to projects in Latin America while 35% has been allocated to Asia. In 2004, EIB lending for projects located in the ALA countries totalled €232.9 million, over half of which went to three projects in Latin America. These projects were concentrated in capital-intensive sectors – a steel factory in Brazil, a Volkswagen plant in Mexico, and a canal bridge in Panama.

As it stands, the only legal definition of EIB development objectives under an EU mandate for Latin America and Asia is that loans shall be granted 'in the mutual interest of both the EU and the borrower country or the country in which the project is carried out'.⁵⁰ The cases presented below, together with an overview of all EIB lending to Latin America in the last ten years⁵¹, clearly illustrate that the EIB has interpreted 'mutual interest' as focusing primarily on economic growth as well as the development of an external market and an investment ground for EU companies.

In the absence of a clear definition by the Council of what 'mutual interest' actually means, the EIB has stated that it is met when projects⁵²:

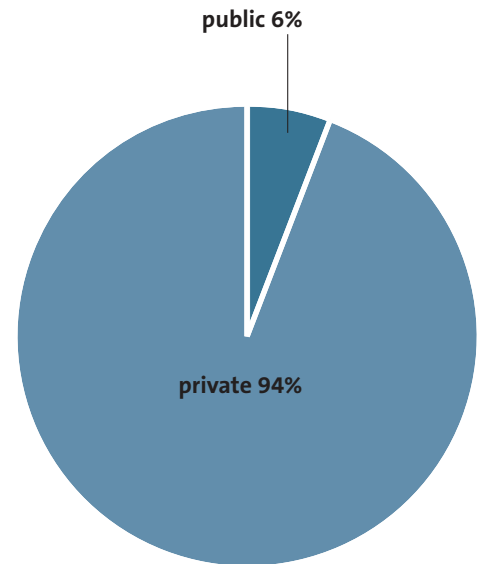
- > are carried out by subsidiaries of EU companies;
- > are carried out by joint ventures bringing together EU companies and local firms;
- > are carried out by private enterprises holding concessions to invest in and run public services;
- > promote the transfer of EU technology;
- > promote an enhancement of the objectives of the EU co-operation agreement.

*This approach is not coherent with the EU's official lending priorities in the regions established in EU Council regulations nor is it in the direct interest of the poor.*⁵³



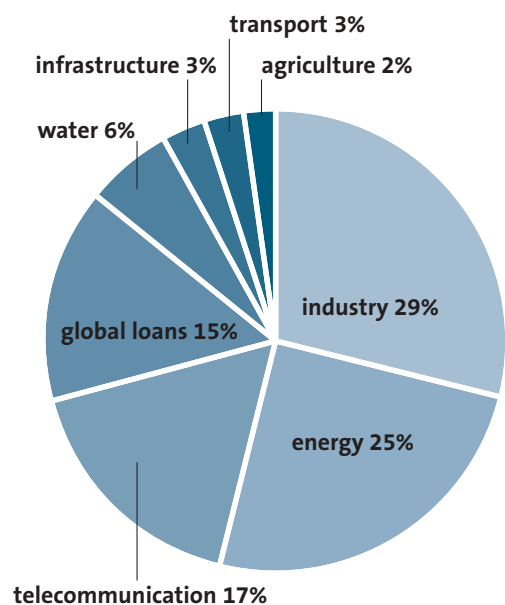
Inhabitant of the Izcalli District in the center of Ecatepec municipality – State of Mexico (Valley of Cuautitlan-Texcoco) complain about the deterioration of the highways caused by the natural gas network which has been constructed by the Mexigas Company. © Newspaper El Universal (Mexico) - Photographic Archives / Photographer: Luis Garcia Soto

PIE 2: Distribution of loans between the public and private sectors in Latin America (1994 - 2004)*



* Source: "The development impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework." (Project no.EP/ExPol/B/2004/09/06).

PIE 3: EIB lending in Latin America by sector (1994 - 2004)*



* Source: "The development impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework." (Project no.EP/ExPol/B/2004/09/06).



LATIN AMERICA: PUTTING INDUSTRY AND ENERGY IN THE HANDS OF EUROPEAN COMPANIES

Given this approach, it is clear why private sector clients were the preferred targets of the EIB in Latin America – as is the case in Africa. **More than 90% of the Latin American loans since 1993 have been extended to subsidiaries of EU-based or big transnational corporations. Gas de France, Repsol, British Gas, and Shell received millions of euros worth of contracts in the oil and gas energy sector.**

Local private companies received approximately 2% of the EIB's lending to individual projects in Latin America. Over the last ten years, 'Global Loans (loans to financial intermediaries)' have accounted for 14,5 % of the EIB's total lending to ALA Countries. As in Africa, a lack of data on the final beneficiaries of these loans makes more detailed analysis impossible.

The preferred target for loans in Latin America from the EIB during the last ten years was the industrial sector (see pie chart page 19). A detailed analysis of sub-sectoral lending shows that, on top of the list is, as in Africa, the extractive industries sector – in particular, gas as a source of energy and electricity, with 17% of the region's total (see Annex table 7). The cases relating to oil, gas or mining projects presented in this report indicate how this energy investment is primarily directed towards the export needs of EU companies, not the creation and improvement of local infrastructure such as electricity networks and local transport systems. **In general, energy projects only received funding if they were directly aimed at expanding the country's capacity to supply industrial goods, supplying energy for the external market or favouring the export needs of EU companies.**

This was the case in the €35.6 million loan to the Power Interconnector in Central America (SIEPAC) given by the EIB in 2003 via the Banco Centro-Americano de Integración Económica (CABEI), matching other funds coming from multilateral banks such as the World Bank and the Inter-American Development Bank. This project is part of the controversial Plan Puebla Panama, which is said to exploit cheap labour and create markets and a supply of inexpensive goods for North America under the NAFTA (North American Free Trade Agreement) and CAFTA (Central American Free Trade Agreement). In the electricity sector, the Spanish company Endesa has led several projects in the region, while only a few local or national companies have been funded by the EIB.

Even though EIB loans in Asia and Latin America are supported by a political or commercial guarantee from the European Union (as described in chapter 1), these loans have primarily targeted well-established and financially secure sectors or clients such as big corporations. The projects tend not to reach out to the poorest and /or financially riskier countries or small local companies. During the last ten years, large middle-income countries like Brazil (30%) and Mexico (6%) were on top of the list for funding (see table five), out of the thirty-five countries eligible in the whole ALA region. Poorer countries such as the Dominican Republic (or Bangladesh and Sri Lanka in Asia) were at the lowest end of the scale with a few million euros each. Other countries, although eligible, did not receive any funding.⁵⁵ A development goal was thus totally absent. It should also be noted that the EIB does not offer local currency loans in Asia and Latin America – as it does to the African, Caribbean and Pacific countries.

The EIB and the Inter-American Development Bank: Working Together in Latin America

In December 2004 the EIB signed a Memorandum of Understanding with the Inter-American Development Bank (IDB) regarding co-operation in Latin America and the Caribbean. The main focus of the Agreement is on private sector development carried out by EU companies.

Through this memorandum, the EIB plans to extend its lending for 'projects of exceptional interest' beyond the ALA mandate ceiling. The memorandum is very clear about the EIB's motivation: '[The EIB] is driven by its aim to better support European Foreign Direct Investment in projects of mutual interest in Latin America and the Caribbean as well as infrastructure projects of regional integration'.⁵⁶ Sustainable development or poverty alleviation does not appear to be central to this agreement between the two banks.

In 1998, the EIB gave a €55 million loan to Transportadora Brasileira Gasoduto, a consortium formed by the Brazilian company Petrobras with Enron and Shell. With that loan, the EIB, along with the IDB, co-financed a controversial gas project: the Bolivia-Brazil pipeline. The 3000 km pipeline – the largest private sector investment ever in Latin America – crosses several important ecosystems, including the Gran Chaco, a recently designated protected area of primary dry tropical forest in Bolivia; the Pantanal, the world's largest wetland; and the Mata Atlantica Rainforest of south-eastern Brazil. Over the years, conflicts over compensation and a lack of effective oversight of the implementation of environmental and social safeguard measures have characterised the development of this project. This transboundary pipeline is indicative for the kind of regional projects the EIB and the IDB are likely to carry out together under the new Memorandum.

In the water and energy sectors, EU Companies appeared preferential beneficiaries for the management of state utilities. In Argentina for example, all EIB's loans went to the French Suez and Vivendi Groups, either directly or via their subsidiaries (€57 million for water supply to the city of Cordoba and the Province of Misiones, and €70 million for wastewater and sewage for the city of Buenos Aires). Although financing the water

sector might in theory bring benefits to local communities, experiences in Asia with public-private partnerships for water privatisation projects showed a different picture. It resulted in an increase in inequality due to tariff increases and the failure to produce an efficient service which offers the poor access to safe drinking water (see Indonesia and Philippines cases page 32-36).

Infrastructure and agriculture projects have been financed with very limited resources with only one project of reconstruction after Hurricane Mitch (€35 million) and the highly controversial Veracel tree plantation for pulp production in Brazil. The EIB and the European Commission⁵⁷ considered this latter project – awarded in 2001 to Veracel – an example of 'sustainable development'. While the social and environmental problems linked to this case are numerous (as reported below), it must be noted from the outset that the ability of plantations to reduce greenhouse gas emissions has not been proven, while in most cases around the world "large-scale plantations (consisting of either fast-growth trees such as eucalyptus and pines or of other species such as oil palm) generate most negative impacts, both in social and environmental terms"⁵⁸. If the EIB aims to operate coherent with its environmental goals of "supporting investment that directly protects and improves the environment" and "[encouraging] investment that mitigates adverse environmental impacts and maximises potential positive ones",⁵⁹ it should refrain from investing in the contentious pulp production sector.

The EIB has also heavily promoted the industrial sector in Latin America, with many projects by the giant German Volkswagen Group being funded for car-assembly in Mexico, Argentina and Brazil. Funding for the Volkswagen plant in Mexico has resulted in the violation of Mexican, and internationally recognised, workers' rights that the EIB claims to respect in its 2004 Social Assessment document. Moreover, the project failed to bring true local economic development, as can be seen in the Mexico Volkswagen case study (see page 24). This case illustrates well how EIB-sponsored European companies in Latin America (and all over the world) often fail to meet the requirements of environmental and social standards, as they certainly would have to if they were operating in Europe.



Eucalyptus plantation in Brazil.
© Melquiades Spinola/CEPEDES

CLEAN UP



LATIN AMERICA: PUTTING INDUSTRY AND ENERGY IN THE HANDS OF EUROPEAN COMPANIES

European Investment Bank lending in Mexico: in whose interest?⁶⁰

Despite the fact that Small and Medium Enterprises (SMEs) represent approximately 98% of Mexican companies and that they are considered privileged partners in the strategy for co-operation between the European Commission (EC) and Mexico⁶¹, the EIB has not granted any 'Global Loans (loans to financial intermediaries)'; nor mobilised other types of technical assistance mechanisms, to promote the activities of Mexican SMEs. Since 1995, four projects have received altogether five loans worth a total of €210.2 million from the EIB in Mexico: 'Vidrio Saint-Gobain', 'Mexi-gas' (two loans), 'Vetrotex America', and 'Volkswagen' projects.

All beneficiaries of EIB loans have been within the private sector and either European, or mixed European/Mexican companies: 'Volkswagen de México' is the Mexican subsidiary company of the German Volkswagen Group; 'Vidrio Saint-Gobain de México' and 'Vetrotex América' are 80% owned by the French group Saint-Gobain; and the Consortium 'Mexi-gas' is dominated by Gaz de France.

During the last ten years, loan operations by the EIB in Mexico can be characterised by a significant lack of diversification. Loans have been concentrated in industry – shared between the automobile sector, the glass sector, and the energy sector. Neither other branches of industry (including the agricultural, breeding or fishing sectors) nor projects that promote renewable sources of energy have ever been considered despite these being priority action areas for the European Community in its co-operation strategy for the country.

In Mexico, EIB lending supported projects with little socio-economic or environmental benefits for the Mexican population. In three of the projects, the EIB loan supported investments oriented towards increasing exports for European companies and at aiding their penetration of the Latin American markets and/or taking advantage of the North American Free Trade Agreement (NAFTA) between Mexico, the United States and Canada, which is in force since 1 January 1994. The prioritisation of European companies' interests is repeated in the case of the "Mexi-gas" project, which promotes the activities of a European group in the natural gas distribution sector, whose deregulation and privatisation has been extremely controversial in Mexico. EIB loans have been concentrated in well-consolidated sectors, in the hands of companies dominated by European capital. These sectors and beneficiaries are characterised by their capacity to attract alternative sources of capital and do not need the guarantee of the European Community budget.

Financial co-operation can only be in the Mexican people's 'interest' if the banks re-orient their investments towards the promotion of Mexican Small and Medium Enterprise (SME) activities, ensure the generation of employment only under conditions of respect for labour rights, and fund only those development projects that have been previously agreed upon by the communities, according to their own needs.

Of the four projects financed in Mexico (see box previous page) the EIB claims that the gas project, 'Mexi-gas', considers the protection of the environment as part of its objectives. As illustrated by the case study, this project heavily sponsored gas consumption, rather than promoting any demand-side management for energy sources. Gas is a natural resource of limited quantity, produces harmful CO₂ when burnt and its extraction has a limited impact on poverty alleviation (as has been demonstrated by the Extractive Industries Review, see page 11). Therefore, the choice for gas cannot be considered sustainable in the longer term. *The EIB has also failed to comply with its agreement with the European Commission⁶² that requires an Environmental Impact Assessment for all projects likely to have a significant effect on the environment. As such, the claim that the EIB always respects EU environmental law in its projects is, therefore, clearly unsubstantiated.*

A Guatemalan indigenous mother with her daughter.
© Janneke Bruil.



CLEAN UP

3



LATIN AMERICA: PUTTING INDUSTRY AND ENERGY IN THE HANDS OF EUROPEAN COMPANIES

THE MEXICO

'VOLKSWAGEN' PROJECT

CASE STUDY BY DOMITILLE DELAPLACE OF EQUIPO PUEBLO, MEXICO



Independent Workers Unions begin a strike in the Volkswagen plant in Puebla, State of Puebla, Mexico. August 18, 2001. © Newspaper El Universal (Mexico) - Photographic Archives / Photographer: Rodolfo Perez.

'Volkswagen de México', a Mexican subsidiary company of the German group, opened its plant in the State of Puebla in 1967. At present, the plant produces the 'New Beetle', 'Golf convertible' and 'Jetta' models. Its productivity level is one of the highest in the world, based on an open subcontracting system with local suppliers.⁶³ In 2004, Volkswagen de México applied for a loan from the EIB of €70 million to contribute towards financing an investment in the plant enabling the production of the 'Jetta A5' model, as well as an engine with low emission levels. Negotiations concluded on October 7, 2004, but the funds have not yet been disbursed.⁶⁴

ENVIRONMENTAL, SOCIAL AND ECONOMIC IMPACTS

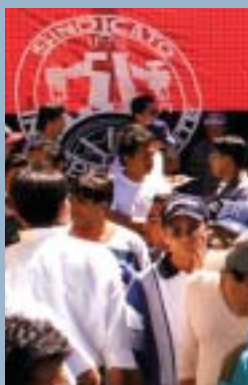
According to the EIB, the extension of the plant in Puebla will allow the production of bodywork and the assembly of the 'Jetta A5' model, with 80% of the production expected to be exported to the United States and Canada.⁶⁵ The investment would also cover the installation of a production line for a new vehicle motor, 'the new R5', with low gas contaminant emission levels, which would allow the Volkswagen Group to meet US gas-emission standards.⁶⁶ In this way the EIB loan seeks to consolidate the production of the Volkswagen Group in Mexico and reinforce its position in the North American Free Trade Area (NAFTA). Far from supporting trade relations between the European Union and Mexico, as set forth in the 'Global Agreement'⁶⁷ this project privileges the activities of a European Group and its trade activities with North America.

The EIB assured critics that the Volkswagen project would allow job creation: 1,600 direct jobs in the Puebla plant and a substantial raise in indirect jobs.⁶⁸ However, the project will not actually bring new jobs but only help to maintain existing ones. It will cover losses accumulated by the company with the closing of the "Beetle" production line in 2003, and the drop in sales of other models. In July 2003, "Volkswagen de México" announced 2,000 lay-offs.⁶⁹ Even if the project has positive repercussions on the total level of employment in the region due to the fact that a considerable part of Volkswagen's production is subcontracted to local companies, it is estimated that, in general,

these suppliers pay their largely non-unionised workers, 40-50% less than Volkswagen.⁷⁰ The indirect jobs generated by the project are characterised by their precarious nature, violating the labour rights enshrined in article 123 of the Mexican Constitution, as well as in international labour treaties and Conventions (International Covenant on Economic, Social and Cultural Rights, OIT Convention, etc.).

The EIB has guidelines on "Social Assessment of Projects in Developing Countries" in which labour issues are included.⁷¹ However, the EIB has made no reference to a 'Social Assessment' in the "Volkswagen" project, although this would have been of particular interest since in the last few years the company's management has been repeatedly confronted by the Independent Workers Union of the Volkswagen Automobile Industry (SITIAVW) due to its anti labour union policy. In August 2000, faced with the impossibility of reaching a pre-strike agreement, the Union began a strike for wage increases. During negotiations, workers argued that the company had tried to interfere in the running of the Union by pointing out their disagreement with the consultation method.⁷²

With regards to any environmental impact of the project, the EIB has stated⁷³ that the promoter prepared an "Environmental Impact Basement" as required by Mexican law.⁷⁴ However, as in the case of other Mexican projects, the EIB has not fulfilled its commitment⁷⁵ to demonstrate that the impact of this project on the environment has been effectively evaluated in light of the principles and standards of the European Union.



*Independent Workers Unions begin a strike in the Volkswagen plant in Puebla, State of Puebla, Mexico. August 18, 2001.
© Newspaper El Universal (Mexico) - Photographic Archives / Photographer: Rodolfo Perez.*

ACCESS TO INFORMATION

In response to the request for project document disclosure⁷⁶, the EIB claimed information could not be disclosed since no disbursement had yet been made.⁷⁷ However, documentation concerning the environmental impact assessment – as well as the project itself (including an evaluation of its impact on development) – should be disclosed at all stages of the loan agreement: before, during and after loan disbursement to ensure adequate consultation and citizen involvement.

3



LATIN AMERICA: PUTTING INDUSTRY AND ENERGY IN THE HANDS OF EUROPEAN COMPANIES



Left: Inhabitant of the Izcalli District in the center of Ecatepec municipality – State of Mexico (Valley of Cuautitlan- Texcoco) complain about the deterioration of the highways caused by the natural gas network which has been constructed by the Mexigas Company. Above: Inhabitants of residential zone of Coacalco - State of Mexico (Valley of Cuautitlan- Texcoco) oppose to the construction of the natural gas network. The opponents demonstrate the bad quality of the asphalt which covers the network. © Newspaper El Universal (Mexico) - Photographic Archives / Photographer: Luis Garcia Soto

THE MEXI-GAS PROJECT

THE DEREGULATION OF A PUBLIC SERVICE AND THE EU COMPANY THAT WON THE TENDER

CASE STUDY BY DOMITILLE DELAPLACE OF EQUIPO PUEBLO, MEXICO

THE PRIVATISATION OF THE MEXICAN ENERGY SECTOR

The 'Mexi-gas' project is part of the privatisation of the Mexican natural gas, begun in 1995. The main objective of the 1995 energy reforms was the controversial promotion of private participation in the energy sector, which has resulted in the creation of groups (with mainly foreign capital) aimed at taking advantage of the profit opportunities represented by the deregulation of this sector. This is the case in the Mexi-gas project financed by the EIB.

In November 1997, the Energy Regulation Commission (ERC) issued an international tender for the distribution of natural gas in the Geographic Area of the Valley of Cuautitlán- Texcoco,⁷⁸ an urban area adjoining Mexico City. In July 1998, the Consortium Mexi-gas, which at that time was 75% owned by Gaz de France International⁷⁹, won the tender. The Consortium was granted exclusive rights over five years of the construction and extension of the natural gas distribution grids – and 30 years' rights to carry out reception, conduction, and delivery of natural gas. The EIB signed two loans with Consortium Mexi-gas, for a total amount of €74.3 million in 1999 and 2000, to cover part of the investment.

ENVIRONMENTAL, SOCIAL AND ECONOMIC IMPACTS

In accordance with Mexican law⁸⁰ the promoter carried out an Environmental Impact Assessment (Manifestación de Impacto Ambiental), which was presented to and approved by the Mexican Environmental Ministry (SEMARNAT). However, the EIB did not require any other environmental impact evaluation of the environmental aspects of the project in line with EU policies or frameworks.⁸¹

According to the EIB⁸², this project is aimed at the diversification of energy and the prioritisation of natural gas, a less-polluting energy in comparison with other fossil fuels, resulting in a reduction in air pollution in heavily-populated areas. However, to date, the 'Mexi-gas' project has had a limited effect on pollution levels in the Valley of Cuautitlán-Texcoco, as the natural gas distribution network covers only 35% of the population initially considered in the bid (130,000 of the 340,700 proposed).

In addition, it is worth noting that natural gas is an energy source that, while less polluting, is nevertheless a non-renewable natural resource. The 'Mexi-gas' project, rather than promoting the rational use and saving of energy sources, is based on the promotion of gas consumption, a natural resource of limited quantity. This project cannot be considered as a true energy supply alternative as it is not sustainable in the long term.

The EIB stated that 'it was not informed of any environmental or social problem which occurred during the implementation of the project'.⁸³ However, on repeated occasions, there were demonstrations against the construction of the network. The 'insecurity' of the gas networks is a recurring theme in the survey taken of gas network users in the framework of this investigation, and in the mobilisation that occurred in the zone against the Mexi-gas Company.

With respect to the applicable tariff concerning domestic use, the obligation to maintain a fixed price ended in 2003. Since then the tariff has continued to increase, which clearly benefits the company but limits the economic accessibility of the service for lower income households. The 'Mexi-gas' project has not resulted in the promotion of equal access to energy sources for the poorest sectors of the population. On the contrary, medium income level residential areas, which can finance the cost of this service, are privileged. Access to the network implies an initial investment by the user of about €150, which many families are unable to cover.

ACCESS TO INFORMATION

The EIB stated that it was unable to provide project documents for the Mexi-gas project without the agreement of the borrower because of confidentiality agreements signed between the EIB and the company.⁸⁴ Although the EIB and the Mexi-gas company have both said they have no objection to revealing this information⁸⁵, it has not been disclosed to date.

The EIB declared that the procedures for access to information and public consultation with respect to the Mexi-gas project met the requirements of the Mexican environmental regulations.⁸⁶ However, Mexican law does not require wide and inclusive public consultations for projects. It falls behind European Environmental Impact Assessment norms, which include public participation. It also falls short of meeting requirements of other financial institutions, such as the World Bank and the European Bank for Reconstruction and Development, which require public participation on the project level.

CONCLUSION

After six years of operation, the Mexi-gas network maintains a very low level of coverage in comparison with the estimate considered in the bid and contained in the presentation to the EIB. The project has not offered a true alternative to the use of fossil fuels, nor a relevant improvement in the air quality in this area. Similarly, it has not facilitated access to natural gas for the poorest sectors of the population. By placing the service in the hands of private operators, the extension and operation of the natural gas distribution network is based on a criteria of economic profitability, favouring access to users with sufficient capacity to pay for it, and not from the perspective of the fulfilment of the basic energy needs of the population.



LATIN AMERICA: PUTTING INDUSTRY AND ENERGY IN THE HANDS OF EUROPEAN COMPANIES

In June 2005, a massive new pulp mill started operations near Eunápolis in the state of Bahia in Brazil. Built with financing from the EIB, the Nordic Investment Bank and Brazil's development bank, BNDES, the 900,000 tonnes a year Veracel pulp mill is the largest single line pulp mill in the world. The total cost of the project, including plantations and infrastructure, was US\$1.25 billion.⁸⁷ The EIB has approved two loans to Veracel: US\$30 million in 2001 for plantations, forestry equipment, and building and upgrading roads;⁸⁸ and US\$80 million in 2003 for the pulp mill construction.⁸⁹

Veracel is a joint venture between the world's largest paper producer, Stora Enso (Finland-Sweden), and the world's largest producer of bleached eucalyptus pulp, Aracruz (Brazil). Pulp from the mill is to be exported, mainly to Europe, the USA and Asia.

VERACEL PULP MILL,

BRAZIL

THE IMPACT OF INDUSTRIAL TREE PLANTATIONS
ON LAND RIGHTS AND LIVELIHOODS

CASE STUDY BY CHRIS LANG, WORLD RAINFOREST MOVEMENT

The Veracel project led to a series of lucrative contracts for European companies (or their subsidiaries), including Jaakko Pöyry (Finland), Andritz (Austria), Eka Chemicals (Sweden), Degussa (Germany), Aker Kvaerner (Norway), Metso Corporation (Finland), Partek Forest (Finland) and Norsul (part of Norway's Lorentzen Group which owns 28 per cent of shares in Aracruz).

The EIB's process for approving the pulp mill loan was not transparent. At a meeting with EIB staff in Brussels in 2003, Marcelo Calazans from the Brazilian NGO FASE asked to see the documents that the EIB produced during its evaluation of the Veracel project. EIB staff replied that none of its documents about Veracel were available to the public. They also declined to release the date when the EIB Board would meet to discuss the Veracel loan.⁹⁰

While the benefits to European corporations are clear, the benefits for local people in Bahia are not.

IMPACTS ON LAND RIGHTS AND LIVELIHOODS

Veracel's vast area of plantations exacerbates the problem of land concentration, in a country where large numbers of rural people either have no land or too little land from which to earn a livelihood. Veracel owns 147,000 hectares of land, of which 70,000 hectares is plantations. In addition, Veracel has contracts with farmers to grow eucalyptus on an area covering a total of 23,000 hectares.⁹¹ Veracel bought much of this land from large landowners, many of them cattle ranchers. Nonetheless, more than 800 people had to leave their homes to make way for Veracel's operations.⁹² José Koopmans, a priest and human rights activist in the south of Bahia, states that at least one-eighth of the land that Veracel bought was previously used for small-scale agriculture. In 2003, researchers from SwedWatch, a Swedish NGO, interviewed farmers living near Veracel's plantations. They said that the water level in creeks, ponds and lakes was significantly lower than before Veracel started planting. In some cases, watercourses had completely disappeared. Fishing and irrigation of agricultural farmland became impossible.⁹³

After agreeing to the loan for the construction of the pulp mill, the EIB announced that Veracel's pulp mill 'is expected to create significant economic benefits for the region, including employment.'⁹⁴ In fact, Veracel's pulp mill will employ only 400 people.⁹⁵

Unemployment is the main problem caused by the four pulp and paper mills in the southern part of Bahia, according to Melquiades Spinola, of the Centre of Studies and Research for the Development of the Extreme South (CEPEDES), a Bahia-based NGO. Pulp mills and plantations provide very few jobs, but they remove very large numbers of people from the land, causing unemployment. While vast sums of money are invested in pulp mills, 'there are 12,000 families of (landless) peasants living in camps along the roadsides,' says Spinola.⁹⁶

IMPACTS ON THE ENVIRONMENT

The EIB claims that Veracel's operations 'will help to reverse tropical rain forest destruction, to reduce the pressure for logging on natural forests and to maintain biodiversity.'⁹⁷ The EIB appears to have forgotten Veracel's record. In February 1993, the Brazilian authorities temporarily suspended its operations after local NGOs and the Union of Forestry Workers documented how the company was clearing the Atlantic Forest (Mata Atlântica) to make way for its tree plantations.⁹⁸

Veracel acknowledges that it cleared 64 hectares of forest in 1993. 'That was the only time in Veracel's history when it acted against good environmental practice,' according to Veracel's Vitor da Costa.⁹⁹ But in 2003, researchers from SwedWatch photographed an area where Veracel had again cleared forest to make way for a timber standing area. In December 2003, officials from the federal environmental bureau IBAMA pointed out that a large area of Mata Atlântica had been logged. The area was being planted with eucalyptus for Veracel, under the company's farmer contract planting scheme.¹⁰⁰

Veracel runs a forest conservation area called Veracruz Station which covers 6,000 hectares of the land that Veracel bought for its plantation operations in the south of Bahia state. In fact, Veracel would be in breach of Brazilian law if it did anything other than protect this area of forest.¹⁰¹

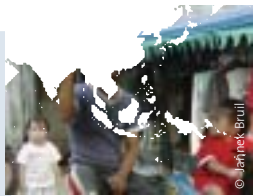
In April 2004, about 2,000 families from Brazil's Landless Workers Movement (MST - Movimento dos Trabalhadores Rurais Sem Terra) occupied 25 hectares of land and cut down four hectares of Veracel's eucalyptus trees. 'Nobody eats eucalyptus,' they shouted as they occupied the land and started planting corn, manioc and beans.¹⁰²

After five days, the MST decided to avoid what would probably have been a violent confrontation with the state police and left the land, accepting promises from the federal government that land reform would be accelerated in the region. Six months later another protest against Veracel took place. This time, 300 indigenous Pataxó blocked the BR-101 highway for 19 hours to protest against the fact that Veracel had planted eucalyptus on their traditional lands.

Despite the problems, Veracel has plans to expand.¹⁰³ If the mill expands, the area of plantations will also need to expand. Problems of land rights will only be exacerbated.



All images: Brazil.
© Melquiades Spinola/CEPEDES.

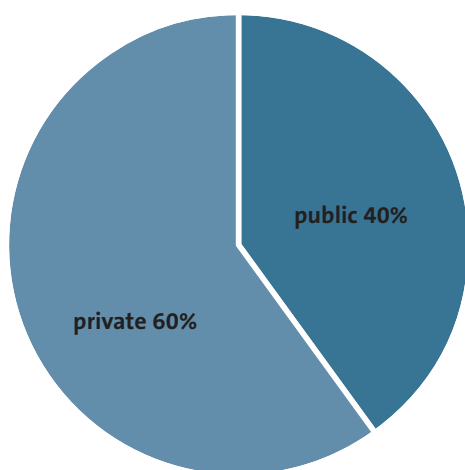


ASIA: PROMOTING WATER PRIVATISATION AND LARGE DAMS

Over the last ten years the EIB, acting under the first two mandates given by the EU for the ALA region (Asia and Latin America) has financed nine projects in the water sector (water supply and sanitation, sewerage systems and large dams). This has run to a total of €335 million, of which €240 million was loaned for five water projects in Asia (in China, Madagascar, Laos, Indonesia and the Philippines) and €95 million for the above- mentioned projects in Latin America (Argentina and Paraguay).

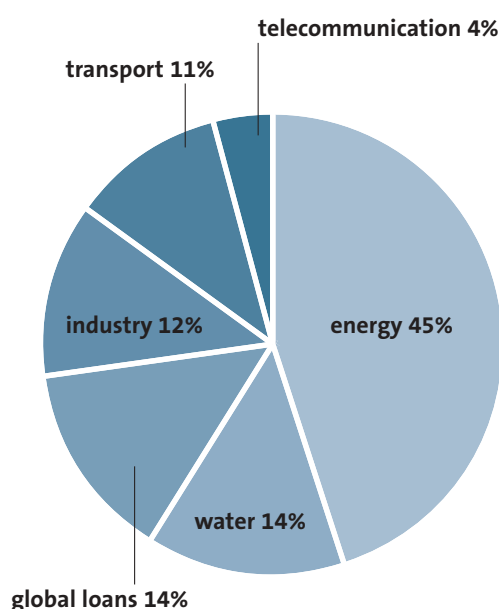
Although, relative to the energy sector, the water sector in Asia was not heavily funded (only with 14% of the loans between 1994 and 2004), it is important to point out that the EU (via the use of the guarantee on EIB loans) has mainly promoted water privatisation projects in this region. These projects were carried out in the Philippines and Indonesia.¹⁰⁴

PIE 4: Distribution of loans between the public and private sectors in Asia (1994 - 2004)*



* Source: "The development impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework." (Project no.EP/ExPol/B/2004/09/06).

PIE 5: EIB lending in Asia by sector (1994 - 2004)*



* Source: "The development impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework." (Project no.EP/ExPol/B/2004/09/06).

While in principle funding in the water sector could be considered sustainable, the implementation of EIB-financed water projects raises some significant concerns. As in the Latin American region¹⁰⁵, all approved water projects in Asia were in the form of Public-Private Partnerships (PPP), where the national government gives the private sector the duty to supply water and build the infrastructures for an agreed timeframe¹⁰⁶, with the EIB lending to the private investor. In Indonesia and the Philippines, EIB financed water projects have had problems in meeting project objectives. They have had difficulties ensuring sustainability, controlling macro-economic impacts, implementing tariff-agreed contract provisions and increases, providing access to water services (especially for the poor who can not normally pay high tariffs for basic water services), and complementing investments due to a lack of public sector capacity. In these countries, *Public-Private Partnerships have brought no improvements in delivering a safe water supply for the poor, while increasing the debt burden and putting the states into legal litigation processes.*

The EU Council recently ruled, by a legal clause¹⁰⁷, that local government authorities bear legal and economic responsibility of the projects in case they become financially unsustainable. Therefore, in PPP water projects financed by the EIB, foreign companies no longer have legal responsibilities in relation to delivering water.

In Indonesia, contracts for water privatisation in Jakarta were signed without public tender, and before any regulations on water privatisation were in place. In the Philippines, as in Indonesia, regulations that were put in place afterwards were clearly pushed through for the expediency of foreign partner interests. Furthermore, transparency, accountability and public participation – critical elements in safeguarding the public interest – have not only been compromised, but have been grossly lacking from the moment of the water privatisation projects' inception to date.

The experience with Maynilad in the Philippines should serve a warning to the EIB. The series of legal claims made by companies against the Philippines Government in relation to this case is cause for worry, particularly as the project is supposed to contribute to meeting the water-related Millennium Development Goals - of halving the number of people without access to safe and affordable water by 2015. The series of legal claims made by the companies against the Philippines government in this case is disturbing when one looks at the companies' own lack of accountability.

As well as the projects financed in the water and sanitation sector in Asia, large dams like Nam Theun 2 (see case study page 37), the latest dam project funded by the EIB globally (and today the largest hydropower project in Laos) can hardly be considered sustainable. Yet they are labelled by the EIB as renewable energy projects. In attempts to defend its assertion that large dam projects are environmentally sustainable and generate renewable energy, the EIB stated that, 'any large dam project the EIB might be asked to finance would be assessed in the light of the recommendations of the World Commission on Dams¹⁰⁸ and the Camdessus Report'.¹⁰⁹ However, as we will see below, the EIB fell short of this commitment by relying solely on World Bank assessments of the Nam Theun 2 Dam.

The negative social and environmental impacts of large dams have been repeatedly recognised, most notably by the 2000 World Commission on Dams (WCD) Report, and today compliance with the WCD recommendations is deemed a necessary prerequisite for renewable energy projects to be included in the EU's Emission Trading System.¹¹⁰ However, as we have already seen in Africa, in spite of these global standards, the EIB leans towards including all energy derived from large dams in the category of renewable energy, notwithstanding their grave environmental impact and without assessments being made. This has been the experience in the case with Laos' Nam Theun 2 Dam.

Although the EIB states in its 2004 Environmental Statement that 'it finances projects that maximize the benefits for the environment', and aims towards a 'a more pro-active approach to environmental project identification and financing in niche sectors with high value-added, such as contaminated site remediation, biodiversity protection and new environmental technologies' it financed no project in Asia, nor in Latin America or Africa, in the last ten years, which explicitly set out to promote the natural environment and protect biodiversity.

The Carbon Funds and the Climate Change initiatives

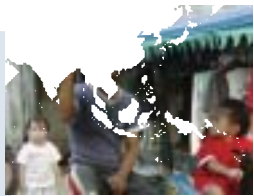
In 2005, under the European Union Emissions Trading Scheme, the 'World Bank-EIB Carbon Fund for Europe' and the 'European Bank for Reconstruction and Development-EIB Multilateral Carbon Credit Fund' were created. The EIB has additionally signed projects under its new 'Climate Change Finance Facility' (a fund of €500 million) and the 'Climate Change Technical Assistance Facility' (a fund of €10 million). Many civil society groups fear that projects financed under these schemes will include dubious projects such as plantations in tropical areas, or large hydropower projects with high social and environmental impacts, or natural gas extraction and transmission projects. It must be noted that in Asia, over last ten years, the gas sector has already been heavily funded by the EIB (with over €400 million for gas production and transmission networks in Pakistan, Thailand, and Indonesia).



*A chief of the indigenous Wana people in Sulawesi, Indonesia smokes a cigarette in his house.
© Janneke Bruil.*

CLEAN UP

4



ASIA: PROMOTING WATER PRIVATISATION AND LARGE DAMS



JAKARTA'S

WATER PRIVATISATION

CASE STUDY BY P. RAJA SIREGAR OF THE **INDONESIAN FORUM FOR THE ENVIRONMENT (WALHI)** / FRIENDS OF THE EARTH INDONESIA



Left and above: A rally of anti water privatisation in Jakarta, Indonesia. Activists of Friends of the Earth Indonesia with urban poor bring 1000 petitions to the Constitutional Court asking the cancellation of the new Water Law © WALHI/FOE Indonesia.

With €293 million and 6 projects financed since 1993, Indonesia ranks second largest in terms of EIB investments in Asia. Along with the gas sector, the water sector received almost half of EIB investments in the country. Unfortunately, however, this investment has not helped the poor in terms of safe water or better access to water.

FINANCING THE COOPERATION OF UK AND FRENCH COMPANIES UNDER SOEHARTO

The water service in Jakarta started to be privatized in 1996 by Thames and Suez-Lyonnaise. However, the privatisation of the Jakarta Public Water Company (PAM Jaya) had been arranged a few years before, when, in 1993, Thames formed an alliance with Mr. Sigit Harjojudanto, the oldest son of the then president Soeharto. Thames gave Sigit Harjojudanto 20% of its stock in a Thames-controlled company called PT Kekar Plastindo, which was later changed to PT Kekar Thames Airindo. On learning of the alliance, Suez-Lyonnaise was quick in forming an alliance with Mr. Anthony Salim¹¹¹ who had previously been Suez's partner in its Garuda Dipta Semesta water treatment company.

In 1994, then-President Soeharto initiated water privatisation in Jakarta with the Minister of Public Works. Water service management was divided in two: the Thames-Sigit and the Suez-Salim, with a 25-year concession agreed upon in 1997. Contracts were signed in 1998, with Thames and Suez controlling 80% and 40% respectively of the concessionaire's stocks of the newly established companies.¹¹² In June the same year, the EIB awarded a €45 million loan to PT Kekar Thames Airinido and a €55 million loan to PT Garuda Cipta Semesta in December of the same year. When the contracts were signed, no regulations on water privatisation were in place, nor were the contracts made through public tender. The decision was made directly by the then-President via the Minister of Public Works. Regulations were made afterwards, and heavily emphasized the foreign partners' interests.

LOCAL POPULATION VS. THE EUROPEAN COMPANIES

Late in 1998 an anti-Soeharto riot occurred. The executives of both the Thames and Suez companies left Indonesia, leaving no decision-makers, and the employees in confusion. The companies were left with a supply of materials only sufficient for a few days of water treatment. There was a panic among Indonesia's officials. The Governor attempted to move the management of the water company to the Director of PAM Jaya, (the state owned Jakarta Water Company) but this proved unsuccessful when legal action was threatened by the contracted foreign companies involved.

After the fall of Soeharto, 2,800 company employees held a rally against cooperation with Thames and Lyonnaise. Contracts between the Government and Thames and Suez- Lyonnaise were re-negotiated several times, resulting in a final settlement of 95% share ownership by Thames and Suez. The revised targets, which are now in effect, are set much lower than those of the original ones. During negotiations, the British Ambassador suggested an increase of 20% of the current price to maintain the Thames Water International operation in Jakarta, under the threat of Thames and Suez walking away from the agreement (Jakarta Post, 2003).

PRIVATISATION THROUGH CORRUPT PROCESSES

According to Indonesian Corruption Watch, the takeover of PAM Jaya by Thames was done through non-transparent and corrupt processes and generated a huge loss to the government. Despite criticism, the government argued that the privatisation was needed to improve the water quality as existing water treatment facilities and distribution networks were not sufficient. The foreign private companies, Suez Lyonnaise and Thames Water Company took over the production, distribution, and billing without due calculation of the value of the assets – yet their maintenance was still the responsibility of PAM Jaya. It was very clear that the operation was not a Build, Operate and Transfer contract but a deceptive takeover of a state-owned company by a private company.

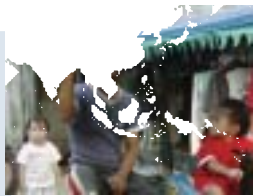
RESULT: POOR SERVICE

The overall achievement of Suez Lyonnaise and the Thames Water Company is low. Some consumers experience problems with water quality, especially turbidity and odour. Almost one third of consumers connected to the network have to use other sources of water for drinking and for household activities, such as bottled water and ground water. In some cases the tap water does not comply with the legal drinking water standard.

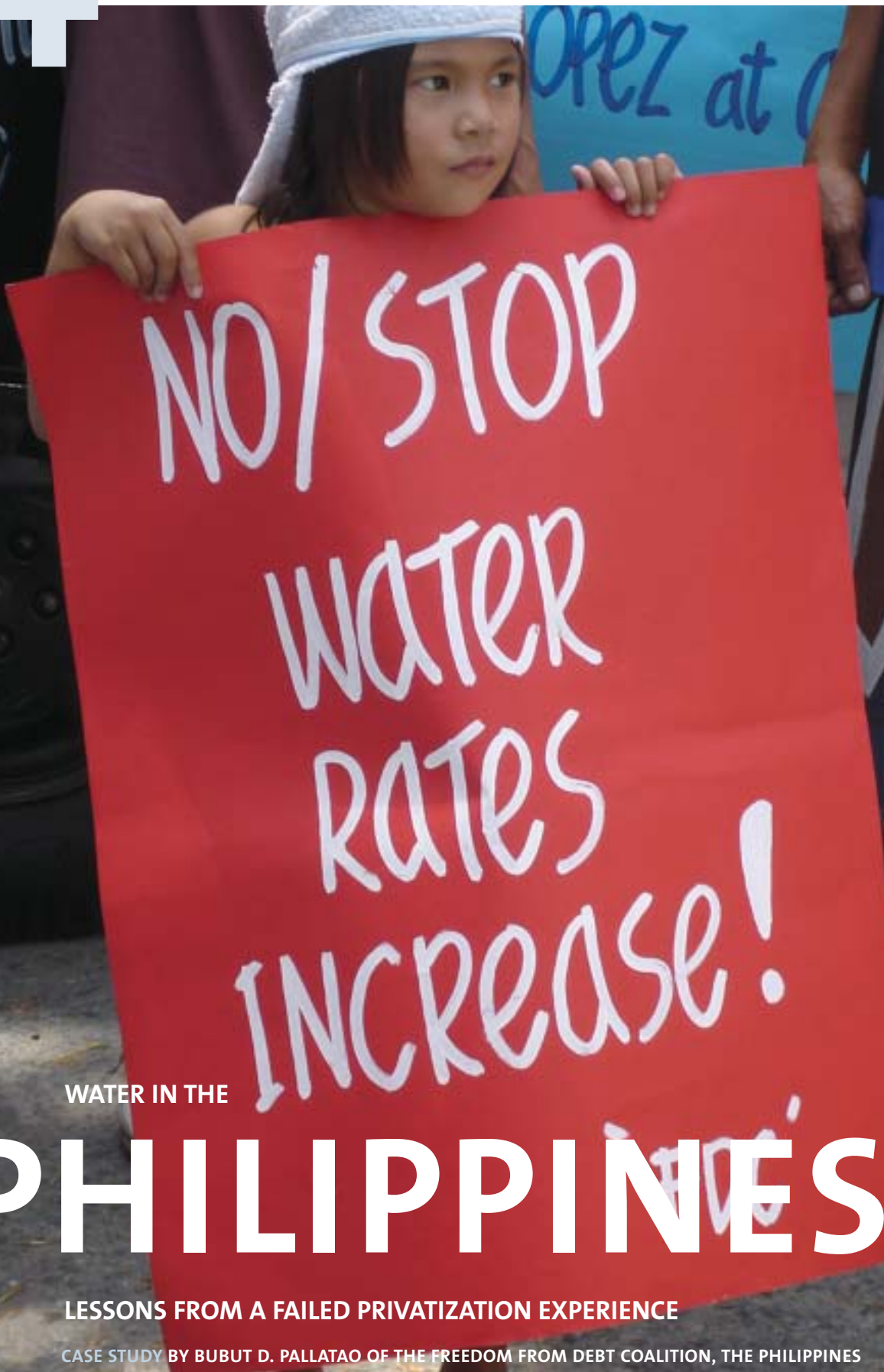
Water privatization has also increased the cost of household water supplies and thereby favours higher income communities where households are wealthier but smaller. Compared to the original standards, the achievements of Thames have been poor and have failed to meet set targets in relation to the volume of water produced and distributed, water efficiency, connection rates, and service coverage area.¹¹³



A rally of anti water privatisation in Jakarta, Indonesia.
© WALHI/FOE Indonesia.



ASIA: PROMOTING WATER
PRIVATISATION AND LARGE DAMS



WATER IN THE
PHILIPPINES

LESSONS FROM A FAILED PRIVATIZATION EXPERIENCE

CASE STUDY BY BUBUT D. PALLATAO OF THE FREEDOM FROM DEBT COALITION, THE PHILIPPINES

Mobilizations at the office of the Metropolitan Waterworks and Sewerage System (MWSS), the government water agency that was privatized. The picket was held in March 22, 2005, to protest the unjust rate increases of the concessionaires, Maynilad and Manila Water. © Bubut Palattao.

In 1998, the EIB provided a €50 million loan to Maynilad Water Services Inc. – a partnership between global giant Suez from France, and the local Benpres Holdings. The loan was given to implement the privatization of Metro Manila's water distribution system and intended for the extension and improvement of the water supply and sanitation services in western Metro Manila.

At the same time, the Philippine Government prioritised debt servicing above ensuring an effective public water system for the people of Manila. The state water agency, The Metropolitan Waterworks and Sewerage System (MWSS), failed to invest in a water supply and distribution system that would provide safe, adequate and affordable potable water to its citizens. Water losses from leakage and pilferage were staggering. A significant portion of the twelve million served by this water network remained unconnected to the piped network system. The Metropolitan Waterworks and Sewerage System was also struggling under huge debt it owed to IFIs. The private sector – commonly perceived to be more efficient and less prone to political manoeuvrings by Government; was seen as the remedy to this crisis.

A RISK FREE BUSINESS – SUBSIDISING PRIVATE SECTOR INTEREST

In 1997, Maynilad Water Services Inc. and Manila Water Company (owned by the transnational United Utilities and a leading local firm Ayala Corporation) gained concessions for the West and East Zones of Manila. Although the companies' bids were low they were accepted by The Metropolitan Waterworks and Sewerage System and its consultant, the World Bank's International Finance Corporation. The bids also failed to include accurate information, and failed to include an effective assessment of the financial viability of the proposed business plan. The EIB then approved a €50 million loan to Maynilad for this privatization venture.

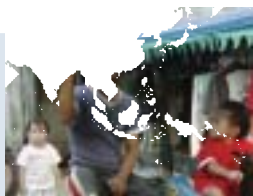
The privatization took the form of a 25-year concession contract: private companies – the concessionaires – would manage and use existing facilities to provide water and wastewater services to Metro Manila residents, in exchange for revenues from users' fees. The Metropolitan Waterworks and Sewerage System retained its role as provider of raw water and took on the task of being the regulator of the concessionaires. As stipulated in the Concession Agreement, the companies committed to achieve a range of performance targets. These included lowering water rates; uninterrupted water supply to connected consumers by the year 2000; compliance with World Health Organization's water and effluents standards by the year 2000; virtually universal water supply by 2006; and the reduction of water losses (or non-revenue water) from 56% to 32% in the first 10 years.

Water tariffs drastically fell after privatization but after only two years, Maynilad Water Services Inc. and Manila Water Company started introducing tariff increases. In 2001, Maynilad Water Services Inc. announced that its water services would be reduced unless the Government allowed the company to increase its tariff through new mechanisms not stipulated in its contract. It also unilaterally stopped paying its concession fees to the Government. The Arroyo administration subsequently allowed an amendment of the Concession Agreement to accommodate Maynilad Water Services Inc. demands, raising rates by more than 60%. The collection of additional charges was set under two conditions; firstly that the company would do so only until December 2003 and

secondly that it would then resume payment of its fees. However, the additional charges were not a temporary measure for all and some Manila citizens were overcharged by roughly US\$178 million during the first quarter of 2004.¹¹⁴

In 2003, Maynilad Water Services Inc. filed for an early contract termination arguing that the Government had made the viability of the company too difficult and demanding US\$303 million compensation from the Government. The Government filed a countermotion citing the company's failure to comply with provisions of the Concession Agreement, particularly the non-payment of concession fees. The dispute was settled through an International Arbitration Panel, which demanded the contract be upheld and ordered Maynilad Water Services Inc. to pay its PhP7 billion (US\$127 million in November 2003) in overdue concession fees. A week later, the company dodged the arbitral award by filing for corporate rehabilitation¹¹⁵ and securing a local court order stopping all creditors, including the state water agency, Metropolitan Waterworks and Sewerage System, from collecting its debts. Although the Government could have drawn on Maynilad's Water Services Inc. US\$120 million performance bond – monetary payments specifically provided for in the contract to protect consumers against contract violations or the concessionaire's failure to fulfil performance obligations – the Government did not.

Since 2003, Maynilad's Water Services Inc. corporate rehabilitation plan has undergone several revisions with the latest being approved by the court in May 2005. This paved the way for a 51.6% rate hike from the current average, or a more than 500% rise from its 1997 original bid. Maynilad's Water Services Inc. new rate increase translates to an additional monthly revenue of P3 billion (US\$168 million at the current exchange rate) despite lowered performance targets. These include the staggered payment of due and demandable concession fees, an additional two-year delay in water supply and sanitation targets, and a lowering of water pressure targets. The company's refusal to pay concession fees, now amounting to more than PhP10 billion (approximately US\$179 million), has already driven the government to incur new loans (about US\$430 million between 2001 and 2004) to avoid defaulting on maturing obligations of the Metropolitan Waterworks and Sewerage System.



ASIA: PROMOTING WATER PRIVATISATION AND LARGE DAMS

In mid-2004, the Government again granted the concessionaires undue incentive by declaring that Maynilad Water Services Inc. and Manila Water are agents, not independent contractors, of the Metropolitan Waterworks and Sewerage System. This ran contrary to existing laws, which explicitly include water and sanitation services in the list of sectors considered public utilities. Yet, the Arroyo administration chose to ignore the law and relied mainly on the opinion of the framers of Metro Manila's water privatization: an ex- Metropolitan Waterworks and Sewerage System Administrator, a former secretary of the Department of Public Works and Highways and its chief of staff. By declaring the concessionaires mere agents of the Metropolitan Waterworks and Sewerage System, the Arroyo government gave the water operators the right to treat their corporate income taxes as an expense that can be passed on to consumers.

At no point has the Government significantly questioned the wrong assumptions and projections of the concessionaire, nor its corporate mismanagement and inefficient operations. The World Bank and the EIB chose to ignore the firm's unrealistic targets for reducing non-revenue water and generating revenues. Maynilad Water Services Inc. was never put to task for overestimating revenues, underestimating costs, and failing to cushion itself for some fall in the dollar-peso exchange rate (not unexpected considering the events brewing in the region).



Mobilizations at the office of the Metropolitan Waterworks and Sewerage System (MWSS), the government water agency that was privatized. The picket was held in March 22, 2005, to protest the unjust rate increases of the concessionaires, Maynilad and Manila Water.
© Bubut Palattao

CONTINUING INEFFICIENCIES AFFECTING WATER RATES, WATER QUALITY AND EXPANSION SERVICE AND ACCESS

With private business at the helm of Metro Manila's water facility, cost-cutting measures have been placed over public health and sanitation concerns. In October 2003, 831 residents of poor communities in Maynilad's concession area fell ill from gastro-intestinal diseases; six eventually died. Meanwhile, connection charges of more than PhP4,000 (roughly US\$71) remain prohibitive for large numbers of poor households. Aside from cash flow problems, the network still has not addressed the poor quality of water and services being experienced by Maynilad customers.

As of 2001, as much as 30% of Metro Manila was estimated to still depend on more expensive small-scale independent providers for their potable water needs. Coverage is still below the concessionaires' 2001 coverage target. A survey conducted by the MWSS-Regulatory Office and the World Bank in 2000, the Public Assessment of Water Services Project, revealed that 67% of the 10,000 household respondents felt water services did not improve or had become worse since privatization. The same study registered poor ratings for quality of service in more than half of the communities surveyed.

EIB-supported water privatization in Manila has turned into a failed undertaking that benefits private enterprise at the expense of millions of consumers. When Maynilad and Manila Water won their concessions, they promised a range of benefits that included the lowering of tariffs for good quality water and an uninterrupted water supply. They have failed to deliver on this commitment and other commitments to increase capital expenditures and investments in new infrastructure. Instead, burdens have been unfairly passed on to consumers and taxpayers who bear continuously rising water rates, low water quality and additional debt burdens.



The Nam Theun 2 (NT2) Hydroelectric Project under construction on the Nakai Plateau, in Khammouane province, is the largest and most controversial hydroelectric project in Laos. The US\$1.25 billion dam, with a generation capacity of 1,070 megawatts, is a trans-basin diversion project. The project is building a 48-metre high dam on the Nam Theun River (a tributary of the Mekong River), and reservoir water will be released from the project's power station into another Mekong tributary, the Xe Bang Fai River. The dam is expected to begin operating in 2009, whereupon more than 90% of its electricity output will be exported to Thailand, making Nam Theun 2 the largest cross-border power project in Asia.



*Left and above: Laos.
© Sebastian Godinot.*

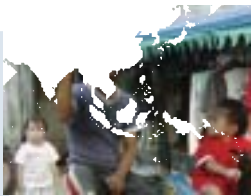
THE NAM THEUN 2 DAM IN

LAOS

FINANCING UNDER WRONG ENVIRONMENTAL
AND POVERTY ALLEVIATION ASSUMPTIONS

CASE STUDY BY GARY LEE OF TERRA, THAILAND

© sebastian godinot



ASIA: PROMOTING WATER PRIVATISATION AND LARGE DAMS

On March 31st, 2005 the World Bank – which has provided financial and technical assistance for studies and planning, as well as consistent political support for Nam Theun 2 since the late 1980s – approved a US\$20 million grant and loan guarantees worth US\$250 million. This enabled Nam Theun 2 Power Company (NTPC) to secure financial backing from other commercial lenders and public institutions, including the EIB,¹¹⁶ and thus reach financial closure prior to the deadline date of May 8th, 2005, as stipulated in the Power Purchase Agreement.

The EIB's appraisal of the project, and subsequent approval of a €40 million loan in April 2005, relied on the World Bank's assessments. The EIB claimed that the project would be subject to a series of environmental, social, and economic impact assessments and be in compliance with EU environmental and social policies as well as national requirements.

The project is structured as a Build-Own-Operate-Transfer (BOOT) scheme, in which the Nam Theun 2 Power Company (NTPC) will transfer ownership of the dam to the government of Laos after a 25-year concession period. The NTPC, established in August 2002, is comprised of Electricité de France International (35% ownership); the Thai Electricity Generating Public Company Limited (25%); the Italian-Thai Development Public Company Limited (15%); and Lao Holding State Enterprises, a company fully owned by the government of Laos (25%).

MAIN ENVIRONMENTAL CONSIDERATIONS

The company's safeguard documents formed the basis of legitimising the environmental and social soundness of the project. Technical reviews of these documents¹¹⁷ expose serious flaws in NTPC's assessment of environmental and social impacts. Nam Theun 2 will (if present plans are followed) inundate 40%, and degrade a further 40%, of the Nakai Plateau, which supports a rich array of habitats including savannah grasslands, pine forests, semi-evergreen forests, mixed deciduous forests, and seasonal wetlands. The Nakai Plateau is habitat to a number of species of global conservation significance – the endangered Asian elephant is the key large mammal. According to the most recent report of the project's Independent Advisory Group, 'the impacts on terrestrial biodiversity of the inundation will be considerable given the destruction or degradation of habitats which will occur.'¹¹⁸

The Xe Bang Fai River is the location of one of the most productive riverine fisheries in the Mekong River Basin. A review of the EAMP notes that Nam Theun 2 'is likely to have multiple serious, negative impacts on the aquatic resources of the Xe Bang Fai, Nam Phit and other downstream river basins.'¹¹⁹ The seasonal fish migrations between the Mekong and the Xe Bang Fai and its tributaries would be brought to an end. River-bank vegetable gardens would be flooded or be destroyed by erosion. This would adversely affect an estimated '100,000 to 120,000 people [who] are currently deriving significant and important benefits from the Xe Bang Fai River.'¹²⁰

REVENUES FOR POVERTY ALLEVIATION?

The EIB asserts that NT2 'will further sustainable economic and social development... [and] is currently the best option to generate revenues'¹²¹ in Laos. Underlying this is the assumption that the revenues from the project – estimated to be US\$250 million (at net present value) over the 25-year concession period – would be used to benefit the poor through a range of social programmes. Yet the negative track record of other dam projects in Laos, and the government's failure to transparently manage revenues and respect the rights of its people, provide a strong indication that the costs of Nam Theun 2 will dramatically outweigh any potential benefits. In fact, the World Bank itself notes that without significant improvements in governance, upfront natural resource revenues will not result in good development outcomes.¹²²

Project proponents argue that NT2 would improve the livelihoods of more than 6,200 people on the Nakai Plateau who will be displaced by the project, with their incomes tripling within seven years.¹²³ The objective is to integrate all resettled villagers into the market economy by transforming them from subsistence to cash crop farmers. This means villagers will have to grow cash crops to exchange for rice. However, the villagers have expressed concerns about the lack of sufficient rice-farming land and fear dependence on markets which currently do not even exist. As such, the resettlement plan is unsustainable and could lead to a serious food-security problem amongst local communities.

THAI ENERGY DEBATED

As mentioned above, more than 90% of NT2's electricity output will be sold to Thailand. Contrary to the Bank's claims that Nam Theun 2 represents the least-cost energy option for Thailand, Thai NGOs and academics have argued that Thailand has cheaper sources of electricity available, including gas-fired power stations and through demand-side-management measures. A group of independent energy economists based in Thailand who reviewed the final draft of the economic analysis, concluded that many unrealistic assumptions had been made about the project.¹²⁴

LACK OF CONSULTATIONS AND VIOLATION OF WB POLICIES

A review¹²⁵ of the materials used in the local consultations concluded that the consultations failed to meet the Asian Development Bank's (and the World Bank's) policies on involuntary resettlement that require people displaced by a development project to be 'meaningfully consulted' and not left worse-off after resettlement. While numerous discussions have occurred with communities living on the Nakai Plateau, the consultation processes have occurred in the context of improving resettlement outcomes, rather than debating whether or not the project, and the resettlement itself, is appropriate or desirable. Additionally, although more than 100,000 people living along the Xe Bang Fai will be affected by increased water flow in the river, discussions of the project with Xe Bang Fai villagers were only initiated in mid-2004 and many people have still not been consulted about the project.¹²⁶ Furthermore, although World Bank policies on resettlement stipulate that resettlement should not occur prior to the World Bank Board's approval of the Involuntary Resettlement Plan, some families had already been resettled by December 2003 – more than a year prior to the Board's approval of the plan and loan.¹²⁷ It is worth noting that the EIB does not have its own resettlement safeguards and therefore relied, once again, on those of the World Bank without assessing compliance on the ground.

In 2004, international NGOs filed a complaint against Electricité de France for breaching the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Corporations. This complaint highlighted, among other things, EdF's failure to: abide by OECD procurement guidelines; identify, respond to, and consider potentially problematic impacts; and comply with government of Laos (GoL's) international obligations and commitments.

BREAKING COMMITMENTS

The EIB stated that, 'any large dam project the EIB might be asked to finance would be assessed in the light of the recommendations of the World Commission on Dams and the Camdessus Report.'¹²⁸ This, however, was not done since the EIB did not make its own assessments, but instead, relied upon those done by the World Bank. Furthermore, the EIB has failed to comply with EU policies on climate change as stipulated in the 2004 European Parliament 'Linking Directive' on the Kyoto Protocol that requires the assessment of each large dam project funded by the EU outside Europe against WCD recommendations. The World Bank, the EIB and NTPC have not assessed NT2 against these WCD recommendations. In fact, an independent review revealed instead that NT2 violates six of the seven WCD Strategic Priorities.¹²⁹

CONCLUSION

The picture presented above shows that the EIB's involvement in NT2 under the guise of 'mutual interest' will result in more profits for the companies involved. This is at the expense of thousands of people whose livelihood, security, and economies depend on the natural resources that NT2 will inevitably destroy.



Above: Laos.
© Sebastian Godinot.



Under construction.
© FIVAS and Proyecto Gato.



The people and nature that will be impacted by the Nam Theun dam.
© Sebastian Godinot.



Two women of the village of Bimbagu in Northern Ghana.
© Janneke Bruil.

CONCLUSION

This report illustrates the detrimental impact of EIB practices in the global south through regional analyses and eight case studies. They expose a deep negligence towards affected people's rights and environmental considerations, as well as systematic shortcomings in project appraisal and a lack of proper monitoring and evaluation.

Although the EIB is obliged to support EU development strategy, in reality EIB lending to Africa, Latin America and Asia over the last ten years has not. *Many of the loans went to large-scale, non-sustainable oil, gas, mining, dam and industrial projects – sectors that may be economically viable for the EIB but mainly benefit subsidiaries of EU companies, not local people or the environment.* This report found no evidence of the EIB following the dictates of EU sectoral priorities or EU Development Policy, particular its poverty focus.

Although the EIB states in its 2004 Environmental Statement that 'it finances projects that maximize the benefits for the environment' no project was financed in Latin America, Asia or Africa in the last ten years which explicitly set out to promote and conserve the natural environment and biodiversity protection.

Although the EIB is often presented as the "development bank of the EU" in practice it remains distant from key EU policy objectives regarding poverty alleviation and social development embedded in the EU's Country Strategy Papers. These papers are the main planning instruments for EU aid programming and disbursement to countries outside Europe.

Even though the Treaty establishing a Constitution for Europe suggested that EIB lending operations be subordinated under the goals of EU development co-operation policy, the EIB has yet to be given (apart from in relation to the ACP countries) a formal institutional mandate for development co-operation in all the regions outside the European Union. The definition of clear criteria for EIB lending thus becomes all the more urgent.

Lack of participation and meaningful consultation with affected people and civil society about shaping, receiving compensation from, and consenting to the project, is of significant concern. All the cases analysed in this report show a lack of civil society participation in decision making. This is in violation of international best practice embedded in the EU Directives and is incoherent with many other IFI standards. In the cases of the Nam Theun 2 Dam in Laos, the water privatisation projects in the Philippines and Indonesia, the Chad-Cameroon pipeline, and the gas pipeline in Bolivia-Brazil, the EIB did not apply any

transparency regulations. Local communities and indigenous people were informed and consulted late, if at all, about possible impacts and they did not have any role in decision making. When information was provided, it was often not done in an appropriate manner or language. *The EIB often directs interested public to clients' web sites instead of publishing a version of the environmental assessment locally for public comments, as it is required by the EU policy on environmental impact assessment. In cases where EIB was the sole financier, no information during the whole project cycle was made available to affected people, local NGOs, international NGOs, or the European Parliament.*

Moreover, given that in the African, Caribbean and Pacific region the EIB has increasingly used European Union budgetary funds, the sharp shift in EIB lending towards the private sector is extremely worrying. The case studies from Indonesia and the Philippines have shown that private investors frequently fail to meet the rights of the poor to a clean and safe water supply, and instead, bring tariff increases. Importantly, the EIB generally favours European corporations over local companies.

Finally, one of the main findings when assessing EIB operations outside Europe is the operational freedom it enjoys at the local level, especially in the application of the provisions of the EU Council mandates and the EU Commission monitoring. The EIB's lack of a development strategy facilitates a client centred approach, rather than one driven by principles of sustainable development. As we have seen, project appraisal practices end up focussing on economic, financial and technical aspects, rather than social or environmental ones. This risk is aggravated by the fact that the EIB does not have its own internal safeguard and sectoral development policies and strategies (as the World Bank and other Multilateral Development Banks do) to guide its lending activities.

As the EIB is setting out to revise its mandate for investments outside Europe, the European Council and the European Commission must act urgently and in co-ordination to ensure people and the environment are the EIB's central beneficiaries.



RECOMMENDATIONS

WHILE LENDING OUTSIDE THE EUROPEAN UNION THE EIB SHOULD:

1. Take full responsibility for the impacts of its lending, including cleaning up the legacy its current and past projects have created and ensuring that no future projects damage local people and the environment;
2. Obtain the consent of local communities and indigenous peoples before proceeding with any new project and establish clear and transparent procedures on public consultations with affected people and civil society, in accordance with international best practices;
3. Respect principles of human rights, food security, labour rights and indigenous peoples' rights in accordance with relevant international laws and conventions while ensuring that all projects adhere to best practice international environmental standards and procedures. The EIB should also set up proper monitoring and evaluation mechanisms to ensure that companies receiving EIB support comply with relevant host, home and EU laws and policies, including international human rights, labour and environmental obligations;
4. Ensure that all future projects financed contribute to meeting the Millennium Development Goals of the UN³⁰ while prohibiting support for projects that are inherently incoherent with poverty alleviation and sustainability including:
 - › Projects that involve significant conversion or degradation of critical natural habitats, support the destructive exploitation of natural resources; or involve the production of substances that are banned or scheduled to be phased out of production;
 - › Large dams that do not comply with the World Commission on Dams' criteria;
 - › Extractive industry projects and nuclear power plants;
 - › Large scale industrial tree plantations

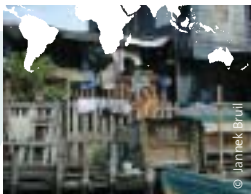
5. Proactively disseminate all relevant information³¹ regarding projects in a timely manner, in appropriate languages and in a method understandable for affected communities;
6. Adopt best practice safeguard policies, including on indigenous peoples, resettlement, environment and human rights, through a consultative mechanism with international civil society and affected people;
7. Adopt an independent accountability and compliance mechanism, which provides equal access for citizens in all regions where the EIB operates;
8. Adopt a development strategy through a consultative mechanism with international civil society and affected people in all regions of operation.

Additionally, as the EIB operates within the framework of the European Union development aid and co-operation agreements, the European Commission should annually assess the coherence of the EIB's lending operations outside the EU with the principles mentioned above. The Commission should demand suspension of EIB activities when these activities are incoherent with EU mandates and policies on development aid. The EIB should be fully accountable to the European Parliament and the people in countries of operation.



*An indigenous man takes his canoe down the river, Indonesia.
© Janneke Bruil.*

CLEAN UP



Woman in the fishing area
of Jakarta, Indonesia.
© Janneke Bruil.

GLOSSARY

- ACP:** African, Caribbean and Pacific countries
- ADB:** Asian Development Bank
- ALA:** Asia and Latin America
- BOOT:** Build, Own, Operate and Transfer
- CAFTA:** Central American Free Trade Agreement
- CEE Bankwatch:** Central and Eastern Europe Bankwatch Network
- CRBM:** Campagna per la Riforma della Banca Mondiale
- EC:** European Commission
- EDF:** European Development Fund
- EIA:** Environmental Impact Assessment
- EIB:** European Investment Bank
- EIR:** the World Bank's Extractive Industries Review
- EMAC:** Economic and Monetary Affairs Committee of the European Parliament
- EP:** European Parliament
- EU:** European Union
- FoEI:** Friends of the Earth International
- IAG:** International Advisory Group
- IDB:** Interamerican Development Bank
- IF:** European Investment Bank's Investment Facility
- MDG:** Millennium Development Goals
- MWSS:** Metropolitan Waterworks and Sewerage System in Manila, Philippines
- NAFTA:** North American Free Trade Agreement
- NGO:** Non-governmental organisation
- NT2:** Nam Theun 2 Dam in Laos
- OECD:** The Organisation for Economic Co-operation and Development
- PAM Jaya:** Jakarta Public Water Company
- PPP:** Public-Private Partnership
- SIEPAC:** Power Interconnector in Central America
- SME:** Small and Medium-scale Enterprise
- UN:** United Nations
- US:** United States
- WAGP:** West African Gas Pipeline
- WALHI:** Indonesia Forum for the Environment/ Friends of the Earth Indonesia
- WCD:** World Commission on Dams
- WEED:** World Ecology, Economy and Development



Brazil.
© Melquiades
Spinola/CEPEDES



A boy in Ghana runs past his school.
© Janneke Bruil.

ANNEXES STATISTICAL DOCUMENTATION

TABLE 1

CONVENTIONS AND DECISIONS IN FORCE RELATING TO EIB ACTIVITIES OUTSIDE THE EUROPEAN UNION

IN MILLION EURO		EIB OWN RESOURCES		EU BUDGETARY RESOURCES	
REGION OR COUNTRY	LEGAL BASIS	YEAR EXPIRY	OWN RESOURCES	RISK CAPITAL ¹³²	INTEREST SUBSIDIES ¹³³
African Caribbean Pacific (ACP)	Cotonou Agreement	2005	1700	2200	Yes ¹³⁴
Overseas Colonial Territories (OCT)	Cotonou Agreement	2005	20	20	Yes ¹³⁵
Republic of South Africa	Council Decision	2007	825	No	No
Mediterranean Countries	Council Decision	2007	6425	Yes	Yes ¹³⁶
Turkey	Council Decision	2007	450	No	No
Central and Eastern Europe	Council Decision	2007	9280	No	No
Russia/WNIS	Council decision	2007	600	No	No
Asia and Latin America (ALA)	Council Decision	2007	2480	No	No
EIB OWN RESOURCES LENDING FACILITIES COMPLEMENTING LENDING UNDER MANDATE					
Mediterranean Countries	Mediterranean Partnership Facility FEMIP ¹³⁷	2004	1000	No	No
		2007	200	20-40	No
Pre-Accession Countries	Pre-Accession Facility	2004	12000	No	No

Source: compilation by the author.

TABLE 2

FUNDS CURRENTLY MANAGED BY THE EIB UNDER THE COTONOU PARTNERSHIP AGREEMENT

COTONOU PARTNERSHIP AGREEMENT FINANCIAL PROTOCOL (FIRST 5 YEARS)	MILLION (€)		FINANCING FOR THE OCT ¹³⁸
	MILLION (€)	%	MILLION (€)
Grant financing from the European Development Fund	11,300	74.3	155
Investment Facility (revolving fund)	2,200	14.5	20
Loans from EIB own resources	1,700	11.2	20
Total	15,200	100.0	195

Source: Annual Press Conference 2005 Briefing Note N°10 Luxembourg, 3 February 2005

CLEAN UP



ANNEXES STATISTICAL DOCUMENTATION

TABLE 3

BREAKDOWN OF RELEVANT SUB-SECTORS IN EIB LENDING TO ACP (1994-2004)¹³⁹

SUB-SECTORS	LENDING (MILLION €)	% OF ACP LENDING
Extractive Industries	722,5	16%
(Mining)	316,6	7%
(Gas)	230,0	5%
(Oil)	175,9	4%
Electricity	392,2	9%
Hydropower/dams	339,0	8%
Thermal	57,3	1%
Telecoms	215	5%
Airports	232,2	5%
Ports	120,4	3%
Roads	50,0	1%
Railways	36%	0,7%
Industry/Food	117,1	3,5%
Industry/metal/processing	169	4,5%
Water supply and sanitation	130,1	4%
Drinking water	39,0	1%
Tourism	56,0	1,5%
Plantations	8,0	0,1%
Agriculture/industrial	43,0	1%
Agriculture	20,0	0,5%

Source: Yearly series of project data drawn from EIB annual reports. Re-categorized by the author according to the description of the projects given in the Bank's annual reports

TABLE 4

LENDING TO MAIN ACP COUNTRIES (1994 - 2004)

COUNTRIES	AMOUNT	% OF ACP
Mozambique	317,1	7%
Kenya	218,9	4,8%
Zambia	196,2	4,3%
Namibia	170,7	3,8%
Mauritius	164,2	3,6%
Dominican Republic	161,9	3,6%
Jamaica	151,0	3,3%
Uganda	147,0	3,2%
Tanzania	147,1	3,2%
Senegal	145,0	3,2%
Ethiopia	145,0	3,2%
Mauritania	112,2	2,5%
Cameroon	99,9	2,2%

From author analysis of project lending annual series 1994 - 2004

TABLE 5

LENDING TO LATIN AMERICAN COUNTRIES
AS A PERCENTAGE OF TOTAL ALA
LENDING (1994-2004)

COUNTRIES	AMOUNT IN € M	NUMBER OF PROJECTS	% OF ALA
Brazil	1039,2	22	30%
Argentina	468,7	11	13%
Mexico	210	5	6%
Panama	145	3	4%
Dominican Rep.	115	14	3,2%
Central America	106	3	4%
Peru	77	2	2,1%
Chile	75	1	2%
Caribbean regional	42	4	1,1%
Andean pact	40	1	1%
Guyana	20,5	2	0,5%
Paraguay	17	1	0,4%
Uruguay	10	1	0,2%
TOTAL	2.360,2	70	65,5%

From author analysis of project lending annual series 1994 - 2004

TABLE 6

LENDING TO ASIAN COUNTRIES AS A
PERCENTAGE OF TOTAL ALA LENDING
(1994-2004)

COUNTRIES	AMOUNT IN € M	NUMBER OF PROJECTS	% OF ALA
Philippines:	353,6	8	9,8%
Indonesia:	293,6	6	8,2%
Thailand:	160,4	4	4,4%
China:	135,8	3	3,7%
Pakistan	134,6	4	3,7%
Vietnam	55	1	1,5%
India	50	1	1,4%
Bangladesh	36	1	1%
Sri Lanka	30	1	0,8%
Total	1229,2	29	34,5%

From author analysis of project lending annual series 1994 - 2004



Pygmy mother
and child, Cameroon.
© Frédéric Castell

CLEAN UP



ANNEXES STATISTICAL DOCUMENTATION

TABLE 7

BREAKDOWN TO RELEVANT SUB-SECTORS OF EIB LENDING TO LATIN AMERICA (1994-2004)¹⁴⁰

SUB-SECTORS	LENDING (MILLION €)	% OF LATIN AMERICA LENDING
Telecoms	400,4	17%
Extractive Industries	397,7	17%
Industry/car industry	356,0	15%
Industry (others)	321,0	14%
Electricity	152,8	7%
Water supply/wastewater	144,2	6%
Transport/roads	72,0	3%
Infrastructure	75,8	3%
Agriculture/forestry	42,7	2%
Thermal	10,0	0,8%

Source: Yearly series of project data drawn from EIB annual reports. Re-categorized by the author according to the description of the projects given in the Bank's annual reports

TABLE 8

BREAKDOWN TO RELEVANT SUB-SECTORS OF EIB LENDING TO ASIA (1994-2004)¹⁴¹

SUB-SECTORS	LENDING (MILLION €)	% OF ASIA LENDING
Extractive Industries/gas	403	33%
Water supply/sewage	144	14%
Extractive Industries/oil	98,6	8%
Industry (other)	93	7%
Transport/airports	76,4	6,5%
Industry/cement	59	5%
Transport /roads	56	4,5%
Hydropower/dams	45	4%
Telecoms	49,6	4%

Source: Yearly series of project data drawn from EIB annual reports. Re-categorized by the author according to the description of the projects given in the Bank's annual reports



USEFUL RESOURCES

GENERAL RESOURCES ON THE EUROPEAN INVESTMENT BANK

European Investment Bank Projects Database

This site is established by civil society and provides a list of approved European Investment Bank projects in Asia, the Pacific, Africa, Latin America, the Caribbean and the Southern Mediterranean

www.eibprojects.org

European Investment Bank Fact Sheets (English, French and Spanish)

CEE Bankwatch Network/Friends of the Earth International, 2003

www.bankwatch.org

CEE Bankwatch web pages on the EIB

<http://bankwatch.ecn.cz/project.shtml?w=147578>

European Parliament Studies

The Development Impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework, March 2005, CRBM for the European Parliament (EP/ExPol/B/2004/09/06).

www.aa.ecn.cz/img_upload/2a47e698cb07569dfd0ebe077b6aad99/eib_study12_05_jaro.pdf

Report on the impact of the lending activities of the European Community in developing countries,

June 2005, Committee on Development, Gabriele Zimmer

<http://bankwatch.ecn.cz/newsroom/documents.shtml?x=330478>

EIB's own web site

www.eib.org

CASE STUDY RESOURCES

European Investment Bank (EIB) Lending in

Mexico – In whose interest April 2005, An analysis of EIB lending activities in Mexico with regard to European Union Co-operation Priorities, DECA Equipo Pueblo, A.C. Mimeo, Mexico

Informe sobre la situación del derecho a la

libertad sindical en México 3 de Marzo de 2004, Centro de Reflexión y Acción Laboral (CEREAL), presentado en la Audiencia temática en el marco del 119° período ordinario de sesiones de la Comisión Interamericana de Derechos Humanos,

Promises of jobs and destruction of work: The

case of Aracruz Cellulose in Brazil 2005, De'Nadai, Alacir, Winifridus Overbeek, Luiz Alberto Soares World Rainforest Movement, Uruguay

www.wrm.org.uy

Nam Theun II: No Time for Another Mistake

Oct 2004, TERRA

www.terraper.org/watershed/pdf/vol10no1.pdf

Indonesia Water Privatisation: WALHI web pages

www.eng.walhi.or.id/kampanye/air/privatisasi/050729_waterpriv_cu/

Water in the Philippines: People's Resistance and Alternatives to Privatisation of Water and Power Services

Sept 2004, Freedom from Debt Coalition www.freedomfromdebtcoalition.org/main/pages/000360.php

Taking Stock of Water Privatisation in the Philippines: The Case of the Metropolitan Waterworks and Sewerage System (MWSS)

2005, Freedom from Debt Coalition

www.freedomfromdebtcoalition.org/pubs/pages/000381.php

The Chad-Cameroon Oil & Pipeline Project: A Call for Accountability

June 2002, Association Tchadienne pour la Promotion et la Defense des Droits de l'Homme, Centre pour L'Enviornment et le Developpement, and Environmental Defense www.environmentaldefense.org/documents/2134_Chad-Cameroon.pdf

Traversing People's Lives ; How the World Bank is financing community disruption in Cameroon

Report and DVD. 2002, CED/Friends of the Earth Cameroon

www.foei.org/publications/pdfs/traversing.pdf

Pulp Mills: from Monocultures to Industrial

Pollution World Rainforest Movement, April 2005

www.wrm.org.uy



The harbour in Jakarta.
© Janneke Bruil.

CLEAN UP



USEFUL RESOURCES

OTHER RESOURCES

Mining: why international financial institutions must stop drilling, piping and mining

Friends of the Earth International, 2003
www.foei.org/publications/pdfs/handsoff.pdf

IFlwatchnet Connecting organisations that monitor international financial institutions
www.iflwatchnet.org

Eyes on IFIs The information hub for independent films and video resources on International Financial Institutions.
www.iflwatch.tv

Pumping Poverty Speakers Tour DVD, Friends of the Earth International, 2005
www.iflwatchnet.org/eyes/item.shtml?x=44730

Twelve Reasons to Exclude Large Hydro from Renewables Initiatives
<http://www.foei.org/publications/pdfs/12Reasons-eng.pdf>

World Commission on Dams Report
www.dams.org

Extractive Industries Review Report:
<http://ifcln1.ifc.org/ifcext/eir.nsf/Content/Home>

CASE STUDIES

CONTACT DETAILS

Centre for Environment and Development (CED) / Friends of the Earth Cameroon

B.P. 3430 Yaoundé, Cameroon
Tel: +237 222 38 57
Fax: +237 222 38 59
E-mail: infos@cedcam.org
www.africa-environment.org/ced/

Cepedes

Rua Paulino Mendes Lima, 53 - 2º andar,
45820-440 - Eunápolis - BA Brazil
Tel: +55 73 3281-2768
Email: cepedes@cepedes.org.br

Citizens for a Better Environment

Obote Avenue, PO Box 23202, KITWE, Zambia
Tel: +260 (97) 797514
Fax +260 (2) 223221

Environmental Defense

1875 Connecticut Ave, NW, Suite 600,
Washington, DC 20009, USA
Tel: +1800-684-3322
Email: members@environmentaldefense.org
www.environmentaldefense.org

Equipo Pueblo

Francisco Field Jurado 51,
Col. Independencia, Deleg. Benito Juárezm,
Mexico DF, CP 03630, Mexico
Tel.: +52 (5) 5390055/5390015
Fax: +52 (5) 6727453
E-mail: pueblodip@equipopueblo.org.mx
www.equipopueblo.org.mx

FASE/Espírito Santo

Rua Graciano Neves, 377 - 2o. Pav. – Centro,
29015-330 - Vitória – ES, Brazil
Tel: +55 27 33226330 or 32237436(fax)
Email: fasees@terra.com.br

FOCARFE

3494 Yaounde Messa, Cameroon
Tel: +237 998.41.58 / +237 728 71 16
e-mail : focarfe@yahoo.com
www.aedev.org/focarfe/

Freedom from Debt Coalition

11 Matimpiin St., Central District,
Quezon City, Philippines 1100
Telefax: +63 (2) 9246399
Email: mail@freedomfromdebtcoaliton.org
www.freedomfromdebtcoalition.org

Towards Ecological Recovery & Regional Alliance

409 Soi Rohitsuk Praharajbampen Road,
Huay Kwang, Bangkok 10320, Thailand
Tel : +66-2-6910718-20
Fax : +66-2-6910714
Email: fer@terraper.org
www.terraper.org

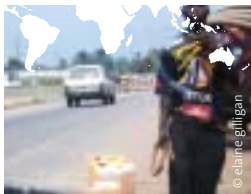
WALHI

Wahana lingkungan hidup Indonesia (The Indonesian Forum for the Environment/ Friends of the Earth Indonesia)

Jl. Tegal Parang Utara No. 14, Jakarta Selatan
12790, Indonesia
Tel: +62 (21) 79193363
Fax: +62 (21) 7941673
email: walhi@walhi.or.id
www.walhi.or.id

World Rainforest Movement

International Secretariat, Ricardo Carrere,
Maldonado 1858, Montevideo 11200, Uruguay
Tel: +598 2 413 2989
Fax: +598 2 410 0985
E-mail: wrm@wrm.org.uy
www.wrm.org.uy



END NOTES

1. European Parliament: "The Development Impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework" (Project no EP/ExPol/B/2004/09/06), by Jaroslava Colajacomo, CRBM March 2005 available at: http://aa.ecn.cz/img_upload/2a47e698cb07569dfd0ebe077b6aad99/eib_study12_05_jaro.pdf
The study has been used as background for the European Parliament "Report on the impact of the lending activities of the European Community in developing countries (2004/2213(INI))" FINAL A6-0183/2005 9.6.2005 Committee on Development Rapporteur: Gabriele Zimmer available at: <http://bankwatch.ecn.cz/newsroom/documents.shtml?x=330478>
2. For an assessment and monitoring of EIB operations by the European Parliament and the Commission see Chapter 1
3. Subsequently, these priorities (with the exception of access to social services) have been reaffirmed in the revised Development Policy Statement "The European Consensus on Development" in November 2005.
4. Based on the European Parliament study by CRBM see footnote 1.
5. The Extractive Industries Review by the World Bank Group assessed the World Bank's future role in extractive industries. The EIR report "Striking a better balance", December 2003, can be found at the World Bank's web site: <http://ifcln1.ifc.org/ifcext/eir.nsf/Content/Home>
6. The WCD was an independent process sponsored by the World Bank and the World Conservation Union (IUCN), which addressed controversial issues associated with large dams. The WCD's report, "Dams and Development: A New Framework for Decision-Making" (2000) identifies core values and a framework for decision-making to ensure that dams do not impose excessive social environmental costs. For more information on WCD see www.dams.org
7. The eight Millennium Development Goals (MDGs) – which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 – form a blueprint agreed to by all the world's countries and the world's leading development institutions. <http://www.un.org/millenniumgoals>
8. www.eib.org/publications/publication.asp?publ=14
9. Primarily consisting of an assessment of compliance of the EIB's yearly operations with EU policies and guidelines
10. For more information see Kim Bizzarri "The League of Gentlemen: An investigative report on the legal and operational relationships tying the European Investment Bank to the European Institutions" (2003) for Friends of the Earth International, CEE Bankwatch Network, FERN, CRBM available from http://www.bankwatch.org/publications/studies/2004/league_gentlemen_11-04.pdf
11. The EIB institutional mandate as defined within the Constitution for Europe.
12. Part III, Art. 317, Para. 3 and 1.
13. Council Decisions 97/256/EC, Council Decision 2000/24/EC
14. Annual Press Conference 2005 Briefing Note N°11 Luxembourg, 3 February 2005.
15. This risk coverage is diverse, but may include, for example, project incompletion due to war, a 'coup d'etat', commercial risk for unexpected financial crisis, or a depreciation of currency.
16. EU Guarantees may cover up to 70% of EIB loans to corporations, financial institutions or non-member states providing long-term finance often not otherwise available.
17. EIB: The Social Assessment of Projects in Developing Countries: The Approach of the European Investment Bank, July 2004.
18. EIB Environmental and Social Statements 2004.
19. As stated in European Council Decision 200/24/EC, the Commission shall inform the European Parliament and the European Council each year of the loan operations and progress made on operations under the EU guarantee and shall, at the same time, submit an assessment of the operation of the scheme and of coordination between the financial institutions operating in that area. Article 2 of the same decision states: "The Commission information submitted to the European Parliament and the Council shall include an assessment of the contribution of the lending under this Decision to the fulfillment of the Community's relevant external policy objectives".
20. EIB's Environment Statement, 2004 (www.eib.org). The same principle is repeated in the ACP-EU Partnership Agreement, Cotonou, 2000.
21. e.g. 'Support shall be given to the rights of the individual...and the promotion of social development' (Title 1, ACP-EU Partnership Agreement, Cotonou, 2000).
22. The IF Operational Guidelines were previously confidential but have been disclosed by the EIB to the author and the Parliament on 24 February 2005.
23. In addition to being financially viable, operations funded by the Investment Facility must be compatible with the three dimensions (economic, social and environmental) of the overall Cotonou objective.
24. For an analysis of the role and mandate given to the EIB for ACP countries see the European Parliament study by CRBM, footnote 1
25. In some cases, interest rates on loans from the Bank's own resources or the Investment Facility may be subsidised (in principle by up to 3%) 'for projects with substantial social or environmental benefits' by the European Union as stipulated in The Cotonou Agreement
26. The information contained in this box is summarized from the European Parliament study by CRBM, see footnote 1
27. Zambia EU Country Strategy Paper and Indicative Programme 2001-2007. Lusaka, 11 July 2002.
28. EIB Annual Press Conference 2005, Briefing Note N°10, Luxembourg, 3rd February 2005.
29. *ibid*
30. European Parliament Resolution on the World Bank-commissioned Extractive Industries Review (B5-0171/2004) RC1).
31. For more information on WAGP see Environmental Rights Action/Friends of the Earth Nigeria at www.eraction.org
32. See Annex table 3
33. EIB Evaluation Report: Evaluation of the projects financed by the EIB under the Asia and Latin America (ALA) mandates, January 2004.
34. The 2004 Intergovernmental Conference on Sustainable Energy in Bonn, Germany.
35. EIB, European Investment Bank and Renewable Energy, 2004.
36. The definition of renewable energy is a controversial one, but the CURES declaration on Renewable Energy (2004) is a common reference and can be found at www.cures-network.org/cures_declaration.htm. This definition excludes large dams.
37. Included in the Report "The Development Impact of European Investment Bank (EIB) lending operations in the Cotonou and ALA framework" (Project no EP/ExPol/B/2004/09/06) carried out in March 2005.
38. See footnote 5.
39. EIB, 'The Social Assessment of Projects in Developing Countries: The Approach of the European Investment Bank', July 2004.
40. Such as the Zambian Environmental Protection and Pollution Control Act.



On the streets of Accra, Ghana.
© Janneke Bruil.

CLEAN UP



END NOTES

41. The International Advisory Group (IAG) and the External Compliance Monitoring Group (ECMG).
42. The World Bank, "Chad-Cameroon: Petroleum development and Pipeline Project," Project Appraisal Document, Washington, D.C., April 20, 2000.
43. EIB's Vice-President, Michael Tutty, stated that 'the project is an exceptional development challenge for Chad and a chance to lift its people out of extreme poverty. [...]' - EIB press release, 22 June 2001.
<http://www.eib.org/news/press/press.asp?press=116&Years=2001&Months=6&go=Gowwww.eib.org/news/press/index.asp>
44. See for example, Transparency International, Corruption Perception Index 2005, London, Berlin November 2005.
45. The World Bank, "Chad-Cameroon: Petroleum Development and Pipeline Project," Project Appraisal Document, Washington, D.C., April 20, 2000.
46. Reuters, "Aid Groups Press World Bank on Chad Oil Profits," Washington, D.C., November 17, 2005.
47. World Bank Inspection Panel Investigation Report Cameroon: Petroleum Development and Pipeline Project (Loan No.7020-CM) and Petroleum Environment Capacity Enhancement (CAPECE) Project.
<http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resourcers/CAMInvestigationRptEnglish.pdf>
48. Amnesty International, "Extrajudicial Executions/ Fear for Safety: At Least 80 People Killed in Moundou, Others Arrested," AI Index November 1997.
49. EIB press release 27 June 2001
<http://www.eib.org/news/News.asp?news=24&cat=10>
50. Council Resolution 2000/24/EC.
51. See European Parliament study by CRBM, footnote i.
52. EIB, 2003, 'Financing in Asia and Latin America'.
53. In the absence of a Council mandate that defines EIB lending criteria for ALA countries, Council Regulation 443/1992/EC may be regarded as the guiding framework, regulating EU financial flows to ALA countries. This includes those under the EU guarantee scheme emphasizing priority sectors for cooperation including human development and poverty alleviation.
54. Countries eligible under ALA III mandate: Brunei, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam; Bangladesh, China, South Korea, India, Macao, Mongolia, Nepal, Pakistan, Sri Lanka, Yemen, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Bolivia, Colombia, Ecuador, Peru, Venezuela, Argentina, Brazil, Paraguay, Uruguay; Chile, Mexico, Panama.
55. Countries not receiving any funding were: Brunei, Laos, Malaysia, Singapore, South Korea, Macao, Mongolia, Nepal, Yemen, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Bolivia, Colombia, Ecuador, Venezuela.
56. Memorandum of Understanding between the EIB and the Inter-American Development Bank
www.eib.eu.int/Attachments/thematic/mou_eib_idb_en.pdf
57. COM(2003)603 final 2003/0232 (CNS), Report from the Commission to the European Parliament and the Council, Mid-term review of EIB external lending mandate pursuant to Council Decision 2000/24/EC, 13.10.2003.
58. See World Rainforest Movement: "Plantations are not forests", 2003 (<http://www.wrm.org.uy/>).
59. EIB Environmental Statement 2004 (www.eib.org).
60. The information about Mexico included in this chapter is based on the report by Domitille Delaplace (DECA Equipo Pueblo, A.C.). "European Investment Bank (EIB) Lending in Mexico – In whose interest? An analysis of EIB lending activities in Mexico with regard to European Union Cooperation Priorities", mimeo, Mexico, April 2005, (p. 54). This report was written as part of the research carried out by Equipo Pueblo for the case study on Mexico included in the European Parliament study by CRBM, footnote 1.
61. 'Agreement on Economic Partnership, Political Co-ordination and Cooperation' between Mexico and the European Community, signed in Brussels on 8 December 1997 (in effect since 1 October 2000), Title VI 'Cooperation'. / European Commission. National Strategy Paper, Mexico (2002-2006).
62. European Commission-EIB Memorandum of Understanding "Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN) in the consultation of the Commission under Article 21 of the EIB Statute".
63. Paul Hampton. Mexico Briefing: car workers' union organisation, Puebla, Sept. 2003.
64. The funds have not been paid, as the Senate of the Republic has not yet ratified the Framework Agreement for financial Cooperation signed in November 2003 between the Mexican government and the EIB.
65. Response from the EIB - Latin American Division to a questionnaire sent by the consultant Domitille Delaplace in the framework of the Mexican Case study research for the European Parliament Study referred in footnote I (from now on "the Questionnaire").
66. European Investment Bank. "Mexique: la BEI prete 70 millions d'Euros à Volkswagen Mexique". Communiqué de Presse, Réf. 2004-093, 08/10/2004.
67. 'Agreement on Economic Partnership, Political Co-ordination and Cooperation' Op. cit. *ibid.* Footnote 62.
68. Response from the EIB - Latin American Division to "the questionnaire" *ibid.*
69. Paul Hampton. Mexico Briefing: car workers' union organisation, Puebla, Sept. 2003.
70. *Ibid.*
71. European Investment Bank. "The Social Assessment of Projects in Developing Countries: the approach of the European Investment Bank". EIB-Projects Directorate-Environmental Unit/28 July 2004.
72. Information on the labour conflict based on a report of the Centre for Reflection and Action on Labour Issues (CEREAL), presented in the thematic hearing at the Interamerican Commission on Human Rights (CIDH), on March 3, 2004.
73. Response from the EIB - Latin American Division to "the questionnaire" see footnote 49.
74. Regulations to the General Law for Ecological Equilibrium and Environment Protection in matters of Environmental Impact Evaluation' the Official Journal on May 30, 2000.
75. European Commission. 'Working procedures between the EIB and the Commission services (DG ENV and DG ECFIN) in the consultation of the Commission under Article 21 of the EIB Statute'.
76. Electronic mail from CRBM to the Latin American Division of the EIB, dated on 25 January 2005.
77. Electronic mail from the Latin American Division of the EIB to CRBM, dated on 11 February 2005
78. Energy Regulation Commission. 'Resolución por la que se expide la convocatoria para participar en la licitación Pública Internacional LIC-GAS-009-1997' (RES/179/97), November 14, 1997.
79. Consortium Mexi-Gas initially included Bufete Internacional, but when Bufete Internacional declared bankruptcy, only the French company remained.
80. 'Regulations to the General law for Ecological Equilibrium and Environment Protection in matters of Environmental Impact Evaluation' the Official Journal on May 30, 2000.
81. European Council. Council Directive 97/11/EC of 3 March 1997 amending Directive 85/337/EEC Official Journal NO. L 073, 14/03/1997, p 5.
82. Response from the EIB - Latin American Division to "the questionnaire" *ibid.*

83. *ibid.*

84. Electronic mail from the Latin American Division of the EIB to CRBM, dated on 11 February 2005.

85. Nicolas Vergés Finance and Management Director, Consortium Mexi-Gas Interview, 4 April 2005

86. Response from the EIB - Latin American Division to "the questionnaire" *ibid.*

87. Andersson & Bartholdson 'Swedish Pulp in Brazil: The case of Veracel', Swedwatch, 2004, page 5.

88. 'EIB loan for reforestation in Brazil', EIB press release, 18 October 2001

89. 'Veracel Pulp Mill Project, Brazil' European Investment Bank, press release, 30 March 2004.

90. Chris Lang, the author of this section on Veracel, was present at the meeting at the EIB office in Brussels.

91. "Plantations", Veracel web-site:
http://www.veracel.com.br/en/perfil_hoje_plantios.htm

92. De'Nadai, Alacir, Winifridus Overbeek, Luiz Alberto Soares (2005) 'Promises of jobs and destruction of work: The case of Aracruz Cellulose in Brazil', World Rainforest Movement, Uruguay, pp 37.

93. Andersson & Bartholdson 'Swedish Pulp in Brazil: The case of Veracel', Swedwatch, 2004, pp 22.

94. 'Veracel Pulp Mill Project, Brazil' EIB press release, 30 March 2004.

95. 'Veracel 10 years', Veracel company booklet, 2002.

96. Gustavo Gonzales 'South America: Profitable Pulp Mills Also Pollute', Inter Press Service, 13 April 2005.

97. 'EIB loan for reforestation in Brazil', EIB press release, 18 October 2001.

98. 'Brazil: The short memory of Veracel and the power of Aracruz', World Rainforest Movement bulletin no. 39, October 2000.

99. Hannu Pesonen 'Right as rain forest', Tempus, Stora Enso Quarterly Magazine, 1, 2004.

100. Andersson & Bartholdson 'Swedish Pulp in Brazil: The case of Veracel', Swedwatch, 2004, pp 33.

101. 'Brazil: The short memory of Veracel and the power of Aracruz', World Rainforest Movement bulletin no. 39, October 2000.

102. 'Brazil's landless in widespread protests', Financial Times, 7 April 2004.

103. "Stora Enso is exploring the possibility of building a new fibre line at Veracel", Stora Enso press release, 28 September 2005. http://www.storaenso.com/CDAvgn/main/0,,1_-6479-14271-en,00.html

104. Indonesia and Philippines were on top of the list of the EIB's borrowers countries in Asia, with respectively 353 million, or 9.8% of total ALA funding, and 293 million, or 8.2% of total ALA funding (see Annex, table 6).

105. In Argentina and Brazil by Agua Argentina, Agua de Misiones and Agua Corobobes, all joint ventures with the French Suez Group.

106. Build, Operate and Transfer (BOT) meaning that the company will build and manage the service under collections of water fees and will return the project to the State after a set period of time.

107. Regulation of Jan 2005 extending political risk cover to 'Breach of Contract in combination with Denial of Justice'.

108. See footnote 6.

109. Letter from the EIB to Petr Hlobil of CEE Bankwatch Network dated 30 of June 2004.

110. European Commission 'Linking Directive to the European Emission Trading Scheme, 2004.

111. The son of Indonesia's richest tycoon who was commonly understood to be Soeharto's closest business crony, Liem Sioe Liong, also known as Soedono Salim.

112. The privatization of Jakarta water service is divided into an east part and a west Part. Thames and its local partner (Pt.Kekar Airindo, owned by Sigit Harjojudanto) run the East part of Jakarta water service, established "PT. Thames PAM Jaya (TPJ)" and Thames Water Company owned 40% share of the TPJ). Lyonnaise de Eaux and its local partner (PT.Garuda Cipta Semesta, owned by Anthony Salim) run the West part of Jakarta water service, established "PT. Pam Lyonnaise Jaya (Palyja)" (and Lyonnaise de Eaux owned 80 % share of the Palyja)

113. Thames achieved only 69%, compared to its 88 % target for the volume of water billed, achieved 15 % less than the water produced by PAM Jaya , reduced water loss from 58% to 48%, but failed to reach its target of 35% , connection rate increased by 54% of the level of 1997, 7% below the original target, and service coverage ratio increased to 62% - below the 70% target.

114. In 'the West Zone' of Manila where the operator continued implementing the temporary fees after the authorised period.

115. For an analysis of Corporate Rehabilitation in the Philippines see Insolvency Systems in Asia: An Efficiency Perspective by Danilo L. Concepcion, Corporate Rehabilitation: the Philippine Experience, 1999

116. For list of funding agencies see: Update on the Lao PDR: Nam Theun 2 (NT2) Hydroelectric Project, June 22, 2005, p.8 at: http://www.wds.worldbank.org/servlet/WDSContentServer/WDS/P/B/2005/06/29/000160016_20050629124146/Rendered/PDF/32790a.pdf

117. By International Rivers Network and Environmental Defense, November 2004 available at www.irn.org.

118. IAG, Fifth report of the International Advisory Group to the World Bank, February 2005, p.12.

119. David J.H. Blake, A Review of the Nam Theun 2 Environmental Assessment and Management Plan (EAMP) as it pertains to Xe Bang Fai fisheries, January 2005, published by International Rivers Network, p.1.

120. The People and Their River: A Survey of River-Based Livelihoods in the Xe Bang Fai River Basin in Central Lao PDR, by Bruce Shoemaker, Ian G. Baird, and Ms Monsiri Baird, November 2001.

121. EIB Press Release, USD 55 million for hydropower plant in Laos, 26 April 2005

122. The World Bank, Lao PDR Country Economic Memorandum: Realizing the Development Potential of Lao PDR, December 2004, p.72.

123. As quoted in Agriculture and Livestock Development Plan for the Nam Theun 2 Hydropower Project: An Independent Analysis, January 2005, published by International Rivers Network.

124. Robert Vernstorm, Nam Theun 2 Hydro Power Project Regional Economic Least-Cost Analysis: Final Report March, 2005 available at www.palangthai.org/docs/NT2EconMalfeas.xls

125. NGO Forum on ADB Briefing, Nam Theun 2: Perspectives on Local Consultations, November 2004.

126. Nam Theun 2 Social Development Plan, November 2004, Vol 1, Ch. 4, p. 26.

127. Les Amis de la Terre, Campagna per la Riforma della Banca Mondiale, Bank Information Center, and Environmental Defense, 'NGO Visit to Nam Theun 2 Hydroelectric Project in Laos,' December 2003.

128. Letter from the EIB to Petr Hlobil of CEE Bankwatch Network dated 30 of June 2004.

129. An Analysis of Nam Theun 2 Compliance with World Commission on Dams Strategic Priorities, by Aviva Imhof and Shannon Lawrence, February 2005, available at: www.irn.org

130. In particular, Goal 1: Eradicate extreme poverty and hunger; and Goal 7: Ensure Environmental Sustainability.

131. All information and contracts on projects financed, including through global loans, and all appraisal, monitoring and evaluation reports and studies along the whole project cycle.

132. For the ACP/OCT: from the Investment Facility established under the Cotonou Partnership Agreement. For the Mediterranean Countries: from the EU budget.

133. *ibid.*

134. It may also take the form of Technical Assistance.

135. *ibid.*

136. For operations in the environmental sector.

137. Facility for Euro -Mediterranean Investment and Partnership.

138. The EIB also supports investment in 20 Overseas Countries and Territories (OCT), mainly in the Caribbean and Pacific, which have constitutional links with certain EU Member States.

139. Does not include the EIB category 'Global Loans' which accounts for the percentage of lending missing to 100%

140. Does not include the EIB category 'Global Loans' which accounts for the percentage of lending missing to 100%

141. Does not include the EIB category 'Global Loans' which accounts for the percentage of lending missing to 100%



Filling station in Nigeria.
© Elaine Gilligan.

CLEAN UP

THE EUROPEAN INVESTMENT BANK IN THE

SOUTH

IN WHOSE INTEREST?

PUBLISHED BY:



**Friends of
the Earth**
International

**Friends of the Earth
International**

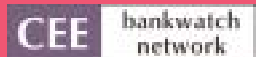
PO Box 19199
1000 GD Amsterdam
The Netherlands
tel: +31 20 622 1369
fax: +31 20 639 2181
e: foei@foei.org
www.foei.org



Campagna per
la riforma della
Banca Mondiale

**Campagna per la riforma
della Banca Mondiale
(CRBM)**

Programma di Mani Tese
Via Tommaso da Celano 15
00179 Roma, Italy
tel: +39 06 78 26 855
fax: +39 06 78 58 100
e: info@crbm.org
www.crbm.org



CEE Bankwatch Network

Jicinska 8, Praha 3, 130 00,
Czech Republic
tel: +32 2 542 01 88,
fax: +32 2 537 55 96
e: info@bankwatch.org
www.bankwatch.org



weed

WEED e.V.

**World Economy, Ecology
& Development (WEED)**

Torstr. 154, D-10115
Berlin, Germany
tel: +49 30 2758 2163
fax: +49 30 2759 6928
e: weed@weed-online.org
www.weed-online.org