



Counter

Balance

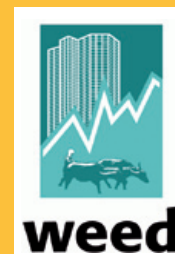
Challenging
the European
Investment
Bank

Coherence for development?

Development check of the
financing activities of the
European Investment Bank

The mission of “Counter Balance: Challenging the EIB” is to make the European Investment Bank an open and progressive institution delivering on EU development goals and promoting sustainable development to empower people affected by its work.

This new campaign is promoted by:



Editor:

WEED e.V. (World Economy, Ecology and Development)
Eldenaer Str. 60 – 10247 Berlin – Germany
www.weed-online.org

Contributions from:

Hans-Josef Fell – Member of the German Parliament, Vice President Eurosolar
Jan Haverkamp – Greenpeace
Lucy Hayes – Eurodad
Petr Hlobil – CEE Bankwatch Network
Nicola Jaeger – World Economy, Ecology and Development
Savior Mwambwa – Civil Society Trade Network of Zambia
Bernd Schneider – Parliamentary Assistant from MEP Gabi Zimmer
Anne-Sophie Simpere – Les Amis de la Terre / Friends of the Earth France
Antonio Tricarico – Campagna per la Riforma della Banca Mondiale

Contact:

CCE Bankwatch
Desislava Stoyanova
Tel.: + 32 2 542 01 85
desislava@bankwatch.org


Editing:

Nicola Jaeger – World Economy, Ecology and Development
Typesetting: werk21 – Berlin
Image source – cover: flickr/mm-j

Printed on recycled paper.

December 2008

Co-financed by InWEnt gGmbH with funds from the Federal Ministry for Economic Cooperation and Development (BMZ) Germany.

This document has been prepared with the financial assistance of the European Union. The contents of the document are the sole responsibility of Counter Balance and can under no circumstances be regarded as reflecting the position of the European Union. 

Contents

1. INTRODUCTION p4

Nicola Jaeger

2. THE EU DEVELOPMENT GOALS AND EIB'S ROLE IN ACHIEVING THEM - COHERENCE OF THE EIB FINANCING? p5

2.1 European development policy and challenges for European aid architecture p5

Lucy Hayes

2.2 The EIB's activities in ACP p6

Monique Koning

2.3 European Parliament's vision of EU development and EIB's role in this scenario p9

Bernd Schneider

3. PROMOTION OF POVERTY ALLEVIATION AND SUSTAINABLE DEVELOPMENT? p12

3.1 Which policy coherence for EIB lending in developing countries? p12

Antonio Tricarico

3.2 Strategy and reality: Impacts of EIB's projects in Zambia;

Case study of the mining industry in Zambia p15

Savior Mwambwa

3.3 Coherence of EIB's lending with EU development policies –

The case of the Democratic Republic of Congo (DRC) p19

Anne-Sophie Simpere

4. FINANCING SUSTAINABLE DEVELOPMENT - A CROSS-SECTORAL POLICY TASK p22

Hans-Josef Fell

5. SUSTAINABLE DEVELOPMENT AND CLIMATE PROTECTION IN DEVELOPING COUNTRIES? p26

5.1 The EIB's energy investing: Further steps are needed p26

Petr Hlobil

5.2 Strategy concerning energy investments p28

Kari Punkka

5.3 The European Investment Bank, energy and development p32

Jan Haverkamp

6. CONCLUSION p34

Nicola Jaeger

1. INTRODUCTION

Nicola Jaeger¹

The European Investment Bank was established in 1958 in order to finance infrastructure projects within the European Union member states. Since then, the bank has continuously expanded its operations. **Today, the EIB is the world's largest public lender – with annual lending operations of almost 50 billion EUR.** Lending outside the EU has increased significantly, especially in the last two decades, and has become an important part of EIB activities. In 2007, the EIB spent 6.3 billion EUR, or more than 13% of its overall portfolio, on projects outside the EU, which constitutes a major part of the lending under the Union's external development and economic cooperation programmes. The EIB therefore is a major financier in developing countries and responsible for the implementation of different EU development policies (e.g. Cotonou Investment Facility).

Lending operations outside the EU are regulated under different mandates, which makes the analysis of the investments, and probably the investments themselves too, more complicated. In African, Caribbean and Pacific Countries (ACP), the EIB acts under the Cotonou Agreement which basically implies a strong development focus. Lending in Asian and Latin American Countries (ALA) is governed by mandates from the European Council. The current mandate covers the period from 2007–2013 and was significantly extended, totalling 3.8 m EUR (2.8 m EUR in 2000–2006). The mandate will be reviewed in 2010 (mid-term review) to check if the objectives combined with the EIB activities are being achieved.

But EIB's activities are also based on the cooperation frameworks established between the EU and cooperating non-member states. With regard to developing countries, these frameworks are embedded in the EU policies for development co-operation, which find practical application in the so-called Country Strategy Papers jointly prepared by the Commission. Furthermore there are various sectoral EU policies, e.g. on environment, energy or trade, that the EIB as a policy-driven bank has to keep in mind.

Consistency and coherence between EIB operations and EU policies are essential to the fulfilment of EU external policy objectives. This complex area is described by different actors – Development NGO, EIB and European Parliament – in the first three articles.

One main problematic aspect in order to achieve the development objectives is the lack of consistency between different EU policies, as Antonio Tricarico illustrates at the beginning of the second section: Which policy coherence for the EIB lending in developing countries? But policy coherence is only one side of the coin. Even the best policy coherence (on paper) has to pass a reality check. For this reason we have included case studies from Zambia (Savior Mwambwa) and Congo (Anne-Sophie Simpère).

The analysis of the impact of lending is of crucial importance because financial resources must be directed to their best use in order to achieve the Millennium Development Goals and other general and global commitments, for example on climate change. After the check on financing activities regarding certain countries and Hans-Josef Fell's contribution about the needs and possibilities of financing of sustainable development, we concentrate on a special sector by checking the energy investments of the EIB. Petr Hlobil gives an overview on what kind of projects the investments of the EIB go to and Kari Punkka explains the strategy behind it. Jan Haverkamp reveals why the status quo is not enough and points out what has to be done in order to fulfil the huge demands for energy and development in a way that is sustainable and especially protects the climate.

Only by figuring out problematic aspects of the current lending activities can future investments improve and alternatives to the business-as-usual approach be found.

These different issues, reflected in the contributions to this documentation, were discussed at the **conference "Coherent for development? Development check of the financing activities of the European Investment Bank", organized by World Economy, Ecology & Development (WEED) within the campaign "Counter Balance – Challenging the EIB" in Berlin in October 2008.** With this publication we would like to raise awareness of the EIB's financing activities in order to change the bank into an open and progressive institution which delivers on EU development goals and promotes sustainable development.

1 World Economy, Ecology and Development

2. THE EU DEVELOPMENT GOALS AND EIB'S ROLE IN ACHIEVING THEM - COHERENCE OF THE EIB FINANCING?

2.1 European development policy and challenges for European aid architecture

Lucy Hayes²

European aid financing and the EIB

The financing activities of the European Investment Bank in developing countries are part of a complex European "aid architecture". There are currently 27 bilateral donors in the European Union, many providing both grants and loans through a number of different development agencies. At the same time in recent years we have seen an increase in the numbers of global "vertical funds" such as health specific funds through which EU countries also channel their aid. In addition European countries channel aid money through multilateral organisations such as the World Bank and the UN.

The European Commission also receives and manages money from member states, which it uses for its aid programmes. In many ways, the EC functions as a 28th European donor, with a complicated array of instruments and governance procedures. **The European Commission in 2007 was responsible for €8.5 billion of Official Development Assistance (ODA) which is approximately one-fifth of total EU ODA for that year (€46 billion).**

The EC has a number of different budget lines for delivering aid. There is one clear and important division. Most development assistance that goes to African, Caribbean and Pacific (ACP) countries comes from the European Development Fund (EDF). The EDF has its own governance structure. It is not a core part of the European Community budget and therefore not subject to European Parliament scrutiny. Development assistance for all other countries (Asia, Latin America) does come from the EC core budget through the Development Cooperation Instrument. Core EC funds are also used for a number of thematic or horizontal instruments going to all developing countries.

The main channel of development finance for the EIB comes from the EDF. Between 2008 and 2013 this will amount to approximately €2 billion. This money finances the EIB's Investment Facility – a fund which is used in ACP countries. EIB also invests in ACP countries using its own resources – although these are more restrictive. EIB financing for Asian and Latin American countries all comes from the Bank's own resources. All EDF funds

to EIB are counted as ODA. But it is unclear how much of the EIB's own funds are also counted as ODA. One way in which it would appear they would be counted as ODA is if a client defaults on a loan for political reasons in which case the EIB would get this money refunded by EU member states which provide a political guarantee for EIB investments.

European development policies and the EIB

The EIB appears to have something of a schizophrenic nature concerning its investment beyond the EU and it is unclear to what extent investment is coherent with European Union development policies. **Investment in ACP countries is meant to be in line with the objectives as outlined in the Cotonou agreement, primarily poverty reduction. But investment in Asian and Latin American countries is more concerned with supporting European investors.** Even in ACP countries, there are doubts as to the extent to which EIB projects are consistent with for example the European Consensus on Development whose primary objective is the "eradication of poverty in the context of sustainable development" and which is meant to "guide the planning and implementation of the development assistance component of all Community instruments and cooperation strategies with third countries". Whilst the EIB's investment in ACP countries is meant to be guided by the Cotonou agreement, there are no clear oversight structures in place to ensure this.

Improvements in European development policy

There have been some recent improvements in terms of European policies for development which, if put into practice, could improve the way development assistance is delivered. Again, these are steps which should also apply to EIB financing in developing countries. First of all the European Commission has moved away from imposing traditional World Bank style economic conditionalities through its aid to a stronger focus on the results achieved on the ground.³ The European Union also played a relatively progressive role in the recent Accra High Level Forum on Aid Effectiveness in trying to ensure a more positive outcome of the negotiations.

2 Policy and Advocacy Officer for Eurodad

3 It could be argued that the EC has simply shifted its tools for pressurising liberalisation and privatisation to other arenas, such as through Economic Partnership Agreements

There are some commitments from donors which appear particularly relevant for the EIB. First of all, donors in the Accra Agenda for Action committed to greatly improving their transparency. They said that they would “publicly disclose regular, detailed and timely information on volume, allocation and, when available, results of development expenditure to enable more accurate budget, accounting and audit by developing countries.” And that “Beginning now, donors and developing countries will regularly make public all conditions linked to disbursements”. Where the EIB provides loans to public borrowers, it should “use country systems in the first instance” and not set up parallel structures.

Challenges ahead

The European aid architecture is extremely fragmented and EU member states have signed up to a voluntary code of conduct to improve their division of labour. Progress in this area has been slow both because of donor entrenched interests and because of some scepticism by developing countries. At the same time the EIB appears to be positioning itself to play a larger role in development finance – perhaps as some form of multilateral development bank. The EIB’s chief

development economist, Daniel Ottolenghi, in a recent seminar, picked up on the challenges of more division of labour where he said “If reducing costs, cooperation and coordination isn’t working, we should think of an alternative arrangement. For example, we could delegate substantial parts of bilateral aid to a centralised mechanism.” But is this institution well-placed to assume such a role that is hinted at here?

There are a number of issues which suggest that this would not be an ideal way forward, at least as things currently stand. The EIB operates very independently from EU development institutions and is subject to little (if any) scrutiny by the European Parliament regarding coherence of its investments with EU development policy. Its governance structure is entirely European and developing countries in which it is increasingly investing have no say over its decision making. Also, there are questions about the value-added of channelling increasing amounts of development assistance through the EIB rather than through other development banks. The EIB’s schizophrenic identity as it tries to provide assistance both to developing countries and to European industry is not a good basis on which to build a new European development bank.

2.2 The EIB’s activities in ACP⁴

Monique Koning⁵

Mandate: Cotonou

Objectives

Private sector development,
through

FDI
local private sector
Financial sector
Commercially viable public entities

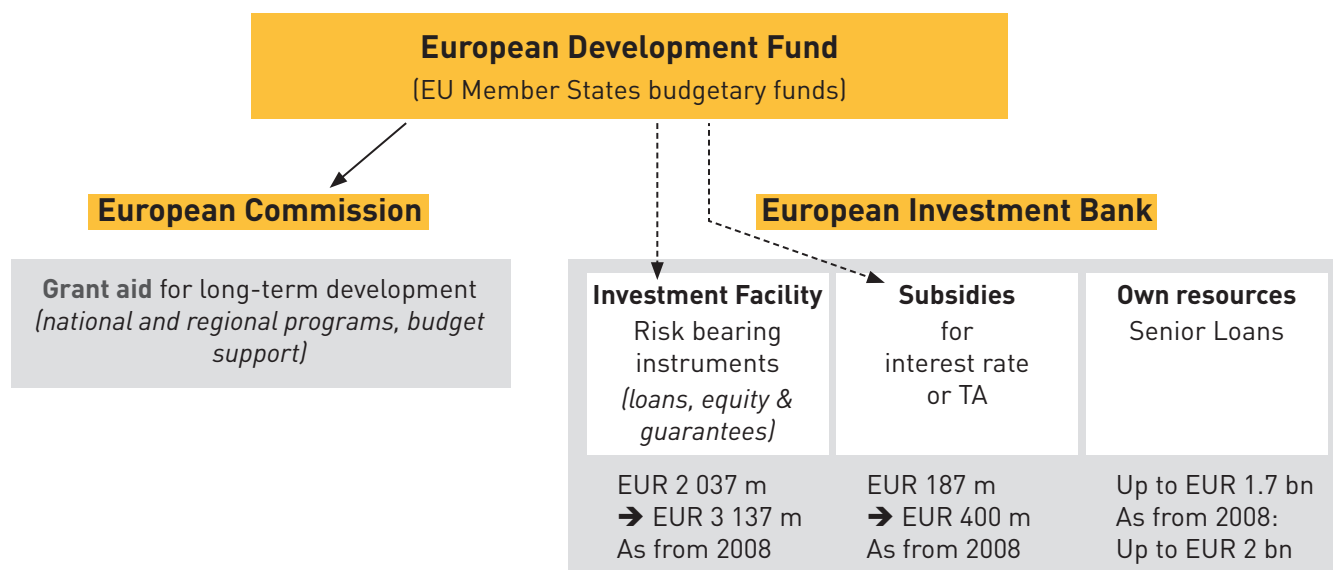
Sustainable Economic growth

Poverty reduction

⁴ Monique Koning did not prepare a written contribution. The following lines and diagrams are extracted from the power point presentation of the conference.

⁵ EIB Senior Investment Officer, ACP-IF Department, Lending Operations outside the EU

Financial means



Investment Facility

- Since 2003
- Operates in all economic sectors
- Supports investments of private and commercially run public sector
- Operates as a revolving fund
- Supports operations on market related terms
- Supports operations that are socially, economically and environmentally sustainable

Own Resources: public resources and private projects that meet stringent credit risk standards

Instruments

The IF provides a range of financial instruments denominated in EUR, other widely traded currencies or even local currencies

- Ordinary or senior loans
- Junior or subordinate
- Quasi-equity (participating, conditional or convertible loans)
- Equity (direct and indirect)
- Guarantees

Beneficiaries

- Private entrepreneurs and commercially viable public sector enterprises
- Local and foreign investors
- Large and small companies

Conditions

- Long term financial sustainability of the IF → risk pricing
- (Limited) subsidies available to increase concessionality, mainly for infrastructure projects, countries affected by conflict or natural disaster, HIPC countries, and projects with substantial and clearly demonstrable environmental or social benefits

Project examples

- EIB's role in supporting microfinance institutions through equity participations in funds that invest in microfinance organisations (e.g. AfriCap)
- Regional integration: East African Submarine Cable System: 95% locally owned; major developmental objectives integrated in project design; cofinancing with IFC, KfW, AFD, AfDB; EIB plays a major role in providing TA for project development
- Water sector: improved project preparation (water PPF), innovative project design and implementation (local NGOs' involvement), blending of EIB/IF loans with grants (EU Water Facility)
- Cameroon – AES Sonel Electricity Supply – financing of country's post privatisation investment programme through syndicate – EIB/IF acted as coordinator for lenders together with IFC; co-financing with AfDB, BDEAC, DEG, FMO and Proparco

Developmental, environmental and social sustainability

- Developmental objective → methodology to assess the development impact of EIB operations was further refined in 2007 → Development Impact Assessment Framework
 - Consistency with mandate objectives
 - Soundness in terms of economic, environmental, financial, institutional and social performance
 - Bank's Added Value – Financial, Design, Structure, TA etc.
- EIB Statement of Environmental and Social Principles and Standards, public consultation process

Portfolio as of 31/12/2007

- Total approvals under the IF: 90 projects, of which 30 regional projects, of which 79% are private sector projects
- Total amount approved under the IF: close to EUR 2 bn
- Total signatures under the IF: EUR 1.7 bn
- Total IF disbursements : EUR 725 m
- Own Resources lending: approx. 800 m
- Sectoral distribution: 52% financial sector (SMEs), 28% infrastructure, 17% industrial and mining, 3% agribusiness and tourism

Challenges

- Projects are more complex, work environment is more complex
- Local circumstances remain challenging: many countries are plagued by weak institutional capacities (e.g. to provide for adequate long-term investment planning, efficient procurement), insufficiently developed regulatory environments (weak regulators , insufficient financial means and quality of staff), governance, red tape, corruption, political commitments, political instability, etc. → difficult business climate
- Unfamiliarity with EIB rules and procedures – requires a lot of handholding (local entrepreneurs)

Opportunities

- Needs are huge – Africa Infrastructure Country Diagnostic: if current trend persists it will take 50 years until universal access to basic infrastructure services in Africa are achieved
- What is needed: higher levels of finance, better regional integration and cooperation to enhance efficiency, better systems for cost recovery and institutional support
- EIB is well positioned to continue to play a major role:
 - Qualified staff
 - EIB's vast experience in infrastructure lending
 - Financial means (IF and OR)
 - Flexibility of instruments
 - Technical Assistance
 - Extensive cooperation with other IFIs.

2.3 European Parliament's vision of EU development and EIB's role in this scenario

Bernd Schneider⁶

The European Investment Bank (EIB) is a fascinating instrument of the European Community. It has the potential to provide investment financing at a cost way below any credit sought for by governments of developing countries.

In 2005, the European Parliament with MEP Gabi Zimmer as its rapporteur thus welcomed when President Maystadt for the first time dubbed the EIB a “development bank” related to its external lending activities.

However, when the EIB endeavours to act as a development bank it should not be surprised at being measured by the same criteria as other financial institutions active in the development field. This concerns adhering to certain rules of transparency and providing opportunity for involvement of civil society actors including functioning complaint mechanisms and an adequate information policy.

Compared to what we had in 2005, the EIB has certainly evolved in this regard.

⁶ Parliamentary Assistant from Member of the European Parliament Gabi Zimmer, GUE/NGL

But for a development bank it is also crucial in what sort of project funding it gets involved. And here it seems, the EIB and its personnel still act much more like a bank than like an institution driven by development concerns.

From a bank's perspective a project begins to be interesting when it involves a relatively high amount of money and at the same time relatively low administrative costs and a low risk. This makes funding large dams or pipelines so interesting for a bank while funding a small fertiliser factory or even loans to farmers seem to be less sexy. Apparently, the EIB starts to get interested when a project volume exceeds 20 million Euros.

The pre-evaluation of a loan is a cost factor and there seems to be one rather old-fashioned faction among EIB staff that considers evaluations other than risk assumption and business model projections a waste of time and money. However, public pressure and pressure from its competitors among other IFIs as well as a number of more open-minded people amongst the Bank's higher ranking staff led to the introduction of wider Environmental Impact Assessments (EIA), which until this year also included an investment's social consequences. The new EIB statement now mentions the terms separately.

On demand of the European Parliament the EIB has also included compliance with the Millennium Development Goals in its list of evaluation indicators.

But if one compares the number of experts hired by the World Bank over the past decades to the number and qualification of people pre-examining projects for the EIB, one cannot but question the level of achievable assessment quality. **It is usually not environmental experts or labour market experts working for the EIB but rather old school bankers and economists who make their mark on an MDG evaluation sheet or review the EIA prepared by external consultants.** I do not think the EIB is well advised to rely so much on external expertise or on e.g. World Bank evaluations.

Now what sort of development projects does the EIB deal with today? Given the size of our planet, I took the liberty of focusing on one region, namely sub-Saharan Africa excluding South Africa. Out of 458 projects pipelined for EIB financing currently published on the EIB website, a total of 19 (or 4%) concern this region – the poorest in the world. For five of them an EIA has been published on the website. I am not sure whether the list of projects is complete though.

Two of them serve the growing energy demand by updating or rehabilitation of existing power plants, a hydro power plant in Madagascar and the Inga hydro plant supplying Kinshasa. Most of the 128 million Euros involved will, at the end of the day, reach companies

producing turbines and other equipment that are probably based in the EU or other industrialised countries.

Six of the projects serve infrastructure needs: railways in Mozambique, water and sanitation in Malawi, Burkina Faso and Senegal, the harbour of the Republic of Congo and the East African submarine cable for telecommunications. Of the 114.5 million Euros EIB is involved in, a lot will come back to European companies.

Five of the projects are settled in the banking sector, including private equity business and intermediates for loans to SMEs. These projects actually inject money into the region's economic circles. Unfortunately, they circumvent the EIB's own EIA procedures. And given the fact that one of the projects provides funding in particular to the SME mining sector, environmental and social impact cannot be expected to be irrelevant.

Six other projects deal with loans to a variety of companies.

- Libertis Mobile in Gabon wants to provide Gabon with a better mobile phone network. Libertis links back to South Africa.
- The Société des Plantations de Mbanga (SPM) in Cameroon is a company which has become a target of riots of angry farmers this year. The company wants money for a large banana plantation to be built on land it leased from chiefs and which is currently used by small scale farmers. In this context popular singer-songwriter Lapiro de Mbanga has recently been sentenced to paying a high fine to SPM and is currently still imprisoned.
- Mauritius-based Safal Investment gets the money to manufacture the scenic metal roofs seen in Africa's slums. The company operates factories in Kenya and Tanzania and wants to expand.
- US-based corporation Tenke Fungurume Mining will receive up to 100 million Euros from the EIB for copper mining in the Democratic Republic of Congo. We will learn more about copper mining and about the EIB activities in the DRC this afternoon.
- An unnamed "private sector promoter" has applied for 75 million USD to build a potash plant in the Republic of Congo to export this fertilizer component overseas. No EIA is available yet.
- And finally the Ethiopian Midroc Group will receive up to 32 million "cheap" Euros to build a cement plant. On Midroc's website we learn that "The well-known business tycoon, H.E. Sheik Mohammed Hussein Ali AL-Amoudi and his family have established the MIDROC Investment Group in Ethiopia, consisting of over 30 companies." Well, he will be happy that he did not have to take up a loan under the conditions of a normal bank.

Now some of the EIB-financed projects, like sanitation and water for Dakar or Ouagadougou should be applauded and are completely in line with the MDGs. But I find it hard to identify a consistent development strategy in various other projects. How do they relate to achieving the Millennium Development Goals? It sounds more as if someone was given the task of lending a lot of money and was happy to find loan or guarantee takers who could somehow fit into the overall lending criteria.

And here we touch one of the core problems related to the EIB's lending activities. They can be very useful when a development strategy has been defined and the EIB is asked to make aspects of it possible financially. But when the bank operates in a very bank-like way and just wants to place money in loans, these activities do not transport the much-needed amounts to key development purposes.

EIB lending activities need to be much closer linked to partner countries' own Poverty Reduction Strategies. **EIB funding should be complementary to EDF funding and EC funding but it is absolutely necessary that it fit into the strategic line agreed on with the partners.**

And from the perspective of a person working for a Member of the European Parliament I have to express that I do not understand why the EIB is not more actively seeking co-operation and joint strategic planning with the EP experts. This criticism must also be addressed to the EU member states and to a lesser extent to the EU Commission, although development is a co-decision policy field. We made an important step when Council, Commission and Parliament together agreed on the so-called "Consensus for Development". But when it comes to programming and concrete strategies, co-operation among the institutions lacks backing and appears sometimes not even to be wanted.

In recent years the European Parliament has been stressing again and again the importance of policy coherence if there is finally to be progress for developing countries. **If EIB lending mainly, if indirectly, serves EU economic and corporate interests, then this funding does not contribute to the aim of coherence.**

Parliament also often stressed that developing countries are not just there to cater for the raw material needs of industrialised economies but that we must establish the processing of raw materials in these parts of the world in order to overcome poverty. And let me say that I am impressed by some activities concerning the state management of raw materials and the related revenues in countries like Bolivia, which is now following the

Norwegian example. We are in dire need of raw materials and revenues management by the national government in the Democratic Republic of Congo as well, in order to finally end the bloodshed in the Kivu region.

When I read the new draft "EIB Statement of Environmental and Social Principles and Standards", I had to attest that the EIB achieved a lot of progress in its language, though there remain some wordings which are way too vague. And Members of the European Parliament would have appreciated if the EIB had made an effort to include them into the related consultation process. But most of the hot issues are included: climate change, respective mitigation requirements, MDGs, Equator Principles, just to name a few. And I can only hope that language, as it often does, will subsequently lead to a change in behaviour as well. Let me take this opportunity to propose to the EIB to approach the Parliament's Development Committee to hold a joint meeting to evaluate the new statement and its meaning for the bank's development financing.

But I would also like to take this opportunity to address some criticism to the NGO community. NGOs do extremely valuable and dedicated work when they act as watchdogs and when they unveil negative impacts of certain projects. But I would be happy to invite all those excellent brains to contribute also constructively to the improvement and implementation of precise development strategies.

Why not come up with a list of projects that you would like to see established with the cheap but possibly valuable money the EIB can provide? Would it be a railroad from landlocked Uganda to Mombasa's harbour? Or the construction of buildings for secondary schools in those countries that made progress in primary school teaching but don't know where to send the kids afterwards? Would you like to know from the EIB whether it can help to finance a pilot project for an African Water Academy dealing with water management in an entire river and groundwater system? Should we have a Development Academy bringing together professional aid workers and government officials and thus assist in synchronising development activities? The EIB can fund student loans from Italian banks, can it also fund a traineeship programme for African youths in Europe? I would love to see a situation where you come up with your good ideas and the EIB finds itself in the position where it has to endeavour to co-operate with you or explain to the public why they wouldn't finance a particular project.

Thank you very much for your attention.

3. PROMOTION OF POVERTY ALLEVIATION AND SUSTAINABLE DEVELOPMENT?

3.1 Which policy coherence for EIB lending in developing countries?

*Antonio Tricarico*⁷

Civil society, policy makers and European institutions have spent significant time and energy over the last years to improve policy coherence in EIB lending outside the EU, in particular to developing countries. This has been part of the wider discussion to promote policy coherence for development in the context of wider external action of the European Union. The agreement on a European Consensus on Development between all European institutions and the Member States in 2005 and the clear recommendations by the European Parliament concerning the reorganisation of European development finance instruments in the context of the new EU budget for the period 2007–2013, **moved the European Council to give the EIB, for the first time, an overarching global external mandate covering all world regions outside of the EU, apart from the accession countries and the ACP countries.** As a matter of fact, EU cooperation with the latter is regulated under the Cotonou Agreement, where a specific role and mandate is given to the EIB, including management of part of the European Development Fund.

Therefore it is still important to distinguish between ACP regions and the other world regions (Latin America, Asia, Mediterranean – including Northern Africa and the Middle East – Eastern Europe, Russia, South Africa, Southern Caucasus, and Central Asia) in terms of analysing how much EIB action and policies are in line with EU development goals.

The upcoming mid-term review of the “global mandate” covering the second set of countries offers an important opportunity for making EIB lending more effective and pro-development. It should be stressed that several Member States showed some concern about the expansion of EIB’s role to all these regions and made their support for the new mandate conditional on the outcome of this review.

At the same time an upcoming review of the Cotonou agreement in the next years will also offer the opportunity to review EIB’s role in the ACP countries.

The global mandate: which policy coherence?

Despite also containing a reference to European development goals, the general framework under which the EU acts in all these regions relates to broader development and economic cooperation. In particular the overall external action of the EU has specific policy objectives in each region which go far beyond a pure development approach, and often tend potentially to conflict with development objectives in the long run. This is the case with energy security which dominates EU external action agenda, investment promotion mainly to the benefit of European corporations, trade liberalisation and so on.

The EIB is a bank that mainly focuses on private sector lending and in particular promoting financial sector development by using financial intermediaries for the disbursement of a significant part of its lending. Therefore, the EIB fully supports the “mantra” that foreign direct investments are the main driver of development, given their contribution to economic growth and in a second instance eventually to proper development and social and economic redistribution (a stereotyped approach enshrined in the so-called neoliberal “trickle down effect”).

Furthermore, in the end of 2006, the European Union adopted a controversial overall strategy for the promotion of European trade and investment, named “Global Europe, competing in the world”, which clearly subordinates most of the EU external action’s development, environmental and human rights goals to the promotion of free trade to the advantage of European economic interests. Therefore it is quite legitimate today to ask **which policy coherence the EIB is asked to implement in its “global mandate”, given that a quite concerning realignment of EU external policy objectives is taking place around issues of trade, investment, energy security and other geo-political priorities.** Even worse, in this context aid becomes an instrument for achieving the main objectives mentioned above, as in the case of the “aid for trade” approach being promoted by the European Union and transforming the use of EDF resources in several cases.

⁷ Coordinator, Campagna per la Riforma della Banca Mondiale (CRBM)



Conference: Second panel

It should be noted that in specific council decisions in the last years about the objectives of EU external action in any of these regions, there is a clear reference, since the Council Regulation in 1992 on this matter, to the concept of “mutual interest”, which should guide economic and development cooperation between the EU and these regions of the world.

As specified in official EU documents, mutual interest will pertain to the promotion of the business of EU companies and technologies, in particular in the case of Asia and Latin America.

Concerning the Mediterranean region, several external policy objectives are outlined in the context of the Barcelona process, but it is still far from clear that poverty reduction via sustainable development is the main objective of this partnership and cooperation agreement. In this regard it should come as no great surprise that one of the key priorities of the EIB in this region is the promotion of EU energy security.

In the case of lending in the Central Asia region, currently under discussion by the European Parliament and the European Council, it clearly emerges how external policy objectives given priority so far by the European Council conflict with horizontal instruments and priorities of EU external action, such as promotion of human rights and democracy.

Therefore, to conclude, **the EIB’s external mandate in these regions and specific priorities identified for the bank’s lending there reflect contradictions and the “wrong anti-development” policy coherence which has been emerging in the last years in the European agenda.** In this context the mid-term review would be an opportunity not just for analysing the development impact of EIB lending in these regions, but also for reviewing main objectives and interventions that the EIB should eventually back instead, if significant institutional change were to happen. Otherwise, it is legitimate to question why the EIB should be better equipped than other European institutions or instruments to perform pro-development lending in these regions, if that should still be a priority for the overall European Union.

In this regard, the EIB’s strategy of signing more and more MoUs with regional development banks in order to improve its effectiveness in lending in these regions proves to be quite limited and short-sighted. In this way the EIB tends to devolve its “development” due diligence to other actors, while not being able to bring a significant added value to the operations it supports and not being in line with specific European goals, potentially different from those of the various regional and multilateral banks. Also considering the Bank’s limited lending to some of these regions, an approach centered on selectivity and added value should guide the overall intervention of the Bank. So far this is not clear at all if we look at EIB.

EIB lending under the Cotonou Agreement

In the case of EIB lending to ACP countries the issue is more about the lack of policy coherence between EIB and EU priorities as enshrined in the Cotonou Agreement. It is clear, in fact, according to article 1 of the agreement, that the overarching goal of EU cooperation with these regions is poverty eradication via sustainable development and the promotion of their integration into the world economy.

There is a lack of policy coherence at different levels:

- Country Strategy Papers – CSPs, which are the main planning instrument of aid programming and disbursement – identify clear objectives for EU lending, country by country, for each budget period, including priority sectors of intervention. **Empirical analyses of EIB lending to these countries in the last years, on the basis of limited information available from the EIB, show that the level of alignment with the EU operational priorities is very low and has not been improving at all in the last years.** It should be

noted that the EIB also uses a sectoral breakdown of its portfolio, which is still limited and very far from the OECD DAC classification that the Bank would be expected to implement given its participation in the aid effectiveness process. Furthermore, the EIB has developed no specific sectoral strategy which could highlight priorities for achieving development objectives in each individual sector of intervention.

- Concerning lending instruments, the EIB has focused more and more of its action through the investment facility (IF) which, despite having some development impact assessment guidelines and member states and the commission might have a say on which operations should be financed, still supports mainly private sector development and operates more than half of its lending activities through financial intermediaries. **Still little ex-post evaluation of single operations is carried out, and more generally no forward looking development assessment is carried out** on why the EIB prefers increasingly to operate also with EC financial support in order to minimise risk in comparison with operations backed only by its own resources.
- Furthermore, still regarding lending instruments and in particular the possibility for the EIB to subsidise its lending with EDF community financial resources for social and environmental benefits (up to 3 per cent lower interest rates), this mechanism is not used much; there is little transparency about this, in particular how lower interest rates are spread by financial intermediaries distributing global loans; more generally there is an issue of concessionality for HIPC countries, given the capped interest rate provided under Cotonou but that is not generally respected (this problem is even more worrying in ALA lending, where few HIPC countries are among potential beneficiaries of EIB lending).
- Finally there is a selectivity issue concerning EIB lending, and the consequent problematic relation with the European Commission. Despite the focus of EIB lending being limited, in terms of sectors of intervention it is unclear what added value the EIB is bringing through its operations. At the same time, despite the interest in having an EIB more strictly implemented in the EU development strategy, **the European Commission is not weighing in systematically to shape the EIB's portfolio towards environmental sustainability and a pro-poor approach.** It is clear that today the EIB does not have in-house expertise to produce such a portfolio shift and no other European institution is contributing to this either. The cases of the Chad-Cameroon oil development project and the Lesotho Highlands Water Project are emblematic in showing how the EIB has no capacity to manage such controversial projects. The reliance on other MDBs in minimising risks, including the Bank's reputational risk, is very problematic too, and to a

certain extent could turn out to be counter-productive for the Bank.

The private sector development mantra

As already mentioned above, in all regions of intervention, whether under Cotonou or the "global mandate", private sector promotion is central in all economic sectors as the main engine of economic growth. **This shows the limitation of the EIB approach to development:**

- There is widespread empirical evidence that the creation of income through productive investments has only indirect effect on poverty reduction; in any case this aggregate income creation is possible only if good domestic taxation systems are in place to prevent capital flight from poor to rich countries. There are several cases of companies benefiting from EIB support which are registered in tax havens, for instance, and do not pay adequate taxes in the host countries where their investments are located. Furthermore, project agreements tend to provide tax exemption to companies and the EIB supports this type of foreign direct investments, too.
- At the same time the supply of prime necessities – such as water or energy – has a direct effect on poverty reduction if the right policies are in place; however, in most contexts within which the EIB operates, structural privatisation processes have been carried out already with no constraints on private sector operations, while the role of the state in overseeing this has been marginalised and the state has become disempowered. In these contexts, riots of poor people against European corporations regularly happened in many African countries in the last years.
- The EIB gives very little support to public social sectors (health and education i.e.) and rural development, which are at the heart of development needs, particularly in ACP countries.
- The environmental and social assessments of specific operations are still limited, despite some progress in the last years in response to civil society criticism. However, global loans, which account for a significant part of EIB lending, do not undergo any serious non-economic and development ex-ante assessment. It should be stressed that the experience of other IFIs, including the World Bank, in this regard remains controversial, too. For instance, the IFC still performs limited assessment of financial intermediaries benefiting from its support. More general, as in the case of the EIB, corporate screening procedures on non-economic issues are still poor and the overall rationale for lending primarily to the private sector as a key actor for fostering development is still not grounded in empirical evidence.

- Concerning other issues, such as anti-corruption strategy, despite its new and more advanced policy the EIB is still not pro-active, in particular on procurement issues, given its unique position of dealing mainly with private sector entities from Northern countries. Through a more offensive stand in many cases, the EIB could prevent corrupt deals from going ahead.

Conclusions

It is evident that despite recent efforts the EIB is not well equipped for dealing with development lending.

In the context of the mid-term review of its external "global mandate" and the upcoming review of lending under the Cotonou Agreement, it is legitimate to ask all relevant stakeholders: Can the EIB be a development institution, and if yes, under which conditions?

Given the unprecedented financial crisis which might potentially affect the mandate and operations of all European institutions, including the EIB, and the wider discussion about the need to reduce the fragmentation of the European development finance architecture in the spirit of the European Consensus on Development and the Aid Effectiveness agenda, the **time has come to stop thinking stereotypically and assess whether new facilities different from the EIB, not necessarily bank-type structures, could contribute better to the achievement of European development goals** and eventually how these new instruments, vehicles and facilities should connect and integrate existing European instruments and cooperate to a limited extent with the EIB Group.

Without such a systemic reflection, it would be difficult to assess which role the EIB should or should not have in the European development finance architecture.

3.2 Strategy and reality: Impacts of EIB's projects in Zambia; Case study of the mining industry in Zambia⁸

Savior Mwambwa⁹

Introduction and background

In 1969, Zambia was classified a middle-income country, with one of the highest GDPs in Africa, three times that of Kenya, twice that of Egypt, and higher than those of Brazil, Malaysia, Turkey and South Korea. By 1973, Zambia had an urban population of 1 million out of a total population of 4 million. 750,000 were in waged employment.

Historically, Zambia has been dependent on the copper industry, it gains a strong sense of national identity from copper mining to such an extent that the area around the mines is referred to as the Copper Belt and the mining sector has been called both 'the mother of Zambia' and its 'economic lifeblood'. **Copperbelt is one of the world's largest sources of copper ore and is situated on the border of Zambia and the Democratic Republic of Congo.** The first commercial mines to open were owned and managed by two private companies, the Roan Selection Trust and the Anglo-American Corporation.

After independence in 1964, Zambia had great hopes due to the rapid growth of the copper industry, driven by favourable world prices through the late 1960s. From 1969 onwards, the copper mining sector was controlled by the Zambian government, predominantly through a state-owned enterprise called Zambia Consolidated Copper Mines (ZCCM). However, in the early 1990s the government started to discuss the possibility of privatising copper mining, largely, but not exclusively due to pressure from the IMF and World Bank.

Privatisation of ZCCM was a condition repeatedly attached to several loans from International Financial Institutions (IFI) and was a pre-condition for Zambia to qualify for debt relief through the highly indebted poor countries (HIPC) initiative. In 1999, major donors withheld some \$530 million in aid, due to the Zambian government reluctance to privatise ZCCM, until the government conceded. ZCCM's assets were split into seven sections and sold to various investors, though the company was able to retain shares in some of the units including in KCM through the

⁸ The Material in this presentation is based on the study commissioned by CSTNZ and CARITAS entitled 'For whom the wind falls ; winners and losers in the privatisation of Zambia's Copper Mines'

⁹ Civil Society Trade Network of Zambia

creation of a holding company called ZCCM-Investment Holdings (ZCCM-IH).

Weak regulatory capacities and structures

It should be noted that despite the thousands of pages in pieces of legislation and policies on environment, mine safety, labour standards, taxation and so on, there are widespread and endemic institutional as well as bureaucratic weaknesses and gaps that rendered these laws and policies ineffective.

For example, the Ministry of Mines Safety Department (MMSD) and the Department for Labour Affairs are the two regulatory authorities with the primary responsibility for protecting workers, but they are unable to adequately regulate to protect mine workers, especially casual employees. In some instances, this is due to gaps in the regulatory framework. Typical factors in the Zambian case include:

- The fact that the minimum wage legislation does not adequately reflect the cost of covering an average household's basic needs.
- Zambia's laws on unionisation, which specify that unions must identify a 'shadow committee' of employees before they can gain recognition, make unionisation more problematic and can expose employees to the risk of losing their jobs.
- The Mines Safety and Explosives Regulations, updated in 1996, have never been implemented due to a shortage of legal draftsmen.
- There are also gaps in monitoring and implementation – for example, the Mines Safety Department 'is woefully under-funded and performs an almost exclusively reactive function, inspecting the site of accidents after the event'.

EIB's investments in Zambia

The biggest part of EIB's investment flows to the mining sector. From 2000 until 2008, 12 projects were financed in total, of which eight projects were in the mining sector. Regarding the amount of the investment, the proportion is even higher: 234 m USD went to mining projects and global loans dedicated to mining and only 67,6 m USD were invested elsewhere (mostly in the financial sector). This almost mono-sectoral lending doesn't help the country to diversify its economy and exports on the one hand, and on the other it doesn't help to deepen the value-added process within the country either. On the contrary, it causes a lot of problems and negative impacts.

Impact of the EIB funded projects on the Copperbelt communities

The most telling impacts have been on mass unemployment, the environment and on the social policies adopted by the private mining companies on the provision of schooling and health facilities. Additionally, the impact of mining on the environment in which local communities live, and on their access to land and housing has been visible.

Social impacts

15% of Zambia's 10.9 million people live on the Copperbelt, and of those, 79% live in

urban areas. The region is the most urban and the most industrial in the country, with the highest share of its population in formal employment. As a result it is unsurprising that, as in other African countries, the urban region has suffered from structural adjustment, a policy specifically designed to weaken the power and interests of urban groups, such as civil servants and industrial workers that were thought to be unduly favoured in relation to rural agricultural producers.

Towns such as Ndola are now widely described as 'ghost towns', not only because of the loss of the mining industry, but also due to the collapse of construction and engineering firms, and the downsizing of civil service and financial jobs previously based in a town designed to service the country's industrial heartland.

The collapse of formal employment in the region is particularly serious for two reasons. Firstly, most families in Zambia are dependent on one cash income – typically the father's. If that individual dies or is laid off by the employer, this changes the whole family structure. "In Zambia, when you are poor you are poor. There is no support from the Government, there are no social benefits so it will affect the education of the children, the electricity and water bills."

Secondly, in rural areas, the impact of having lower shares of the population in waged formal employment is softened by the more self-sufficient nature of families and communities that grow their own food. Those in formal employment were expected by those who hosted them during holidays, and who expected to help them re-integrate to the village upon retirement, to regularly remit money to the village, to be available as a source of financial support in an emergency, and to return at the end of employment with a financial legacy in the form of savings and a pension.



Open pit mining

Impacts on the environment

The mines were privatised so as to improve their operational efficiency, as well as increase re-investment. In addition, new mine owners were compelled to develop Environmental Management Plans (EMP), which had to be approved by the Environmental Council of Zambia (ECZ). For new mines, investors have to develop EIAs, which must be approved by ECZ. In spite of this the mine companies have been involved in serious incidents of environmental mismanagement that have compromised the health of local people.

The three most common and serious problems are sulphur dioxide emissions from smelters, heavy-metal effluents being released into drinking water and silting of local rivers. These are not purely an environmental problem – they create immediate problems for local communities in securing a livelihood. This affects the kind of vegetation, including food that the local communities can grow. One local environmentalist noted, “The only crops that survive are mangos, avocados and cactus. With low salaries, people can’t buy food. But they can’t grow their own vegetables either.”

The heavy metal effluents that are being discharged into rivers that supply drinking water to the Copperbelt communities are a serious risk to human health. Where poor communities have no access to piped water, they draw their drinking and polluted water from water crops, in which the toxicity of chemical pollutants is concentrated.

The problem also creates increased costs for the water supply and sanitation companies that provide for more formal settlements. They are forced to spend huge amounts on treatment in order to provide clear, palatable water. Since Copperbelt residents now face being cut off from water supplies if they don’t pay higher charges to water companies, including through pre-paid metering, they are effectively subsidizing the mining companies.

Where the companies in question are supported by state subsidies, the Government is also paying to clear up after the companies. This is a problem for most of the companies, including Mopani Copper Mine (MCM). MCM’s spills have created significant problems in Mufulira, where the costs of clean-up were handed on to the private water company AHC-mining municipal services, until the company found it so costly to continually treat contaminated water that it gave up and passed the responsibility on to Nkana Water and Sewerage Company (MWSC), a public water supply and sanitation utility company which receives government funding.

Silting of local rivers, killing off plant-life and fish stocks, has been a problem particularly at Konkola Copper Mines’ (KCM) plant where siltation of rivers and streams around Chingola town were so severe that flooding threatened to wash away bridges and the only roads linking Chililabombwe to the rest of the country.

Many of these problems already existed during the pre-privatisation era, a time when concerns about the environment were not so closely monitored, either locally

or internationally. It is therefore not suggested that they can be directly traced to the post-privatisation era alone. However, it is clear that the **new arrangements under which the new mines are operating have weakened the hand of regulatory authorities in policing such incidents** and it may be that companies are making less effort to minimise the impacts of their ventures.

Environmental degradation may be getting worse due to the fact that the mining companies refused to take on what they saw as 'liabilities' within their plants, and thus avoided responsibility for cleaning up pollution problems resulting from facilities that they own, but which were created by ZCCM operations. This forced government to set up an Environmental Management Facility (EMF) to take up ownership of all environmental liabilities that were not taken by new mine owners as this is estimated to cost about US\$ 200m, funds that would otherwise be channelled to the much needed poverty reduction programmes.

This is both a contemporary and a future problem. Presently, old dams and dumps need to be vegetated in order to stabilise the structures and run-off streams need to be regularly dredged to ensure that pollutants do not overflow. In the medium term, the companies need to be given clear responsibility for safe and clean long-term storage facilities that will last well beyond the day when the last of the copper has been removed from the ground and the investors are long gone.

There are also questions concerning the regulatory authorities' ability to effectively police the mining companies, even where there are clear laws in place and clear commitments made in the Development Agreements. There are particular complaints about the performance of the big mines since privatisation. A local environmental activist claims, "before these mines were leading in terms of environmental performance, but now they are one of the worst culprits".

Impacts on the upkeep of the mining townships

Along with off-loading responsibility for the mine houses themselves, the mining companies, through the agreements they signed, typically passed responsibility for the upkeep of mining townships from the companies on to the local municipal authorities. However, some include a commitment on the part of the companies

to support this process, and in some cases leave the responsibility with the company for the first five years. In most townships the transition has been extremely difficult, particularly since income for the local authority would have come predominantly from the mining company, and during the years after the original investor had pulled out, there was no funding.

The local authority has not been able to adequately cover for the services previously provided by the mine. The charging of rents for electricity and water supplies in particular has led to serious hardship for residents, and to resistance against fees.

All of the companies interviewed were keen to discuss their support for the concept of corporate social responsibility (CSR) and to list worthwhile projects that the companies are supporting in the townships. CSR was thus typically understood not to relate to employment, procurement or environmental practices of the companies, but instead is conceived in terms of support to local community sports and development projects.

Given the expansive role of ZCCM in supporting the social fabric of the Copperbelt, and the acknowledgement on the part of Government, companies and unions that it is unlikely private firms would ever make an equivalent investment in their surrounding communities, there is a significant tension between the companies and their surrounding communities over how much the companies should be expected to deliver.

Conclusion

- EC/EIB should be accountable for the impacts of their funded projects
- EC should not push for more de-regulation
- Should not only finance mining companies but should also increase the funds for increasing the regulatory and enforcement capacities of the Government of the Republic of Zambia (GRZ)
- There is a mismatch between the EDF/CSP/NDP and the outcomes in the mining sector due to the actions of the mining companies
- EC pursuing incoherent policies at multilateral level (WTO, e.g. Nickel classification under ATP 31 vs. funding Nickel project in Zambia).

3.3 Coherence of EIB's lending with EU development policies – The case of the Democratic Republic of Congo (DRC)

Anne-Sophie Simpère¹⁰

EIB and the case of DRC

The DRC is one of the richest countries in the world, notably in terms of mineral resources. However, the people in the DRC remain extremely poor, with 80% of the population living below the poverty line. Since independence in 1960, the country has suffered extreme violence, political instability, two bloody wars and recurrent corruption problems.

EU development objectives for the DRC

According to DG Development's web site, the principal objective of the EU strategy for Africa is to promote the achievement of the Millennium Development Goals that aim to halve poverty by 2015. The Cotonou agreement, on which the EU cooperation policy with ACP countries and the EIB mandate in Africa are based, is aimed at the reduction and eventual eradication of poverty while contributing to sustainable development and to the gradual integration of ACP countries into the world economy.

In the DRC more specifically, the European Commission's priority is to support reconstruction, pursuing stabilization efforts in some regions of the country. Transport infrastructure, the strengthening of good governance, health support and environmental protection activities are presented as the areas of EU's intervention in Congo.

The Tenke Fungurume mining project

The only project financed by the EIB since the end of the civil war is the copper and cobalt mine of Tenke Fungurume.

Tenke Fungurume is one of the largest unexploited deposits of copper and cobalt in the world. In the 1990s, the Congolese mining industry was privatized and the Swedish group Lundin, registered in Bermuda, created a joint venture to exploit Tenke Fungurume – Tenke Fungurume Mining SARL (TFM)¹¹ – along with the national Congolese company Gécamines. A second contract was signed in 2005 between TFM and the provisional Congolese government. The US mining company Freeport McMoRan became TFM's majority shareholder. Despite several warnings from civil society, on July 17, 2007, the EIB was the first public funder to agree to finance the TFM project, with a loan of €100 million.

10 Finance reform campaigner at les Amis de la Terre

11 Information about the Direction of the Tenke Mining Group : <http://www.tenke.com/s/DirectorsAndOfficers.asp>

According to the EIB, "The DRC critically needs this investment and the fiscal revenues it will generate." The bank also argues that the project will provide employment and that the promoter is setting up a community development plan to improve living conditions for the local population.



Contribution to the DRC's economical development

The Tenke Fungurume mining project is notorious for the lack of transparency and the alleged corruption surrounding it. This situation is mainly due to the country's serious corruption problems and its weak governance. While EIB was approving a loan to the project, the TFM contract was under revision by an intergovernmental commission. Even before that, several reports had found the TFM contracts unfair to the Congolese State: overly generous mining permits, extravagant tax breaks, drastic reduction of Gécamines' share in the deal¹² ...

12 The project is mainly owned by Freeport McMoRan, a major US company. Gécamines, the Congolese national company involved in the consortium, saw its share in the consortium drastically reduced in 2005, while the price of copper had been multiplied by 4 the previous years.

Craig Andrews¹³, principal mining sector expert with the World Bank, estimated in a memorandum that since the mining contracts were changed in 2005¹⁴, the situation has become extremely detrimental to the country. In a World Bank memo seen by the Financial Times and dated September 2005, Craig Andrews wrote to Pedro Alba, the bank's country director for Congo, to say the deals had not undergone a "thorough analysis, appraisal and evaluation" before being approved. He said the assets transferred to the companies exceeded the "norms for rational and highest use of the mineral assets".

Indeed, in March 2008, the intergovernmental commission in charge of reviewing the contracts found that the TFM contract needed to be renegotiated. However, the future is still unclear. Civil society fears that the government will give in to lobbies and efforts to corrupt and that it will attempt to quash the renegotiation to calm the investors. Yet only an open and transparent procedure, with independent experts and civil society representatives, will enable the DRC to retain a fair part of the profits created as a result of the exploitation of its resources.

Poverty reduction and impact on local populations

The Congolese NGO ACIDH (Action against impunity and for Human Rights) carried out a field study on the Tenke Fungurume site in November 2007.

They observed violations of fundamental labour rights, especially by TFM's subcontractors: legal working hours were largely ignored, overtime was not paid, workers didn't have the right to unionise, companies massively used illegal work, and there were serious conflicts about recruitment procedures. Before the arrival of TFM, thousands of local miners used to work on the deposit, but they were violently evicted and lost their livelihoods. In addition, hundreds of families were displaced without being rehoused. They were left homeless and forced to sleep under plastic sheets, on the territory of another community that did not accept their presence.

The development plan is perceived as totally insufficient and inadequate, with no long-term perspective. For example, TFM has set up a project of community run brickworks. Apart from the fact that only a few jobs were created, the viability of the project is suspect as the only client is TFM. Finally, the baking of bricks requires wood, which will further contribute to deforestation in the region.

As a consequence, in January 2008, more than 5000 inhabitants of Fungurume protested violently against TFM

¹³ World Bank Office Memorandum, Contracts between Gécamines and private companies, 8 September 2005, §3.

¹⁴ Two other contracts were confirmed alongside that of TFM.

and its subcontractors, whom they accused of not having given work to the local population and of not having put in place the local community development program. They did not see their situation improved, some of them were deprived of their land, and the arrival of rich foreign entrepreneurs exploiting their underground resources fuelled their resentment. The weakness of the Congolese administration and the general level of corruption in the country do not allow them to rely on the protection of national authorities.

Conclusion

In these conditions, the TFM project is not coherent with EU objectives in Africa as it does not appear to contribute to poverty reduction or sustainable development.

Neither is it coherent with the European Parliament Resolution of March 31st, 2006, calling on the EIB to implement the Extractive Industry Review's recommendations that strongly discourage investing in the mining sector in countries with weak governance. Finally, it is not coherent with the European Parliament's report on the impact of the lending activities of the European Community in developing countries, 2005, that "calls on the EIB to adopt the recommendations laid down in the World Bank's 'Extractive Industry Review' (January 2004)" (article 24) and "Asks the EIB (...) to commit itself to supporting contracts resulting from an open and transparent negotiating process" (article 27).

The main beneficiary of the Tenke Fungurume project is likely to be TFM's majority shareholder, i.e. Freeport McMoRan. It is the world's largest publicly traded copper company and it has doubled its profits in the first quarter of 2008. In 2006, the Norwegian government excluded shares in the mining group Freeport McMoRan Copper from its pension fund for environmental reasons. The company was also accused of human rights violations in Indonesia. Thus, it seems reasonable to wonder why an EU body would support Freeport McMoRan.

A broader picture

Since 2000, the EIB has invested over €750 million in the mining sector in Africa. This amount does not take into account the money that went to the mining sector through global loans, as unfortunately, information on the final destination of these loans is still impossible to obtain from the EIB.

In most cases, EIB-backed mining projects are not coherent with the priorities defined in the Country Strategy papers quoted by the Commission and the

targeted countries. The projects were always operated by western companies, resources are exported to industrialized countries, and the low rates of taxes and royalties deprive the host countries from the benefits of their natural wealth. In the field, only few jobs are created, often dangerous and reserved to men, and the exploitation of the mines generally leads to an increase in the levels of pollution and human rights violations.

Could we use this money differently?

The EIB needs to adopt the best international environmental and social standards, together with a strong sectoral policy on the extractive mining sector.

The Extractive Industries Review (EIR), an in-depth study on the extractive sector commissioned by the World Bank, produced key recommendations in order for extractive projects to be able to achieve positive impacts¹⁵.

These include recommendations on good governance, human rights, transparency of revenues, free prior and informed consent of indigenous people, or social, environmental and information disclosure policies. For example, the EIR recommends not to invest in the mining sector in countries with weak governance. It would have prevented the EIB from approving the Tenke Fungurume mining project.

More generally, the EIB should set up a strong and global development impact assessment procedure and only finance projects that really fight poverty, on the basis of social and economic criteria, and discussions with concerned countries and populations. Is it essential that the EIB considers as paramount what the needs of people in Africa are, and what kinds of projects support poverty alleviation.

To return to the DRC case: the DRC is not only rich because of its mineral resources, it is also one of the most fertile countries in the world. Paradoxically, around 70% of its population is undernourished, according to the FAO data. This situation could be tackled only by supporting a sustainable, decentralized, and efficient food-producing agriculture, and by improving transport infrastructures to allow better distribution of food in the country. This necessitates long-term investments, exactly the kind of investment the EIB could provide. Projects contributing to the fight against food insecurity in the DRC would definitely be coherent with the EU's poverty eradication goals and could efficiently respond to people's needs.

Of course, that is not so simple. Even a project in the agricultural sector requires serious appraisal and follow up, especially in a country with weak institutions. Setting up a project in the DRC demands the involvement of local people and independent experts in developmental issues, with a very good knowledge of the country and its specificities.

Furthermore, the EIB has to drastically improve the monitoring and follow-up of the projects it finances. To make sure the EIB really provides finance for sound investments contributing to EU objectives, it needs an efficient evaluation procedure during the entirety of the project's implementation. It has to set up procedures ensuring regular monitoring of the project, including, in particular, visits to the sites and regular public reports about the state of the project, environmental protection, and the progress made in terms of reduction of the population's poverty. In case the promoter of a project does not respect its commitments, the EIB must also put in place a sanction procedure.

Can the EIB operate on its own?

The EIB has made progress in the last year, with new levels of disclosure and transparency, a new anti-fraud policy and an ongoing consultation on its Environmental and Social Statement. The bank is more and more open to civil society demands and its consultation process was very much appreciated. The mindset of EIB staff is slowly evolving so as to enable them to take the EIB's role as a EU development body in Africa more seriously.

But there is still a long way to go. Today, EIB standards are still weak on a number of issues. The transparency of its activities could also be largely improved, especially in the case of global loans that remain a black hole in its portfolio. And the bank is still primarily demand-driven, without any global action strategy.

More importantly, today, the EIB does not have the capacity to implement ambitious policies and procedures. It does not have the expertise to properly fulfil its developmental role. It would need new staff, with specific knowledge on development and developing countries, as well as a much larger and more powerful environmental and social unit. A serious assessment, monitoring and follow-up of each project would require additional work, very different from a classical banker's job. Can the EIB be equipped to fulfil this role? Or does it need to work together with a real development agency and externalize its environmental and social operations? These questions will have to be answered rapidly if a new Tenke Fungurume case in the future is to be avoided.

¹⁵ Being an international reference (due to its multisector surveys in diverse world regions), EIR has published the final report "Striking a Better Balance" in December 2003, which analyzes the situation, highlighting the main controversial issues in order to suggest recommendations.

4. FINANCING SUSTAINABLE DEVELOPMENT - A CROSS-SECTORAL POLICY TASK

Hans-Josef Fell¹⁶

Ladies and Gentlemen,

Let me begin with the issue that has dominated the media for weeks now and is currently pushing the global economy into the abyss: the global banking crisis.

The causes of the financial crisis are very complex. But two causes emerge as particularly important, namely the irresponsible offering and handing out of credit without sufficient securities (so-called "bad loans") and, even worse, multi-billion trading in financial instruments that are, essentially, made up of just such bad loans.

The driving force behind the financial crisis is the pursuit of ever higher rates of return. Many sectors in the financial world have aimed and aim for annual rates of return of 20, 30 or even 40 per cent. It was usually of no consequence whether the trade in financial instruments was based on solid creditworthiness. And it was of even less consequence whether the financial transactions could meet ecological and social criteria.

The greed of many a global financial shark is pushing aside the criteria on which sound financial policy, ecology and social principles are based – as long as the money keeps rolling in. Of course, there is also another financial world that has always been committed to making ethical investments; even though it has been becoming more and more successful over the past few years, it is still small in comparison to the big financial volumes. And that despite all the success stories such as, for example, the venture capital invested in the Q-Cells solar cell factory.

Typically, the **financial crisis was triggered because ecological principles were flouted**: The fact that conventional energy resources are finite, which we have known since the 1970s, has been consistently blocked out and disregarded, yes even relegated to the realms of blind doom-mongering.

And so most economists, financial people and governments were taken completely by surprise by the oil price hikes of recent years, because they believed in the almost inexhaustible availability of resources, at least over the next few decades. Only few who were in the know, like the Energy Watch Group or the ASPO, warned of the impending oil crisis. In 2007 and 2008 in particular the oil price hikes had such a massive impact in the United States that many home-owners were no longer

able to make interest payments and repayments on bad debts because of the increase in the price of petrol and heating. No-one in the financial world expected that to happen. And yet that was precisely why the financial crisis gathered pace. It is gaining more and more momentum on account of the energy crisis, caused by the scarcity of resources and climate change. But most people are still not really aware of the ecological impact on financial products – they are not even the subject-matter of serious debate. **The suggested solutions to the financial crisis focus on much-needed and essential financial market regulation, but not on the links to ecological and social conditions.**

And so the financial rescue packages are doomed to failure. The damage caused by the monster hurricane Katrina, for example, amounted to 200 billion US dollars. That's more than the damage to some banks. Climate researchers say that such events will increase in strength and frequency. But New Orleans, which was largely destroyed by Katrina, was not offered a rescue package to help the affected population as big as that currently being made available to banks.

A real solution to the financial crisis and the economic crisis it has given rise to can only succeed by attempting to find real solutions to both ecological and social issues.

The continued disregard for ecological and social issues by many managers in the financial world, by managers in the big corporations, by opinion-makers in the media and politicians in cahoots with them, will throw the world into further and deeper crises.

One of the keys to resolving all of these issues is the energy sector, although all the ideas being considered in the energy sector can also be transferred to the chemical industry, to agriculture and to other important economic sectors. Stubbornly sticking to conventional energy sources, to oil, gas, coal and uranium, is driving humankind into ever deeper and ever more frequent crises: climate change, energy price increases that are economically and socially harmful, the predominance of a handful of corporations, dependency on a few energy producing countries and growing military tensions, such as Iran's nuclear aspirations or Russia's gas-OPEC efforts are just a few keywords that illustrate the gigantic dimensions of global destabilisation.

¹⁶ Member of the German Parliament for Alliance 90/
The Greens, Vice President Eurosolar

Tax breaks for all sustainable products

Government regulation that gives preferential treatment to sustainable products



Hans-Josef Fell's presentation

Renewable energy sources cause no climate change.

They harness solar radiation and wind energy, for instance, which are free of charge; they do not create any nuclear problems and are abundant in all regions of the world, and so there would be no need for battles and wars over energy resources.

The argument that renewable energies cannot be introduced quickly enough and that they are far too expensive is merely the interest-driven rhetoric of big energy corporations.

Their market power means they can dominate the media and thus influence the judgements of financial managers, tycoons and politicians. When that is of no use, corruption and market and cartel abuse help things along. The scandals of recent years are typical. The energy technology corporation Siemens, for example, has not taken any renewable energy initiatives of its own, but has made a name for itself as the corporation of corruption scandals.

But despite all these stifling conditions, the self-supporting, positive power of renewable energies has put them on course for undreamt-of success. All the forecasts regarding maximum possible growth rates have been surpassed by far.

In 2002, for example, the IEA predicted only 100 Gigawatt installed capacity for global wind power development in the year 2020. Today, in 2008, 110 Gigawatt have already been installed worldwide, and wind power is rapidly gaining momentum.

The foundation on which this development is built, as can also be seen in the case of photovoltaics, biogas plants and other renewable energies, are technological developments especially in Germany.

Germany's Renewable Energy Sources Act, which was passed in 2000, gave the key impetus for that. Anyone contemplating the financial bases for sustainable development would do well to take the success story of the Renewable Energy Sources Act as their point of reference.

Funding schemes paid for by government subsidies are bound to fail when it comes to effective sustainable development. The financial power of heavily indebted state budgets is much too weak to provide the decisive impetus. Framework conditions such as emissions trading are just as inappropriate, since they focus on achieving the biggest benefits at the lowest cost. Today's conventional technologies applied in this way can only curtail the problems a little but cannot solve any. Emissions trading helps to improve the efficiency of coal-fired power stations by a few per cent, but hardly supports the switch to renewable energies. Emissions trading works against the innovative technologies that are too expensive today, such as photovoltaics and geothermal power. But it is these technologies that, in combination with other renewable energies, will be able to and will have to provide the energy supply of the future. Innovative strength without government subsidies is a characteristic feature of the Renewable Energy Sources Act. And that is precisely why it is a success story.

The key to why the Renewable Energy Sources Act is such a big success is that it stimulates buying behaviour.

The basic principle must be to make products which serve sustainability profitable for a broad stratum of buyers. And we need government regulation, like the Renewable Energy Sources Act and the eco-tax, to do that. Subsidies, by contrast, are only of limited help.

The Renewable Energy Sources Act has intervened by means of a decisive government regulation in an energy market that is, in reality, not a functioning market, but is dominated by the identical interests of a few corporations. Not only environmentally harmful electricity generation should generate revenue, but also environmentally clean electricity generated from renewable energy sources.

Feed-in tariffs that are guaranteed and sufficient for more than 20 years in combination with privileged grid access laid the foundation for profitable activity and thus, finally, put electricity from renewable energies on an equal footing with electricity generated from conventional energies.

This rationale must serve as a guide for many other government regulations if the political goal is to be sustainable action. That applies not only to energy investments, but also to a clean, poison-free chemicals industry, to organic foods and a sustainable transport policy – always taking account of social criteria, too.

The following measures are key when it comes to stimulating private investments in sustainable development and transferring them to a mass market:

1. Putting an end to government regulation and subsidies that support the manufacturing of environmentally harmful goods

Coal subsidies; the commuter tax allowance; research expenditure for GM foods and the nuclear industry; rights of expropriation to license nuclear power stations – the list of financial and licensing privileges afforded to the conventional and environmentally-damaging economy is very long.

Putting an end to government subsidies and licensing privileges would bring the economic foundations of the non-sustainable economy crashing down straight away and is thus the prime objective. The example of Malaysia is an eye-opener: Government subsidies paid to those using oil are significantly higher than education spending in Malaysia.

2. Higher taxes on environmentally harmful products

Rather than giving tax breaks to environmentally harmful products, higher taxes should be levied on all products, at least to the amount of the external costs.

The eco-tax levied in Germany is a positive example of that. Unfortunately, social non-acceptance, whipped up by the interests of the conventional energy industry, in combination with the media and interest-driven politics, has prevented the eco-tax from becoming a resounding success.

3. Tax breaks for all sustainable products

Buying renewable energy technologies such as solar collectors, or energy saving by means of, for instance, insulating materials can and should be supported by means of fixed-term value-added tax breaks. All renewable energy sources, organic foods and poison-free chemicals should be taxed at a lower rate than ecologically harmful products. It is preposterous that in Germany green electricity is taxed at the same rate as electricity from nuclear reactors, that the natural gas used in cars is tax-free, but that sustainable biofuels are taxed. Those who want customers to buy organic food will have to get rid of tax subsidies for conventional foods and create tax breaks for organic food.

4. Government regulation that gives preferential treatment to sustainable products

The Renewable Energy Sources Act is a prime example. Similar legislation could be created for feeding biogas into the natural gas network, for buying organic food or for creating an oil-free chemicals industry.

So long as these four basic principles are not put into practice, at least partially, it will be hard for enterprises and financial institutions to make sustainable investments. The Renewable Energy Sources Act and the eco-tax have proved that immediate investments in sustainability are possible, when the conditions are right.

Financial investors who have not supported sustainable investments in the past or have not done so sufficiently, must stand accused of two things:

1. They failed to invest in sustainable products because these generally only permitted lower rates of return. As one of the authors of the Renewable Energy Sources Act, I proposed at the time that feed-in tariffs should be based roughly on a five-per cent rate of return. Unfortunately, **many financial investors, including the EIB, did not make large-scale investments in sustainability because the returns were not the same as those that could be made with other, traditional financial transactions.** It is pleasing to see that in 2007 the EIB increased investments in renewable energies four-fold, to 2 billion Euros. Nevertheless, a large volume of investment is still not geared to sustainability. The driving force for the

success of Germany's renewable energy industry was hardly investment from the conventional energy sector, and only to a small extent outside capital from banks, but mainly private capital that was satisfied with lower rates of return.

2. Many top managers, using their considerable political influence, criticised and rejected government regulation in favour of sustainable investments instead of calling for it to be introduced. And so more criticism than support for the Renewable Energy Sources Act and the eco-tax was to be heard from the financial world.

Financial investors must finally be taught the basics about the key criteria for sustainable investment. Those who continue to ignore climate change do not stand a chance when it comes to sustainable investment with sustainable returns.

My personal experience at the European level in creating an environment that enables sustainable investments has made me more sensitive to the above-mentioned criteria. As a member of the Sub-committee on ERP Economic Planning in the German Bundestag, I managed to get a support fund for venture capital worth 500 million Euros established out of the ERP Special Fund. The European Investment Fund (EIF), in which the EIB holds a majority share, was commissioned with its implementation. **But although renewable energies had already been a venture capital success, for instance in the solar energy industry, the EIF's fund managers were willing but nearly unable to stimulate significant venture capital for renewable energies, regardless of declared political will.** Ignorance of the possibilities of renewable energies and a lack of understanding of the need for them proved to be the decisive obstacles.

Managers in financial institutions, in the EIB as well as in many others, must finally recognise that only by observing ecological and social criteria can we lay the foundations for a functioning economy. The current financial crisis ought to be warning enough.

The signs bode well that sustainable investment could be boosted in the current crisis. Investments in renewable energies offer greater security than many other financial products. The increasing scarcity of conventional energy resources leads us to expect that prices for conventional energy will continue to rise. The current fall in oil prices is not only the logical conclusion of the global recession triggered by the financial crisis and oil crisis. The falling price of oil is currently only a smoke-screen that is hiding the fact that in future the problems associated with the increasing scarcity of resources will send prices for conventional energy spiralling upwards. This driving force, together with rapid technological developments in the field of renewable energy sources and other sustainable products, will further improve the economic bases for investments.

Sustainable investments will become increasingly competitive even without support by government regulation. **Financial institutions that recognise that fact now and shift the majority of their investments to sustainability will speed up the transition to a better world.**

Climate protection, a secure and affordable energy supply from renewable energies, clean foods and a poison-free chemicals industry will be the products of sound financial investments. I can only call on the EIB and other financial institutions and encourage them to continue to substantially increase their sustainable investment activities.

5. SUSTAINABLE DEVELOPMENT AND CLIMATE PROTECTION IN DEVELOPING COUNTRIES?

5.1 The EIB's energy investing: Further steps are needed

Petr Hlobil¹⁷

The **European Investment Bank**, the EU's house bank and the world's biggest public bank with a lending volume in 2007 of EUR 47.8 billion, **has pumped over EUR 17 billion into fossil fuel projects both within and outside the EU since the adoption of the Kyoto protocol in 1997**. In 2007 alone it loaned over EUR 3 billion for fossil fuels.

Figure 1 shows that the EIB's fossil fuel investments are rising within the EU, and staying more or less at the same level in non-EU countries. Outside the EU, as Figure 2 indicates, the majority of fossil fuel lending is going towards gas projects – mostly gas pipelines and distribution as well as gas power plants. Investment in cogeneration is exceptional.

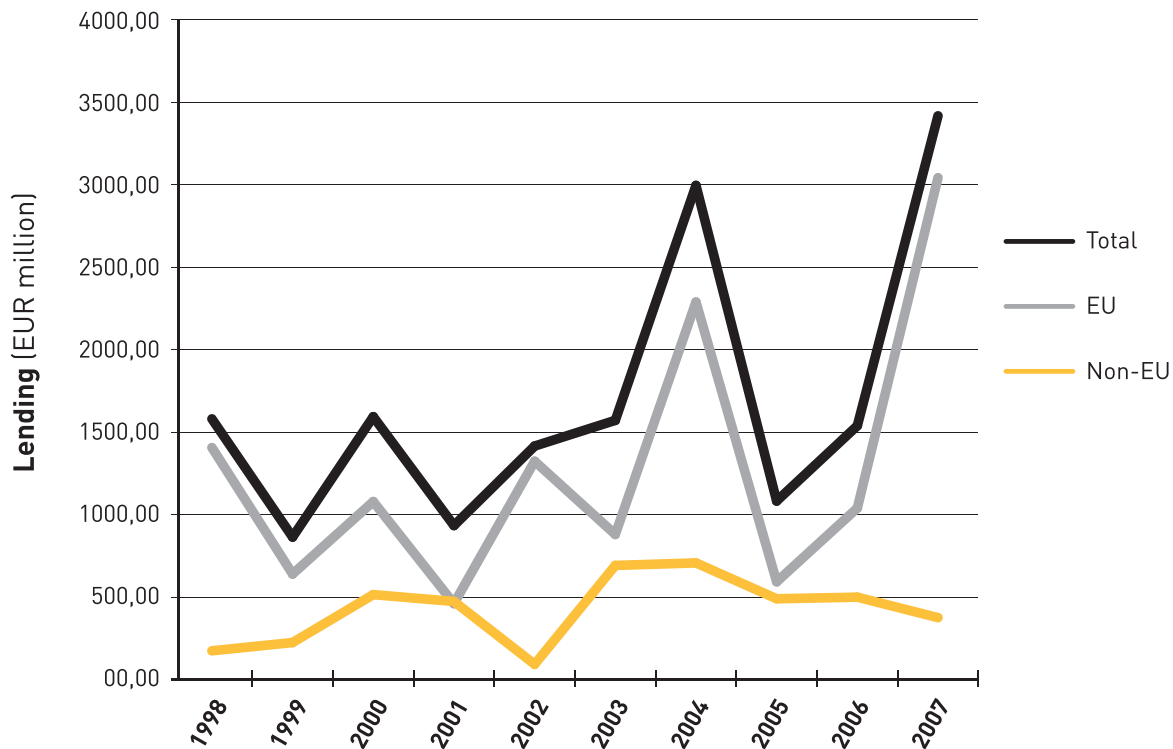
Inside the EU, the EIB invested over EUR 1.7 billion into projects using coal, and out of this EUR 1.2 billion was

approved in 2007. Overall – including non-EU investment – more carbon intensive fuels (coal and oil) make up 21% of the EIB's fossil fuel investments.

Even if this conference focuses on developing countries, it is still important to look at what is happening within the EU. With unparalleled global consensus on the need to tackle climate change, the EIB has to become one of the leading agencies helping to secure the EU Energy Package aim of reducing European fossil fuel consumption by 200 to 300 million tonnes per year.

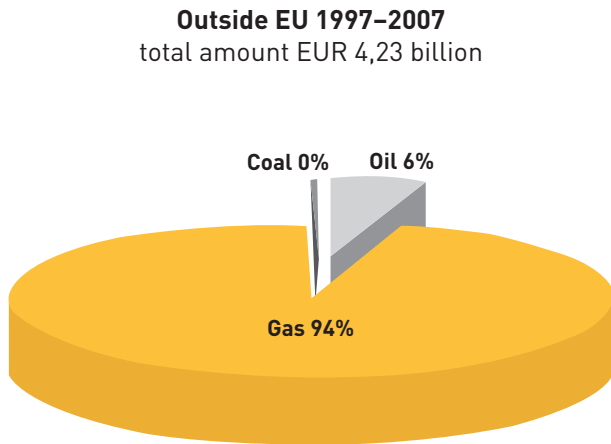
In order to do so, **the EIB should stop financing fossil fuel projects like coal-fired power plants altogether**. The example from Germany – the Duisburg-Walsum Coal Power Plant – is a good illustration for our demands.

Figure 1 – EIB fossil fuels lending



17 International Affairs Coordinator for CEE Bankwatch Network

Figure 2 – Fossil fuel lending outside the EU



In November 2006, the EIB approved a loan of up to EUR 410 million for a project to construct the 750 MW hard coal-power plant at Duisburg-Walsum in Germany. The plant is supposed to start working in the beginning of 2010. The estimated CO₂ emissions involved are about 4.4 million tonnes per year. This is more than the annual CO₂ emissions of Tanzania, a country of 38 million inhabitants.

Now to return to the developing countries – if the EIB takes its development mandate seriously, it needs to look at the wider implications of its investments. According to the World Bank, growth in developing countries with few natural resources was two to three times faster than in resource-rich countries over the period 1960–2000. Globally, the extractive industries play a central role in the economies of over 50 developing countries; yet up to 1.5 billion people in these countries are estimated to live on less than two dollars a day.

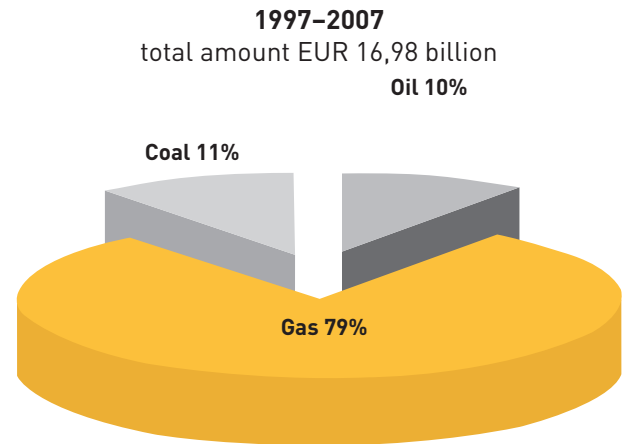
One of the EIB's major advantages – in comparison with other Multilateral Development Banks – is that in the past few years it has gained wide experience with investing in renewables. Bankwatch and other NGOs supported the establishment of a renewable energy target and we are happy to see that the EIB is implementing this target.

We welcome that unsustainable biomass production is not included and that the target does not include municipal and hazardous waste incineration.

On the other hand, several problems continue to exist:

- The 50% renewable target for EU is linked only with the energy portfolio (therefore, a large number of fossil fuels projects that are part of the 17 billion mentioned above are not included into the target);

Figure 3 – Total fossil fuel lending



- There is no target for energy efficiency (important for new member states);
- There is no target for countries outside the EU;
- It includes large hydro;
- There is no data available for investment through intermediaries.

Nevertheless, the EIB has shown that the target approach can work. Therefore Bankwatch is asking the EIB to implement the European Parliament resolution from November 2007 to end taxpayer support for fossil fuel projects. The resolution asks the European commission and EU governments for “discontinuation of public support [...] for fossil fuel projects” and to propose legislative instruments that would compel the EIB and other public finance bodies to “take account of the climate change implications of the funded projects ...”

We are calling on the EIB to set a new target and to phase out its lending for all fossil fuel investments by 2012.

To put the EIB on course and on schedule to achieve this landmark, it needs to take the following three intermediate steps:

- Agree to phase out EIB lending for oil projects by the UN FCCC 15th Conference of the Parties in Denmark, December 2009.
- Put in place an immediate ban on EIB lending for any extractive projects situated in high conservation value zones, the territories of indigenous people and nations and areas where there is armed conflict.
- Disclose all direct as well as induced greenhouse gas emissions derived from the EIB's fossil fuel projects.

5.2 Strategy concerning energy investments¹⁸

Kari Punkka¹⁹

Background: World energy scenarios

- High energy prices
- Higher security of supply risks
- Intensification of efforts to fight climate change
- Bottlenecks in energy equipment supply result in high costs: e.g. 100% rise in oil/gas developments costs and power plant equipment costs;
- Accelerated technological progress, particularly of low-carbon technologies

Background: EU energy policy

- The EU policy defines a transition path to a more sustainable, competitive and secure energy system
- 20% reduction of greenhouse gas (GHG) emissions by 2020
- 20% renewables (RE) in energy consumption
- 20% increase in energy efficiency (EE) in relation to projections
- Substantial energy investments up to 2020:
- Renovate/replace existing energy infrastructures
- Renewable energy (around EUR 600–800 bn)
- Energy efficiency investments probably larger than for RE
- Cost declines may reduce investment needs
- Policy and economy uncertainties can impede the realisation of these investments

The EIB energy strategy

- EIB has a strong expertise in energy (it finances close to 5% of EU energy investments)
- Integration of energy as a new priority objective in the Corporate Plan
- Energy lending targets (2007):
 - Energy lending: EUR 6.8 bn (5.4 in the EU and 1.4 outside)
 - Lending to RE: 2 bn EUR (1.5 in the EU and 0.5 outside)

EIB implements EU policies; a policy-driven Bank

Renewable energy: Issues for the financial sector

- Equity and debt financing needs are expanding fast
- Small and medium sized projects: higher transaction costs
- Financing often based on project finance techniques:
 - Understanding and measuring risks

¹⁸ Kari Punkka did not prepare a written contribution. The following lines are extracted from the power point presentation of the conference (abridged).

¹⁹ Deputy Technical Adviser, Projects Directorate, European Investment Bank (EIB)

- Financial intermediaries' capacity to assess project risks
- Innovative enterprises are often undercapitalised and underfunded
- Raw material risks for biomass projects
- Securing carbon credits or green certificates revenues; uncertainty and certification costs

Renewable energy: EIB actions

- Increase lending targets for renewable energy in the Corporate Plan
- Adapt our lending criteria: mature and emerging RE
- Keep strong technical, economic and financial expertise
- Financing up to 75% of project cost, under certain conditions
- Develop a battery of instruments, covering all levels of risk up to equity type risks
- Instruments for small projects (frameworks, dedicated credit lines, etc.)
- Specific instruments for RDI projects: RSFF (Risk Sharing Finance Facility)
- Carbon funds, financing of Emission Reduction certification

Energy efficiency (EE): Issues

- EE is often part of other investments or cannot be physically separated from other objectives (production increase, quality, etc.)
- EE investments are generally small
- Substantial barriers to developing the EE potential:
 - Limited information on EE possibilities
 - High transaction costs, notably costs of access to information
 - Market failures, particularly split incentives (e.g. house rental)
 - Access to financing (e.g. low incomes)

Energy efficiency (EE): Issues for the financial sector

- Unclear market potential for lending, except for some sub-sectors, notably combined heat and power (CHP)
- Often very small projects: high transaction costs
- Subsidies often play a role in developing EE potential, by overcoming barriers or long pay backs (e.g. for building envelopes)
- Difficulties in developing specific financial instruments: identifying energy efficiency "revenues"
- Risk related to measuring EE gains
- Energy price risks
- Often it is necessary to combine financing with advisory services

Energy efficiency: EIB actions

- Better define EE projects to focus activities in this area
- Mainstream EE considerations in all projects
- Financing up to 75% of project costs, under certain conditions
- Develop specific financial instruments (often including energy audits or demand side management programs):
- Combination of grants with loans
- Public private energy funds
- PPP structures to attract funding for debt financing
- Local revolving funds
- Partnerships with institutions related to EE, such as EE agencies or ESCOs

Carbon capture and storage (CCS)

- Coal is the fastest expanding fossil fuel at present
- EIB is very restrictive when considering to finance coal projects
- CCS technologies have not been demonstrated at full scale yet
- Cost is expected to decline with development of CCS
- A small number of full scale CCS installations are expected to be operational by 2020
- EU supports development of CCS demonstration plants

Energy and development mandates

The EIB objectives under development mandates

- Private sector development
- Infrastructure development
- Security of energy supply
- Environmental sustainability

Target energy projects under development mandates

- Renewable energy, notably based on wind, biomass, solar (thermal and photovoltaic), geothermal and hydro, including directly related electricity transmission lines;
- Energy efficiency investments: solar water heaters, compact fluorescent bulbs, air conditioning/building insulation;
- Projects leading to emission reductions;
- Loss reduction projects in electric grids;
- Access to electricity; often need of grants in addition to lending;
- Fuel switching from more to less polluting.

Challenges in financing energy projects under development mandates

- Sustainability of energy sector in developing countries, dilemma of cost recovery, tariffs and energy subsidies
- Weak governance, corruption, weak sector capacities after years of conflict and underfunding
- Private sector interest in energy investments; requires predictable framework
- Poverty reduction; access to energy
- Development of high standard projects is slow and there are few of them

Typical recent energy projects in Africa co-financed by EIB

- Hydropower plants
- Fuel-fired power plants
- Geothermal power plant
- Power transmission and distribution
- Natural gas fields and pipelines
- SCADA/EMS (Supervisory Control and Data Acquisition/Energy Management Systems)

Up to 50% of finance can come from EIB (but 75% for renewable energy and energy efficiency), the rest from own funds and other banks.

Anticipated trends in development mandate energy funding

- Support for private sector energy projects
- Support for integrated energy networks
- More renewables/Clean Development Mechanism (CDM) projects,
- Projects involving less mature technologies: solar, biofuels
- More Technical Assistance for CDM registration
- Dedicated credit lines and other financial instruments specifically for renewables or energy efficiency
- More selectivity in fossil fuels. Gas conversion projects (from oil)
- Energy efficiency: support for energy audits, Combined Heat and Power (CHP), solar water heaters, CFBs
- Energy efficiency: discouraging subsidized tariffs

Conclusions

- Low-carbon technologies are expanding fast in the EU and worldwide
- Investing in these technologies in the medium term will bring substantial benefits in the long term: cheap, clean energy and business opportunities
- Financing for low-carbon technologies will be available
- Challenges exist in developing countries where frameworks are weak
- The financial sector is developing specific instruments for these projects to facilitate financing

5.3 The European Investment Bank, energy and development

Jan Haverkamp²⁰

The EIB is one of the strong financial players in the world where development of energy infrastructure is concerned. I keep an eye on the EIB for the organisation Greenpeace on two issues:

1. The EIB's climate footprint
2. Nuclear financing by the EIB

Climate footprint

During the presentation of the annual report of 2007 to the non-profit sector, it became clear that the EIB is proud of the fact that the fraction of renewable energy in its total energy investment package is structurally growing. **The problem we face, however, is that the fraction of renewables may grow, but in absolute terms, investment in fossil fuels also is growing.** As long as this is the case, the EIB supports an energy development that is a continuation of Business as Usual and will basically fry the planet. The EIB argues that it bases its policy on the Energy Information Administration's (EIA) predictions. It concedes, however, that the EIA World Energy Outlook scenarios are a catastrophe for the planet in climate terms, leading to greenhouse gas concentrations that could lead to global warming by 4 to 6 degrees Centigrade or more in this century.

Greenpeace has offered them the Greenpeace/EREC Energy [R]evolution Scenario²¹ as alternative yardstick for EIB policy.

Last June, the EIA produced a similar package of scenarios under their Energy Technology Perspective 2008. However, these scenarios contain completely unrealistic premises about nuclear power and CCS (Carbon Capture and Storage), whereas they are quite good on renewables. Energy efficiency could be improved still. We therefore also argue to the EIB that it is better to use the more realistic Energy [R]evolution Scenario.

Only if the EIB phases out its fossil energy financing, with a priority on a phase-out of coal and oil projects and clear conditions on gas financing (high efficiency co-generation, decentralised solutions), it can be seen as credibly implementing EU climate policies.

Nuclear financing

The EIB so far has no clear policy on nuclear financing. It follows EU standards, but the EU has no standards as nuclear questions remain under national sovereignty. Over the last two decades EIB has not financed any nuclear power stations, but was involved in the financing of uranium mining projects and URENCO (enrichment).

However, there is an internal debate going on about nuclear financing in general. In the coming months it is to be expected that the Bulgarian government will make an application for Euratom funds for its Belene nuclear power project. It will be up to the EIB to do the due diligence for the European Commission. If Bulgaria gets this loan, it is entitled to request a similar loan from the EIB. On top of this, **there is a lot of pressure from the nuclear industry to open up IFIs for nuclear funding, also to developing countries.**²²

Nuclear power is a bad choice for energy development for many reasons. The main reasons are based on the fact that safety requirements are very expensive and therefore necessitate a minimal magnitude of 1000 MW in order to be anywhere near economically viable. Only few electricity infrastructures in the developing world can deal with such a large amount of concentrated generation power. If the EIB were to get involved in nuclear financing in developing countries, it would dictate a centralised infrastructure. This would mean that for the time of construction (around 20 years in countries without an existing infrastructure!), there would be no investment in decentralised sources and access to electricity. It would furthermore virtually exclude the possible development of highly efficient renewable energy sources.

Characteristics of energy investments that help the poor

Developing communities do not need a sudden influx of a large amount of centralised generated electricity. They need very flexibly growing amounts of generation capacity, keeping in pace with the speed of local development. They also need it now and not in 20 years or later.

²⁰ EU policy campaigner on dirty energy issues for the Greenpeace EU Unit in Brussels

²¹ Greenpeace / EREC, Energy [R]evolution – A Sustainable Global Energy Outlook, (2008) Amsterdam / Brussels; <http://www.energyblueprint.info>

²² See for instance: NEA, Nuclear Energy Outlook 2008 (2008) Paris



Panel discussion on EIB's energy investments and EU climate policies

They do not need projects that burden them with billions of debt for 20 to 40 years, and technology that makes them largely dependent on others.

A decentralised approach to the development of energy infrastructure is the logical answer to this: generation of electricity in small to medium sized units close to where the demand is. This way, the missing or badly maintained and weak grid structures can grow organically with the speed of development. Use of electricity can also be highly efficient and renewable energy sources can be optimally integrated.

And any investment has a return on the short term.

A considerable part of the currently needed energy is in the form of heat. A decentralised approach can combine mixes of biomass heat production and driven heat/power co-generation with other renewable sources. This needs to be combined with investments in technology for highly efficient use and low maintenance management.

Thus, the current lack of quality infrastructure can be turned into an advantage with the help of modern high-tech but moderate-investment solutions.

The largest problem factor will continue to be the transport sector, where enormous growth is to be expected in the developing world. The development of affordable mass transport systems is the logical option for urbanised areas. For rural areas, however, more flexible approaches must be investigated.

The Greenpeace/EREC Energy [R]evolution offers a blueprint for a development that can deliver the goals needed to fight climate change, to increase equitable development and deliver energy security.

This would not only benefit the developing world, but also the developed world, where the largest steps have to be taken in increasing efficiency, developing renewable sources, decreasing deforestation worldwide and changing life-style and consumption patterns.

6. CONCLUSION

Nicola Jaeger²³

The conference was part of a series of conversations between EIB and civil society. While progress has been made on a couple of points, especially on EIB developing policies, some recurring themes come up frequently: transparency, monitoring and coherence.

Concerning transparency, progress has been made over the years **but there is still a huge lack of transparency on global loans and the activities of financial intermediaries.** Besides, there is strong interest in knowing more about the content of contracts. This information is essential to monitoring projects in the end. Special details like revenue generation, as discussed in the second panel for example, are fundamental for the appraisal of the contracts as such. The conference of Accra strengthened the importance of transparency of donor activities and the EIB has to keep in mind that standards in this area will rise.

Another recurring question is monitoring. While it was pointed out that there is a lot of hand-holding of clients in the preparation of projects, **EIB acknowledges that there is not enough capacity for a lot of monitoring throughout the duration of projects.** This triggered the question whether the right answer would be to upgrade EIB's staff and regional offices or whether one needs to think about other ways to channel investment in developing countries.

And due to the lack of transparency of contracts there is no real possibility to do monitoring on the ground cause without knowing the requirements it is impossible to check if they are followed or not.

Coherence was the main topic of this conference. It is absolutely necessary to check what projects get support and if these projects are in line with the requirements of EU policies. So this is something that has been coming up and that will come up again in the future.

But policy coherence is complicated when it comes to the question: Which kind of policy coherence? **Because environmental, development or trade policies are not all always going in the same direction.** Yet another question is if the policies themselves are good and well adapted to contributing to the main goals of sustainable development and poverty alleviation.

And finally there is the question of what the policies look like on paper – which obviously improved over the past years – and **how much of these policies is followed in reality.**

There was agreement that since the EIB as lender is considered a no-alternative-option (“they would not come to us if they had an alternative”), there is no need for any downgrading of standards in the light of possible competing lenders.

On energy lending and climate change it was acknowledged that EIB is on the right track but stressed that more has to be done in financing the change of the energy system. However, no agreement was reached about how big the role of the EIB in pushing forward policy changes could be.

To be continued.

23 World Economy, Ecology and Development



Counter



Balance



Challenging
the European
Investment
Bank