

European Investment Bank: six years financing the plundering of Africa

Executive summary

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Introduction

Although not well known to the general public, the EIB is the most powerful international lending bank in terms of loan volume, with an investment portfolio of over 45 billion euros a year, twice the World Bank's portfolio.

Established in 1958 through the Treaty of Rome, the EIB is the financial institution of the European Union (EU) whose stockholders are its Member States. Its activity as a lender has progressively extended outside the EU, according to the specific mandates based on the different cooperation conventions between the EU and Non-Member States. In the ACP countries (Africa-Caribbean-Pacific), **the EIB loans are based on the Cotonou Agreement, and funded both by their own resources and those of the European Development Fund (EDF)**¹.

When operating in Africa, the EIB considers itself the Development Bank of the European Union, consequently carrying a development mandate². But in this region, a significant part of capitals disbursed by the EIB has been assigned to the mining sector.

The mining industry is an extremely controversial activity because of its dire consequences on populations and the environment. The EIB falls far behind the majority of the international financial institutions (World Bank or development regional banks, also criticised for their inefficiency) in terms of transparency, environmental and social standards, as well as proficiency to successfully lead an intervention for development.

This report is based on the projects financed by the EIB from 2000 (date of signature of the Cotonou Agreement) to 2006, as data concerning 2007 is not available yet. This report highlights the increasing involvement of the EIB in the mining sector in Africa, and goes on to analyse the questions raised. Do mines really contribute to development? What are the environmental and social risks linked to this activity? Is the EIB able to cope with these issues? What are the conditions required for this activity?

Mines are top of the agenda for the EIB. In 2006, 100% of funding accorded to Zambia was assigned to the mining sector, and particularly to the biggest African project of open-pit copper mines. By the end of April 2007, the EIB allocated a loan of 32 million euros for a new mine in Zambia. In July 2007, the bank approved two huge mining projects: a project on nickel and cobalt production in Madagascar (200 to 230 million €), and the project for a copper and cobalt mine in Tenke Fungurume in DRC (100 million €). These amounts are exceptional for the Africa-Caribbean-Pacific region, where financing has seldom surpassed 80 million euros. **In July 2007, 75 to 80% of the loan volume being evaluated at the EIB for the ACP countries was destined to the mining sector. The latest decisions of the EIB confirm its marked preference for the African mining projects.**

I. The increasing involvement of the EIB in the mining sector

From 2000 to 2006, the EIB invested more than 364 million euros in mining projects in eight African countries³. In certain cases, the mining projects represented the highest investments by the EIB in the country. Thus, in Zambia, more than 80% of financial amounts invested by the bank between 2000 and 2006 went to the mining industry. Beyond these direct investments, the EIB is also a stakeholder of two Funds specialized in mines, the African Lion and the African Lion 2, created to identify, study and invest in projects in Africa, with profit sharing in mining companies. By investing in big mining companies⁴, these funds have participated in the development of mining projects in the sector of gold, nickel, diamonds or coal in countries such as Democratic Republic of Congo (DRC), Mauritania, Senegal, Ghana or Tanzania.

The EIB does not seem to consider that lending or investing in the mining sector is enough. In December 2006, it was the official sponsor⁵ of a forum called Mines 2006, where promoters and entrepreneurs from the south of Africa presented new « *business development projects* » in the mining sector, to European and international investors⁶. The objective is clear: to link companies and economic actors from the south of Africa to those from the richest countries, in order to generate new investment dynamics in the mining sector, and profit from the price hike of raw materials.

1 In 2005, the EIB allocated to the ACP region a funding volume of 537 million euros (388 came from the EDF and the rest from EIB's own resources). Annual report 2005, p.46

2 See <http://www.eib.org/acp>. «As the development bank of the European Union, the Bank has been a partner in the development of the majority of ACP countries for thirty years now, and for many of them, for 40 years»

3 Congo, Gabon, Kenya, Malawi, Mauritania, Mozambique, Senegal and Zambia

4 For example : African Energy, Albidon Limited, Adamus resources Limited, Birim Goldfields Inc., Copperbelt Minerals, Kasbah resources, Mineral Deposits Limited, Platmin Limited, Shield Mining Limited, Sphere Investments Limited

5 <http://www.mines2006.com/supportorganisations.aspx>

6 <http://www.mines2006.com>

II. Funding mines: true development?

Mines and development: a controversial correlation

The authorities of the EIB regularly invoke the fact that the mining industry contributes to the development of African countries, even affirming that this is one of the few ways of developing Africa. This refers to the creation of employment, raising public cash reserves through taxes and royalties and developing the private sector, in accordance with one of the objectives formulated in the Cotonou Agreement.

Many research studies, particularly the Extractive Industries Review (EIR)⁷, severely question the link between the mining sector and development. This review shows that mines do not necessarily entail development, and that globally, the richest countries in terms of mining resources have a weaker growth rate than others. The mining sector must be considered carefully. As regards the investments made by the EIB, the benefits announced were not forthcoming.

Mining profits and governmental revenues: an embarrassing gap

Under the influence of World Bank and IMF policies, many African countries adopted very attractive fiscal incentives for foreign investors. Sometimes, the States have accepted even more unfair contractual conditions. In the case of Mopani mining project supported by the EIB in Zambia, the royalties' rate is fixed contractually at 0,6%⁸, being one of the lowest in Africa. Moreover, fiscal evasion practised by the extractive companies operating in the developing economies partly explains the weakness of government revenues. Thus, in-depth research lead by the British NGO Christian Aid, published in January 2007⁹, shows that in spite of a context where the demand and prices of minerals are shooting up in the international markets, the revenues received by the African States often remain very weak. During his speech in February 2006, the Minister of Finance of Zambia, a country rich in minerals in which the EIB has massively supported mining development, estimated that the government would no doubt receive less than 11 million US dollars transferred as royalties for 2006. This represents 0,1% of the total value of production for 2005¹⁰.

Job creation: a misleading argument

The very capitalistic mining sector, creates little employment and does not absorb the jobs which disappear when traditional activities are replaced. According to the United Nations Economic Commission for Africa, « *The concentration of growth in capital-intensive sectors such as oil and mining and the shift away from agriculture without absorption of the displaced labour, have contributed to job losses and the worsening of living standards.* »¹¹. Moreover, women are practically excluded from mining jobs, which are often precarious with poor salaries and working conditions. Also, the privatization of mine exploitation has deprived employees of basic services, formerly supplied by public companies.

Funding the mining industry: a support to the private sector... of the North

Reasoning frequently used by the institutions financing the mining sector, and particularly by the EIB, is that these investments would foster the development of the private sector, thus energizing national economies. Supporting the private sector is an important argument for the EIB as it is one of the objectives announced in the Cotonou Agreement.

But in almost all cases, the funds from the EIB go to subsidiary offices of big companies from the North (Australia, Canada, United-Kingdom, France, etc.). It is surprising that these actors benefit from the advantageous loans from the EIB. Nothing proves that they really need them. It would seem more coherent for this « *non-profit bank* »¹² to devote its funds to firms that -because of their size or country - have very little access to private financial markets in order to create economic activities in direct response to national demands. That is not the case of the multinational mining companies from rich countries focused on big export markets.

Moreover, support of the private sector in the interest of African countries should aim at creating a local economic network of African entrepreneurs. Yet, EIB financing does not seem to have an impact on the local private sector. Upstream (exploration, material selling...) as well as downstream (development of the manufacturing industry), the industries in developing countries cannot establish themselves as leading players, mainly because of protectionism set by Northern industries. A recent report from the United Nations Conference on Trade and Development (UNCTAD) shows that the receptive countries do not benefit from technology transfers¹³.

Funding mines: a cooperation objective for the EU?

In order to plan cooperation frameworks with Africa, the European Union sets the conditions for negotiations carried out with each country concerned in Country Strategy Papers (CSP). These documents identify the specific problems in each

7 The Extractive Industries Review (EIR) is an in-depth research on the extractive sector commissioned by the World Bank, that reached key recommendations so that extractive projects can obtain positive impacts. 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.

8 The Zambian law foresees a royalty rate of 3%

9 Christian Aid, *A rich Seam: Who Benefits from Rising Commodity Prices?*, 2007

10 Ibid., p.24

11 Economic Commission for Africa (ECA) of the United Nations, *Recent economic trends in Africa and prospects for 2006*, p.30

12 See FAQ on the EIB website: <http://www.EIB.org/products/faq/index.htm#how-does-the-eib-differ-from-commercial-banks>

13 UNCTAD Report 2007, The least developed countries report 2007, knowledge, technological learning and innovation for development

country, defining the actions and sectors in need of priority support. **The analysis of the content of these CSP and of EIB investments shows that the Bank does in no way follow the priorities identified by the EU.** Even if the EIB is not formally bound by these documents, it is obvious that it should be inspired by them, owing to the fact that it is considered the main instrument of European cooperation.

The fact that the EIB seems to be willing to favour the mining sector sometimes counteracting the European objectives is extremely serious. Thus, on the one hand, the EU funds a diversification programme in Zambia, with funds from the European Fund for Development (EFD) so that the country may step out of the traditional mining sectors such as copper and cobalt. And at the same time, between 2000 and 2006, the projects funded in Zambia by the EIB through the EFD are exclusively focused on opening or expansion of copper mines.

A focus on mining that influences other investments' choices of the EIB

The extractive sector consumes considerable amounts of energy. Setting up a mining project may need the simultaneous funding of power stations to feed it. Thus, the aim of the Motraco II project, funded repeatedly by the EIB¹⁴, announcing «*the reinforcement of the electric network between South Africa, Swaziland and Mozambique*» is in fact to feed the aluminium mega-project of Mozal. This is located near a bauxite mine, also funded with 22 million euros by the EIB. Following an industrial rather than a developmental logic, the EIB can then spend millions of euros to allow the mining projects that it funds to access electricity in regions where the local population is deprived of this service.

III. The social and environmental risks

A sector enclosing social and environmental injustice

The mining industry causes disastrous effects on the environment: deforestation; granting access to forests; moving huge quantities of earth; water and land pollution by chemical products used for extraction (cyanide, sulphuric acid...) or by heavy metals, acid reaction, mineral residues, dust and mud that pollute air, soil and crops; poisonous gas emanations... A mine's effects can remain long after it has closed down, considering that operators usually consider that clean-up of the site, rather than rehabilitating it, is enough.

Social impacts are also serious: population displacement, loss of means of subsistence (agriculture, fishing or breeding are endangered because of both land appropriation by mining companies and pollution of ecosystems), difficulty to obtain water (this resource being massively consumed or polluted by the mine), health problems due to pollution, growth of prostitution and sexually transmitted diseases (particularly Aids) linked to the massive arrival of migrant workers, etc.

Finally, in countries (many in Africa) characterized by political instability, corruption and weak institutions, the big mining projects contribute to deepen crisis and conflicts. When national authorities are too weak to protect citizens' rights in communities affected by mines or to solve the conflicts that may arise, people's resentment grows and can get out of control. All countries in which the EIB invests face serious corruption problems¹⁵. In certain cases, the presence of private security guards engaged by the mining companies to protect their working fields is the cause of violence, which a weak nation cannot handle adequately.

Beyond local conflicts, huge mining projects also quite often represent a risk to political stability on a larger scale (pressure from neighbouring nations, war for the control of sites...). The mines have often worsened existing conflicts or sustained them, minerals being sold by the armed groups with the complicity of big mining companies. For example, companies such as Mopani¹⁶ and First Quantum¹⁷ have been linked to illegal exploitation of resources in DRC. However, the EIB has accepted to finance these two companies¹⁸.

14 Loan of 10 million euros in 2002, then of 1,75 million in 2003, and also four loans before 2000, in 1999, of 8,2 million euros, 8,2 million euros, 16,8 million and 19,9 million respectively.

15 See the 2006 corruption ranking of Transparency International. The nations where the EIB has funded mining projects between 2000 and 2006 are all at the bottom of the chart: Congo and Kenya: 142nd position, Gabon, 90th position, Malawi: 105th position, Mauritania: 84th position, Mozambique: 99th position, Zambia: 111th position. http://www.transparency.org/news_room/in_focus/2006/cpi_2006_1/cpi_table

16 See the Global Witness report, *Digging in Corruption, Fraud, abuse and exploitation in Katanga's copper and cobalt mines*, July 2006, p. 46-47. See also the article published in *The Post (Lusaka)*, on 11th July 2006, *Report Places Lusaka in Centre of Corruption*, by Kingsley Kaswende. Still available on: <http://king-dean.blogspot.com/2006/07/drc-copper-fraud-zambia-in-mess.html>

17 *Final report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo*, October 2002

See Annex III. <http://www.natural-resources.org/minerals/cd/docs/other/N0262179.pdf>

See also p.9: « For example, in its attempts to buy right to the Kolwezi Tailings, First Quantum Minerals (FQM) of Canada offered a down payment to the State of \$100 million, cash payments and shares held in trust for Government officials. According to documents in the possession of the Panel, the payments list included the National Security Minister, Mwenze Kongolo; the Director of the National Intelligence Agency, Didier Kazadi Nyembwe; the Director General of Gécamines, Yumba Monga; and the former Minister of the Presidency, Pierre-Victor Mpyoy. The FQM share offer to those officials was premised on a sharp rise in its share price once it was announced that it had secured some of the most valuable mineral concessions in the Democratic Republic of the Congo. »

18 Mopani Copper Project : loan of 48 million euros assigned in 2005; Bwana Mkubwa Mining expansion (project fully exploited by First Quantum): loan of 14 million euros in 2002

Today, the EIB is not capable of addressing these issues

Considering the huge social and environmental risks entailed in the mining industry, it is necessary to guarantee high standards of protection for the environment and impacted communities. However, the EIB is characterized by the weaknesses of its environmental and social norms and procedures.

When operating within the EU, the EIB is bound by European law. But when it comes to non-EU countries, and particularly to the ACP region, the Bank follows very weak guidelines. The documents presented as the EIB's action guidelines on social or environmental aspects are vague, unclear and undeveloped. They often refer to principles instead of listing operational standards. For example, the EIB cites the precautionary principle without explaining how to implement it. The EIB also enumerates many European and international laws, treaties and policies without specifying which ones are binding. The EIB also refers to European Union standards clarifying that outside the EU, these norms are only "benchmarks", « *subject to local conditions and laws* ». In the specific mining sector, the EIB has no specific policy but only a vague four-page « position » on the *Extractive Industries Review (EIR)*¹⁹, that does not endorse the concrete recommendations of the EIR.

The EIB operates within a huge legal uncertainty, which is particularly problematic considering that it intervenes in countries where local legislation are often insufficient to ensure a rightprotection of the environment and the population.

EIB's procedures are also elusive. The Bank has made an effort to be precise through its *Environmental and Social Practices Handbook* in 2007. However, the EIB generally avoids determining rigorous and binding evaluation criteria. The Environmental Impact Studies (EIS) are still perceived as an administrative formality, since the decisions on loan allocation can be made before these studies are achieved. Moreover, the EIB solves the issue of project follow-up in two pages in its *Environmental and Social Practices Handbook*. Here it sets forth that the project promoter must supply regular information about the project's progress, report if the commitments made have been complied with and produce Promoter Progress Reports (PPRs). But there is no indication on how these reports should be carried out (regularity, content, precision, evaluation criteria). Finally, the eventual violations of the environmental and social conditions of the project by the promoter are not discussed anywhere.

A lack of will from the EIB?

For a long time now the EIB has considered itself a private bank. Even if the EIB recognizes explicitly today its role within the area of development, this rhetorical change has only manifested itself in extremely insufficient progress regarding its approach and its operations. Though it handles a bigger loan portfolio than the World Bank, EIB staff is only 10% of the WB's personnel, and only four persons work in the environment unit. The Board meets ten times a year to examine over three-hundred projects, therefore the obvious lack of time prevents any in-depth evaluation. This minimalist organisation, of which the EIB is proud, considerably cuts down on their operative costs. But it eludes any efficient examination of projects and any reduction of negative social and environmental impacts of the projects received.

The EIB refuses to assume any responsibility for the funded projects: « *The Bank cannot give assurance about the behaviour once the equipment is installed* »²⁰ The Bank relies on the project's promoter, who is not impartial, or on local authorities concerned, who are not necessarily able or willing to ensure protection for the population and the environment²¹.

19 See footnote n7

20 *Environmental and Social Practices Handbook*, p.22

21 See for example in *Environmental and Social Practices Handbook* from the EIB, p.19, Summary of legislative compliance : « *The Promoter is responsible for legal compliance whereas regulatory and enforcement tasks lie with the Competent Authorities* ». Or well, in the case of global loans, p.26 : « *the financial intermediary will undertake to promote compliance of the sub-projects with relevant national and EU law* », ou p. 23 « *For Mid-Cap and Global Loans and for Funds, the Bank normally delegates the verification of any NTS, EIS and other environmental documents to the intermediary or Fund manager and does not publish such documents on its own website* »

IV. Recommendations

The EIB must adopt standards based on existing legislation. Many international conventions set standards that can be used in the case of mining projects, such as the Convention on Biological Diversity, the Kyoto Protocol and the MARPOL convention on marine pollution. Moreover, various multi-sector processes have permitted to set standards applicable to extractive operations. The aim of the Extractive Industries Review (EIR) is to ensure that investments in extractive industries can really contribute to improving living conditions of poor and indigenous communities respecting the environment and human rights.

The EIB must abstain from funding any mining projects until it reforms its procedures. The Bank must adopt precise and restrictive standards concerning: poverty alleviation, improvement in the living conditions of local populations, social and environmental responsibility, consultations with the concerned population and offer utmost transparency. It must draw up institutional and procedural reforms. It must also plan an independent evaluation of these reforms as from 2010, date of the mid-term evaluation of its external mandate.

Friends of the Earth recommends EIB to immediately adopt the following ten priority measures:

1. Systematically assess the impact of mining projects on local communities and vulnerable groups (particularly on women, ethnic minorities and poorest population) and to fund projects only when they benefit all affected groups, including vulnerable population;
2. Ensure that poverty reduction plans are in place prior to project start;
3. Require health impact assessments to be conducted during project preparation, along the lines of the course manual published by the World Health Organization in 2003;
4. Adopt a binding policy on public consultation that imposes a serious consultation of local communities affected by mining projects, in a reasonable timeline, with a complete information available in the appropriate languages, to obtain their free prior and informed consent, before the project is considered by the Board of Director of the Bank;
5. Require comprehensive Environmental and Social Impacts Assessments (ESIA) for all mining projects, including project expansion, and require that this ESIA is completed before the loan approval;
6. Set up a grievance mechanism open to local people's complaints;
7. Establish clear guidelines on mine closures and require closure plans including financial plans, and make those plans public before the approval of the project ;
8. Establish clear guidelines on tailing, mining waste disposal and use of chemicals, and ban the use of chemicals every time there is an alternative;
9. Disclose all the key documents related to the projects financed, including economic documents (host government agreements) and monitoring reports, and require the disclosure of revenue payments on company and government level;
10. Ban investments in mining projects located in "no-go zone", ie protected areas and critical natural areas (zone I-IV of the IUCN and wetlands protected under Ramsar convention), areas of important cultural, sacred or heritage value, as well as conflict zones and potential conflict zones.

Conclusion

With over 364 million euros invested between 2000 and 2006, the mining sector is one of the most important investment sectors for the EIB in the ACP countries, more than transportation²², telecommunications²³, water and sanitation²⁴, agriculture and fishing²⁵. Education and health in Africa did not receive any funding from the EIB during this period. In 2007, the EIB has already approved more than 330 million euros of loans to mines in Zambia, Madagascar and DRC.

However, the economic arguments of the EIB in terms of employment, fiscal revenues or support to the private sector in the host countries is extremely weak. Even worse, the EIB does not have the capacities to evaluate and control the social and environmental impacts of projects funded. In the ACP region, the EIB must intervene according to a development mandate. But the mining activity consists in exploiting exhaustible resources during a given period of time, causing irreversible damage to the ecosystem and to the social organization of resident communities. How does this meet the objective of sustainable development included in the Cotonou Agreement?

Today, mining activities are focused on the needs of industrialized countries: mines are operated by western companies and resources are exported to the North to satisfy consumer needs in rich countries (or in emerging ones that export manufactured products to rich countries). Without strict environmental and social standards, there is no chance that this industry will improve the living conditions of African countries and populations.

The current economic climate will probably encourage Northern mining companies to increasingly ask for the support of international financial institutions such as the EIB. The prices of mining products are likely to rise. And the fact that a growing amount of Chinese firms are landing on the African continent, encouraged by the richness in natural resources, seems to create some panic among global giants. At the end of January 2007, the world's leading mining companies are said to have gathered in a secret meeting with the United Nations and the World Bank to discuss possible support in order to facilitate their stay on the African continent²⁶. Ironic as it may seem, some companies even evoked environmental standards as a strategy to show their comparative advantage in this arena. This context is an opportunity for the EIB to meet the demanding social and environmental standards needed for operational procedures to comply with sustainable development in the mining sector. In the meantime, a moratorium seems to be necessary to avoid funding potentially catastrophic projects during the period of elaboration of standards by the EIB, which should comply with best international practices.

22 235 millions euros invested between 2000 and 2006 for ACP+OCT (Africa Caribbean Pacific + Overseas Countries and Territories)

23 51 millions euros invested between 2000 and 2006 in Africa

24 231 millions euros invested between 2000 and 2006 for ACP+OCT

25 41,2 millions euros invested between 2000 and 2006 for ACP+OCT

26 See article in Times, 29 January 2007, *Mining giants indignant that someone else should rape and pillage Africa*, David Robertson: «The world's largest mining companies are turning to the UN and the World Bank in an attempt to prevent China freezing them out of Africa, The Times has learnt. The heads of more than a dozen mining companies representing assets of more than \$700 billion (£357 billion) met in secret at the World Economic Forum at Davos last week.» (...) «The most ambitious plan of the mining "governors," and perhaps the most fanciful, is to ask the United Nations to mandate that countries must sign deals that require participants to meet high environmental and safety standards. Chinese miners have a poor reputation in these areas and one chief executive who was at the governors' meeting said that Africa was being "raped and pillaged" by China.» (...) «Another strategy developed by the governors was to contact the World Bank's International Finance Corporation (IFC), which invests in projects in developing nations. Partnering the IFC would let Western miners offer the same sort of incentive-laden deals as China.» Article available on the following website: <http://www.gata.org/node/4757>