

Climate Proofing European Capital Flows

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In this paper, Both ENDS and partners examine the policies and portfolios of three European Export Credit Agencies (ECAs) and the European Investment Bank (EIB) in developing countries. It shows that the policies of these institutions are not coherent with the climate change policies of the European Union. Their current portfolios lead to a growth in greenhouse gas emissions as well as increased vulnerability of developing countries to the impacts of climate change. On the basis of the analysis, recommendations are provided to the EIB, the ECAs and the governments of the EU Member States.

EXECUTIVE SUMMARY

This briefing paper analyses the lending policies of the European Investment Bank (EIB) and three national Export Credit Agencies (ECAs). These institutes are quasi-governmental agencies which disburse large sums of public money, much of it to developing countries. As such, they ought to be responsive to the policies of the EU and its Member States in relation to issues such as climate change and environmental reporting. Yet, as this paper shows, their policies and practices do not currently reflect, or sufficiently take into account, the EU's policies towards global climate change and reducing greenhouse gas (GHG) emissions.

Analysis of their portfolios suggests a strong orientation towards sectors and project types that are intensive users of fossil fuels and among the faster growing sources of GHG emissions. The same analysis also shows a lack of transparency and detail in reporting that makes it difficult to assess the full carbon footprint of these agencies' activities, or the localised and regional effects of individual projects. The EIB has addressed climate change within its policy statements, but has not yet adequately translated these policies into practice. The ECAs do not have a clear direction in terms of their policy towards climate change and their reporting procedures make it difficult to assess the social, environmental and climate impacts of the transactions they support.

Investments in the developing world shape the future: they influence future levels of GHG emissions and also the resilience of communities and ecosystems already vulnerable to climate change. The EU, the G20 and the OECD have all recognised the importance of such investments in fostering a sustainable future. Yet many of the agencies charged with supporting such investments have no strong policy frameworks in place to guide their decision making in that direction. Agencies like the EIB and the ECAs often also lack transparency and clarity in environmental reporting and screening procedures.

This paper presents three main sets of conclusions and recommendations.

1. There is a need to enhance the coherence of the policies of the EIB and the ECAs with the climate change policies of the EU (and its Member States).
2. On a practical level the EIB and ECAs should develop clear targets for the reduction of greenhouse gas emissions resulting from their portfolios, identify ways of achieving these targets and establish the appropriate accounting procedures. As part of this process they need to develop clear, transparent and inclusive methodologies for impact assessment and carbon footprint accounting. They should include climate change considerations in their project screening procedures.
3. To allow for a well-informed assessment of the social, environmental and climate impacts of EIB and ECA supported transactions, enhanced transparency through regular, more detailed and rigorous reporting is required. Such reporting should cover all transactions supported by these agencies. ■

1

INTRODUCTION

1.1

THE ROLE OF EUROPE IN THE CLIMATE CHANGE DEBATE

It is widely accepted that CO₂ concentration levels need to remain below 450 parts per million in order to keep the average global rise in temperature below 2 degrees Celsius as compared to pre-industrial levels.¹ This threshold is considered to be the level below which the most serious impacts of climate change can be avoided.² In order to achieve this, global greenhouse gas (GHG) emissions must peak by 2015, and fall by at least 80% worldwide by 2050, in comparison with 1990 levels.

Even if these targets are met, historic and current emissions mean that climate change is already a reality in many places. And, it is poor people in developing countries who are suffering most from the impacts. Every year, about 325 million people are seriously affected by climate variability and change.³

Current estimates of the costs of adaptation in the developing world vary considerably, from between USD 4 to 100 billion per year for the period 2010 to 2050.^{4 5 6} Article 3 of the United Nations Framework Convention on Climate Change (UNFCCC) states that parties should protect the climate system for the benefit of future and present generations of humankind on the basis of equity,

and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, developed countries should take the lead in combating climate change and its adverse effects.⁷ This has led to an agreement in principle that industrialised countries will need to pay a substantial part of the costs incurred by poor countries in dealing with climate change.

The European Commission presents itself as wishing to play a leading role in tackling climate change. This involves taking appropriate action to cut greenhouse gas emissions and to support adaptation to unavoidable climatic changes.⁸ In 2007, the EU committed itself to an unconditional 20% cut in its GHG emissions below 1990 levels by 2020, and stated its willingness to scale up this reduction to 30%. It has also set itself the target of increasing the share of renewables in its energy use to 20% by 2020.⁹ Furthermore, it has committed itself to integrating climate change into other policy areas, including its external policies.

However, in the run-up to Copenhagen, the EU received increasing criticisms that it has not been living up to the expectations that it has raised. It has refrained from committing to specific funding levels to assist developing countries in responding to the impacts of

climate change¹⁰ and made its commitments for more ambitious CO₂ reduction conditional on the outcome of international climate negotiations. However the value of these commitments is questionable. Copenhagen only resulted in participating countries noting, rather than adopting, a legally non-binding declaration. The outcome of the subsequent negotiations is still far from evident and there are no binding agreements, in terms of targets and instruments, for the international community or the EU.

Meanwhile, key European financial institutions such as the European Investment Bank (EIB) and the European Export Credit Agencies (ECAs) continue to support investments in developing countries in fossil fuels, large-scale infrastructure and highly energy-intensive industries. The EIB and ECAs are publicly-funded institutions which appear to be supporting projects that conflict with the EU's climate policies. This paper analyses these capital flows from the EU and proposes ways in which they can be harmonised with the EU's climate change ambitions. ■

1.2

CLIMATE CHANGE AND SUSTAINABLE DEVELOPMENT

One of the key issues facing the policy community is how to align the objectives of economic development with those of climate policy. It is evident that these issues are highly interlinked. Climate change poses a serious threat to sustainable development with potential adverse impacts on water availability, food security, human health, etc. Equally, unsustainable development policies

may increase the vulnerability of ecosystems and people, hamper their ability to adapt to climate change and may stimulate increases in GHG emissions. The economic development strategies of developing countries need to integrate climate and sustainability concerns so that these countries will become less vulnerable to the impacts of climate change and also decrease their own contribution to climate change.

The development path taken by developing countries is a crucial factor in the future level of GHG emissions. The 2008 World Energy Outlook report of the International Energy Agency (IEA), projects that 97% of the increase in world energy-related CO₂ emissions from 2006 to 2030, will come from poorer countries.¹¹ According to the IEA, if the current trend of increasing carbonisation of new energy sources in the developing world continues, this would result in the planet irreversibly overshooting the point of no return for climate disaster, even if the OECD nations were to reduce their emissions to zero by 2030. Needless to say, this does not imply that the OECD countries should not take their own responsibilities seriously and seek to reduce their own emissions as much as possible.

While it is essential that industrialised countries seriously reduce their emissions, developing countries need to try and avoid the past industrial patterns of the North as well as reduce their vulnerability to the impacts of climate change. A recent World Watch Institute report states that 'developing countries have the potential to "leapfrog" the carbon-intensive development path of the 20th century and go straight to the advanced energy systems that are possible today'.¹² While improved technology and high energy prices have created a favourable market for new energy systems, reaching a true economic tipping point will require

¹Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, 2007, B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds), Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

²Netherlands Environmental Assessment Agency, Press release 7 December 2009, To limit global warming to two degrees Celsius, increase in global greenhouse gas emissions needs to have turned into a decrease, by 2020 <http://www.planbureauvoordeleefomgeving.nl/en/news/pressreleases/2009/20091207-To-limit-global-warming-to-two-degrees-Celsius-increase-in-global-greenhouse-gas-emissions-needs-to-have-turned-into-a-decrease-by-2020.html> The chairman of the UN's Intergovernmental Panel on Climate Change (IPCC), Dr Rajendra K Pachauri, warned that the now widely accepted definition of "dangerous" climate of two degrees above pre-industrial levels did not go far enough. He warned that even the IPCC's best-case scenario of an increase in temperature of 1.8 degrees by 2100 was "bad news". <http://www.businessgreen.com/business-green/news/2238184/ipcc-chief-warns-two-degree>

³Global Humanitarian Forum (2009) The Anatomy of a Silent Crisis. Human Impact Report Climate Change, Geneva, 2009, p.1 (ghfgeneva.org/Portals/0/pdfs/human_impact_report.pdf)

⁴World Bank (2006). Clean Energy and Development: Towards an Investment Framework. Washington, D.C.: World Bank; Stern, N. (2007). The Economics of Climate Change: The Stern Review. Cambridge: Cambridge University Press; Oxfam (2007). What's needed in Poor Countries, and Who Should Pay? Oxford: Oxfam International; UNDP (2007). Fighting Climate Change: Human Solidarity in a Divided World. UNDP Human Development Report 2007-2008. New York: Palgrave Macmillan; FCCC Secretariat (2007a). Investment and Financial Flows to Address Climate Change. Bonn: Secretariat to the United Nations Framework Convention on Climate Change; available at: http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/background_paper.pdf; FCCC Secretariat (2008a). Investment and Financial Flows to Address Climate Change: An Update. Technical Paper. UN Doc. FCCC/TP/2008/7,

26 November 2008. Available online at: <http://unfccc.int/resource/docs/2008/tp/07.pdf>; Opschoor, H. (2009). Sustainable Development and a Dwindling Carbon Space, Public Lecture Series 2009, No. 1. The Hague: Institute of Social Studies.

⁵The World Bank Economics of Adaptation to Climate Change (EACC) study estimates that it will cost \$75 - \$100 billion each year to adapt to climate change from 2010 to 2050. See <http://beta.worldbank.org/climatechange/content/economics-adaptation-climate-change-study-homepage>

⁶The UNFCCC estimates that between 50-170 billion US dollars a year are needed by 2030 for adaptation. UNFCCC Dialogue Working Paper 8 (2007) Reports on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change. http://unfccc.int/files/cooperation_and_support/financial_mechanism/financial_mechanism_gcf/application/pdf/dialogue_working_paper_8.pdf

⁷United Nations (1992) UN Framework Convention on Climate Change (UNFCCC), New York: United Nations, unfccc.int/resource/docs/convkp/conveng.pdf

⁸EU action against climate change. Leading global action to 2020 and beyond. 2009. http://ec.europa.eu/environment/climat/pdf/brochures/post_2012_en.pdf

⁹The EU Climate and Energy Package http://ec.europa.eu/environment/climat/climate_action.htm

¹⁰The EU summit in December 2009 in Brussels did result in an acknowledgement of the need for an annual €100 billion towards climate mitigation and adaptation in developing countries, of which €22-50 billion should be paid by rich countries, and a commitment by the EU to contribute a 'fair share' of this amount. It failed however to put a clear figure on EU's contribution and there is ongoing internal conflict over the amounts to be taken on by Member States.

¹¹International Energy Agency, 2008, World Energy Outlook 2008, Paris, OECD/IEA, <http://www.iea.org/weo/2008.asp>

(Note 12, see page 7)

innovative public policies, access to technologies at affordable prices and strong political leadership. ■

1.3

ABOUT THIS BRIEFING PAPER

In 2007, the European Parliament passed a resolution on trade and climate change. This called on the Commission and the Member States to propose legislative instruments in order that Member State export credit agencies and the European Investment Bank take account of the climate change implications of the funded projects when making or guaranteeing loans and impose a moratorium on funding until sufficient data are available, in accordance with advice from the OECD, the G8 and the Extractive Industries Review.¹³

More recently, the summit of the leaders of the G20 in Pittsburgh in September 2009, produced a statement in which they agreed to phase out and rationalise inefficient fossil fuel subsidies over the medium term and provide targeted support to enable the poorest countries adapt to climate change. This meeting called on the Energy and Finance Ministers of the G20 to report on their implementation strategies and to set out a timeline for acting to meet this critical commitment. It also requested the international financial institutions to offer support to the poorest countries in this process. The G20 leaders also committed themselves to stimulating investment in clean energy, renewables and energy efficiency and to providing financial and technical support for such projects in developing countries.¹⁴

The EIB and the European ECAs have been slow to respond to these calls. Many of the projects that they support seem to stimulate GHG emissions and decrease the adaptive capacity of the local population in countries that are highly sensitive to climate change. As public institutions, the EIB and the European ECAs are currently not fulfilling their, potentially crucial, role in promoting the transition to a low carbon future. Moreover, their policies seem to be inconsistent with EU climate policies.

To assess the contribution that European capital flows make to increasing GHG emissions and increasing the vulnerability of people and the environment in developing and emerging market countries, this paper examines the policies and portfolios of three European ECAs (sections 2 and 3) and the EIB (sections 4 and 5). The social and environmental policies of the institutions are described and analysed, and their portfolios screened - using a number of criteria: a) the climate relevance of the economic sector to which the project belongs; b) the impact of projects on the vulnerability and/or adaptive capacity of local people, c) the direct and indirect contribution of the project to GHG emissions, d) the impact of the project on fossil fuel dependence and climate unfriendly behaviour, and e) the vulnerability of the project to climate change impacts. The assessment also draws on three case studies developed for this study by the civil society organisations (GAMBA in Brazil, NAPE in Uganda and the Environics Trust in India) that analyse specific projects supported by the EIB and European ECAs from a climate change perspective.¹⁵

The study focuses on the investments of the EIB and European ECAs since they represent a large share of Europe's investments in developing countries that make use of public money. Furthermore, a significant portion of EIB and ECA project financing in developing countries is concentrated in sectors that have important implications for climate change: transportation (roads, waterways and aviation), energy (fossil fuels, hydropower and bio-fuels) and energy-intensive manufacturing (such as petrochemicals, pulp and paper and iron and steel). While the authors are aware that the mandates and ways of working of the EIB and ECAs differ substantially, the main conclusions and recommendations provided in this paper (section 6) apply to both types of institutions. They lead to a number of more detailed recommendations that focus on the EIB and ECAs separately. ■

2

EXPORT CREDIT AGENCIES (ECAS) AND CLIMATE CHANGE

2.1

EUROPEAN ECAS: SOME FACTS

Export Credit Agencies, commonly known as ECAs, are public agencies and entities that provide government-backed loans, guarantees and insurance to corporations from their home country that seek to do business overseas, particularly in developing countries and emerging markets.

ECAs cover risks that are considered too large for private export credit insurance companies working under market conditions. These risks may be related to specific uncertainties over the nature of the transaction, or the political situation in the country of operation. A government supported ECA can take more risks since government backing allows them much more patience and leverage in recuperating arrear payments from defaulted transactions than private insurance companies can afford. Exports to, or investments in, developing countries thus often depend on the support of ECAs.

Most industrialised nations have at least one ECA. Some ECAs are government agencies (e.g., Britain's ECGD) while other ECAs are private companies running export credit programmes on behalf of their government (e.g. Atradius Dutch State Business). A complete list of all European ECAs can be found in Annex 1. This paper focuses in more detail on the Dutch ECA (Atradius) and

the ECAs of Germany (Hermes, the world's second largest export credit guarantor) and France (COFACE).

ECAs from industrialised countries work within the Arrangement on Officially Supported Export Credits, developed by the OECD.¹⁶ This sets out common principles designed to provide a level playing field. The OECD countries¹⁷ and ECAs participating in the Arrangement cooperate in the Working Party on Export Credits and Credit Guarantees (ECG).¹⁸ The European Commission also participates fully in the ECG meetings. The ECG is made up of senior government officials with responsibility in formulating export credit policies together with senior officials from the export credit institutions.

ECAs are a major source of public financial support for the private sector. A substantial part of ECA support goes to companies doing business in emerging market countries, i.e. developing countries with impressive economic growth rates. Overall, ECAs finance more private-sector projects in the developing world than any other class of financial institutions.¹⁹ The table below presents the figures for export credit commitments from OECD countries to the poorest developing countries (IDA-only countries)²⁰ between 2001 and 2007. More recent data are not yet available from the OECD.²¹ The table makes clear that the majority of export credits to underwrite corporate activities go to companies doing business in Africa. ■

¹²World Watch Institute, World Watch Report: Low Carbon Energy: A Roadmap, 2009 <http://www.worldwatch.org/node/5945>

¹³European Parliament resolution of 29 November 2007 on trade and climate change. <http://www.europarl.europa.eu/sides/getDoc.do?Type=TA&Reference=P6-TA-2007-0576&language=EN>

¹⁴Leaders' Statement, Pittsburg Summit, September 24-25 2009, http://www.g20.org/Documents/pittsburgh_summit_leaders_statement_250909.pdf

¹⁵NAPE & ARN (2009). The role of EIB and ECAs in Bujagali dam (Uganda) and Gibe III (Ethiopia), see at <http://sites.google.com/site/africanriversnetwork/what-is-new>. R. Cunha (2009). Investimentos do Banco Europeu de Investimento Na Bahia - Brasil e sua relação com as mudanças climáticas: estudo de caso Veracel Celulose. Salvador: Gambá. Environics Trust (2010), Rourkela Steel Plant (RSP): Social and ecological insensitivity continues, India, <http://www.environicsindia.in/>

¹⁶The latest Arrangement on Officially Supported Export Credits [TAD/PG(2010)2] came into force on 11 January 2010. Available at: [http://www.oilis.oecd.org/oilis/2010doc.nsf/linkto/tad-pg\(2010\)2](http://www.oilis.oecd.org/oilis/2010doc.nsf/linkto/tad-pg(2010)2)

¹⁷With the exception of Iceland.

¹⁸While the ECG is a formal OECD body, the group of Participants to the Arrangement is not.

¹⁹<http://www.eca-watch.org/>

²⁰IDA stands for International Development Association, the part of the World Bank Group that helps the world's poorest countries. IDA lends money (credits) on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-year grace period. Countries are eligible for IDA support if their per capita Gross National Income does not exceed US\$ 1,135 (year 2010). At this moment 79 countries are classed as IDA countries.

²¹Email communication from the Export Credits Secretariat of the OECD to the authors, 19 February 2010.

region	CDR ²² (millions)
Asia	1,091.11
Africa	3,451.92
Americas	241.07
Europe	59.76
Pacific	12.75
World Wide Total	4,856.61

Figure 2.1 Value of ECA supported medium- and long-term transactions from OECD countries to IDA-only countries from 2001-2007, Source: Review of the Official Export Credit Commitments to IDA-Only Countries (2001-2007), p.3; <http://www.oecd.org/dataoecd/42/59/36945707.pdf>

2.2

THE SOCIAL AND ENVIRONMENTAL POLICIES OF ECAS

Many ECAs started operating in the first half of the last century but it was not until 1998 that the OECD-ECG issued its first declaration on environmental policy.²³ This statement acknowledged the desirability to strengthen environmental considerations in the risk assessment practices of ECAs. This led to, what became known as, the Common Approaches on Environment and Officially Supported Export Credits being officially adopted by the OECD Council in December 2003. These have since been updated and revised twice, in 2005 and 2007.²⁴ These Common Approaches are voluntary guidelines that are intended to be implemented at the national level.

A key feature of the Common Approaches is that all applications for officially supported export credits for projects with a repayment term of two years or more should be screened for potentially adverse environmental impacts. The parties involved in the project - such as the applicants and project sponsors - should provide all the relevant information needed to

carry out the screening. This applies to all projects in sensitive areas and all ECA supported projects with a value of more than SDR²¹ 10 million. The Common Approaches set three categories of projects, according to their potential environmental impact:

- Category A: projects with the potential to have significant adverse environmental impacts. These impacts may affect an area broader than the immediate site or facilities subject to physical works. Projects in sensitive sectors or located in or near sensitive areas should be included (an illustrative list is included in Annex 1 of the Common Approaches).
- Category B: projects with potentially less adverse environmental impacts than Category A projects, mostly site-specific and less irreversible.
- Category C: projects likely to have minimal or no adverse environmental impacts.

Category A projects require a full Environmental Impact Assessment (EIA), while Category B projects only require an environmental review. Category C projects require no further action. In performing environmental reviews ECAs are required to benchmark projects against the standards of the host country as well as relevant standards

of other multilateral agencies (e.g. the World Bank). ECAs are themselves responsible for ensuring that the projects that they support comply with these conditions and are required to make an annual report to the ECG on their implementation of the Common Approaches. ■

2.3

ECAS AND CLIMATE CHANGE

While the EU and its Member States have committed themselves to reducing GHG emissions and emphasise the importance of reducing the rate of growth of emissions in developing countries, their finance and trade agencies currently pay little attention to the climate implications of their activities. The topics of climate change or CO₂ emissions of projects are, as yet, not mentioned in the Common Approaches. Moreover the environmental and social policies of the European ECAs do not yet contain climate or emission reduction targets.

First steps towards climate policies made in the USA

The first ECA with some form of climate change policy is the Export-Import Bank of the United States (*US Ex-Im Bank*) which adopted a Carbon Policy in early November 2009.²⁵ This policy contains three elements:

- Financing incentives for very low to zero CO₂-emitting renewable energy exports
- CO₂-reduction through energy efficiency exports and other measures
- Transparency in the tracking and reporting of CO₂ emissions.

While welcoming this first step, a number of US environmental organisations have expressed disappointment that this carbon policy does not contain a provision to phase out fossil fuel-related transactions.²⁶

Though strictly speaking not an ECA, the Overseas Private Investment Corporation (OPIC) of the US Government has proposed a draft environmental and social policy statement²⁷ that contains much stronger commitments, including efforts to phase out support for fossil fuel-related activities. It aims for a 30-50% reduction of greenhouse gas emissions associated with projects in its active portfolio within the next 15 years. To achieve this it will introduce baseline accounting, an annual transactional emissions cap, annual reporting and accounting and energy efficiency requirements. In the 2010 Foreign Operations Spending Bill²⁸ OPIC is legally required, for the first time, to make this commitment operational.

Initial policy guidance for ECAs to integrate climate change considerations within their policies is currently being negotiated under the Arrangement on Officially Supported Export Credits. One, often referred to, precedent in this regard is the Sector Understanding on Renewable Energy and Water Sector Projects, adopted in 2006 and revised and further extended in June 2009.²⁹ This Sector Understanding includes favourable terms for renewable energies. It currently allows for repayment periods for renewable energy and water projects of up to 18 years, compared to regular projects which are only allowed repayment terms for a period of 12 years.

The draft Revised Sector Understanding on Export Credits for Climate Change and Water Projects has recently been formulated. This draft is also intended to ensure favourable terms for projects in specific sectors. It is very likely that this new Sector Understanding is intended to replace the current version for renewable energy and water projects as it also covers projects in the renewable energy and water sectors, and adds a climate change sector. Conditions that, according to the draft text, should apply to projects in the climate sector are:

- 1) The project should result in low to zero carbon emissions, or CO₂ equivalent,³³ and/or in high energy efficiency.
- 2) The project is expected to meet, as a minimum, internationally recognised technical and/or performance standards (whenever available) that are measurable, reportable and verifiable.

²²The OECD statistics on export credit usually are administered in Special Drawing Rights (SDRs). SDRs are international reserve assets created by the international Monetary Fund to supplement other reserve assets that are periodically allocated to IMF members in proportion to their respective quotas. The IMF determines the value of SDRs on a daily basis by adding the values of a weighted basket of currencies (in US\$). The weight and baskets are subject to revision from time to time. SDRs can be used to acquire other member's currencies (foreign exchange), to settle financial obligations and to extend loans.

²³The Statement of Intent on Officially Supported Export Credits and the Environment.
See http://www.oecd.org/document/15/0,2340,en_2649_34181_1888847_1_1_1_1,00.html

²⁴The 2007 Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits can be found at <http://webdomino1.oecd.org/olis/2007doc.nsf/Linkto/tad-ecg%282007%299>

²⁵See http://www.exim.gov/products/policies/environment/carbon_policy.pdf

²⁶Letter dated November 2, 2009 to the Board Directors of US Ex-Im bank from the Center for International Environmental Law, Friends of the Earth, Greenpeace, OilChange and Pacific Environment.

²⁷See http://www.opic.gov/sites/default/files/docs/enviro_social_policy_statement_01_13_10_1.pdf

²⁸p. 250,251, http://docs.house.gov/rules/omni2010/hr3288cr_divf_txt.pdf

²⁹This Sector Understanding is integrated as Annex IV in the text of the Arrangement, and separately published at <http://webdomino1.oecd.org/olis/2009doc.nsf/Linkto/tad-pg%282009%2918>

³⁰See the table at the OECD website showing the number and value of renewable energy and water projects notified under Annex IV of the Arrangement on Officially Supported Export Credits for the period July 2005 to June 2008, <http://www.oecd.org/dataoecd/13/20/39863611.pdf>

³¹Worth approximately €1,791 million at the time of writing (March 2010).

(Note 32 - 33, see page 11)

3) The terms and conditions provided shall be extended only to address financial barriers and shall be based on the individual financial needs and specific market conditions of each project.

The type of projects that would be eligible under the climate change sector is still unclear and remains the subject of negotiation, but it is quite possible it will include technologies such as Carbon Capture and Storage (CCS). This implies that the Sector Understanding may give favourable support to expensive technologies which facilitate a continued use of fossil fuels and combine this with end-of-the-pipe emission reduction efforts.

At the same time it seems unlikely that the current negotiations will lead to serious commitments for emission reductions in project portfolios through reducing fossil fuel consumption or advancing energy conservation efforts. Data from the OECD (see diagram below)³⁴ show that, over recent years, a significant proportion of the long term official export credit flows have gone to the transport and industry sectors, followed by energy projects, all major export sectors for OECD countries.

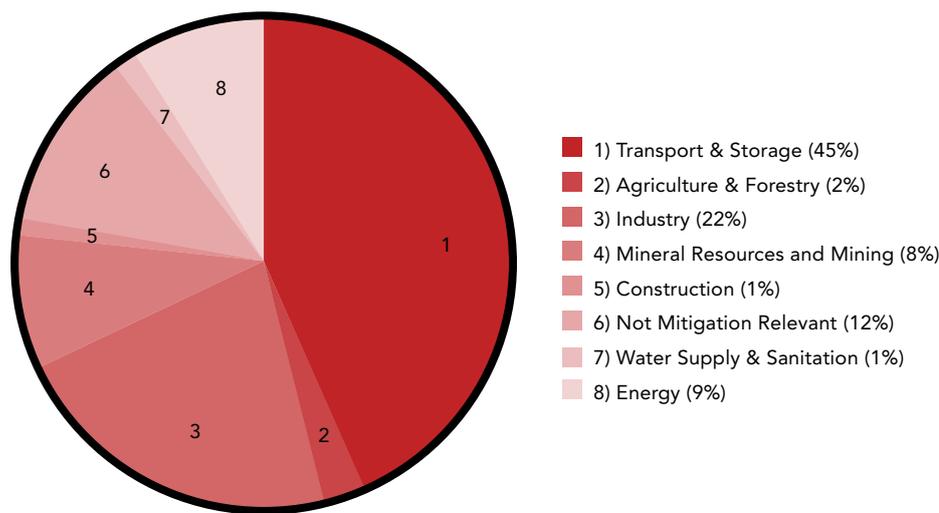


Figure 2.2 Official Long Term Export Credits by Sector (2002-2008) 31.2 billion USD/year (average), Source: Financing Climate Change Action, Supporting Technology Transfer and Development, OECD, 2009, p. 5.; <http://www.oecd.org/dataoecd/60/1/44080723.pdf>

The impact of the Sector Understanding on Renewable Energy and Water Sector Projects

Information from the OECD³⁰ shows that, between July 2005 and December 2008, a total of 27 projects qualifying under this Sector Understanding have been notified by ECAs. Of these 10 projects resulted in committed business, 14 projects are still pending and 3 have been cancelled or expired. The combined value of the committed and pending projects is reported to be SDR 1,591 million.³¹

About two thirds of this sum has been earmarked for hydro-power activities. The inclusion of large hydropower projects in the Sector Understanding is a contested issue, given that large dams have been shown to often have severe social and environmental impacts and research has shown that they can directly contribute to climate change via the release of the greenhouse gas methane from reservoirs.³²

The total number and volume of the projects benefiting from this Sector Understanding is only a tiny fraction of the total portfolio of ECAs. While the Understanding has supported a small number of beneficial projects, the impact of the Sector Understanding in terms of enhancing the sustainability of the overall portfolio of ECAs appears to be very limited.

In contrast the proportion of low-carbon export projects accounts for a very small share of official export credits. For example, renewable energies account for USD 0.5 billion, less than 2% of the amount of USD 31.2 billion.

These figures illustrate that only 12% of the current portfolios of ECA-supported long term transactions are without serious climate impacts, while 88% of all the transactions supported in the period of 2002 - 2008 are likely to contribute to additional greenhouse gas emissions. The draft Revised Sector Understanding on Export Credits for Climate Change and Water Projects may contribute to an increase in transactions that are neutral in terms of greenhouse gas emissions. But as with its predecessor, it is unlikely that it will have any effect in reducing the GHG emissions of the large majority of 'business as usual' projects in the portfolios of ECAs. For this to happen different policies need to be put in place that include proposals to quantify - and reduce over time - the greenhouse gas emissions that emerge from all transactions receiving ECA support. The feasibility of such policies is demonstrated by the example set by OPIC in the USA. ■

3

ASSESSING ECA PORTFOLIOS FROM A CLIMATE PERSPECTIVE

³²<http://www.internationalrivers.org/node/1398>

³³Greenhouse gases are defined as including carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

³⁴Financing Climate Change Action, Supporting Technology Transfer and Development, OECD, 2009, p. 5; <http://www.oecd.org/dataoecd/60/1/44080723.pdf>

3.1

ECAS: MAJOR FINANCIERS OF TRADE AND INVESTMENTS

Collectively ECAs provide the largest source of public financial support for foreign corporate involvement in trade and investments in the developing world. A significant portion of ECA project financing in developing countries is concentrated in sectors

that have significant implications for the ways these countries deal with climate change, both in terms of mitigation - reductions of greenhouse gas emissions - and adaptation to the impacts of climate change. The largest share of ECA support is provided for transactions in sectors such as transportation, energy, infrastructure, mining or industries.

ECA financing in climate-relevant sectors

OIL, GAS AND MINING

ECAs are estimated to provide twice as much financial support for oil, gas and mining projects as all the Multilateral Development Banks, such as the World Bank Group. Half of all new greenhouse gas-emitting industrial projects in developing and emerging countries have some form of ECA support. One of the largest oil and gas projects in sub-Saharan Africa that is backed by ECAs is the NLNG+ liquefied natural gas project in Nigeria. The Baku-T'bilisi-Ceyhan (BTC) oil pipeline from Azerbaijan to Turkey is another, controversial, major ECA-backed project. The most recent latest multibillion dollar project of concern is the Papua New Guinea LNG project which is supported by at least five ECAs (including those from Japan, China, Italy, Australia and the USA).

LARGE-SCALE INFRASTRUCTURE

ECAs are also the world's largest public financiers of large infrastructure projects in developing countries. Most large dams in poor countries would never get off the ground without the support of ECAs. Examples of ECA financing of controversial large dams includes the Bujagali Dam (Uganda) and the Three Gorges Dam (China). The most recent controversial case was the Ilisu dam in Turkey. Three ECAs were initially supporting the construction of this dam, but they withdrew from the project in 2009 for a lack of compliance to agreed standards, including those relating to the social and environmental impacts of the project.

AIRCRAFT

ECAs allocate about a third of their long-term financing to aircraft sales, the largest single industrial sector in their portfolios. These aircraft are a major source of greenhouse gases. Unless the boom in cheap flights and inexpensive financing for aircraft purchases comes to an end, many countries will find it hard to meet their targets for reducing (CO₂) emissions.

Source: <http://www.eca-watch.org>

The following section analyses the portfolios of three ECAs to obtain an indication of how they take climate considerations into account in their operations. The analysis of Atradius DSB was done specifically for this study, while the texts on Hermes and COFACE are drawn from earlier studies by European NGO partners.³⁵

ECAs are very reluctant to disclose information about their activities and even more hesitant to disclose detailed information on individual projects. They argue that such disclosure infringes on the need for commercial confidentiality. In this respect ECAs are much more restrictive than other public, government supported, financial institutions. ■

3.2

THE DUTCH ECA: ATRADIUS DSB

The Dutch ECA - Atradius Dutch State Business (Atradius DSB) - is an export credit insurance agency operating on behalf of the Dutch government, providing insurance and investment guarantees to Dutch companies doing business abroad.

Atradius DSB screens all applications for support - i.e. both short-term/cash and medium/long-term deals - for their potential social and environmental impacts. It also looks at the production chain involved in the transaction. It largely follows the OECD Common Approaches, classifying applications for transactions of more than €10 million as Category A, B, C or M projects. Atradius DSB requires an environmental impact assessment (EIA) for Category A projects. For Category B projects applicants have to submit an environmental impact statement

which provides a description of the most significant environmental impacts of the transaction, as well as an overview of the measures taken to contain these. In the case of Category C projects only the standardised questions in the application form need to be answered. Class M projects require a minimal assessment.³⁶

In two situations applications are exempted from social and environmental screening:

- Projects that are partly financed by a grant from the ODA budget of the Dutch Government (under the ORIO programme for infrastructure development);³⁷
- Projects related to the defence and aviation sectors.³⁸

Since July 2002, Atradius DSB has published a list of all the transactions³⁹ for which it has issued an insurance policy. In this list succinct information on the various transactions is provided, such as a title of the transaction, country, exporting company, environmental classification and information about the amount insured. Based on these data, the table below provides an overview of the number of projects that obtained a classification for their social and environmental impacts.

These data give an indication of how Atradius DSB views the potential environmental impacts of its own transactions. However they do not give very much insight into their eventual climate related impacts, as such dimensions are not explicitly included in the screening process. The very brief descriptions – generally just one sentence - of individual transactions make it difficult to classify them according to sector. This means that there is insufficient information to carry out any analysis of the potential climate impacts of the transactions supported by the Dutch ECA. At present Atradius DSB does not have a specific climate policy. The Ministry of Finance – responsible for policy development at Atradius DSB – is not planning any initiatives before an international approach has been negotiated at the OECD ECG.

Some additional insights into the sectors served by the Dutch ECA can be obtained from an external evaluation study conducted on behalf of the Ministry of Finance. In the period 2003-2007 a total number of 310 export transactions were covered for a total insured value of €6.74 billion.

YEAR	NUMBER OF CATEGORY A PROJECTS	NUMBER OF CATEGORY B PROJECTS	NUMBER OF CATEGORY C PROJECTS
2002	0	0	0
2003	4	3	2
2004	3	1	1
2005	8	5	4
2006	1	6	12
2007	3	9	14
2008	4	5	16
2009	6	7	6

Figure 3.1 Number of category A,B,C projects of Atradius Dutch State Business since July 2002, Source: <http://www.atradius.com/nl/dutchstatebusiness/overheid/afgegevenpolissen/>

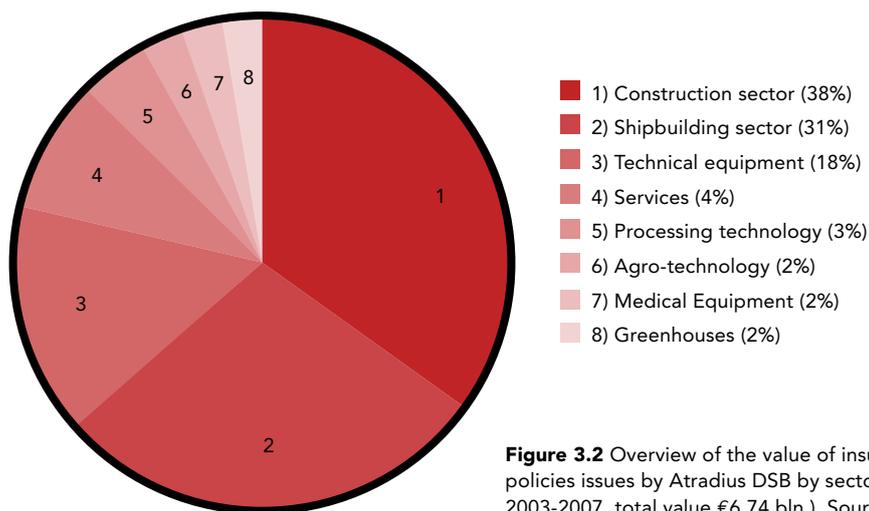


Figure 3.2 Overview of the value of insurance policies issues by Atradius DSB by sector (period 2003-2007, total value €6.74 bln.), Source: Beleidsdoorlichting exportkredietverzekering en investeringsgaranties, Period 2003-2007, Carnegie Consult, 2008, p. 9.; <http://www.minfin.nl/dsresource?objectid=69821&type=org>

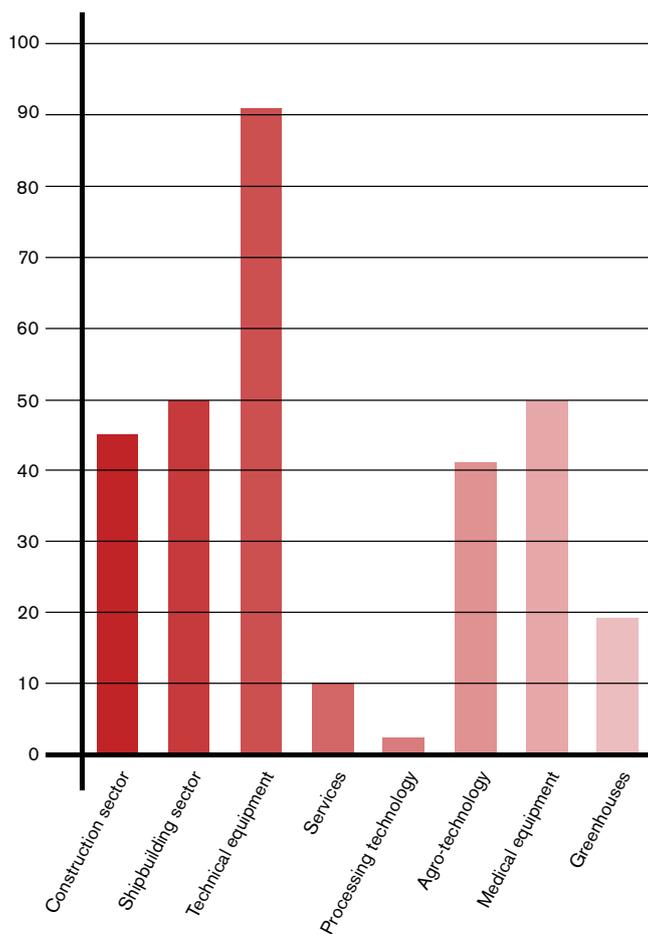


Figure 3.3 Overview of number of transaction supported by Atradius DSB by sector (2003-2007), Source: Beleidsdoorlichting exportkredietverzekering en investeringsgaranties, Period 2003-2007, Carnegie Consult, 2008, p. 9.; <http://www.minfin.nl/dsresource?objectid=69821&type=org>

³⁵Bankrolling Climate Change: Why it is time to end Hermes Flights of Fancy, Briefing note June 2008, Urgewald, Germany; FERN, Belgium http://www.fern.org/sites/fern.org/files/media/documents/document_4159_4163.pdf; 2001-2008: qui bénéficie des garanties COFACE ? Octobre 2009, Les Amis de la Terre, France.

³⁶The 'M' categorization was only introduced in 2009 and is applied "in cases concerning goods or services supplied to an existing operation without any significant changes, or applications for refinancing and confirmation of letters of credit. In this last case, the project work is in progress or has been completed. The marginal review assesses whether the work has been carried out in accordance with the agreed arrangements (e.g. environmental and social management plan and/or licenses) and examines the client's reputation in regard to environmental and social aspects". Corporate Social Responsibility. Atradius DSB. Available at: www.atradiusdutchstatebusiness.nl/.../MVO%20Broch%20Engels_tcm1009-132870.pdf

³⁷In ORIO projects, the environmental impact assessment is undertaken by the NL Agency (Export Promotion and Information Service), an organisation within the Dutch Ministry of Economic Affairs. http://www.evd.nl/business/programmes/programmaint_ori.asp?land=ori

³⁸Atradius' transactions related to the defence and aviation sectors are not subject to environmental and social impact assessment. This has been stipulated by the Arrangement on the Officially Supported Export Credits. Available at: http://www.oecd.org/document/42/0,3343,en_2649_34171_40898090_1_1_1_37431,00.html

³⁹Overviews of insured transactions for the period of 2002-2009 are available at: <http://www.atradius.com/nl/dutchstatebusiness/overheid/afgeevenpolissen/>

In terms of the value of the transactions, the largest three sectors are construction, shipbuilding and technical equipment. These are also the most important sectors in terms of the number of transactions. While the value of the transactions in the agro-technology or medical equipment sectors is much smaller than the value of the transactions in construction and shipbuilding, the number of transactions in these sectors is quite similar.

Unfortunately it is not easy to get a good grasp of the kind of transactions that fit under the various sectors distinguished here. For example, the difference between 'technical equipment' and 'processing technology' is not clarified. Dredging and other water works are put together with other infrastructural works under the 'construction sector'. It is also not explained why building 'greenhouses' is separated from the more general category of 'agro-technology'. Different categories are used than those normally used in OECD reports. Due to this lack of clarity it is also hard to identify the sectors in which the Dutch ECA might consider prioritising efforts to reduce emissions of greenhouse gases. A comparison of the data presented in the evaluation study and the rather general information on the transactions published by Atradius DSB can provide only little more insight.⁴⁰ For a sound analysis more detailed information is definitely required.

Ship building sector

Around 50 transactions in the shipbuilding sector⁴¹ were supported by Atradius DSB in the period between 2003-2007, with a total value of more than €2 billion. These included the supply of tug boats, lift vessels, navy vessels and cutter dredgers.

The shipping sector substantially contributes to the global emissions of greenhouse gases. According to the International Maritime Organisation (IMO), international and domestic shipping contribute about 3.3% of total global CO₂ emissions.⁴² The IMO assessment asserted that emissions from ships were much higher than previously thought. It further foresees that the growth of maritime trade may lead to a 30% rise of CO₂ emissions from this sector by 2020.⁴³ According to Alice Bows, a researcher at the Tyndall Centre for Climate Change, "The proportion of (greenhouse gas) emissions from international shipping continues to receive scant regard within government. Shipping has been missed off the climate change agenda".⁴⁴

As discussed above, Atradius DSB does environmentally and socially screen all the applications it receives. As with the Common Approaches of the OECD, this review does not provide explicit information about potential climate change and these impacts are not mentioned in the overview of what is covered by the project/transaction review.⁴⁵ Equally, after a project/transaction has been approved, Atradius DSB does not monitor compliance with the findings and recommendations of the environmental review. Hence it does not have empirical knowledge, based on monitoring, about what actually happens on the ground with the support it provides. In the absence of such knowledge, it is also difficult to build up insights about the climate change dimensions of projects, in terms of both mitigation and adaptation to climate change. While there is a growing body of scientific evidence that the economic risks posed by climate change are steadily increasing, there is no evidence that Atradius DSB has integrated the assessment of these risks into its business cycle. ■

Rourkela Steel Plant (RSP), Orissa, India

RSP is one of the flagship steel plants of the Steel Authority of India Limited (SAIL), located in the Indian state of Orissa. It currently has the capacity to produce 1.9 MT of steel annually - but plans to modernise and more than double its capacity to 4.2 MT. The plans involve modifying the existing units as well as building new ones. To that purpose SAIL obtained new loans worth more than Rs. 75 billion (more than €1 billion) in 2008-09. Various services, including the installation of mechanical components for a new blast furnace, project management and training are being supplied by a Dutch company, Danieli Corus BV. Atradius DSB has provided an export credit insurance to Danieli Corus BV to cover just over €62.5 million through a guarantee with the State Bank of India.⁴⁶

The modernisation and expansion of the plant will enable some technological changes, which the company claims will reduce the CO₂ emissions per tonne of crude steel production. However, given the expansion of operating scale the actual pollution load and greenhouse gas emissions will both increase. RSP admits to increased emissions of about 2.5 tonnes/hr of major pollutants such as Suspended Particulate Matter (SPM), Sulphur Oxides (SO_x) and Nitrogen Oxides (NO_x). Taking a, relatively low, average emission of 1.7 tonnes of CO₂ per tonne of crude steel,⁴⁷ the likely carbon emission of the expanded plant is estimated to be around 7.14 MT CO₂ per annum.

As part of the modernisation and expansion of the plant, RSP is installing a Linz-Donawitz gas⁴⁸ recovery system. This gas is said to replace an equivalent of fossil fuel used for power generation, thus aiming to reduce CO₂ emissions by 0.8% (8,536 tonnes per annum). This saving has allowed the project to be registered as a 'Clean Development Project' under the Clean Development Mechanism (CDM) of the Kyoto Protocol. However, the project has yet to deliver any Certified Emission Reductions (CERs).⁴⁹

These calculations only cover the plant itself. The actual carbon footprint of the steel production in Rourkela should also include the emissions from the mining of the iron ore, its processing and transportation, and the disposal of hazardous waste (incineration, landfill, etc.). A proportion of the methane emissions from the Mandira Dam, which provides water for RSP, should also be included.

The Orissa State Pollution Control Board has classified the RSP as one of the state's 18 "Grossly Polluting Industries" based on its water pollution record.⁵⁰ RSP has a long history of polluting the two rivers⁵¹ that flow in the vicinity of the plant- the Koel and the Brahmini. The steel plant was recently admonished by the Supreme Court which ordered the initiation of criminal proceedings against the RSP officials responsible for increased pollution of these two rivers. RSP's record with workers safety is also a matter of concern, just in the first two months of 2010 there have been two major accidents.⁵²

Source: Environics Trust (2010), Rourkela Steel Plant (RSP): Social and ecological insensitivity continues, soon at India, <http://www.environicsindia.in/>

⁴⁰ Beleidsdoorlichting exportkredietverzekering en investeringsgaranties. Periode 2003-2007. Carnegie Consult. 2008; <http://www.minfin.nl/dsresource?objectId=69821&type=org>, and the Overview transactions supported by Atradius DSB, available at: <http://www.atradius.com/nl/dutchstatebusiness/overheid/afgegevenpolissen/>

⁴¹ Due to lack of detailed information around the classification of transactions by sector, the number of transactions in the shipping sector is an estimate. For this analysis we have mainly considered the transactions related to the following companies: BV Scheepwerf Damen, Schelde Marine Bouw BV and Thales Nederland BV.

⁴² Prevention of Air Pollution from Ships, Second IMO GHG Study 2009, IMO, p. 181; http://www.imo.org/includes/blastDataOnly.asp/data_id%3D26047/INF-10.pdf

⁴³ True scale of CO₂ emissions from shipping revealed. The Guardian. Available at: <http://www.guardian.co.uk/environment/2008/feb/13/climatechange.pollution> Website visited on: October, 29 2009.

⁴⁴ CO₂ output from shipping twice as much as airlines. The Guardian. Available at: <http://www.guardian.co.uk/environment/2007/mar/03/travelsenvironmentalimpact>. Website visited on: October 29, 2009.

⁴⁵ Corporate Social Responsibility brochure Atradius DSB, p. 9; <http://www.atradiusdutchstatebusiness.nl/dsben/publications/brochures/index.html>

⁴⁶ Overview of 2009 policies issued by Atradius DSB, p.3 http://www.atradiusdutchstatebusiness.nl/Images/EKVpolissen%202009_tcm1008-130100.pdf

⁴⁷ Average emissions from modern steel production plants seem to be a bit less than 2 tons CO₂ per ton crude steel; <http://www.jfe-holdings.co.jp/en/investor/business-report/2009/pdf/31-32.pdf>; http://www.koreaherald.co.kr/NEWKHSITE/data/html_dir/2010/02/04/201002040062.asp

⁴⁸ Gas generated during the process of steel making (basic oxygen furnace or BOF) containing oxides or carbon and nitrogen.

(Note 49 - 52, see page 17)

3.3

THE GERMAN ECA: HERMES

The government of Germany provides export credit support via Euler Hermes AG, generally referred to as Hermes. In 2006, it handed out export credit guarantees worth a total liability of €20.3 billion, making Germany the world's second largest export credit guarantor. Export credit guarantees covered 2.3 % of Germany's total export value of €893.6 billion. Industrialised nations received about 11.3 % of Hermes credits, worth €2.3 billion. Central and Eastern European countries received 16.8 % of Hermes guarantees, worth €3.4 billion. As in previous years, the largest amount of guarantees - 71.9 %, worth €14.6 billion - went to developing and emerging market countries. Thus the amount of export guarantees that Germany provided to developing countries in 2006 was nearly double the amount of Official Development Assistance (ODA) payments in the same year (worth €8.3 billion in 2006).⁵³

Under German guidelines for export credit guarantees, investments are assessed for their environmental, social and development impacts. Yet Hermes' guidelines exclude transport-related export projects (such as exports of aircraft, ships and trucks) from such screening. This exclusion is based on Hermes's assertion that the environmental impacts of such projects are sufficiently well known and need no further scrutiny.

Analysis based on publicly available data for 586 projects for the period of October 2001 to June 2007, shows that ten companies account for almost three quarters of all Hermes-backed projects.⁵⁴ These include energy and transport companies, a steel giant and plant construction companies (for the cement, minerals

and paper industries). The top three recipients of Hermes guarantees are Aircraft builder Airbus, a daughter company of the European Aeronautic Defence and Space Company (EADS); the multinational Siemens, and Holding SMS, a machinery and plant construction group. The biggest beneficiary by far is Airbus whose 189 export guarantees account for almost a third of all projects backed. The Meyer Werft shipyard is also in the top ten of Hermes beneficiaries.

Transport-related export projects make up a substantial part of the portfolio of transactions supported by Hermes. The transport sector is responsible for substantial amounts of greenhouse gas emissions, and over the last decade these increased at a faster rate than any other energy using sector.⁵⁵ This makes Hermes' exclusion of the transport sector from environmental screening highly questionable, especially in the emerging debate over the need to curtail GHG emissions. More transparency on the overall portfolio of Hermes is necessary to allow for a detailed analysis of the greenhouse gas emissions supported by Hermes' guarantees. Such an analysis is urgently required if the German government is to start harmonising its export credit financing policies with its climate protection objectives. ■

3.4

THE FRENCH ECA: COFACE

Created by the State in 1946 and subsequently privatised in 1994, the French ECA Coface (Compagnie Française d'Assurance pour le Commerce Extérieur - French Insurance Company for Foreign Trade) is now owned by the investment

bank Natixis. The total volume of the guarantees granted by Coface between 2001 and 2008 amounted to €25.8 billion, representing an annual average of €3.2 billion.

Projects with a value of less than €10 million are not made public, making it impossible to undertake an exhaustive analysis of Coface's portfolio of transactions. Coface also does not publish any data on "military affairs", even though, in some years, they amount to 50% of the total portfolio of supported transactions. Furthermore Coface does not disclose the environmental assessments that it makes on guarantee requests.

A study by Les Amis de la Terre in October 2009⁵⁶ shows that in the period 2001-2008 Coface guarantees amounted to a total of €25,833 million, concentrated in the 5 following sectors:

- Aviation: €10,026 million. Mostly contracts for Airbus, but also a few contracts relating to airports.
- Transport (excluding aviation): €7,097 million. Mostly contracts for transport equipment, infrastructure (especially rail and subway), and 10 large contracts for cruise ships;
- Energy (generation and transmission): €4,347 million. Involves contracts for power plants (including nuclear), pipelines, electricity transmission, and some large dams;
- Telecommunications: €2,268 million. Includes contracts for telecommunications equipment, installation or extension of GSM-networks;
- Industry: €1,485 million. Contracts for factories producing aluminium steel, ethylene and plastics.
- Miscellaneous: €610 million.

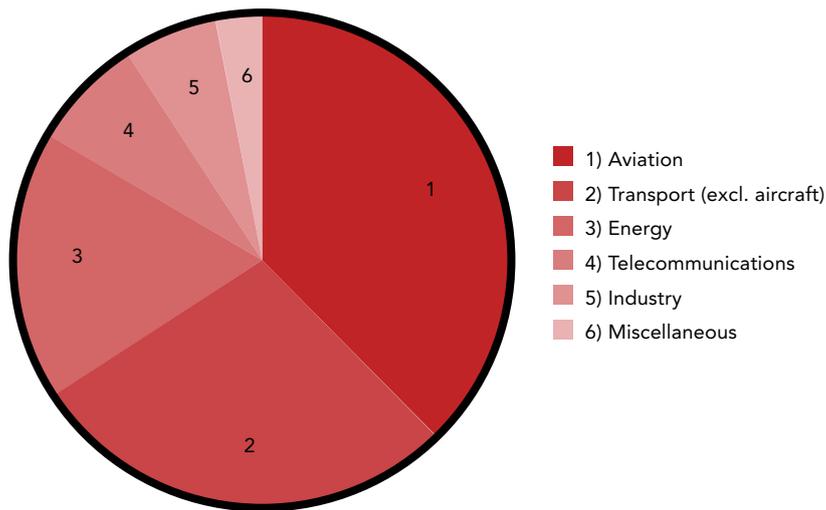


Figure 3.4 Volume guarantees COFACE by sector (period 2001-2008), Source: qui bénéficie des garanties COFACE?, Les Amis de la Terre, Paris, France, Octobre 2009

In response to the OECD's Common Approaches, Coface has developed sectoral guidelines for thermal power plants; coal, gas and oil projects (covering extraction, transport, refineries, petro-chemicals and storage), large dams and construction projects. The guidelines for the construction sector were established in December 2006: those for the other sectors in January 2004. They have not been revised since, and no new guidelines have been added for climate sensitive sectors such as transport, industry or electricity transmission systems. Climate change is sometimes taken into account but in a piecemeal and haphazard fashion.⁵⁷ Like Atradius DSB and Hermes, Coface has not introduced a carbon accounting system for the guarantees it issues.

Airbus is by far the greatest beneficiary of Coface. In the period 2001-2008 it received guarantees for €9,531 million, 36.9% of the total volume of Coface's transactions. It is followed by Chantier de l'Atlantique - a shipbuilding company - that obtained guarantees worth €4,407 (17.1% of the total volume), and Alstom - a energy and transport company - with €1,915 worth of guarantees (7.4%).⁵⁸

A large majority of the transactions supported by Coface does not undergo any kind of environmental analysis: between 2001 and 2008, 58.6% of the total value of Coface's projects (and 62.8% of the total number of projects) did not receive a classification under the Common Approaches. This figure excludes military transactions - which are exempted from review under the Common Approaches. ■

⁴⁹See: CDM pipeline of UNEP Risoe Centre, dd: 01-02-2010, <http://cdmpipeline.org/publications/CDMpipeline.xls>

⁵⁰<http://orissapcb.nic.in/industrystat.asp>

⁵¹SC raps for pollution, Express News Service, 24 December 2009

⁵²<http://www.deccanchronicle.com/latest-news/6-injured-blast-orissa-steel-plant-272>

⁵³Data taken from Briefing Note by Urgewald and FERN, Bankrolling Climate Change: Why it is time to end Hermes' Flights of Fancy, June 2008, p.3; http://www.fern.org/sites/fern.org/files/media/documents/document_4159_4163.pdf

⁵⁴Ibid, p. 3,4.

⁵⁵On emissions of the transport sector see e.g.: Tyndall Centre September 2005: Decarbonising the UK, http://www.tyndall.ac.uk/media/news/tyndall_decarbonising_the_uk.pdf, and IPCC's Working Group III assessment report 'Mitigation of Climate Change', 2007, chapter 5. <http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter5.pdf>

⁵⁶2001-2008 : qui bénéficie des garanties COFACE ?, Les Amis de la Terre, Paris, France, Octobre 2009, p.15.

⁵⁷Ibid, p.25

⁵⁸Ibid, p. 23

4

THE EUROPEAN INVESTMENT BANK (EIB) AND CLIMATE CHANGE

The European Investment Bank (EIB) is one of the largest financial institutions in the world. In 2008 alone, the EIB approved loans totalling €59.3 billion, more than twice as much as the World Bank which lent a total of €24.7 billion.⁵⁹ Since the 1960s, the EIB has increasingly been providing loans to developing countries and it plans to further increase its portfolio in those countries. It is therefore important to ensure that capital flows from the EIB are responsibly managed from the perspective of climate change.

The EIB was created by the Treaty of Rome in 1958, as the long-term lending bank of the EU. Its shareholders are the 27 EU Member States. The EIB raises funds on capital markets, which, according to its mission, it lends to projects that further EU policy objectives. The EIB is subject to European law and is legally bound to act within the limits of the EC Treaty and the EIB Statute. ■

partner countries, €0.8 billion to African, Caribbean and Pacific (ACP) countries and Southern Africa, and €0.5 billion to Asian and Latin American (ALA) countries.⁶¹

Cooperation between the EU and ACP is currently based on the Cotonou Agreement, which covers the period 2000-2020.⁶² Funding under this agreement is provided from EU Member States' budgets and is disbursed according to financial protocols defined for successive five-to-six-year periods. Under the protocol covering the period 2008-2013, referred to as the 10th European Development Fund (EDF), the EIB is entrusted with managing the ACP Investment Facility, a €3.1 billion fund geared towards fostering private sector investment in ACP countries, and grants worth €0.4 million which can be partly used to fund project-related technical assistance⁶³. In addition, the EIB can lend up to a further €2 million from its own resources.

In ACP countries, the EIB concentrates its efforts on fostering private sector-led initiatives that promote economic growth and have a positive impact on the wider community and region.⁶⁴ The EIB also supports public sector projects, typically infrastructure necessary for private sector development and

creating a competitive business environment. In line with the MDGs, the EIB's aim is to support projects that deliver sustainable economic, social and environmental benefits whilst ensuring strict accountability for public funds. It is important to note that many projects in ACP countries are co-financed by international development finance institutions, bilateral and/or multilateral donors.

EIB lending in Asia and Latin America (ALA) started in 1993 and is governed by mandates from the EU. Under the current mandate (ALA IV), covering the period 2007-2013, the EIB is authorised to lend up to €3.8 billion which is broken down into €2.8 billion for Latin America and €1.0 billion for Asia.⁶⁵ According to this mandate, the EIB is allowed to support viable public and private sector projects in infrastructure, industry, agro-industry, mining and services. Special priority is given to projects contributing to: 1) environmental sustainability (including climate change mitigation) and to the security of the EU energy supply, and 2) the EU presence in the region through foreign direct investment, transfer of technology and know-how.

The legal basis of this external mandate has been contested. Following a case brought forward by the European Parliament,⁶⁶ the European Court of Justice ruled that it should be expanded to also include EU development cooperation besides EU economic, technical and financial cooperation with third countries.⁶⁷ The practical implications of this court ruling are that the EIB is now committed in its external operations

4.1

EIB INVESTMENTS OUTSIDE EUROPE

The EIB is active both inside and outside the EU. Initially, the Bank's activities were primarily targeted towards the integration, balanced development and economic and social cohesion of the EU Member States. Since the 1960s, however, the EIB has increasingly been providing loans to developing countries. Overall, the majority of EIB lending still goes to projects within EU countries (about 90% of the total volume) and approximately 10% is lent to countries outside the EU.⁶⁰ In 2008, it invested €6.1 billion outside of the EU: €1.3 billion went to the Mediterranean

to EU development cooperation objectives. In addition, the European Parliament has obtained a stronger say in the EIB's affairs because its right of co-decision now applies to several EIB procedures.

This court ruling also led to a Memorandum of Understanding (MoU) between the European Commission and the EIB intended to better coordinate the EU's external lending policies.⁶⁸ The objective of this MoU is to make the EIB's lending more consistent with the external policy objectives of the EU through strengthening dialogue between the two institutions and joint planning so as to maximise the synergies between the use of grant and loan resources. ■

4.2

EIB STATEMENT OF ENVIRONMENTAL AND SOCIAL PRINCIPLES AND STANDARDS

The EIB's commitment to furthering EU policy objectives is elaborated at the strategic level in the EIB's Strategy, its Corporate Operational Plan and its Corporate Social Responsibility Statement. Environmental and social aspects are set out in the EIB's Statement of Environmental and Social Principles and Standards (2009) and the EIB's Environmental and Social Practices Handbook. The latter translates the principles and standards laid out in the Statement into operational guidelines for EIB staff.

The EIB started to elaborate its own policies on environmental sustainability around the year 2000, based on EU environmental principles, practices and standards. The first exploratory documents on climate change and

sustainable development were followed by the more substantial EIB Environmental Procedures in 2002 and the EIB Environmental Statement in 2004. The year 2005 provided a turning point in the EIB's approach to environmental sustainability, with the publication of the EIB Group Statement on Corporate Social Responsibility, in which it promised to place corporate responsibility at the heart of its strategy, objectives and policies. With this statement, the EIB aimed at developing a more systematic approach to sustainability issues and this led to the introduction of what are known as the Environmental and Social Safeguards, together with the annual publication of corporate responsibility reports.

The bank's current approach to environmental sustainability is described in "The EIB Statement of Environmental and Social Principles and Standards 2009" (the Statement),⁶⁹ which provides a framework of the rules to be applied by EIB staff in all its operations and a point of reference for all other stakeholders. The section on Principles refers to the centrality of EU environmental law and the European Principles for the Environment (EPE).⁷⁰ The key principles here are the principle of environmental policy integration and of aiming to achieve a high level of environmental protection. In terms of standards, the Statement distinguishes between environmental standards in the EU and candidate countries and those in the 'rest of the world'. For projects in the latter regions, the EIB requires that they comply with national legislation, including international conventions ratified by the host country, as well as EU standards. Where the EU standards are more stringent than national standards the higher EU standards should be applied, but only where this is practical and feasible. The EIB further elaborates on this point:

⁵⁹EIB Group Annual Report 2008, see at <http://www.eib.org/about/publications/annual-report-2008.htm>, and The World Bank Annual Report 2008, see at <http://go.worldbank.org/JP57KOICX0>. In response to the economic crisis, the EIB lending volumes for 2009 and 2010 have been expanded to a record high of around 80 billion to help companies and governments cope with a shortfall in private financing.

⁶⁰EIB Group Annual Report 2008, see at <http://www.eib.org/about/publications/annual-report-2008.htm>

⁶¹The remaining 3.6 billion euros went to the Enlargement Countries (3.4 billion) and Russia & Eastern Neighbours (0.2 billion).

⁶²The Partnership Agreement between the African, Caribbean and Pacific Group of States (ACP), and the European Community and its Members States signed in Cotonou on 23 June 2000, OJ L 317/1, 15 December 2000. The Cotonou Agreement came into force on 1 April 2003, following its ratification by two-thirds of the ACP states, the EC and its (then) 15 Member States. Its first revision, of June 2005, came into force on 1 July 2008. The second revision is planned for 2010.

⁶³Annual Report 2008 EIB Investment Facility ACP-EU Cotonou Partnership, see at <http://www.eib.org/projects/publications/investment-facility-annual-report-2008.htm?lang=-en>

⁶⁴Annual Report 2008 EIB Investment Facility ACP-EU Cotonou Partnership, see at <http://www.eib.org/projects/publications/investment-facility-annual-report-2008.htm?lang=-en>

⁶⁵Council Decision 2006/1016/EC granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community, OJ L414, 30.12.2006. A mid-term review of the external mandate is foreseen for 2010.

⁶⁶ECJ C-155/07, 6.11.2008.

⁶⁷Decision No 633/2009/EC of the European Parliament and of the Council of 13 July 2009 granting a Community guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community, OJ L190, 22.7.2009.

(Note 68 - 70, see page 21)

"The EIB recognises that for a variety of reasons, including institutional capacity, technological capability, availability of investment funds and consumer ability and willingness to pay, for a particular project the immediate achievement of EU requirements may not be practical and in some cases may not be desirable. When the case arises, it is incumbent on the promoter to provide an acceptable justification to the Bank for a deviation from EU standards, within the framework of the environmental and social principles set out in the Statement. In such cases, provision should be made for a phased approach to higher standards."⁷¹

As the conditions for the application of different - i.e. lower - standards than regular EU requirements are not defined, this text leaves ample room for a case-by-case approach to standards, rather than a policy based approach. In addition to derogating from EU standards for reasons of practicality or feasibility, the EIB may also decide to apply different standards in co-financed projects outside the EU. For these projects, it may use the standards of other international financial institutions, "as far as they are equivalent to the requirements of the EIB".⁷²

The EIB claims to only finance projects that are viable and contribute to the objectives of the EU and meet its technical, economic and environmental quality criteria. The EIB project cycle distinguishes between the pre-appraisal, appraisal and monitoring stages in each project. For the appraisal of projects outside the EU, the EIB has developed the Economic and Social Impact Assessment Framework (ESIAF), a methodology for assessing the relevance, quality and value-added of EIB projects. The ESIAF framework is currently in the process of being revised so as to better measure and monitor the development results of EIB operations outside the EU.

In response to criticisms about a lack of transparency and accountability,⁷³ the EIB has recently undertaken several activities to improve its performance in these areas. It has put in place a new complaints mechanism and transparency standards.⁷⁴ The new complaints mechanism provides any member of the public with access to, first, an internal procedure at the EIB Complaints Office and, second, an external recourse to the European Ombudsman. Furthermore, the EIB has started to organise public consultations on selected policies. Transport policy is the first sector policy that will be consulted upon publicly.⁷⁵ ■

4.3

EIB COMMITMENTS ON CLIMATE CHANGE

In the Statement, the EIB declares that it "aims to add value by enhancing the environmental and social sustainability of all the projects that it is financing and all such projects must comply with the environmental and social requirements of the Bank." An important element of added value is the integration of climate change considerations into the bank's lending policies and practices.⁷⁶ In this context, the EIB declares that it "keeps under continuous review and upgrades its approach to climate change to guide its lending and operational practices pertaining to climate change mitigation and adaptation in support of the European Climate Change Programme⁷⁷ and the EU Action Plan on Climate Change and Development."⁷⁸ Furthermore, the EIB explicitly announced in its Corporate Operational Plan for 2009-2011 that long-term financing of investment aimed at combating climate change

is one of its priorities: that it aims to continue integrating climate change considerations across all of its activities and will establish appropriate measures of project effectiveness in this respect and design systems to report on its performance on attaining climate change goals to both the EIB's governing bodies and to civil society.⁷⁹ In its Corporate Operational Plan 2010-2012, the EIB has introduced a climate change performance indicator, which is defined as the share of "projects that specifically contribute to Climate Change mitigation and adaptation." It has been set at 20% of the bank's projects by 2010 and 25% by 2012.⁸⁰

The Statement contains a separate section on climate change (Annex 2), which *inter alia* mentions that the EIB promotes the renewable energy sector, optimises the scope for energy efficiency in all the projects it finances and aligns its operations with other EU climate policy investment priorities (para. 77). It also declares that for carbon-intensive projects, the costs of such emissions will be incorporated into the financial and economic analyses that inform its financing decision (para. 78). For countries outside the EU, the Statement explicitly states that:

"The EIB is committed to supporting environmentally sustainable, clean energy growth paths in countries outside the EU, including the promotion of the transfer and development of clean technologies, as well as the establishment and development of financial mechanisms for cost-effective climate change mitigation, such as the carbon market." (para. 79)

In addition, the EIB states that it is committed to developing its own knowledge and expertise on climate change risk management. Where risks are identified, it requires the project developer to identify and apply adaptation measures to ensure the sustainability of the project (para. 81).

Finally, the EIB has announced that it will work together with a number of other international financial institutions to explore and develop methodologies for measuring and reporting the carbon footprint of projects. The aim of this is to better understand the climate influence of the bank's lending and to inform project choices. The Bank intends to publish the outcome of this work, defining a preferred footprint methodology and identifying appropriate performance indicators, to demonstrate its commitment to the EU's GHG emission reduction targets.

Unfortunately, the Statement does not elaborate how all these good intentions will be realised. Thus far, the EIB's commitment to the EU energy and climate change policies entails the EIB's participation in a number of global carbon funds, including the Multilateral Carbon Credit Fund (MCCF), the Carbon Fund for Europe (CFE), the EIB/KfW Carbon Programme, the Post-2012 Carbon Fund and the Carbon Fund Morocco. These funds mostly focus on developing the carbon market and supporting carbon credit generating projects, to help European countries and companies in the EU ETS (EU Emissions Trading Scheme) to meet their emissions reduction targets under the Kyoto Protocol. Rather than promoting domestic emissions reductions within the EU, these activities primarily stimulate off-set options for these emissions.

Concerning the development of the carbon footprint methodology, the EIB planned to calculate the footprint of 40 to 50 carbon-intensive projects under appraisal in 2009. The results of these calculations have not been published as yet and are due to be reported in the next version of EIB Corporate Responsibility Developments.⁸¹ ■

⁶⁸Memorandum of Understanding between the European Commission and the European Investment Bank in respect of Cooperation and Coordination in the Regions covered by Council Decision 2006/1016/EC, see at <http://www.eib.org/attachments/documents/mou-between-ec-and-eib-council-decision-2006-1016-ec.pdf>

⁶⁹See at http://www.eib.org/attachments/strategies/eib_statement_esps_en.pdf

⁷⁰See at <http://www.eib.org/infocentre/epe>

⁷¹Para. 40, EIB Statement.

⁷²Para. 44, EIB Statement. For co-financing with private banks the Statement makes reference to the Equator Principles, and for co-financing with the World Bank it refers to the safeguard policies of this institution.

⁷³See e.g.: S. Herz (2006). An environmental policy framework for the European Investment Bank for non-EU lending: the need for clear, international standards-based approach. Background paper CEE Bankwatch Network, see at http://www.bankwatch.org/right_to_appeal/background/environmental_policy_framework_herz.pdf

⁷⁴The EIB complaints mechanism, see at <http://www.eib.org/about/publications/complaints-mechanism-policy.htm>, and The EIB transparency policy, see at <http://www.eib.org/about/publications/eib-transparency-policy.htm>, both published at 2 February 2010.

⁷⁵See at <http://www.eib.org/about/news/public-consultation-on-the-eib-transport-policy.htm>

⁷⁶Para. 3, EIB Statement.

⁷⁷The European Climate Change Programme (ECCP) is the Commission's main instrument for discussing and preparing the further development of the EU climate policy. The second phase of the ECCP was launched on 24 October 2005. The ECCP II consists of several working groups, including work on the EU Emissions Trading Scheme (ETS). See at <http://ec.europa.eu/environment/climat/eccp.htm>

⁷⁸GAERC Council Conclusions on the subject of climate change in the context of development cooperation (15164/04), including an Action Plan to accompany the EU Strategy on Climate Change in the Context of Development Cooperation - Action Plan 2004-2008, 11 November 2004. The objective of the Action Plan is to assist EU partner countries in meeting the challenges posed by climate change, in particular by supporting them in the implementation of the UNFCCC and the Kyoto Protocol. The EU Action Plan has four strategic priorities: 1) Raising the policy profile of climate change, 2) Support for adaptation in EU partner countries, 3) Support for mitigation and low greenhouse gas development paths in EU partner countries, 4) Capacity development.

⁷⁹EIB Corporate Operational Plan 2009-2011, see at <http://www.eib.org/about/publications/corporate-operational-plan.htm>

⁸⁰EIB Corporate Operational Plan 2010-2012, see at http://www.eib.org/attachments/strategies/cop_2010_en.pdf

⁸¹EIB Corporate Responsibility Developments in 2008, see at <http://www.eib.org/about/publications/eib-2008-corporate-responsibility-developments.htm>

5

ASSESSING THE EIB'S PORTFOLIO FROM A CLIMATE PERSPECTIVE

For many years, the EIB has been subject to criticism for its poor record in mainstreaming sustainable development and climate change in its lending policies and practices in developing countries.⁸² However, as the previous chapter has shown, the EIB has recently developed, what looks like, a detailed and promising strategy for implementing a sound climate change policy. This raises the question about how these aspirations are being translated into practice and how they relate to what is actually happening on the ground. Is the bank improving its environmental performance or is it still business-as-usual? ■

The EIB is active in various sectors, many of which are relevant to climate change. In November 2009, CEE Bankwatch produced an analysis of the EIB's energy-related lending performance during the period 2002 - 2008 that challenged the bank's green credentials.⁸³ According to this analysis, the EIB provided loans for more than €37 billion for energy projects in this period. Natural gas installations accounted for 40% of this, transmission facilities for 30% and renewables and 'other sources' for 15% each. So, while the bank invested €6 billion in renewable energy generation this was dwarfed by investments in other energy resources. For every euro the bank spent on energy conservation and renewables, it provided three for gas, oil, coal, nuclear or large hydro-electricity projects. This ratio has not changed since the introduction, in 2006, of the EIB renewable energy targets. Moreover the EIB's lending practices were even less sustainable in developing countries than they were in the EU: non-renewable energy sources and large energy transmission systems in developing countries received 94% of energy funds and renewable energy initiatives received a mere 4% (see figure 5.1).

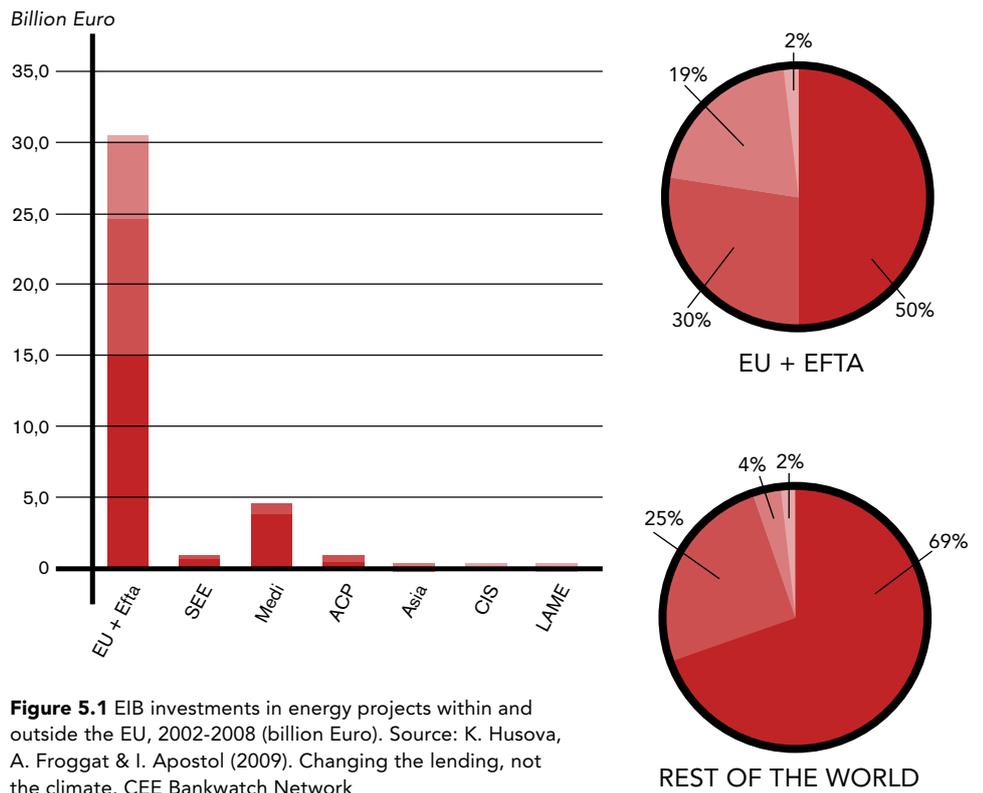


Figure 5.1 EIB investments in energy projects within and outside the EU, 2002-2008 (billion Euro). Source: K. Husova, A. Froggat & I. Apostol (2009). Changing the lending, not the climate. CEE Bankwatch Network

The EIB reacted to the CEE Bankwatch report in a letter in which it stated that its lending in the energy sector has been significantly reoriented and that it has not financed any new projects for producing hydrocarbons since 2007.⁸⁴ According to the EIB's figures, its fossil fuel investments amounted to 11% of its energy related budget in the 2007-2008 period, whereas investments in renewable energy projects amounted to more than 25%.

The EIB includes large hydro power plants in its renewables portfolio and it is involved in the construction of several mega-dams including the Nam Theun-II dam in Laos, the Bujagali dam in Uganda (see the box on Bujagali on p. 24), and potentially the Gibe III dam in Ethiopia (see the box on Gibe III on p. 25). These projects are controversial for a number of reasons including the possibility that climate change may result in droughts leaving the dams useless. Dams are often used in emissions trading, for off-setting greenhouse gas emissions taking place elsewhere. In addition, the reservoirs of large dams contribute substantial quantities of emissions, in particular the powerful greenhouse gas methane.⁸⁵

In its response to CEE Bankwatch, the EIB emphasised that increased energy consumption and availability are necessary conditions for further economic growth and improving livelihoods in developing countries. It also stated that there is a clear trade off between climate change and development and this is a good reason for the EIB being so involved in supporting energy related projects in developing countries. Yet it is also true that a sustainable energy economy in developing countries requires diversification of energy resources. Large-scale energy developments, such as those supported by the EIB, may be good for industrialisation, but do not necessarily meet the various

energy needs of rural economies and local communities. The data of the EIB suggest that it is not yet paying sufficient attention to developing such diversified energy sources in its energy lending portfolio outside the EU.

Focusing on climate change, the EIB had planned in 2009 to focus on identifying renewable energy projects, energy efficiency initiatives or projects involving climate change adaptation measures and projects making use of environmentally friendly energy technologies, such as geothermal, solar, biomass and wind power in ACP countries.⁸⁶ However, a screening of the 29 new projects signed in 2009⁸⁷ between the EIB and ACP countries shows that several of the megaprojects (with total costs above €100 million) will be major contributors to increased GHG emissions. These include the mining of iron, extensions of highways, ports and an airport, and the construction of a cement plant. Middle-sized projects, ranging between €25 and €100 million, vary in their potential GHG emissions. Smaller projects with total costs below €25 million include a wind farm in Vanuatu. The bulk of new projects (17 out of 29) in ACP countries relate to investments in micro-financing institutions and funds for small and medium sized enterprises, for which it is impossible to make an estimation of the climate impacts involved. It is also unclear whether or how the EIB aims to control the climate impacts of these investments.

The picture is partly different for the Asian and Latin American (ALA) countries, where the EIB signed 10 finance contracts in 2009. Several of the large-sized projects concerned are specifically aimed at mitigating climate change, including, for example, the generation of renewable energy and energy efficiency measures. However, at the same time the EIB is also funding the production of Volkswagen cars in India and Argentina, supporting

⁸²See e.g. J. Colajacomo (2007). The European Investment Bank in the South: In whose interest? FOEI, CRBM, CEE Bankwatch & Weed, see at http://bankwatch.org/documents/eib_in_south_3.pdf; Ch. Wright (2007). European Investment Bank: promoting sustainable development, "where appropriate": a survey of the EIB's social guidelines for project financing outside the European Union. CEE Bankwatch Network; P. Gallop (2007). Lost in Transportation: the European Investment Bank's bias towards road and air transport. CEE Bankwatch Network, see at http://bankwatch.org/documents/lost_in_transport.pdf

⁸³K. Husova, A. Froggat & I. Apostol (2009). Changing the lending, not the climate. CEE Bankwatch Network, see at http://bankwatch.org/documents/changing_the_climate.pdf

⁸⁴Response from the EIB (Juan M. Sterlin Balenciaga and Viviana Siclari) to CEE Bankwatch Network and to EIB petition signers, sent via email on December, 2009.

⁸⁵Cf. various articles on this topic, e.g. at <http://www.internationalrivers.org/en/global-warming> and <http://www.brettonwoodsproject.org/art-565938>

⁸⁶Annual Report EIB Investment Facility ACP-EU Cotonou Partnership, see at <http://www.eib.org/projects/publications/investment-facility-annual-report-2008.htm?lang=en>

⁸⁷See database at <http://www.eib.org/projects/loans/index.htm>

a large hydro power project in Panama, and retail stores in Vietnam, which are less desirable projects from a climate change perspective.

Setting aside the climate change issue, a number of large projects supported by the EIB are contested by both Northern and Southern civil society groups as they have, or will have, a detrimental impact on the environment and/or the livelihoods of the local people living in and around the project area.⁸⁸ The Bujagali dam in Uganda, the Gibe III dam project in Ethiopia, the Tenke-Fungurume Mine in the Democratic Republic of Congo and the Veracel pulp mill in Brazil (see boxes on p. 24-26) are several examples of controversial projects. These projects are likely to cause environmental degradation and increase the vulnerability of the local population to climate induced disasters and increased climatic variability

This investigation of EIB's policies and practices reveals that, compared to ECAs, the EIB is at least thinking about climate change issues and acknowledges them quite well in its policy documents. It has also started to move towards integrating EU climate objectives within its own strategic and operational documents and guidelines. However, there is still a large gap between rhetoric and practice, as the bank's intentions are not yet systematically and consistently implemented in its investment decisions. This is partly related to the EIB's bias towards large-sized projects which, despite their developmental potential, almost inevitably have major negative impacts for the environment and local population. This shows the need for the bank to develop a more diversified portfolio of innovative and sustainable projects.

THE BUJAGALI DAM IN UGANDA

The Bujagali dam project in Uganda is a 250 MW hydropower facility on the river Nile, downstream of Lake Victoria. It is adjacent to the existing hydro-power plants of Nalubaale and Kiira. The area in which the dam will be located is a rain-fed watershed, with rich fertile soils and is considered a sacred site by local people. The project requires 238 ha of land take to construct project facilities and will submerge the famous Bujagali Falls. The main investors in the project are the EIB, the Agence Française de Développement (AFD), the World Bank, and the African Bank for Development (AfBD). The total project cost is estimated to be around USD 750 million.

The planning of this project has been surrounded by controversy. The assumptions about the hydrological data underlying the project have been contested, as well as the inadequacy of social and environmental safeguards. It has been argued that the project will increase the vulnerability of local people who will have fewer options for meeting their needs for water, food and health. In 2007, the Ugandan National Association of Professional Environmentalists (NAPE) and other local organisations and individuals submitted an objection to the dam to the Inspection Panel of the World Bank Group. They claimed that the social and environmental assessments that the project leaders have prepared did not adequately address the impacts of hydrological changes on power production. Climate change is expected to have serious impacts on the production capacity of the facility, as the water levels of Lake Victoria have already started to drop and this is expected to continue, reducing the output of the dam, raising unit prices and undermining its economic viability. The objectors stated that there was no evidence that a comprehensive economic analysis of the project was carried out and that alternative energy options were adequately considered. In addition, the flooding of the area is expected to lead to a one-off methane emission estimated at about 240,000 tons of CO₂ equivalents due to the underwater decomposition of vegetation.

In response to these objections, the World Bank's Inspection Panel has stated that the project merits independent review and investigation. It is evident that to date there has been no proper independent analysis of climate change risks.

Source: NAPE & ARN (2009). The role of the EIB and ECAs in the Bujagali dam (Uganda) and Gibe III (Ethiopia), see at <http://sites.google.com/site/africanriversnetwork/what-is-new>.

This will involve paying much more attention to building a consistent, solid and transparent approach to climate proofing in all steps of the project cycle, and especially during the project identification and appraisal processes. ■

THE GIBE III PROJECT IN ETHIOPIA

The Gibe III dam in Ethiopia is a planned giant hydropower facility (1870 MW) on the Gibe-Omo river, which flows towards Lake Turkana. The main beneficiaries of the project will be Kenya, Sudan and Djibouti which will be the customers for the electricity produced. The area in which the dam will be located is communally owned, semi-arid to arid land which is inhabited by a variety of agro-pastoralists. The main investors in the project include the EIB, the African Bank for Development (AfBD), the government of Italy and the Ethiopian diaspora. In its haste to start the project, the Ethiopian government has failed to perform a study on the impacts of climate change, which could dramatically affect the dam's performance over its lifespan. The Africa Resources Working Group (ARWG) also argues that Gibe III will have major destructive impacts on the Lower Omo River Basin's fragile semi-arid environment and on the basin's indigenous pastoral and agro-pastoral population of at least 200,000. The project is also expected to drastically reduce the water level of Lake Turkana, changing its ecological balance, and thereby affecting the livelihoods of the people depending on it. As such the project will do little to contribute to poverty reduction and sustainable development in the area, but instead will increase the vulnerability of local people. Importantly, the EIB has not as yet taken any formal decision on whether to proceed with an official appraisal of this project.

Source: NAPE & ARN (2009). The role of EIB and ECAs in Bujagali dam (Uganda) and Gibe III (Ethiopia), see at <http://sites.google.com/site/africanriversnetwork/what-is-new>.

⁸⁸Wilks, A. (2010). Corporate welfare and development deceptions: why the European Investment Bank is failing to deliver outside the EU. Counter Balance, see at http://www.counterbalance-eib.org/component/option,com_datagallery/Itemid,98/func,detail/id,134/

THE TENKE-FUNGURUME MINE IN DRC

The Tenke-Fungurume Mine (TFM) in the Democratic Republic of Congo (DRC) is a project involving the national public company Gécamines, the Swedish Lundin Group and American Phelps Dodge. The area is one of the largest untouched deposits of copper and cobalt in the world. In 2007, the EIB was the first public funder to agree to finance the TFM project, with a loan of EUR 100 million. Due to highly unfavourable contract conditions, the national company Gécamines is not expected to greatly benefit from the recent quadrupling of the copper price. In addition, the TFM community development plan focusing on health infrastructure, electricity provision, communication infrastructure and housing and construction has remained far smaller than was originally envisaged. The rights of displaced people have been violated, hundreds of local miners have lost their livelihoods and promises to create new jobs have not been fulfilled. This means that the TFM project is highly detrimental to the local population: it is exhausting the areas mineral resources, damaging the environment and people's livelihoods. Importantly, the project has not yet been signed by the EIB, pending the current review of the mining licenses by the Government of DRC.

Source: Counter Balance (2008). Soul mining: The EIB's role in the Tenke-Fungurume Mine, DRC. See at http://www.counterbalance-eib.org/component/option,com_datagallery/Itemid,86/file,tenke-study-en-web.pdf/func,download.

THE VERACEL PULP FACTORY IN BRAZIL

In June 2005, a massive new pulp mill started operations near Eunápolis in the state of Bahia in Brazil. The mill was built with financing from the EIB, the Nordic Investment Bank and Brazil's Development Bank, BNDS. With 900,000 tonnes a year the Veracel pulp mill is the largest single line pulp mill in the world. The total cost of the project, including plantations and infrastructure, was USD 1.25 billion. The EIB has approved two loans to Veracel: USD 30 million in 2001 for plantations, forestry equipment, and building and upgrading roads; and USD 80 million in 2003 for the pulp mill construction. Veracel is a joint venture between the world's largest paper producer, Stora Enso (Finland-Sweden), and the world's largest producer of bleached eucalyptus pulp, Aracruz (Brazil).

This case study clearly illustrates how a large project can have a negative impact on the local climate and environment and on local people's livelihoods, while contributing to a highly energy-intensive industry which benefits Western markets rather than Brazilian people. Veracel produces 900,000 tons of paper pulp annually, mainly for export to the European, American and Asian markets. The pulp and the paper industry is the fifth biggest industrial energy consumer in the world, and the waste processing produces huge amounts of greenhouse gases. The paper industry has been calculated to account for 7 to 11% of global carbon dioxide emissions.

Veracel has violated important conditions set by the loan contract with the EIB, including a failure to comply with Brazilian environmental legislation and illegal deforestation in the Mata Atlântica region. A study carried out by Flora Brasil showed that despite the governmental prohibition on deforestation in the period between 1994 and 2006, Veracel deforested a considerable area of native forest. After 15 years of judicial litigation, Veracel has been ordered in 2008 to pay a fine of €7 million for violating Brazilian environmental legislation. The provincial court also required Veracel to replant native species in the area that it illegally deforested: around 47,000 hectares. In response, Veracel has announced that it will appeal the decision.

Veracel's vast area of plantations has exacerbated the problem of land concentration, as large numbers of rural people have been removed from their land, causing loss of homes and employment. The impacts of deforestation on the local climate have already been felt by local communities: changes in land use have led to reductions in rainfall, higher temperatures and lower relative air humidity. Moreover, the monoculture eucalyptus plantations have caused a great loss in biodiversity and the trees absorb so much water that the surrounding springs and rivers are drying up. This has also contributed to an increase in forest fires, and many farmers have been forced to sell their land to Veracel leading to a rural exodus and an increase in unemployment and the population of the favelas in surrounding urban centres.

Source: R. Cunha (2009). Investimentos do Banco Europeu de Investimento Na Bahia - Brasil e sua relação com as mudanças climáticas: estudo de caso Veracel Celulose. Salvador: Gambá.

6

CONCLUSIONS AND RECOMMENDATIONS

Three broad areas of conclusions are identified in this review of the current level of integration of climate change considerations within the policies and practices of the EIB and a sample of three European ECAs. These concern:

- **Policy coherence in relation to climate change**
- **Impact assessment and carbon footprint methodologies**
- **Transparency and accountability**

These conclusions lead to a range of recommendations, some of which are directed at the specific financial institutions, while others are targeted at the political structures behind those institutions, particularly the European Union (EU) and the governments of the EU Member States. ■

6.1

POLICY COHERENCE IN RELATION TO CLIMATE CHANGE

There is insufficient coherence between the climate policies of the EU and its Member States and the policies and practices of the EIB and European ECAs. Thus far, the EIB and European ECAs have not answered calls from the European Parliament and the G20 to direct the public finances that they are responsible for in more climate friendly ways. At present these publicly funded financial institutions are undermining EU climate policies, as several of their projects located in countries affected by climate change have severe negative impacts on the vulnerability of people and ecosystems and contribute to large increases in these countries' GHG emissions.

In 2007 and 2009 respectively, the European Parliament⁸⁹ and the G20⁹⁰ made clear commitments not

to use public money to support fossil fuel based development. Similarly, in 2004 the Extractive Industries Review, sponsored by the World Bank, recommended decisive action to move the World Bank's energy lending away from fossil fuels, including immediate cessation of coal financing and phasing-out support for oil development projects. In addition, the EU Commissioner on Climate Change, Connie Hedegaard, in her presentation before the European Parliament in January 2010, urged the EU to stop subsidising fossil fuels, and redirect public resources to reducing the premiums for insuring the risks of large-scale private investment in renewable energies.⁹¹ The EIB and ECAs have not yet acted upon these calls. The EIB acknowledges the importance of climate change and addresses this in its policies, but these policies have not yet been translated into practice. European ECAs are one step further behind and have not yet factored climate change into their policies.

⁸⁹<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6+TA-2007-0576+0+DOC+XML+V0//EN&language+EN>

⁹⁰http://www.g20.org/pub_communique.aspx

⁹¹<http://www.google.nl/url?q=http://www.europarl.europa.eu/sides/getDoc.do%3FpubRef%3D-//EP//NONSGML%2BCOMPARL%2BPE-438.197%2B01%2BDOC%2BPDF%2BV0//EN%26language%3DEN&ei=YnKGS67kKNKy-AbFm73kDQ&sa=X&oi=nshc&resnum=1&ct=result&cd=1&ved=0CAoQzgQoAA&usg=AFQjCNGRs8UrLgl ozFozyhztHt1NNheBb0A>

We recommend that the EIB and ECAs integrate European climate policies into their own policies and operations, in order to:

- *Contribute to the phasing out of GHG emissions by setting clear reduction targets for their overall portfolios:*
 - The EIB and ECAs should set clear reduction targets for both the short and the long term. Investments in projects with large GHG emissions need to be phased out, and less GHG-intensive alternatives require stronger support.
 - The appraisal procedures of the EIB and ECAs should take account of the needs of developing countries in relation to climate change and development, as identified in UNFCCC National Communications, UNFCCC National Adaptation Programmes of Action (NAPAs), and EU Regional and Country Strategy Papers (RSPs/CSPs).
 - The EIB and ECAs should introduce an exclusion list of types of projects / technologies they will not support.
- *Increase support for energy efficiency and renewable energy:*
 - The EIB and ECAs should undertake specific efforts to facilitate developing countries in their efforts to access state-of-the-art energy efficiency and conservation technologies.
 - The EIB and ECAs should adopt a strict definition of renewable energy that only includes technologies that contribute to the reduction of the use of hydrocarbons (both biotic and fossil carbon).

- The EIB and ECAs should articulate the potential of renewable energy development in their regional / country strategy plans

Governments of the EU Member States are recommended to:

- Further develop well-elaborated regional country environment profiles (REPs/CEPS), including climate change that build on the existing EU's Regional and Country Strategy Papers (RSPs/CSPs).
- Stimulate a decisive reorientation of the investment policies of their ECAs and the EIB away from carbon intensive activities. Political choices are required to ensure that economic development does not automatically result in a growth of GHG emissions.
- Ensure that public finances will only be made available for the support of climate friendly development paths.
- Ensure policy coherence in the public sector. The policies and practices of the EIB and ECAs should reflect and support the EU's climate policies. ■

6.2

IMPACT ASSESSMENT AND CARBON FOOTPRINT METHODOLOGIES

The analyses of the portfolios of the EIB and three European ECAs show that most private sector activities that are supported between 2001 and 2008 lead to an increase in GHG emissions as well as increased vulnerability to the impacts of climate change. Only a small number of projects contribute towards a transition to a low carbon future for developing countries.

It is recommended that the EIB and European ECAs:

- *Systematically carry out adequate and publicly accessible social and environmental impact assessments for all projects and refrain from exceptions.*
 - ECAs should revise their implementation of the OECD's Recommendation on Common Approaches in order to ensure that all the transactions that they support are screened for their social, environmental and human rights impacts.
- The EIB should revise its Statement of Environmental and Social Principles and Standards in order to include stricter rules and guidelines for the appraisal of projects outside the EU. These should focus on the assessment of social and environmental impacts as well as the development potential of the projects that it intends to finance. In addition, the Environmental and Social Impact Assessment Framework (ESIAF) needs thorough improvement, elaboration and application and should explicitly be linked to the results of social and environmental impact assessments.

- *Include climate change considerations in the screening of projects and transactions:*

- Climate considerations need to be included in the environmental screening and assessment processes of the EIB and ECAs (see the box on p. 30 for an illustrative list of questions to be posed as part of the screening of projects from a climate change perspective).
- Carbon footprints (the externalised social and environmental costs of carbon emissions) should be factored into the economic rationale of projects.
- Under no circumstances should projects increase the vulnerabilities of people or sectors in host countries or decrease their adaptive capacity.
- Uniform climate proofing guidelines and tools need to be developed for financial intermediaries that operate EIB supported micro finance credit lines and other financial services to assess their customers' projects.
- To minimise their climate impacts, hydropower plants should fully comply with the recommendations of the World Commission on Dams (WCD).

- *Adopt a transparent GHG accounting system:*

- The EIB and ECAs should conduct an inventory of the GHG emissions of the complete portfolio of transactions that they support.
- Following an initial assessment, EIB and ECAs should develop an emission accounting system linked to an emissions reduction strategy.

- The anticipated and the actual CO₂ emissions of all supported projects should be systematically documented and reported annually.

Governments of EU Member States are recommended to:

- Include the GHG emissions of ECA support transactions within their national GHG accounting mechanisms.
- Ensure precise wording on climate screening in the International Finance Corporation's Performance Standards and the European Principles for the Environment (EPE). The IFC's Performance Standards are an important benchmark for financial institutions. They currently include the promotion of the reduction of emissions that contribute to climate change, but remain vague about how to achieve this goal ('*appropriate to the nature and scale of project operations and impacts*').⁹² ■

⁹²International Finance Corporation's Performance Standards on Social & Environmental Sustainability, April 2006, [http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_PerformanceStandards2006_full/\\$FILE/IFC+Performance+Standards.pdf](http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_PerformanceStandards2006_full/$FILE/IFC+Performance+Standards.pdf)

6.3

TRANSPARENCY AND ACCOUNTABILITY

The information provided by the EIB and certainly most ECAs on the projects they support and the social and environmental impacts of these projects is often limited and sketchy. The reporting does not contain enough information to allow for even an approximate GHG accounting analysis. This lack of transparency and public control make it quite impossible for committed parliamentarians and civil society to carry out parliamentary or public oversight.

We recommend that the EIB and European ECAs:

- *Elaborate and develop detailed information disclosure policies:*

- The EIB and ECAs should adopt the underlying principle that all their documentation should be accessible to the public, unless there are compelling and well-defined reasons to maintain confidentiality.
- The EIB and ECAs should publish their operational policies, including all their safeguard policies.
- The EIB and ECAs should ensure disclosure of detailed information on all supported projects and the financial players involved.

- ECAs need to make approval of guarantees or loans subject to the client/exporter agreeing to the publication of comprehensive project information on their website.
- ECAs should harmonise the sectoral classification of projects, in order to allow for an approximate screening of potential GHG emissions.
- The EIB should publish the full EIA reports of projects on its website. A Non-Technical Summary is not sufficient.

- The EIB and ECAs should publish regular GHG monitoring and evaluation reports on aggregate portfolio level, as well as at the individual project level.

Governments of the EU Member States are recommended to:

- Introduce a broad reform of the regulatory framework that structures export promotion in such a way that efforts to promote sustainable development adequately take climate change into account.
- Increase and enhance parliamentary oversight. ■

Climate change considerations to be included in project screening

CLIMATE RISKS

- 1) Does climate change pose direct threats to the investment? (e.g. infrastructure affected by extreme weather events)?
- 2) Can climate change cause under-performance of the investment? (e.g. large dams failing to deliver expected results due to a reduction in rainfall)?
- 3) Does the investment cause 'maladaptation', i.e. does the development create vulnerabilities (e.g. a factory affecting the resilience of natural resources, or new infrastructure triggering settlements in vulnerable low-lying areas)?

CARBON FOOTPRINT

- 1) Does the investment create dependence on fossil fuels? Have alternative energy sources - such as thermal, wind, solar, tidal wave and small-scale hydropower - been assessed? In other words, are there lower carbon alternatives that could achieve the same outcome (which may also be more accessible to the poor)?
- 2) Does the investment involve carbon intensive manufacturing? Will energy efficiency measures be assessed and implemented?
- 3) Does the investment focus on transport modes that produce high levels of GHG emissions (e.g. road, aviation) as opposed to more environmentally-friendly transport modes (e.g. rail and waterborne transport)?
- 4) Does the investment encourage exports (e.g. investments in soy, palm oil or biofuels) thereby increasing the need for transport?
- 5) Does the investment trigger deforestation or degradation of ecosystems which play a valuable role as carbon sinks and/or in people's livelihoods?
- 6) Are environmental and social costs internalised in the costs of the project?

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ANNEX 1: OVERVIEW OF EUROPEAN EXPORT CREDIT AGENCIES

COUNTRY	NAME	WEBSITE
Austria	Oesterreichische Kontrollbank Aktiengesellschaft (OeKB)	www.oekb.at
Belgium	Office National du Ducroire/ Nationale Delcredere dienst (Ducroire/ Delcredere, ONDD)	www.ondd.be & www.ducroire.be
Czech Republic	Export Guarantee and Insurance Corporation (EGAP) Czech Export Bank	www.egap.cz www.ceb.cz
Denmark	Eksport Kredit Fonden (EKF)	www.ekf.dk
Finland	Finnvera plc Finnish Export Credit Ltd.(FEC) Finnfund	www.finnvera.fi www.fec.fi www.finnfund.fi/
France	COFACE Direction des Relations Economiques Extérieures (Ministère de l'Economie, DREE)	www.coface.com www.missioneco.org
Germany	Euler Hermes Kreditversicherungs-AG (Hermes) KfW	www.eulerhermes.com www.kfw.de
Greece	Export Credit Insurance Organization (ECIO)	www.oaep.gr
Hungary	Hungarian Export Credit Insurance Ltd. (MEHIB) Hungarian Export-Import Bank Ltd.	www.mehib.hu www.eximbank.hu
Italy	Sezione Speciale Per l'Assicurazione Del Credito All'Esportazione (SACE)	www.esteri.it/eng/
Luxembourg	Office du Ducroire (ODD)	www.ducroire.lu
Netherlands	Atradius DSB	www.atradius.com
Norway	Guarantee Institute for Export Credits (GIEK)	www.giek.no
Poland	Export Credit Insurance Corporation Joint Stock Company (KUKE)	www.kuke.com.pl
Portugal	COSEC	www.cosec.pt
Romania	EXIMBANK Romania	www.eximbank.ro
Slovak Republic	Export Import Bank of the Slovak Republic (Eximbanka SR)	www.eximbanka.sk
Slovenia	Slovene Export Corporation (SEC)	www.sid.si
Spain	Compañía Española de Seguros de Crédito a la Exportación, SA (CESCE) Compañía Española de Seguros y Reaseguros de Crédito y Caución, SA (CESCC) Secretaría de Estado de Comercio (Ministerio de Economía)	www.cesce.es www.creditoycaucion.com www.mcx.es
Sweden	Exportkreditnämnden (EKN)	www.ekn.se
Switzerland	Geschäftsstelle für die Exportrisikogarantie (ERG)	www.swiss-erg.com
United Kingdom	Export Credit Guarantee Department (ECGD)	www.ecgd.gov.uk

source: <http://www.eca-watch.org/eca/directory.html>

ANNEX 2: THE EIB STATEMENT OF ENVIRONMENTAL AND SOCIAL PRINCIPLES AND STANDARDS: paragraphs on climate change (paragraphs 75-82)

CLIMATE CHANGE

75. The EIB endorses the findings related to climate change contained in the assessment reports of the UN Intergovernmental Panel on Climate Change (IPCC), notably, that climate change is unequivocal, and that most of the warming of the past 50 years is very likely due to increases in GHG emissions attributable in large part to human activities. The Bank recognizes that projects it finances today have a role in determining the concentrations of GHGs in the atmosphere for several decades to come and therefore, the extent of climate change in the future.

76. The EIB supports the fight against climate change, aligning its activities with EU climate change policy. Its climate change policy is reviewed and revised periodically.

77. The EIB promotes the renewable energy sector, optimizes the scope for energy efficiency in all the projects it is financing, and aligns its operations with other EU climate policy investment priorities, including research, development and investment in new climate-friendly technologies. The Bank also aims to promote sustainable land use practices, including sustainable forestry, and recognises the importance of forests and their contribution to both climate change mitigation and adaptation and the protection of biological diversity. Key Bank lending policies, for instance, in the energy, water, transport, waste and natural resource sectors are also periodically reviewed to make them consistent with EU climate policy and to reflect emerging climate change considerations.

78. In carbon-intensive sensitive sectors, the EIB requires the use of the most efficient solutions, and requires promoters systematically to estimate expected GHG emissions and to identify and apply appropriate mitigation measures. For projects that produce significant quantities of GHG emissions, the EIB incorporates the costs of such emissions into the financial and economic analyses that inform its financing decision. In addition, projects that result in a significant reduction in GHG emissions are actively identified and promoted by the Bank and the benefits of such are also taken into account in its financial and economic analyses.

79. The EIB is committed to supporting environmentally sustainable, clean energy growth paths in countries outside the EU, including the promotion of the transfer and development of clean technologies, as well as the establishment and development of financial mechanisms for cost-effective climate change mitigation, such as the carbon market.

80. While mitigation is vital, most of the climate changes projected for the coming decades can no longer be avoided due to time lags in the response of climate systems to the build-up of GHGs in the atmosphere. The EIB therefore recognizes that adaptation is necessary and actively promotes adaptation projects as such, for instance in the field of water resource management.

81. EIB projects may be exposed to climate risks in the course of their economic life, for example due to sea-level rise or an increase in the number and intensity of extreme weather events. In such cases, the Bank encourages promoters to identify and manage climate change risks. The Bank continuously is developing its own knowledge and expertise on climate change risk management, and where risks are identified, the Bank requires the promoter to identify and apply adaptation measures to ensure the sustainability of the project.

82. The EIB in cooperation with other international financial institutions continues to explore and develop a number of methodologies for the complex task of measuring and reporting the carbon footprint of the projects that it finances in order to better understand the climate influence of Bank lending and to inform project choice. The Bank will publish the outcome of this work, defining a preferred footprint methodology and identifying appropriate performance indicators to demonstrate its commitment to EU GHG emission reductions targets.



Both ENDS strives for a socially just and sustainable world. To this end we support organisations in developing countries that are active in the areas of poverty alleviation and environmental management. These local organisations have in depth knowledge of what the problems are and often come up with inspiring, sustainable solutions. We support them by providing information and mediation in funding, lobbying and networking.



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