

# Public Funds for Public Benefit

## European Investment Bank and the Environment

“Public Funds for Public Benefit” is a campaign promoted by a network of European NGOs with the aim of making the EIB contribute to the EU development agenda to eradicate poverty, foster sustainable development and achieve the Millennium Development Goals (MDGs). This fact sheet is part of the campaign’s toolkit.

The European Investment Bank is the financial institution of the European Union. With an annual loan portfolio of almost EUR 45.8 billion, it is today the biggest international financial institution in the world. Both within Europe and beyond, the EIB increasingly finances large infrastructure projects in sectors such as the extractive industries, transport, energy, agriculture, water and sanitation. Large scale projects in these sectors have often been seen to have long-lasting environmental and social impacts, for example pollution, the destruction of ecosystems and the acceleration of climate change.

Decisions to invest in these kinds of projects need to be made cautiously and should be assessed against rigorous environmental and social standards in order to ensure that there are no better options available. The impacts of each project should be assessed so that they can be properly addressed and mitigated. The option of ‘no investment’ should be applied in cases where impacts can not be mitigated and/or outnumber the benefits.

On paper, the EIB is unequivocal about its support for and promotion of EU objectives, including the protection and improvement of the environment as spelled out in Article 2 of the European Community Treaty. Additionally, Article 6 of the Treaty states that every EC activity and policy must abide by environmental legislation. Thus the EIB is bound to comply with EU environmental rules and its policies must comply with EC environmental requirements.

Yet in practice the EIB does not have a satisfactory environmental and social policy. When it comes to EIB operations inside the EU, the EIB claims it follows EU legislation, however no clear procedures exist to actually verify such adherence to EU law in EIB financed projects. Outside the EU, the EIB only refers to EU law as a “benchmark” and also refers to “subject to local conditions” – this makes it impossible to know precisely which norms will be used to assess EIB-backed projects outside the EU.

The EIB is currently involved in environmentally damaging sectors, lending millions of euros for controversial projects such as large open pit mines in Zambia, the Nam Theun 2 Hydroelectric Project in Laos, the Chad-Cameroon oil pipeline and the co-funding of massive new pulp mill operations in Brazil.

The devastating consequences of such projects clearly contradict EIB claims that environmental protection is one of its top priorities. The absence of clear EIB environmental, social and development policies, and of safeguard procedures, calls into serious question how the EIB promotes ‘sustainable development’, an essential part of any project, as stipulated by EU policy.



## ➔ EIB environmental standards

While the EIB has made progress by adopting the European Principles for the Environment in June 2006, and by publishing its Environmental and Social practices Handbook in August 2007, its environmental and social policies are far from being comprehensive and operational.

The EIB does not have detailed and binding safeguard policies or procedures to guarantee a high standard of protection for both the environment and communities that are impacted by its projects. In contrast, the World Bank and the European Bank for Reconstruction and Development (EBRD) have safeguard policies which provide opportunity for public accountability and, when properly implemented, can mitigate or rule out projects with detrimental impacts.

The EIB has released four documents related to its environmental policy and procedures:

- Environmental Declaration, 2004
- Environmental Procedures, 2002
- Declaration on European Environmental Principles, 2006
- Environmental and Social practices Handbook, 2007

The first three documents only refer to general principles. Though these contain laudable sentiments in places, they do not provide any clear operational policy.

The Environmental and Social practices Handbook describes the project assessment procedure of the EIB, as well as the international laws, standards and conventions used in a variety of issue areas, including environmental issues. However this document is also characterised by its lack of clarity and precision. In vague terms it mentions principles without providing clear and binding criteria to evaluate projects.



## ➔ Problems with the EIB's project procedures and assessment of projects

### A team with its backs against the wall

The EIB team carrying out the assessment of projects does so theoretically from the economic, technical, financial and environmental points of view, and generally consists of an engineer and/or economist – with relevant sector specific skills and knowledge – from the EIB projects Directorate. This department is backed up by three relatively new 'environmental expert' bodies within the EIB: the Sustainable Development Unit, the Environmental Assessment Group and the Environmental Steering Committee.

In practice, the EIB has barely changed despite the creation of these three internal bodies, as they consist of existing staff and hardly any new human resource capacity has accompanied their creation. The relatively small number of staff involved – specifically staff with environmental expertise – coupled with a large volume of operations, leads to the incomplete and often superficial environmental assessment of projects.

### Project assessment and follow up in name only

Environmental Impact Assessments (EIAs), as far as the EIB is concerned, seem to be more of a 'tick the box' exercise than a serious undertaking. The World Bank and the EBRD both have intensive EIA processes that wield a clear influence on the decision about a project's approval. Yet the EIB is clear that it can approve a project before the completion of the EIA. And, moreover, when it comes to EIB projects, the full responsibility for carrying out the EIA procedure lies with the project promoter, who inherently has an interest in passing the EIA.

There is also a distinct gap between project implementation and follow-up on environmental objectives, as the EIB places full responsibility for compliance with environmental standards on those project promoters who receive its financing. Additionally, the EIB's limited staff capacity does not allow for regular monitoring of adherence to environmental standards throughout project implementation and the EIB's Operations Evaluation Unit only conducts ex-post evaluations on a limited amount of projects.

## ➔ The EIB outside the EU

There is still an alarming gap between the standards the EIB is prepared to adhere to inside the EU and outside the EU. Projects inside the EU are required to "comply" with EU laws and standards, but those which are realised outside the EU are only "benchmarked" against these standards.

The EIB argues that the application of EU standards to non-EU projects is subject to local conditions such as affordability, local environmental conditions, international good practice and with reference to factors such as the costs of application. These restrictions leave an uncomfortable space for a wide interpretation of the way EU standards are to be taken into consideration outside the EU. Thus, while the EIB's EUR 5.9 billion total investments in 2006 outside the EU exceeds the lending volume of several other multi-lateral lenders, including the EBRD and the International Finance Corporation, the EIB does not have binding standards and precise procedures to ensure that such investments do not harm the environment or local communities. Of course it needs to be noted that in such countries pre-existing national environmental policies are very often insufficient or even non-existent.

## ➔ Critical elements of EIB operations

Due to its inadequate staffing levels and its willingness to leave EIA compliance to project promoters, the EIB suffers from inadequate information that would allow it to take into account possible alternatives to proposed projects that could be more environmentally and socially friendly.

The EIB is demand-driven and as such is currently not promoting sustainable development: it simply responds to the needs of its clients. This is a practice that is in no way sufficient for a public EU institution that is, after all, mandated to support EU goals.

There is little proactive lending from the EIB designed to protect nature. Much of its lending is focused on technological, often end of pipe solutions. Whereas the EIB recognises climate change and aims to fund climate-friendly projects, it still finances projects that clearly fuel climate change, such as fossil fuel projects, including oil and gas pipelines and coal fired power plants. Moreover, a large proportion of its lending goes to environmentally destructive transport projects.

Between 1996 and 2005 the EIB invested EUR 112 billion into transport, over half of which went to roads and air transport. In Central and Eastern Europe this figure amounted to 68 percent of the total portfolio. During this period the EIB also lent EUR 16 billion to the aviation industry for airport expansions and the purchase and manufacturing of airplanes. The likely total of annual CO2 emissions from selected EIB-financed airport expansion projects such as Heathrow Terminal 5 and Schiphol 5th runway, if the new capacity is fully used (45.15 mt), are more than the individual total annual CO2 emissions of Switzerland, Ireland, Norway or Slovakia.

Outside the EU, the EIB is a significant financier of projects in the extractive industries, despite the devastating consequences of this sector on the environment. In Zambia, where from 2000 to 2006, over 81 percent of the EIB's investments went to mining projects, studies have shown that mines financed by the EIB have caused major air pollution, not to mention the contamination of streams and underground aquifers.

When it comes to hydroelectric projects, the EIB likes to describe these as “renewable energy projects,” and thus categorises them as environmentally friendly, disregarding their often massive impact on local ecology and communities.

In 2005, the EIB financed only one “environmental” project in Asia or Latin American countries, the Nam Theun Hydroelectric project in the Lao People's Democratic Republic. The project is cited as contributing to the EIB's overarching goal of promoting environmentally sustainable development in EU partner countries. However, Nam Theun is predicted to have serious impacts on the lives and the livelihoods of tens of thousands of rural Laotians, with the eviction of 6,200 indigenous people living on the Nakai Plateau to make way for the Nam Theun 2 Dam and its reservoir. Another 120-150,000 people depend on the Xe Bang Fai and Nam Theun Rivers for their livelihoods. Environmental studies have analysed the likely destruction of fisheries, the flooding of riverbank gardens and other disastrous impacts expected from this project .



A major but largely overlooked part of the EIB's operations are its "Global Loans". These provide financial intermediaries – often large private banks in EIB client countries – with funds which they can then on-lend to local project promoters. Under this set-up there is little access to documents from the EIB or the intermediaries about the environmental standards attached to such large sums of money. Moreover, the local intermediaries may not even be aware of EIB requirements and the need to implement them.

## ➔ What can be done to transform the EIB into a global environmental standard-bearer?

- ✓ The EIB should adopt an environmental and social policy framework and produce a binding operational policy based on European law and international conventions that clearly identifies for internal staff, its clients and stakeholders, which standards it is bound to and what procedures are in place to assess its projects' adherence to those standards
- ✓ The EIB should establish effective mechanisms for monitoring and oversight, enforcing compliance, and taking corrective action. Environmental Impact Assessments should become a mandatory part of the EIB's decision-making process prior to the Board's approval of a project
- ✓ The EIB should hire dedicated staff with appropriate knowledge to deal with environmental issues, and provide effective training, adequate budgetary support, clear lines of accountability, and an internal incentive structure that rewards environmental excellence
- ✓ The EIB should ensure that all future projects financed contribute to sustainable development and should phase out support for projects that are essentially incoherent with poverty alleviation and sustainability, such as:
  - projects that involve significant conversion or degradation of critical natural habitats, support the destructive exploitation of natural resources, or involve the production of substances that are banned or scheduled to be phased out of production,
  - large mining projects that do not comply with the World Bank's Extractive Industries Review's recommendations
  - large dams that do not comply with the World Commission on Dams' recommendations,
  - fossil fuel projects and nuclear power plants as well as aviation projects
  - large scale industrial tree and agro-fuel plantations.

### The campaign "Public Funds for Public Benefit" is promoted by:

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