

Bank Information Center
IFIs in Africa News Briefing
December 1, 2006

In this issue:

- [EIB urges looser environmental and social standards for loans to Africa](#)
 - [EIB to finance energy investment in Zambia to promote mining sector](#)
 - [World Bank pushes regional “power pools” as solution to Africa’s energy problems](#)
 - [World Bank poised to increase investment in post-election DR Congo](#)
 - [Ghana withdraws from IMF’s poverty reduction facility](#)
 - [“World Bank and IMF lending should not be linked to economic conditionalities” - Norway](#)
-

EIB urges looser environmental and social standards for loans to Africa

November 29 - European Investment Bank (EIB) President Phillipe Maystadt was reported in *Financial Times* as encouraging weaker environmental and social standards on EIB loans to Africa and elsewhere, in order to compete with Chinese banks. Maystadt claimed that the EIB and World Bank are losing out, particularly in the mining sector, to Chinese lenders who do not require environmental assessments or adherence to labor standards. He suggested that western donors should meet to discuss the prospects of removing the “excessive” conditions placed on loans.

Mr. Maystadt’s statements reveal the competing imperatives facing public banks. Watering down the social and environmental requirements placed on loans may be good for *business* at the EIB and World Bank, but it won’t be good for the *poor*. If development is their priority, then public financial institutions should work to uphold and universalize the standards without which sustainable, lasting improvements in the welfare of the world’s poor are not possible.

Instead, there is a growing risk that the perceived threat of Chinese competition will become the excuse for a weakening of standards on finance throughout the world. At a time when footloose global capital needs to be more closely monitored and regulated, public financial institutions should not participate in a proverbial race to the bottom.

Maystadt’s statements, however, serve as a reminder that the EIB has no explicit development mandate, and that improving livelihoods may well not be the institution’s foremost priority. Rather, the president’s call for lower standards suggests that the

institution is more concerned about losing business to competitors than it is about supporting socially and environmentally responsible projects.

And what of the adage, “Two wrongs don’t make a right?” China may be unscrupulous about financing projects and practices which harm the environment or contribute to the violation of rights, but it doesn’t make it okay for the EIB or World Bank to support those same projects and practices in order to preempt China from doing so.

Some may find Maystadt’s calls for lower standards ironic, given that the institution already faces criticism for having wholly inadequate policies regarding the impacts of loans outside the European Union (EU) and for lacking the necessary expertise and staff to ensure that even basic environmental and social standards are followed. The EIB has typically relied on a country’s own policies and laws to guide its projects, which, in many African countries, are often inadequate or not enforced. This was perhaps best exemplified in the Bwana Mkubwa copper mine in Zambia where, in contravention of Zambian law and EU regulations, the EIB approved financing for the project and disbursed the funds nearly two years *before* an environmental impact assessment was carried out.

The EIB president’s comments are of particular concern now, as the EIB prepares to approve a series of new loans under the EU-Africa Partnership on Infrastructure, a trust fund that will invest over \$400 million in large infrastructure projects in Africa. Many of these large-scale projects aimed at “regional integration” are likely to pose significant risks to the environment and local communities – risks which will only be exacerbated if the EIB’s standards are further relaxed. The new mandate that has been given to the EIB for infrastructure investment in Africa requires a new commitment to higher standards.

Meanwhile, the EU this week set new lending levels for the EIB’s investments outside the European Union to cover the years 2007 to 2013. The new levels are over 30 percent higher than the EIB’s previous lending budget, and will reach €27.8 billion (approximately \$36.5 billion). A large fund was set aside to finance projects in countries seeking EU membership and for Mediterranean countries. According to an *International Herald Tribune* article, Asia, Latin America and Africa may “get less priority after some ministers criticized the EIB’s aim to spread money more widely, saying it should not model itself on the World Bank.”

Read the *Financial Times* article “EIB accuses Chinese banks of undercutting Africa loans” at: <http://www.ft.com/cms/s/added3c2-7f4e-11db-b193-0000779e2340.html>

Read a *Business in Africa* article on the EIB president’s comments at: http://www.businessinafrica.net/news/west_africa/402401.htm

Read a critique from CEE Bankwatch on EIB lending to Africa at: <http://www.bankwatch.org/project.shtml?apc=--153975n--1&x=1311178&d=r>

Read an *IPS* article on the EU-Africa trust fund at:

<http://ipsnews.net/news.asp?idnews=32098>

Read the *International Herald Tribune* article on the replenishment of EIB at:

http://www.ihf.com/articles/ap/2006/11/28/business/EU_FIN_EU_European_Investment_Bank.php

Read more about the EIB's support for the Bwana Mkubwa copper project at:

http://www.bankwatch.org/documents/eib_in_south_3.pdf

EIB to finance energy investment in Zambia to promote mining sector

November 30 – The head of the European Investment Bank (EIB) for Southern Africa, David White, told *Reuters* while in Lusaka for a mining conference that the EIB has reached a preliminary agreement to finance major power projects in Zambia under the NEPAD infrastructure action plan. According to *Reuters*, the EIB has requested a list of priority energy projects to consider, but has not committed specific amounts. White stated that the development of Zambia's power sector would complement the Caprivi Interconnector between Namibia and Zambia, a project currently under appraisal at the EIB, and would fit with the EIB's mission of supporting regional integration projects through the EU-Africa Infrastructure Trust Fund. In an interview with *Reuters*, he added that the EIB is "actively looking at various projects, including the Inga (power project) in the Democratic Republic of Congo, where the World Bank has also shown a lot of interest."

In reference to the EU-SADC (Southern Africa Development Community) mining conference he was attending, White told *Reuters* that "the power projects were aimed at improving availability of electricity to shore up industrial growth and also mining activities in the region." The mining conference in Lusaka brought together foreign investors from Europe and elsewhere, including the EIB, and promoters from SADC countries to discuss 100 potential mining projects.

The EIB's interest in developing Zambia's energy potential to support mining activities is a cause for concern, given the track record of mining in the region. The EIB's involvement in Zambia's mining sector has been extremely controversial, because of projects such as its €4 million investment in the Bwana Mkubwa copper mine in 2002, which led to serious air and water pollution, affecting crop yields and damaging local ecosystems, while providing little tangible benefit for affected communities. These dubious outcomes do not appear to have dissuaded the EIB from further supporting Zambia's copper industry; as recently as September 2006, the EIB approved an €80 million investment in the Lumwana Copper Mine.

Read the *Reuters* article on the EIB's interest in Zambia's power at:

<http://za.today.reuters.com/news/newsArticle.aspx?type=businessNews&storyID=2006->

[11-30T062814Z_01_BAN023271_RTRIDST_0_OZABS-ZAMBIA-POWER-20061130.XML](#)

Read more about the EU - SADC mining conference at:
http://www.mineweb.net/african_renaissance/478444.htm

Read more about problems with EIB copper projects in Zambia at:
http://www.bankwatch.org/documents/eib_in_south_3.pdf

Read more about the EIB's EU-Africa Infrastructure Trust Fund at: http://www.europe-cares.org/africa/partnership_en.html

World Bank pushes regional “power pools” as solution to Africa’s energy problems

November 29 – Vijay Iyer, the sector manager for the World Bank’s energy group in the Africa, stressed in a conversation with *Reuters* that African countries should band together to seek large-scale investment for regional “power pools” that will link up the power grids of several countries. Regional projects, he argued, would be more attractive to outside investors.

The development of these regional power pools would entail the construction of major hydroelectric power plants situated on Africa’s largest rivers, including on the Niger, Senegal, Congo, Zambezi and Nile Rivers. In addition to the environmental and social impacts of massive dams, this proposition raises significant concerns about the sustainability of reliance on hydropower, given that Africa is considered to be the region most susceptible to climate change-induced drought. Decreased rainfall and lower lake levels have already begun to reduce the capacity of some of Africa’s hydropower plants, such as the Akosombo Dam in Ghana and plants in Uganda and Tanzania.

Power pool schemes would not rely entirely on hydroelectricity, but other existing and planned energy sources, including fossil fuels. The West Africa Gas Pipeline (WAGP) is the best-known initiative under the West Africa Power Pool. Expected to come “online” by April 2007, the nearly completed pipeline will transport natural gas from Nigeria’s Niger River Delta to Benin, Togo and ultimately Ghana. The controversial project has been the subject of a World Bank Inspection Panel claim, lodged by residents of affected communities in Nigeria whose livelihoods and property were disrupted by the pipeline construction.

The rehabilitation and planned expansion of the Inga hydropower site on the Congo River has also been pegged as a power pool project for southern Africa. While the Inga power station currently yields less than 1000 MW of electricity (well below its installed capacity of approximately 1700 MW), project proponents are hoping to generate 40,000 MW in the future in what would be the world’s largest hydroelectric scheme, with a capacity even to export energy to Europe. However, the sustainability of such a capital-intensive scheme remains in serious doubt.

Read the *Reuters* article on the World Bank's power pool schemes at:

http://za.today.reuters.com/news/NewsArticle.aspx?type=businessNews&storyID=2006-11-29T062623Z_01_BAN923153_RTRIDST_0_OZABS-ENERGY-AFRICA-WORLDBANK-20061129.XML

See BIC's West Africa Gas Pipeline page at: <http://www.bicusa.org/wagp>

Read more about the Inga dam from International Rivers Network at:

<http://www.irn.org/programs/congo/>

World Bank poised to increase investment in post-election DR Congo

December 3 – According to an article from the South African Broadcasting Corporation (SABC), the World Bank has announced plans to step up financing to the Democratic Republic of Congo (DRC) following the successful conclusion of the country's first free presidential elections in 45 years. The inauguration of President Joseph Kabila is scheduled to take place this week. The article quoted Jean-Michel Happi, the World Bank DRC Country Manager, as saying, "to allow a large majority of Congolese to benefit from the revival of economic activity, it will be important to invest a lot in human development."

Some observers question whether human development has been the primary target of World Bank assistance in the country over recent years. Since it began lending to the DRC again in 2001, the World Bank has placed a heavy emphasis on boosting private sector activity in the natural resource sectors such as mining and logging. The pace and magnitude of the World Bank's financing for both the public and private sectors in the DRC has been criticized as premature and risky in a country that is still occupied by the largest ever UN peacekeeping force, and where the root problems of the conflict remain unaddressed.

Read the SABC News article at:

http://www.sabcnews.com/africa/central_africa/0,2172,139518,00.html

Read more about the World Bank in the DR Congo on BIC's website at:

<http://www.bicusa.org/drc>

Read the latest release from Rights and Accountability in Development (RAID) on the World Bank's restructuring of the DR Congo mining sector at:

<http://releases.usnewswire.com/GetRelease.asp?id=77015>

Read more about the World Bank's influence on the DR Congo logging sector from Rainforest Foundation UK at [http://www.rainforestfoundationuk.org/s-](http://www.rainforestfoundationuk.org/s-Stop%20the%20carve%20up%20of%20the%20Congo%20forests)

[Stop%20the%20carve%20up%20of%20the%20Congo%20forests](http://www.rainforestfoundationuk.org/s-Stop%20the%20carve%20up%20of%20the%20Congo%20forests)

Read a BIC article on MIGA's planned half-billion-dollar investment in DR Congo's mining sector at: <http://www.bicusa.org/en/Article.2979.aspx>

Ghana withdraws from IMF's poverty reduction facility

November 29 - Ghana's Minister of Finance Kwadwo Baah-Wiredu this month announced that Ghana would not renew its Poverty Reduction Growth Facility (PRGF) concessional lending scheme with the International Monetary Fund (IMF). A *Ghanaian Chronicle* article applauded the move so the country would not be subjected to the "highly prescriptive conditions" attached to the low-interest, concessional loans. The article describes the move as symbolizing Ghana's decision to stand on its own and to move toward independence from the IMF that has dictated so much of Ghana's policies over the years. However, some remain skeptical that future policies of the Ghanaian government will diverge significantly from those advocated by the IMF, given the IMF's continued influence as a policy advisor and its role as a "gatekeeper" to other development finance.

Read the *Chronicle* article on Ghana's decision at:
<http://allafrica.com/stories/200611291353.html>

Read about the failure of the PRGF and the negative impacts of the associated conditionalities, including case studies from Africa, from AFRODAD at:
http://www.afrodad.org/index.php?option=com_content&task=view&id=67&Itemid=54

World Bank and IMF lending should not be linked to economic conditionalities - Norway

November 28 – Norway's Minister of International Development stressed at a recent conference in Oslo on "conditionality" that governments should have the freedom to pursue the economic policies that they think are best for their countries. According a *Reuters* article, Minister Erik Solheim added that the World Bank and IMF should not have the power to withhold lending for governments that refuse to engage in privatization and other economic reforms.

The government of Norway recently made headlines when it agreed to cancel \$437 million worth of debt to several developing countries after admitting that the debt was accrued through "bad loans" which should not have been made in the first place. According to the *Financial Times*, the Norwegian government "would not take the money for debt relief from its development budget and would not report this as additional development assistance – a common tactic used by donor countries seeking political credit for debt forgiveness."

Read the Reuters article at:

<http://today.reuters.co.uk/news/CrisesArticle.aspx?storyId=L28121915&WTmodLoc=World-R5-Alertnet-3>

Read Minister Solheim's speech at:

http://www.dep.no/ud/english/news/speeches/minister_b/032201-090028/dok-bn.html

Read the *Financial Times* article at: <http://www.ft.com/cms/s/3879b2de-53d2-11db-8a2a-0000779e2340.html>

The **Bank Information Center** (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) to promote social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency, and public accountability in the governance and operations of the World Bank, regional development banks, and IMF. BIC is supported by private foundations and organizations that work in the fields of environment and development. BIC is not affiliated with any of the Multilateral Development Banks, nor does it receive any funding from them.

Read [past editions](#) of BIC's IFIs in Africa News Briefing.

If you come across any news stories about IFI involvement in Africa that you think should be included in the next issue, please [let us know](#)

If you no longer wish to receive these periodic news briefings on IFIs in Africa, [click here](#).