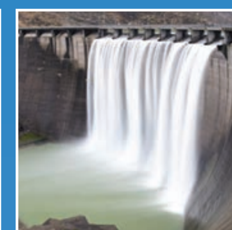
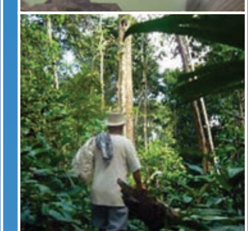
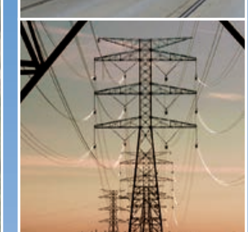
New European Union development cooperation strategies in Latin America: The Latin American Investment Facility (LAIF)

Brussels • June 2013







CIFCA
Iniciativa de Copenhague para Centroamérica y México

GRUPO SUR

ALOP
ASOCIACION LATINOAMERICANA DE ORGANIZACIONES DE PROMOCION AL DESARROLLO A.C.

APRODEV

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New European Union development cooperation strategies in Latin America: The Latin American Investment Facility (LAIF)

Brussels • June 2013

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The latin america investment facility (**laif**)

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Executive summary

The European Commission (EC) is about to approve the revised version of its Financing Instrument for Development Cooperation (DCI), which focuses explicitly on poverty reduction. The new strategy proposed by the EC, through its new cooperation policy "Agenda for Change", places "inclusive and sustainable growth for human development" at its centre. There has also been a change of focus related to the channelling of funds from Official Development Assistance (ODA) to the private sector. As a result of this trend, a number of financial mechanisms are being promoted which combine EU grants and loans. One of them is the Latin American Investment Facility (LAIF). These mechanisms are designed to mobilize additional financing to support development, especially for large infrastructure projects but also for small and medium enterprises under the "green economy" model.

Since September 2012, ten projects in Latin America have been approved by the LAIF operations committee, based in Brussels. Of these projects, five are regional or national projects in Central America and three cover Latin America as a whole. The EC is responsible for informing the European Parliament and society at large about the potential strengths and weaknesses of the "blending" investment facilities as a reliable method for poverty reduction. Questions have arisen regarding the effectiveness of the private sector as a new provider of aid and its role in setting strategic priorities. Also of concern is the lack of opportunities for participation by local beneficiaries. Other relevant issues include the absence of minimum requirements for project selection, criteria for monitoring and evaluation, strong and transparent social and environmental safeguards and mechanisms for accountability.

Studies undertaken by civil society conclude that in order for the LAIF mechanism to have a positive effect, its decision-making structure should be reviewed, the project selection criteria should be more transparent, there should be a mechanism for accountability to civil society and above all the way that projects contribute to reducing inequalities and poverty eradication must be clarified. In this publication, civil society organisations seek to contribute positively to the current dialogue and open discussion on the challenges faced by Latin American countries to finance key infrastructure for sustainable human development and poverty reduction, priority objectives for the creation of aid mechanisms through development cooperation.

Preface

This document is a compilation of extracts from various reports produced by different European and Latin American civil society organisations on the LAIF facility. These contributions as a whole can be considered to be a "participative investigation":

- "Aid for a *green development*: The design of the EU Latin American Investment Facility", written by Gustavo Hernández and Toni Sandell, from the Latin American Association of Development Organizations (ALOP) and the Association of World Council of Churches related Development Organisations in Europe (APRODEV), respectively.

- "The Latin American Investment Facility (LAIF): Development Aid or Investment Profit?", written by Camilo Tovar (independent consultant) for the Copenhagen Initiative for Central America and Mexico (CIFCA) and GRUPO SUR, European Advocacy Network - EU Latin America and Caribbean.

- The minutes of the event "Aid to the private sector: promoting responsible investment? Latin America as a testing ground", held on March 21, 2013 in the European Parliament, with participation from representatives of the European Parliament and Commission* and European and Latin America civil society.

- Final Reflections on the responsibilities and upcoming challenges for LAIF, with special reference to the role played by LAIF in the fight against climate change, written by Laura Palomo (Advisor on Environment and Climate Change) for CIFCA and GRUPO SUR.

Since the creation of the LAIF mechanism was first announced during the EU-LAC Summit in Madrid 2010, various civil society networks have been monitoring this initiative in order to influence how it will be defined, especially with regards to EU development policy in the context of bilateral relations.

* The European Commission participated in the afore mentioned event at the European Parliament, but did not authorize the reproduction of its opinion on this publication.

Issues of particular importance include the promotion of regional integration, social cohesion and poverty reduction. The contributions to this study have been written by civil society researchers in Europe and Latin America. Experts working in public institutions in Europe have also been invited to submit contributions.

The opinions expressed in this report are those of the authors themselves, and do not necessarily reflect the official position of CIFCA or GRUPO SUR.

Brussels, June 2013

Erik Van Mele

OXFAM-SOLIDARITÉ

1. Introduction and context

Authors: Gustavo Hernández (ALOP) and Toni Sandell (APRODEV)

1.1. The new political environment and changes in the development paradigm

Over the last three decades, the European Union's (EU) share in Latin American trade has declined, mainly because China and other Asian developing countries have gained larger market shares. Although the EU is still the region's second largest trading partner it could lose its position to China halfway through this decade. Latin America and the Caribbean (LAC) only accounts for about 2% of the European Union's total trade (or 5% when trade between European Union countries is excluded). The European Union was also the main source of Foreign Direct Investment (FDI) in Latin America and the Caribbean in the first decade of this century, although lately its growth has slowed down and become more volatile[1].

According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), plans to expand European investments in the region are conditioned by the adverse economic situation in Europe, where, to a greater or lesser extent, European companies have most of their assets. This makes Latin American assets extraordinarily important for these companies as potential markets with growth prospects and high profitability. On the other hand, as the crisis deepens and lending conditions worsen, European companies are facing increasing difficulties in financing their new investments. ECLAC also identifies a current phenomenon that is increasingly relevant since 2004: the growing repatriation of profits by transnational corporations investing in the region. FDI revenue transferred back to the countries of origin has increased from US$20 billion per year between 1998 and 2003 to US$84 billion per year between 2008 and 2010[2].

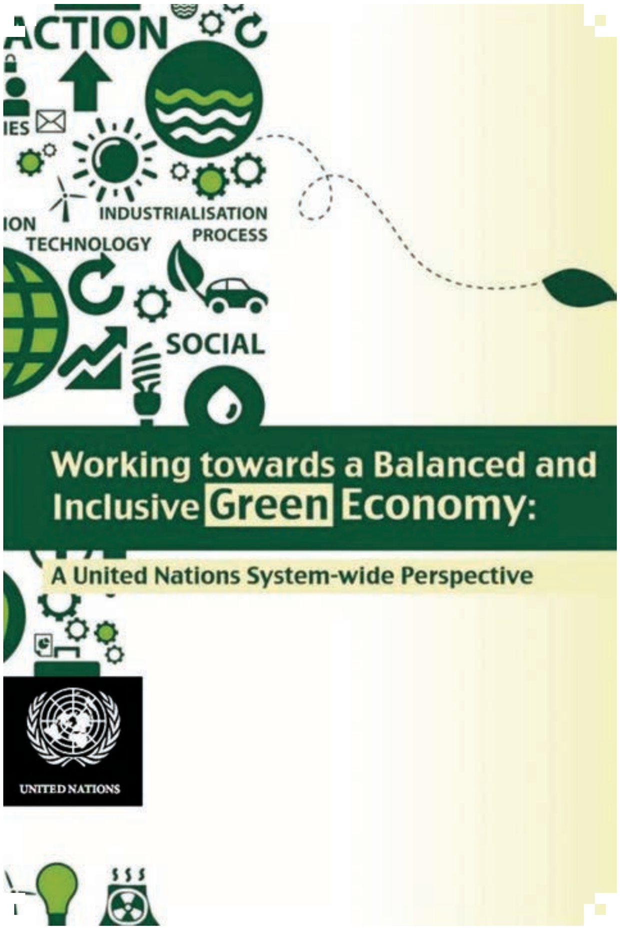
Although the relative weight of the EU in FDI in LAC in recent years decreased, the European FDI was especially important during the 1990s, in particular through the involvement of European companies in the massive privatizations that were processed by then in the region. European investments, mostly of Spanish origin, focused on the energy and utility sectors, mainly in the MERCOSUR countries such as Argentina and Brazil[3].

1. "World Investment Report: Towards a New Generation of Investment Policies". United Nations, 2012. Available at: http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf

2. ECLAC estimates that, in 2012, the FDI flows to Latin America and the Caribbean will maintain high levels. Nevertheless, the organization warns that if the crisis in the Eurozone worsens, the flow of investments –especially those coming from Europe- could be reversed. Press release available at: http://www.eclac.org/cgi-bin/getProd.asp?xml=/prensa/noticias/comunicados/4/46574/P46574.xml&xsl=/prensa/tpl-i/p6f.xsl&base=/tpl-i/top-bottom.xsl

3. "Relations between Latin America and the Caribbean and the European Union: Results from the Madrid Summit and impact of the economic crisis in Europe". Latin American and Caribbean Economic System (SELA). Caracas, March 2011.

The "green economy" lies at the heart of the discussion of foreign private investment, and the EU is one of the strongest advocates of this concept which was originally formulated by the international corporate community, and then adopted by the United Nations Environmental Program (UNEP)[4]. As seen in the Earth Summit held in Brazil twenty years after the UN Conference in Rio de Janeiro, the green economy envisages changes in the traditional development landscape. In the first place, there is reluctance on the part of industrialized nations to increase efforts to meet the ODA target of 0.7% of the Gross National Product (GNP). No less important are the attempts to significantly water down the role of public finance in financial transfers to developing countries, and to shift this to private financing[5]. The increase in financing to the private sector is best demonstrated in numbers: by 2015, the amount flowing to the private sector from the International Financial Institutions (IFIs) is expected to increase from US$40 billion in 2010 to US$100 billion[6]. It is then argued that new aid providers and novel partnership approaches, that use new mechanisms for development cooperation, will contribute to increasing the flow of resources. That is to say, the interplay of development assistance with private investment, trade and new development actors provides new opportunities for aid to leverage private resources flows.



Cover of the publication on the green economy launched by UNEP prior to the Rio +20 Summit

The EC document "Rio+20: towards the green economy and better governance"[7] clearly outlines the objectives and actions of the aforementioned concept. Some organs of the EU have nevertheless noted that an emphasis on the green economy and private sector should not divert attention from the need to empower citizens and promote good environmental governance above and beyond institutional arrangements[8]. The EC´s document proposes that in order to achieve the transition to a green economy we need to address three interrelated policy dimensions: (1) investing in the sustainable management of key resources and natural capital ('what'); (2) establishing the right market and regulatory conditions ('how'); and (3) improving

4. Palomo L. and Hernández G. (2012) "Más allá de la Economía Verde: Desarrollo y Sostenibilidad en América Latina" (Beyond Green Economy: Development and Sustainability in Latin America). ALOP, 2012, p. 30.

5. Update on Sustainable Development Conference: "Developed countries oppose new and additional funding proposals". Third World Network, 2012.

6. "Private profit for public good? Can investing in private companies deliver for the poor?" Eurodad 2012. Available at: http://eurodad.org/1543000/

7. The document laid the basis for dialogue between the European Commission, the Council of the EU, the European Parliament, Member States, civil society and businesses in the run-up to Rio+20 and before a consolidated EU position was presented to the UN at the end of 2011. See COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS "Rio+20: towards the green economy and better governance". Brussels, 20.6.2011 COM (2011) 363 final. Available at: http://ec.europa.eu/environment/international_issues/pdf/rio/com_2011_363_en.pdf

8. European Parliament resolution of 29 September 2011 on developing a common EU position ahead of the United Nations Conference on Sustainable Development (Rio+20). B7-0522/2011. The Council of the European Union has taken a similar stance, calling for greater efforts to integrate the economic, social and environmental dimension in a more balanced manner. See 3118th ENVIRONMENT Council meeting Luxembourg, 10 October 2011.

governance and private sector involvement ('who')[9]. According to some sectors of civil society, the green economy does not represent a significant break from the current macroeconomic model.

1.2. Development and the focus on the private sector

The private sector and its role in development has become a central political discussion in the EU. This is due to a change in the political environment in Europe as well as the prospect of shrinking aid flows. There is also an increasing recognition from donors that the private sector plays a fundamental role in economic growth, innovation and job creation, providing tax income to poor governments as well as offering services and goods for citizens. The 2004 partnership between the European Investment Bank (EIB) and the Inter American Development Bank (IDB) is a good case in point, aimed at developing risk-mitigating instruments designed to foster European Foreign Direct Investment and multilateral cooperation in the Latin American and Caribbean countries[10].

Besides the IFIs, bilateral donors and the EU are more and more interested in collaborating with the private sector. The EC and some EU member states, such as Sweden and the Netherlands, already direct significant amounts of ODA funds to the private sector by way of different "aid for trade" and other initiatives. As explained by the EC, the EU remains committed to the achievement of the objective of 0.7% of GNP for ODA by 2015. To do this, it has proposed an increase in the budgetary allocation for external action, from 56 billion EUR to 70 billion EUR, and a larger deployment of financial instruments (such as loans, guarantees, equity funds and risk-sharing instruments) intended to catalyse private investment. In spite of the reduction of ODA contributed by countries such as Italy, the Netherlands and the United Kingdom in recent years, the proportion of the European Commission has increased, both reflecting the changes produced at the level of the international development agenda and the "securitization" of aid[11].

The private sector is also heavily involved in ODA through procurement processes: according to Eurodad calculations, more than 50 percent of ODA is spent on procuring goods and services from private firms for development projects, amounting to a rough estimate of US$69 billion annually. Eurodad also points out that approximately two-thirds of untied aid is still awarded to firms from the Organization for Economic Cooperation and Development (OECD) countries, and 60% of in-country aid resources in developing countries also go to firms from the donor country[12]. Consequently, one of the main objectives of the European financial institutions is to maintain the European presence in Latin America through the financing of FDI. According to a study by a Latin American intergovernmental think tank, "European FDI in Latin America is favoured by the existence of mechanisms that make it easier, as in the case of the European Investment Bank (EIB). The operations of the EIB, an EU agency, are a powerful mechanism for cooperation through flows of investment and financing of projects in developing countries"[13].

9. COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS: "Rio+20: towards the green economy and better governance". Brussels, 20.6.2011 COM(2011) 363 final., p. 5-6. Available at: http://ec.europa.eu/environment/international_issues/pdf/rio/com_2011_363_en.pdf

10. "The attractiveness for the EIB of a partnership with the IDB is driven by its aim to better support European Foreign Direct Investment in projects of mutual interest in Latin America and the Caribbean as well as infrastructure projects of regional integration. Its motivation is related to, among others: the support of the multilateral system through closer cooperation with the largest multilateral lender in Latin America and the Caribbean; the IDB's political reach and its convocational capacity and prestige; its extensive coverage of the Latin America and Caribbean regions and its capacity to identify and implement emblematic projects with both public and private partners". MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN INVESTMENT BANK AND THE INTER-AMERICAN DEVELOPMENT BANK, 13 December 2004.

11. Sanahuja J.A. (2011)."La política de desarrollo de la UE y América Latina: estrategia e instrumentos de cooperación para la asociación regional".

12. "How to spend it. Smart procurement for more effective aid". Eurodad 2011, p. 20-23. Available at: http://eurodad.org/4639/

13. "Relations between Latin America and the Caribbean and the European Union: Results from the Madrid Summit and impact of the economic crisis in Europe". Latin American and Caribbean Economic System (SELA). Caracas, March, 2011. p. 21.

The EU is striving to find new ways to bring the private sector to the centre of its development strategies. In its policy document "Increasing the impact of EU development policy: Agenda for Change"[14], the EC identifies a three-fold strategy for supporting the private sector: (1) Support to a Small and Medium Enterprise (SME) business environment by supporting capacity building and legal frameworks, access to business and financial services as well as promoting agricultural, industrial and innovation policies; (2) Support to regional integration, especially through Free Trade Agreements; and (3) Offer incentives for the private sector to fund and implement development projects, especially infrastructure initiatives. According to the EC, "crucial to developing countries' success is attracting and retaining substantial private domestic and foreign investment and improving infrastructure"[15].

It is in this context that so called "blending mechanisms" or investment facilities, which mix aid with loans from the International Financial Institutions (especially for large infrastructure projects, in relation to the "green economy") have become the EC flagship of innovative financing for the private sector[16]. Moreover, so called private-public partnerships have increased joint European action for development, thus becoming centres for strategic action on large-scale development projects as well as collaboration and coordination platforms of the financiers[17]. At the same time the EC recognises that these facilities are still in the making and that they are "learning by doing". This provides an opportunity to have a thorough debate on the benefits and limitations of these blended investment and aid mechanisms.

14. COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS: "Increasing the impact of EU Development Policy: an Agenda for Change". Brussels, 13.10.2011 COM(2011)637 final. Available at: http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf

15. Ibid; p. 8.

16. On Blending Mechanisms, see for example: European Think-Tanks Group (2011) "EU Blending Mechanisms: Implications for Future Governance Options". Overseas Development Institute, January 2011. See also "Leveraging´ private sector finance: How does it work and what are the risks?", Bretton Woods Project, April 2012.

17. Núñez Ferrer J. and Behrens A. (2011). "Innovative Approaches to EU Blending. Mechanisms for Development Finance". CEPS, 2011.

2. The LAIF facility: the basics

Authors: Gustavo Hernández (ALOP) and Toni Sandell (APRODEV)

2.1. Blended Investment Facilities: the logic of the LAIF mechanism

The new investment facilities mix non-refundable grants from the EC with loans from multilateral or bilateral European Development Finance Institutions (DFIs) and Regional Latin American Banks. The stated aim of these loan and grant blending facilities (LGBF) is to mobilize additional financing to support development. A first facility was created for Africa (EU-Africa Infrastructure Trust Fund) in 2007. Since then seven new facilities have been launched, largely covering all the regions where the EU has development cooperation.

As such, mixing grants with loans within a same project is not new. The European Investment Bank (EIB) and German KfW, for example, have for years already had access to their own grant resources which they have used together with loans for infrastructure and other development initiatives. During the last decade the EC has worked hand-in-hand with the EIB and regional banks in Latin America, by financing technical assistance and offering loan guarantees or donations for infrastructure projects[18]. An innovation of the so-called LGBFs is that they bring together various public and private financiers to support one joint investment. This also allows financing for larger-scale projects.

In interviews carried out in Brussels during May 2012, EC officials expressed enthusiasm for LGBFs for the following reasons: (1) the economic leverage that is being achieved: "with a small European taxpayers grant contribution, a very large loan-based investment is achieved (up to 30 to 40 times the value of the grant)"; (2) the visibility this mechanism gives to Europe (difficult to reach otherwise with other, non-EU initiated mechanisms such as Trust Funds of the World Bank)[19]; and (3) the dialogue and improved coordination that this mechanism enables between the financial institutions, governments and the private sector.

18. The EU has been co-funding with the EIB and regional Financial Institutions projects such as the "transportation corridor Santa Cruz Puerto Suarez" in Bolivia, providing in 2003 a first non-refundable investment of €38.17 million, and a complementary sum of €18.89 million. Among these projects, it is also worth noting the gas pipeline Bolivia-Brazil, the largest joint investment in Latin America, crossing the ecosystems of the Gran Chaco, Pantanal and the Atlantic rainforest in the southwest of Brazil. See Hernández, G. (2008), "The Chronicle of a Death Foretold. The bioceanic transportation corridor Santa Cruz - Puerto Suarez in Bolivia and its socio-environmental impacts". CLAES, Observatory of Development, 2008.

19. As expressed by a European Commission top official (10 May, 2012) "LAIF is a European mechanism and thus *you can hire a European*. Collaboration with multilateral and Member States brings a lot of visibility and works as a *business card* for Member States to show they are essential interlocutors. The United States are jealous of the visibility the EU is getting with this mechanism. Besides, the regional banks in Latin America are interested in entering the financing with the Europeans for their visibility".

The facility for Latin America was officially launched in May 2010[20]. The Latin American Investment Facility - LAIF is financed with funds from the EU's DCI, which has an explicit poverty reduction focus. The LAIF aims to contribute to achieving the objectives of the DCI Regulation and the Regional Strategy for Latin America, by addressing for example the newly identified challenges such as climate change and its impact on the environment. The EC also justifies LAIF with the argument that pooled investments support *inter-connectivity* in the region and advance regional integration[21]. This explains the European Commission's interest in implementing these projects in the entire region.

In practice, LAIF focuses on energy, environment and transport investments. These priority sectors for developing infrastructure coincide with the sectors in which the EU has high geopolitical and economic interests. They also correspond to the *EU 2020 Growth Strategy*, aimed at achieving a "smart, sustainable and inclusive economy", including capitalising on Europe's leadership in developing new "green" technologies, services and production methods[22]. These issues are at the core of the EU's competitiveness agenda against the emerging economies such as India and China.

The EC also plans to support social infrastructure and SMEs with this mechanism. The expected results of the LAIF consequently relate to better transportation and energy infrastructure, increased protection of the environment, improved social services and infrastructure, and strengthen growth for SMEs. The primary beneficiaries for the EC are stated to be Latin American countries and their private sector, in particular the SMEs[23].

The EU justifies the focus on energy and infrastructure arguing that the Latin American countries face significant difficulties in finding investment capital for improving infrastructure (which are fundamental for technological development and improving competitiveness in the global markets). This in turn might lead to faster growth and poverty reduction. For their part, Latin American governments also highlight the private sector orientation, access to European investors, and the importance of these investors in support of EU foreign direct investments in the region.

Map on the investments of the LAIF in AL presented in the report for the period 2010-2011

20. See the section dedicated to LAIF on the DG DEVCO website: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/index_en.htm

21. COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL: "The European Union and Latin America: Global Players in Partnership". Brussels, 30.09.2009 COM(2009) 495/3. Available at : http://eeas.europa.eu/la/docs/com09_495_en.pdf

22. See also COMMUNICATION FROM THE COMMISSION: "EUROPE 2020: A strategy for smart, sustainable and inclusive growth". Brussels, 3.3.2010 COM(2010) 2020 final. Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF

23. "LAIF at a glance". Annex 4 (Latin American Investment Facility, 2009). Available at: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif-action-fiche-2009.pdf

2.2. Aid architecture in flux: what will be (un)done

The funding for LAIF for the period 2009-2013 is relatively modest (€125 million) but the EC has announced "a higher share of aid to be delivered trough such innovative financial tools"[24]. As aid flows are reducing, utilising donor funds for blending mechanisms means a reduction of aid for other purposes. Put in other words, and as stressed in as a study published by the Bretton Woods Projects, there are opportunity costs when using limited public investment to leverage private investment[25]. In December 2011 the EC proposed country cuts and new priorities for aid to Latin America as part of its proposal for the DCI for 2014-2020. The DCI proposes ending bilateral development cooperation in upper middle income countries, as well as countries whose GDP exceeds 1% of the world's GDP (India and Indonesia). Out of the 19 countries proposed to cut, 11 are to be found in Latin America[26].

EU country-level cooperation would continue only with Bolivia, Cuba, El Salvador, Guatemala, Honduras, Nicaragua and Paraguay[27]. But all Latin American countries would remain eligible for regional programmes, such as the LAIF, the two reformed thematic programmes of the DCI (public goods and civil society organisations/local authorities), and the EU horizontal instruments (The Instrument for Stability, The European Instrument for Democracy and Human Rights and the New Partnership Instrument). Thematically, the DCI proposes more private sector cooperation and new mechanisms, by mixing loans and grants. This means that LAIF will probably be the single most important cooperation mechanism for those Latin American countries that will not receive further country-level aid from the EU. Considering that Latin America is still the most unequal continent in the world[28], and that every third person (around 180 million people) still lives in poverty, this leads to the following fundamental question: is this mechanism the most suitable one to tackle the *problem of inequality* in the region?

24. See: http://trade.ec.europa.eu/doclib/docs/2012/january/tradoc_148992.EN.pdf

25. See: http://www.brettonwoodsproject.org/art-570165

26. The DCI proposal reflects the priorities set out by the EC on 13 October 2011 in its strategic document: "Increasing the impact of EU development policy: An agenda for Change". This policy document proposes cutting aid from middle-income countries as well as focusing aid on two broad priorities - governance and inclusive and sustainable growth - and no more than three sectors at country level. The EC urges also the member states to implement the agenda.

27. The European Parliament asks the EU also to continue bilateral support with Colombia, Ecuador and Peru. See European Parliament resolution of 12 June 2012 on defining a new development cooperation with Latin America. Report available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0235+0+DOC+XML+V0//EN

28. On different aspects of inequality in Latin America, see for example: "The Scandal of Inequality in Latin America and the Caribbean". ChristianAid (2012). Available at: http://www.christianaid.org.uk/images/scandal-of-inequality-in-latin-america-and-the-caribbean.pdf

3. The participation of the private sector and development banks in LAIF

Authors: Gustavo Hernández (ALOP) and Toni Sandell (APRODEV)

3.1. Supporting the private sector through the LAIF: which private sector is benefiting?

As of September 2012, ten projects had received final approval from the LAIF operational board headquartered in the EU. Of these projects, five are regional or country projects in Central America, and three cover all of Latin America. Two projects are related to renewable energy production, two to enable access to international climate financing, three to building transportation infrastructure, while one is related to water management[29]. The EC argues that blended aid through LAIF can support both public and private investments. In this context, it is important to clarify that ´the private sector´ comprises a wide array of formal and informal economic entities, from large international and transnational corporations, to state enterprises, domestic companies, micro, small, and medium-sized enterprises (MSMEs), and a range of social enterprises. Thus, an important question is which private sector is being supported with blending mechanisms in the region.

Indeed, Latin American MSMEs are key for development and job creation. For example, the ECLAC has highlighted the aforementioned issue and also the productivity gap that exists between big companies and SMEs (which are the main source of jobs both in the context of Europe and Latin America). Especially in Latin America, SMEs have very restricted access to the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major obstacle[30]. However, in the context of projects approved by the LAIF, only one project supports directly SMEs. This relatively small regional project in Central America facilitates financing to SMEs for investment projects in the areas of energy consumption reduction, energy efficiency and renewable technology for energy generation[31]. This project will be carried out through financial intermediaries to whom technical assistance and funding will be provided in order to support SMEs.

29. The approved projects are: (1) Programa de Eficiencia Energética para Centroamérica, (2) Programa de Electrificación Sostenible y Energía Renovable en Nicaragua, (3) Mecanismo REDD Cambio Climático (México), (4) Extensión de la planta hidroeléctrica "5 de Noviembre" (El Salvador), (5) Programa de Cambio Climático (Regional), (6) Redes Sostenibles de Transporte (Regional), (7) Programa de Carreteras Rurales (El Salvador), (8) Facilidad de Financiación del Carbono para América Latina (regional), (9) Planta eólica Bii Nee Stipa (México), y (10) Gestión Integrada de Recursos Hídricos (Colombia). Accesed at: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif_presentation_en_january_2012.pdf

30. See: "Report on Support to SMEs in Developing Countries through Financial Intermediaries". Dalberg, November 2011; Available at: http://www.eib.org/attachments/dalberg_sme-briefing-paper.pdf

31. The list of projects can be found at: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/projects_en.htm

The populations of the Isthmus of Tehuantepec rejects the wind energy projects

Evidence shows that it is the private *corporate* sector, rather than the SMEs, which is the main beneficiary of LAIF projects through the procurement processes for mega-scale investments in infrastructure. Since the priorities of the LAIF projects focus on introducing technological innovation from Europe under the "green economy" framework, especially in the energy and green technology sectors, it would not be surprising that most of the contracts are to be awarded to European companies[32]. This is the case in all the ten projects approved so far, but the clearest example is the construction of the wind farm in Tehuantepec Isthmus in Mexico through a project entitled Bii Nee Stipa II. This project is lead by SIMEST, an Italian Development Finance Institution whose mission is to support Italian companies' activities abroad. Consequently, the project is carried out by the Italian energy giant ENEL[33]. Spain, a member state of the EU, surely voted in favour of approval of this project as ENEL collaborates closely with Spanish wind power company Gamesa[34]. The wind farms in Tehuantepec have been criticized by local people because they occupy ancestral lands of indigenous people and provide energy primarily for the partner companies of the European investors (Nestlé Group and Coca-Cola), and not for the population in the area[35].

In the context of the alleged conflicts it is reasonable to ask whether this project was approved because of its potential positive impact in tackling inequalities and poverty reduction or whether more short-sighted interests, such as those of European companies played a more important role[36]. Moreover, beyond the private commitment to hire local staff as a contribution to the area's sustainable economic development, the positive social aspects for local populations remain extremely unclear. Various stakeholders and analysts are calling for a system that not only measures short-term results but also long-term impacts, including the possibility of gaining access to information - directly or indirectly through parliamentarians

32. On the importance of the European companies in the energy sector in Latin America, see for example http://www.cepal.org/publicaciones/xml/0/46570/2012-181-LIE-capitulo_IV.pdf

33. See: http://www.simest.it/home.html (consulted in October 2012)

34. See: http://www.enelgreenpower.com/es-ES/plants/projects/mexico/bii_nee/

35. See: http://www.noticiasnet.mx/portal/principal/beneficiados-empresas-eolicas-istmo.

36. According to a study commissioned by the European Parliament, there are justifiable concerns indicating that blending facilities in general, in the form of concessional loans, are not appropriate for addressing the needs of development cooperation, and can put heavily indebted countries at risk. The study concludes that "quite often, no direct links between blending and poverty reduction can be observed." Blending Grants and Loans for Financing the EU´s Development Policy for 2014-2020. DIRECTORATE-GENERAL FOR EXTERNAL POLICIES, European Parliament, 28 June 2012.

- and opportunities for monitoring the actions of the projects[37]. Evidence also clearly suggests the need for a human rights impact assessment recognizing and putting into practice the human rights obligations of European States.

Besides the financial benefits that flow to the European corporations, it seems clear that LAIF gives visibility and a political leverage for the EU to influence the strategic decisions of partner governments[38]. In this regard, the LAIF mechanism has an impact not only on the Governments of the EU but also, indirectly, on the Governments of Latin America. Take the example of Nicaragua. European bilateral donors and the EC stopped their budgetary support to the current Sandinista regime due to problems of governance and, in particular, due to the fraudulent municipal elections in November 2008[39]. The EC has earmarked these funds, totalling to around US$47 million, for LAIF projects in Nicaragua. The EU has taken the decision to direct these funds to the water sector, to support a water and sanitation program of the Nicaraguan government (Programa Vida). The initiative will blend loans from the Spanish Agency for International Development Cooperation (AECID) which has long been working on water and sanitation in Latin America. Taking into account governance conditionality on the one hand and economic development needs of people on the other hand is always a delicate balance for the donors. In this case, the Nicaraguan government has surely welcomed the shift in the EC strategy as LAIF projects do not require engagement of the government in discussions on governance issues. Moreover, major infrastructure projects financed by LAIF and other loans give high visibility to the Nicaraguan government.

In recent years, the Latin American countries have been able to increase their international monetary reserves and maintain their public and external debt under control. However, the macroeconomic situations may change quickly as seen with the economic crises in Europe in the last years. Furthermore, many LAIF projects are carried out in Central American countries such as Nicaragua where debt remains a relative threat. Thus it becomes all the more important to have clear and transparent criteria regarding the priorities, inception and implementation of LAIF projects, in order to reduce any possible doubt that there are possible conflicts of interest between poverty reduction, European corporate self-interest and sustainability issues in mega-investment decisions. Furthermore, while blending mechanisms may give more political leverage for the EU in influencing the strategic decisions of governments in infrastructure, this may be reduced in other areas to which the EC has committed to give increasing importance from 2014 onwards, namely good governance, democracy and human rights.

37. "Aid and the Private Sector", Eurodad, 07 January 2012. Available at: http://eurodad.org/4741/

38. "For the EU, the Loan and Grant Blending Facilities allow it to some extent to gear the lending activities towards specific areas of interest for the EU and the partners". Nuñez Ferrer, J.; Morazán, P.; Schäfer, T.; Behrens, A. (2012): "Blending Grants and Loans for financing the EU´s Development Policy in the light of the Commission proposal for a Development Cooperation Instrument (DCI) for 2014-2020".

39. Sandell, T. (2010). "Nicaragua: A testing ground for Aid Effectiveness Principles". Reality of Aid 2010.

3.2. "Bottom-up" approach: the role of the Latin American development banks

The EC and the Council of the EU consider that LAIF supports a bottom-up approach in development policy planning. This is sustained by the argument that the regional banks in Latin America take the initiative in proposing the LAIF projects together with their European partners. When interviewed on the issue, an EC official specifically explained that: "opinions are requested from the Delegations of the EU, civil society and governments. There is enormous transparency. But as in the case of a surgery, not everyone can have a say". The EC further stresses that the projects need to be in line with the national (i.e. beneficiaries´) development plan. These arguments hardly guarantee a bottom-up approach. The real decision making in LAIF is highly Brussels-centred. This is due to the decision making structure of the facility: projects are presented by the International Financial Institutions (for example the European Investment Bank) or national financial institutions such as the French Agency for Development (*Agence Française de Développement,* AFD) or the German Credit Bank (*Kreditanstalt für Wiederaufbau*, KfW) to the Financial Institution Group (FIG) where technical aspects are discussed and projects are preselected. Projects are then submitted for final approval to the LAIF Board.

Latin American governments have no direct role in the LAIF governance structure, and there are no mechanisms for civil society participation and consultation. As stressed before, the final decision lies with the Board which is in the hands of the EC and European Member States[40]. The financial institutions in Europe and Latin America have a consultative and an executive role, but only European banks can take the lead in the implementation and monitoring of the projects[41]. In summary, the role of the beneficiaries in setting strategic priorities is not clear and there is also little formal information available as to how specific choices are made with regards to the projects[42]. In conclusion, the European financial institutions have considerable power in this mechanism as they both submit the projects and preselect them. It is quite unusual in a project submission system that the eligible entities are both the ones that assess the quality of the project proposals, and advise the decision-making body. However, that is clearly the case in LAIF and other blending mechanisms as well.

Furthermore, due to the absence of sound and transparent socio-environmental safeguards for their own operations, the Latin American financial institutions – the IDB, the Central American Bank for Integration (BCIE), and the Andean Development Corporation (CAF) - can hardly be considered as the most adequate guardians of local ownership, transparency and sustainable development. Despite some advances in mainstreaming environmental and social sustainability in their operations, their comparative advantage as "green" banks in Latin America remains unclear. As stated in independent evaluations, recent initiatives on climate change and sustainable energy have been at the margins of their core business, while poorly planned infrastructure and extractive sector investments have exacerbated land use contributions to greenhouse gas emissions[43].

40. According to an EC official this is also due to the financial regulations of the EU, which would make it complicated to give financial support through financial institutions based outside Europe.

41. The LAIF Board is presided by the European Commission, and meets once or twice yearly. It defines the overall strategy and takes operational decisions. The Board is composed of representatives of the European Commission, EU Member States and other donors. Observers from each partner country and from each eligible finance institution are able to attend these meetings. Further information at: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif-action-fiche-2009.pdf

42. Getting information on LAIF project documents is really difficult. We had access to a final approval request to the Board on Nicaragua (National Sustainable Electrification and Renewable Energy Program PNESER). This document justifies the investment in a few, very general lines, according to strategic objectives, and does not focus on poverty reduction criteria at all. At least this document seems to demonstrate that there is no strategic approach whatsoever in the decision making documents.

43. A new IDB environmental policy came into effect in 2006 and a Blue Ribbon Panel (BRP) on the Environment was reconvened in 2007 to advise the IDB Management on sustainability issues. The BRP laid out three broad recommendations to make sustainability a viable outcome of the realignment: 1) to move from "do no harm" approach to "doing good"; 2)

4. The appropriateness of LAIF in relation to development objectives

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4.1. Coherence between the EU development objectives and the objectives of LAIF

EU development cooperation has as its legal basis Article 208 of the Treaty on the Functioning of the EU which clearly establishes that its main objective is the reduction and eventual eradication of poverty. This goal is realized through the legislation (regulations) that currently governs EU development cooperation; namely the DCI, which defines as the primary and overarching objective of such cooperation, poverty eradication through sustainable development, including the achievement of the Millennium Development Goals (MDGs) and the promotion of democracy, good governance and respect for human rights and the rule of law[44]. The DCI establishes geographic and thematic programs, which, in the case of regional cooperation between the EU and Latin America, were set out in the Regional Programming Document 2007-2013. This document recognizes that the grave problems of inequality and exclusion in Latin America are "a serious obstacle to poverty reduction and to sustainable economic development itself and, ultimately, a threat to the region's political stability"[45]. Based on contextual analysis, an evaluation of past cooperation and priorities agreed at the EU-LAC Summits, the EC defined in 2007 three pillars (priorities) for cooperation with the region: (a) social cohesion and reduction of poverty, inequality and exclusion; (b) regional integration; (c) human resources and mutual understanding. To address these priorities it was decided that a number of regional programs that were already being implemented would continue (including EUROSociAL, URB-AL, AL-INVEST, @LIS, ALFA, ERASMUS MUNDUS).

In 2010, the EC carried out the mid-term review of this strategy for regional cooperation, proposing the merger of the first two priorities: social cohesion and regional integration. It was established that this combined priority would be put into practice during the period 2011-2013 via LAIF, also taking into account new priorities identified by the EC such as climate change and energy, and complementing the EUROsociAL, AL-INVEST and EUROCLIMA regional programs[46]. The third priority, investing in human resources

correct the sustainability functions within the Bank's organization; and 3) provide adequate human and financial resources to sustainability functions http://www.iadb.org/en/topics/sustainability/blue-ribbon-panel,1538.html

44. "REGULATION (EC) No 1905/2006 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 December 2006, establishing a financing instrument for development cooperation". Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:378:0041:0071:EN:PDF

45. "Latin America. Regional Programming Document 2007-2013". European Commission, Brussels. Available at: http://eeas.europa.eu/la/rsp/07_13_en.pdf

46. "Mid-Term Review and Regional Indicative Programme 2011-2013 for Latin America". European Commission, Brussels. Available at: http://eeas.europa.eu/la/csp/11_13_mtr_en.pdf

and supporting mutual understanding, continues under the regional program ERASMUS MUNDUS. The midterm review defines the 2011-2013 Regional Indicative Programme for Latin America, under which an amount of € 102 million is allocated for LAIF (complementing the € 22 million already allocated in 2009 and 2010). The document states that the main objective of LAIF is to mobilize additional financing to support investment in Latin America's key infrastructures. By promoting this investment, LAIF will contribute directly to the EU priorities in the region, namely regional integration, equitable, non-exclusive and sustainable socioeconomic development and addressing environmental threats. In addition, by pooling the resources of several donors, LAIF responds to the principles agreed in the Aid Effectiveness agenda.

The cooperation granted by the EC under the LAIF framework should contribute primarily to the objectives defined by the DCI (poverty eradication, promotion of democracy, good governance and respect for human rights and the Rule of Law). Under this primary objective, LAIF should respond to specific objectives (priorities) to support social cohesion, reduce inequalities and exclusion, and promote regional integration. The EC states that the main objective of LAIF is to mobilize additional funding to support "key investments" in Latin America, which will contribute to progress in EU cooperation priorities with the region. Here there is a clear contradiction between the political and legal framework to which LAIF must respond and the objectives established in this mechanism: the primary objective of LAIF should be to contribute to the eradication of poverty and respect for human rights and democratic principles, not the mobilization of resources (this may be one of the strategies or means of achieving the ultimate goal, but is not a goal in itself). The EC argues on the one hand that LAIF complements and does not replace cooperation actions to combat poverty, yet this does not justify the fact that LAIF does not state poverty eradication as its primary objective. Furthermore, given that in the future the EC has established the withdrawal of bilateral EC cooperation with 11 countries, should this occur in the case of Latin America, LAIF would become one of the priority cooperation mechanisms in the absence of traditional cooperation. On the other hand, the EC argues that the investments promoted and supported by LAIF contribute directly to the priorities of EU cooperation in Latin America and that 'development' is assured because funds for LAIF are channelled through European financial institutions with a mandate for development. The latter point could perhaps be assessed by reviewing the specific objectives (priorities) of LAIF and by analyzing the mandates of the eligible financial institutions, nevertheless, this report argues that it is only possible to verify by carrying out an evaluation of the results and impacts of the projects supported by LAIF in relation to the EU cooperation priorities mentioned above.

Information published by the EC on LAIF asserts that to achieve the *main objective* (mobilization of additional financing) *three strategic objectives* will be pursued: (i) improving the interconnectivity of infrastructure in the sectors of energy and transportation and sustainable communications networks, (ii) increasing environmental protection and supporting mitigation and adaptation to climate change, (iii) promoting equitable and sustainable socio-economic development by improving social services infrastructure and supporting SMEs[47]. It is important to mention here, the lack of coherence among the LAIF goals themselves. Taking the logical framework approach, achieving the three strategic objectives of LAIF (the specific objectives) does not lead directly to achieving the main objective. Specifically, improving interconnectivity, increasing environmental protection and promoting sustainable development in Latin America does not lead to a mobilization of additional funding. Furthermore, there is a lack of coherence between LAIF's strategic objectives and the priorities of EU regional cooperation with Latin America. As numerous studies have shown, improving the "interconnectivity" of infrastructure must not be confused with promoting "regional integration"[48]. Regional integration is understood as a process closely linking the political and cultural spheres of different countries, where although the interconnectivity of infrastructure may (or may not) fall into one of these areas, it is not the cornerstone or engine of this integration, and the experience of European integration can attest to

47. "Latin America Investment Facility. Strategic Orientations Proposal". European Commission. Available at: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif_strategic_orientations_proposal_-_march_2010.pdf

48. Gudynas, E. (2004). "Ecología, Economía y Ética del Desarrollo Sostenible". (Ecology, Economy and Sustainable Development) Montevideo. Centro Latinoamericano de Ecología Social.

this. In other words, integration between countries is political, rather than merely commercial or physical, because it addresses other issues such as labour, education, cultural and political relations. Environmental protection, LAIF's second strategic objective, is crucial, even though it refers to the "new" priorities identified by the EC in the mid-term review of the regional cooperation strategy for Latin America and in 2010 the EUROCLIMA regional program was established for this purpose. LAIF's third strategic objective: the promotion of equitable and sustainable development is in principle coherent with the priority of social cohesion and combating inequality. However this would need to be verified by analyzing the projects co-financed by LAIF and the impacts generated by these on inequality and social exclusion.

4.1.1. Focus of the LAIF projects

Based on the information currently available on the projects supported by LAIF, it is not possible to evaluate the impact of these projects. This is true not only because of the absence and scarcity of relevant information, but because most of the approved projects are only now being implemented or their implementation has not yet begun. However, it is possible to undertake an analysis of the objectives and profile of the projects, where such information is available. The EC states that until March 2013, 20 projects have been approved for LAIF funding. It is only possible to confirm this approval and obtain information from the EC about ten of these projects, which form the basis of this analysis report.

Half of these ten projects state environmental protection and / or climate change mitigation as their main objective, and only one mentions a focus on the most disadvantaged sectors of the population with possible effects on poverty reduction. One project is focused on the private sector, in particular on improving the competitiveness of SMEs through investment in energy efficiency and renewable energy. Three other projects are focused on the energy sector, two of which are aimed at renewable energy generation, and the third on expanding access to electricity in rural areas (including a renewable energy component), the latter being the only project which explicitly mentions poverty reduction as one of its objectives. Two projects are aimed at the transport sector, one of which focuses on rural roads and expects to achieve a positive impact on rural economic development and, therefore, on poverty reduction. In conclusion, of the ten projects reviewed, only one states an explicit aim related to poverty reduction, while two others mention the possible effects on disadvantaged populations. In the other seven projects are notable for their absence of a focus on poverty and inequality reduction. In general, it is not possible to perceive either a direct link between LAIF and the reduction of poverty and inequality in Latin America, or a rights based approach in the projects analyzed. The priority on economic growth through infrastructure investment is not always conducive to positive impacts on poverty ("the trickle-down effect"), and in some cases can lead to greater exclusion and inequality. It is therefore crucial that projects identify the channels through which they are contributing to achieving development goals[49], and include, from conception, mechanisms to monitor and assess their impact in terms of poverty reduction, inequality and human rights.

4.1.2. Regional integration

In terms of the priority of regional integration, three LAIF projects are of a regional nature. The Climate Change Programme promotes investment in infrastructure projects based on clean technologies. Another project encourages investment in public transport infrastructure, principally through environmentally friendly urban mobility. The third project is the Latin America Carbon Finance Facility that seeks to facilitate access to financing for investments in emissions reduction and climate action, based on future income from

49. Nuñez Ferrer, J.; Morazán, P.; Schäfer, T.; Behrens, A. (2012): "Blending Grants and Loans for financing the EU´s Development Policy in the light of the Commission proposal for a Development Cooperation Instrument (DCI) for 2014-2020". European Parliament, Department of Politics. EXPO/B/DEVE/FWC/2009-01/Lot5/29, June 2012.

carbon credits. Based on the limited information available on these projects it is not possible to undertake a rigorous assessment of the potential impacts on regional integration in Latin America, however, none of the projects were found to have a specific focus on regional integration, leading to the impression that the majority of investments or actions promoted have more of a national or sub-national reach. One of the ten projects has a sub-regional scope (Central America) in supporting investment for SMEs in energy efficiency and renewable energy, nevertheless, the project is organized country by country and does not appear to support regional integration processes. Evidence was not found in any of the other projects of activities or actions promoting regional integration or seeking to make a political or cultural link at the regional level; these projects are clearly national in scope.

In conclusion, given the limited and superficial information which it was possible to obtain on the ten projects reviewed, the evidence is not conclusive regarding the coherence between the objectives of the projects funded by LAIF and the objectives and priorities for EU development cooperation with Latin America. Nevertheless, it is important to note that the vast majority of projects do not contemplate the reduction of poverty, inequalities and exclusion (social cohesion) as their objective or potential impact as a result of the effective implementation of the project. A third of the projects have a regional character, but this does not mean that they aim to support regional integration and they are more likely to be mainly national in scope, as is the case in all the other projects. Environmental protection and climate change mitigation is a primary or secondary objective in most of the projects. It is important to remember that this objective corresponds to a "new" priority for EC regional cooperation in Latin America, and it is fundamental that the EC explore and clarify the common elements and complementary aspects of the projects funded by LAIF and the EUROCLIMA regional program launched in 2010. It is also important that the EC clarify the existing coherence and synergies between the priority on the environment and climate change and the focus of the fight against poverty and inequality, and that the environmental projects assess and take into account their impact on social issues and human rights.

4.1.3. Climate change

Likewise, it is essential to clarify the way in which these resources are accounted for as finances for the struggle against climate change. In the LAIF framework and in other facilities of this type, the EU has incorporated the mechanism known as "Climate Change Windows", by which it seeks to better monitor and make visible its financing for climate change projects. Each project submitted for LAIF funding must specify, through the Rio markers[50], whether it contributes to mitigation or adaptation to climate change

50. Since 1998 the Development Assistance Committee of the OECD has been monitoring aid focused on the objectives of

and whether this is a primary or significant objective of the project, or whether it is not one of the project's objectives at all. In this way resources for climate change can be monitored and calculated. All projects funded with LAIF grants (of the 10 projects studied) are related to mitigation or adaptation to climate change, and around 90% of the LAIF contributions are recorded as actions for the benefit of the climate. Therefore, it is crucial that the EC clarify whether these really represent "new and additional" resources according to the commitment of the EU and its Member States in the agreements made as a result of international negotiations on climate change.

4.2. The private sector as a key player

It is important to discuss a serious concern regarding LAIF, and in general regarding mechanisms for public-private association with development cooperation resources, something which is closely related to the coherence of these mechanisms with development objectives. Funds for development cooperation form part of solidarity ethics and respond to a form of logic in which development goals and positive social and environmental impacts are the main criteria for making decisions on the allocation of resources. According to the Treaty which establishes the EU, they do not conform *per se* to a kind of logic where financial return is the decisive criterion. In the context of mechanisms which combine loans and grants (such as LAIF) the logic of profitability is combined with that of solidarity, and runs the risk that the principles of financial profitability and economic growth will prevail over development goals, i.e. that development cooperation resources end up subsidizing (public and private) investment profitability and the financial market, or are used by investors to reduce costs and increase efficiency. In a climate of scarce resources, it is also necessary to note that there is an opportunity cost in using aid resources to mobilize private investment[51], as these public resources are not additional and are reducing the availability of resources for other purposes more clearly aligned with development goals. It is therefore crucial that when assessing the projects submitted to LAIF, development goals (including the primary objective of eradicating poverty) constitute the main criteria for funding decisions.

This leads us to a discussion on the role of the private sector in development, and more specifically in the policies and programs of development cooperation, which has become a central debate in the donor community in recent years. There is no doubt that the private sector is an important player in economic development, job creation, tax revenues, innovation and the supply of goods and services; and has participated in development cooperation in various ways: tied aid, public contracting, the management of cooperation, technical assistance and training, the provision of services, philanthropy, etc.. The private sector consists of a wide range of formal and informal traders, multinational and national corporations, SMEs, and also a variety of local and community ventures as part of the social and solidarity economy. For purposes of this analysis report, a distinction is made between the private corporate sector (large national and transnational corporations) and the local private sector comprising SMEs and those working as part of the social and solidarity economy. The latter is a key player in the revitalization of the domestic market, an engine for innovation and the main source of employment generation in Latin America, where it accounts for 86% of total private sector employment, and also in Europe where it accounts for 67% of total private sector employment[52]. The corporate private sector is an influential actor in the definition of national and global economic agendas, has been the engine of globalization and has contributed to global economic growth. The direct effects of economic growth in reducing poverty and inequality are rather questionable, and evidence

the Rio Conventions (1992) by using the "Río markers".

51. Griffiths, J. (2012): "'Leveraging' private sector finance: How does it work and what are the risks?" The Bretton Woods Project, London, April 2012.

52. Henriquez Amestoy, L. (2009): "Políticas para las MIPYMES frente a la crisis. Conclusiones de un estudio comparativo de América Latina y Europa". Documento de Trabajo. (*Policies for SMEs in light of the crisis. Conclusions of a comparative study on Latin America and Europe. Working document*) International Labour Organisation (ILO) and EuropeAid.

shows that the "trickle-down theory" (extremely popular in the 1990s) does not always work[53]. On the other hand, corporations have been seriously questioned for violating human, economic, social, cultural and environmental rights, as well as for their interference and corrupt practices within both the private and the public sectors[54].

Corporate Social Responsibility (CSR) has become a key strategy for many in the private corporate sector in the last decade. CSR has allowed corporations to successfully align their discourse with the language of international development cooperation and has become a concept which enables and facilitates their greater involvement in cooperation policies. In the current context in which public resources for cooperation are under pressure, there has been an important shift in the focus of the international agenda that seeks to legitimize, formalize and significantly expand the participation and influence of the private sector in development cooperation policies. For its part, the international donor community has also been shaping its discourse to include the principles, objectives and practices of the private sector in the cooperation agenda. As a number of authors have explained[55], these are complementary processes: while CSR and "inclusive business" seek to integrate impoverished sectors into the market (expanding their base for business), public-private partnerships seek to incorporate corporations into the development agenda (expanding their participation in the definition and implementation of policies).

In this way an alignment of EU policies, mechanisms and instruments is emerging (trade agreements, public-private partnerships, and other mechanisms such as LAIF), which in the context of a reconfiguration of the global political and economic landscape, and the prospects of a reduction in the flow of official development aid, have shifted towards supporting and promoting the private sector as a key player in development, placing it at the heart of EU development cooperation strategies. However, at present there are no global binding rules or legal obligations to regulate the activities of the private sector, particularly with respect to human rights and the United Nations Protect, Respect and Remedy Framework. The valuable work carried out for over six years by John Ruggie (the United Nations Secretary General's Special Representative on Human Rights and Transnational Corporations and Other Business Enterprises), led to the *Guiding Principles on business and human rights* which were adopted by the United Nations Human Rights Council in June 2011. However, these Guiding Principles "represent guidance to States and companies, and not new international legal obligations and do not contain, as yet, the sufficient enforcement mechanisms to close the acknowledged governance gaps"[56]. This recalls the previous reflection in this report on the mixture of two different and possibly conflicting scenarios, within facilities such as LAIF. A scenario in which profitability and economic growth, driven by the private sector, are the organizing principles of development, in contrast to a scenario in which the human rights approach within the framework of the Rule of Law is the organizing principle and the eradication of poverty the paramount objective. The crucial question is which of these scenarios will prevail in development cooperation. As a senior business director crudely put it in a recent report on the subject: "public-sector players need to focus more on how they can fit into private sector investment strategies rather than on how to get private-sector organisations into their programs"[57].

53. Antón, J.I.; Carrera, M.; Muñoz de Bustillo, R.; Rodrigues-Silveira, R. (2009): "Pobreza y desigualdad en América Latina. Del crecimiento a las transferencias condicionadas de renta" (*Poverty and inequality in Latin America. From growth to transfers conditioned on profit*). CIDOB - Afers Internacionals (magazine), no. 85-86, p. 157-183. Barcelona, Spain.

54. Evidence of rights violations by corporations has been documented by different authors and initiatives. For example, the work of the Peoples' Permanent Tribunal and its sentences: http://www.internazionaleleliobasso.it/?cat=15. Also, the work of the Observatory on Multinationals in Latin America (Observatorio de Multinacionales en América Latina): http://omal.info/

55. Ramiro, P.; Pérez, S. (2011): "Sector Privado y Cooperación al Desarrollo: Empresas, Gobiernos y ONG ante las alianzas público-privadas". (*Private Sector and Development Cooperation: Companies, Governments and NGOs on public-private alliances*) Boletín de recursos de información nº 28. Centro de Documentación Hegoa. Bilbao, July 2011.

56. "UN Protect, Respect, Remedy Framework and the Guiding Principles: Driving Change?" CIDSE briefing, p. 6. March 2013. Brussels, Belgium.

57. "Our shared opportunity. A vision for global prosperity". Report of the Centre for Strategic and International Studies (CSIS) Executive Council for Development. Washington. Available at: http://csis.org/files/publication/130304_Nesseth_DevCouncilReport_Web.pdf

5. LAIF: transparency and accountability

Author: Camilo Tovar (Consultant)

Article 15 of the Treaty on the Functioning of the European Union grants all EU citizens, and any natural or legal person residing or having their registered office in a Member State, the right of access to documents of the EU institutions, bodies, offices and agencies. This article is the legal basis of Regulation (EC) No 1049/2001 which regulates the right of access to documents of the European Parliament, the European Council and the European Commission. The EU institutions have been striving in recent years to improve transparency and access to information, perhaps as one of the ways to tackle the EU's so-called "democratic deficit". In the field of EU development cooperation emphasis has also been placed on transparency, access to information and accountability, and on the website of the Directorate-General for Development and Cooperation - EuropeAid there is a section dedicated to this which has the following sentence as an introduction: "*Making information about aid spending easier to access, understand and use also means that EU taxpayers and citizens in poor countries can more easily hold the European Commission, EU donors and recipient governments to account for using aid money wisely. The European Commission and the EU Member States are committed to achieve transparent EU aid*"[58]

The information available on LAIF on the EuropeAid website includes general information about the context, objectives, architecture, functioning and the type of operations that LAIF supports. Four "key documents" are published: the operational report 2010-2011, a strategic guidance document, a presentation of LAIF and the 2009 "factsheet". The link to the approved projects contains very general and brief information (one paragraph per project) of 8 projects approved by LAIF. The latest update of this information was on February 17, 2012. The strategic guidance document mentions that the EC will produce an annual activity report at the beginning of each year which will include information on the operations financed and assess the contribution towards achieving the objectives defined by LAIF[59]. At the time of writing, the only available operational report is from 2010-2011. The factsheet for 2009 states that annual reports will be submitted to the European Parliament DCI Committee[60]. Some additional information, especially on LAIF annual budget allocations can be accessed in the "factsheets" which are available on the EuropeAid website (for the years 2009, 2010 and 2011) [61]. The "factsheets" for the years 2012 and 2013 are not available on the website.

58. See: http://ec.europa.eu/europeaid/how/accountability/iati_en.htm

59. "Latin America Investment Facility. Strategic Orientations Proposal". European Commission. Available at: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif_strategic_orientations_proposal_-_march_2010.pdf

60. "Factsheet – Latin America Investment Facility 2009". European Commission, Brussels.

61. See: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/index_en.htm

More detailed information on approved projects, social and environmental impact studies, the project portfolio, procedures and criteria for project appraisal and financing decisions, is not available, nor is information on the monitoring of the project implementation. For this analysis report on the LAIF projects, we made a variety of inquiries and requests for more detailed information on the projects approved by LAIF, some of which were already being implemented. Naturally the first institution we contacted to request information on the approved projects was the European Commission. The European External Action Service sent us to the Directorate General for Development and Cooperation - EuropeAid (DEVCO), where the officials responsible for LAIF directed us to the information contained in the operational report for 2010 - 2011 and noted that they planned to issue a report during 2012 which would be posted on the website when available. Regarding the specific information on projects approved by LAIF, the response given was that "*detailed information on the projects approved under LAIF is produced by the financial institutions eligible under LAIF and as such is considered a third-party document and not a document of the European Commission. Since the publication of such information could harm business interests and / or personal interests, including intellectual property, we would prefer you to address the relevant financial institution to request such information*."[62] However, the EC did not provide the contact details of the relevant financial institutions where we could direct our request for information.

In conclusion, the EC grants public access through the EuropeAid website to only very general information on LAIF and very superficial information on approved projects. The so-far only existing operational report presents more information on the eight projects approved in 2010-2011, but is clearly insufficient for analysis or an objective assessment of these projects. The repeated requests for more detailed and specific information on the projects were not addressed by the EC, who argued that they were not entitled to share such information as it had been produced by financial institutions eligible for LAIF and that its publication could affect the interests of the actors involved. For their part, the financial institutions eligible for LAIF responded in two cases (KfW) that only the EC may authorize the disclosure of the information requested, thereby placing the responsibility back with the EC. In another case, (SIMEST) argued that it could not share information as the financing agreement with the EC had not been signed, although the project has already been implemented. In the fourth case there was more openness for dialogue on the part of the financial institution (AFD) but they did not share information relevant to the analysis.

This situation suggests that in the LAIF framework there are no clear criteria or mechanisms defined for the disclosure of specific information regarding project proposals, social and environmental impact studies, the projects' operational plans, procurement procedures, implementation or the monitoring of implementation. Nor does there appear to be clarity on the responsibilities and powers among the different actors involved (EC, European financial institutions, Latin American financial institutions, government institutions and private sector) in terms of access to information. It is of particular concern that, in principle, all projects should undertake a social and environmental impact study prior to being approved, yet only for one of the four projects studied was it possible to find and access this study, and this was through the EIB website and not from the leading financial institution or the European Commission / EuropeAid.

62. Electronic communication of 07/02/2013 with the person responsible for LAIF in DEVCO, European Commission.

6. LAIF: case studies

Author: Camilo Tovar (Consultant)

As part of the monitoring and strategic reflection that a variety of European and Latin American networks and social organisations are undertaking regarding EU development cooperation to Latin America, especially in the current context of discussion on the definition of future policies and instruments for EU development cooperation, funding mechanisms such as the LAIF facility take on special importance. Because of this, and in view of the limited availability of information on the implementation of LAIF, the networks CIFCA and GRUPO SUR, with support from Oxfam-Solidarity, decided to deepen their analysis by conducting research focused on LAIF as development cooperation mechanism, its consistency with the objectives of EU development cooperation policy and the central position that the private sector is taking in the field of cooperation. Based on a general mapping exercise of ten projects approved for funding by LAIF, four projects were selected[63] for more detailed deep research and analysis on the basis of the limited information available and accessible[64].

6.1. Program for energy efficiency and renewable energy, Central America

The program, entitled the Green SME Initiative, facilitates access to financing for SMEs for investments in energy efficiency and renewable energy. Its objective is to contribute to environmental protection through energy saving. The overall aim is to improve the competitiveness of SMEs in the adoption of technologies that increase productivity, reduce operational costs and improve economic profitability. The program is led by KfW (Germany) with a loan of € 30 million, and is implemented by the CABEI, which provides a € 3.3 million loan and receives a grant of € 3 million from LAIF for technical assistance and research.

The program addresses access to finance, a crucial factor that has been identified as one of the main barriers to the development of SMEs. The loans granted by KfW and CABEI are channelled to the SMEs and energy developers through Central American IFIs which are eligible for a Global Credit Line approved by the CABEI. LAIF's grant provides technical assistance and training to the IFIs who work with SMEs to establish

63. Selection was based in four criteria: 1) geographic and thematic balance, 2) project´s relevance for the organizations of civil society, 3) information availability, and 4) balance between cases potentially "good" and "bad".

64. Chapters 4 and 5 of this publication: "The Appropriateness of LAIF in relation to Development Objectives" and "LAIF: Transparency and Accountability", respectively, were written on the basis of the studies carried out into these four projects.

credit products for the financing of environmental investments in energy efficiency and renewable energy. LAIF also funds SME energy audits to determine the investment required and the potential energy savings from an energy efficiency project, as well as feasibility and environmental impact studies for small renewable energy projects. Finally, LAIF supports promotional activities with the IFIs and SMEs on the importance of investing in energy saving and alternative energy sources.

In theory, the program could have a positive impact on environmental protection (reduction of energy consumption and generation from renewable sources), by reducing dependence on fossil fuels and exposure to the price volatility of these, as well as improving the competitiveness of SMEs and their access to finance. These results of the program could lead to greater SME job creation and thus have a possible indirect effect on reducing poverty and inequality. However, this hypothesis must be handled with great care, on the one hand because it depends on several factors external to the project, so that new jobs are actually created and that these jobs are decent and sustainable. On the other hand, it is not possible to sustain whether this hypothesis is supported in the planning and design of the program as it was not possible to receive this basic information from the EC or from the institutions involved in the project.

In conclusion, based on the limited information available, the program has the potential to have positive impacts if it generates the expected results. However, the lack of information did not allow for a rigorous analysis which leads to a series of questions, such as: How was the project designed? Who participated and what monitoring mechanisms were defined? Given that it is a regional project (Central America), how does it support the process of regional integration? What are the procedures for the procurement of services (training, consultations and studies) and assets (equipment) and what kind of companies are benefiting from these contracts? Were any studies undertaken into the social and environmental impacts prior to the start of the program? How was it defined that financing would be prioritized for SMEs for investments in energy efficiency and renewable energy, and not for other funding requirements?

6.2. Expansion of the '5 de Noviembre' hydro-power plant, El Salvador

The project aims to meet the demand for electricity in El Salvador through renewable energy generation, contributing to environmental protection and reducing dependence on imported fossil fuels, thereby resulting in greater energy security. The project consists of the expansion of the "5 de noviembre" power plant, from the current 99 megawatts (MW) to 180 MW by installing two 40 MW turbines and using the existing dam and reservoir. The project is led by KfW (with a loan of € 46 million), co-financed by the CABEI (with a loan of € 46 million) and by the River Lempa Executive Hydroelectric Commission (*Comisión Ejecutiva Hidroeléctrica del Rio Lempa* - CEL) with a contribution of € 34.4 million. LAIF's grant (€ 6 million) is a direct contribution to the investment that is mixed with the resources of KfW and CABEI ("pooling of funds") and, according to the EC, means that CEL will not have to borrow at a higher loan cost and makes the financial package affordable enough to make the project feasible. The contract for the construction of the project was signed on January 29, 2013 by CEL with the winning bidder: the UDP 'Cinco de Noviembre' Building Expansion Consortium (Construction Company: Queiroz Galvão SA-Andritz Hydro Inepar do Brasil SA). The project anticipates an implementation deadline (construction period) of 36 months.

The CEL commissioned an Environmental Impact Assessment (EIA) of the project that was conducted by Euroestudios, a Spanish consulting and technical advisory company, who submitted the EIA in May 2012. Overall, the EIA concludes that "from the environmental point of view, the project is considered appropriate, will not introduce significant changes in hydrological or hydraulic conditions, will not relocate populations, there have been no protected wildlife species identified in the area of direct influence, private land will neither be bought or occupied" (*unofficial translation*)[65]. The EIA identifies some negative impacts and suggests a number of measures for prevention, mitigation and compensation to be adopted in the Environmental Management Program with an estimated budget of USD 784,096.

The EIA also makes a cost-benefit analysis from a financial perspective which calculates that the project's net revenue from energy sales and carbon credits, considering operation and maintenance costs, would be of the order of USD 211 million, estimating a project cost of USD 136.4 million (including the costs of mitigation and environmental monitoring), thereby generating a net profit of USD 74.6 million[66]. However, these calculations are rather optimistic since, according to CEL information, costs are estimated at USD 189.37 million[67]. Additionally, the EIA assumes a price for carbon bond sales of USD 10 per ton of CO_2 (t CO_2), but the carbon market has collapsed, and at March 2013 is estimated at USD 0.44/t CO_2. We could not confirm with the project managers if the project has been registered and approved under the Clean Development Mechanism (CDM), but this does not seem to be the case since no record was found on the website of the UN Framework Convention on Climate Change (UNFCCC). According to the economic evaluation undertaken in the EIA, the profit which would be made by El Salvador was estimated by costs saved by not using thermal energy and energy imports, generating a net profit of USD 21.1 million. However, taking into account the higher costs estimated by CEL and the EIA calculations, a scenario could occur in which the project will generate a deficit or negative economic profit, without taking into account the lower level of income due to carbon bonds, as explained above. Repeated contact was made with CEL to verify this data and obtain an up-to-date cost-benefit analysis of the project, however CEL did not respond.

Additionally, the EIA tends to see the impact on water use from an economic perspective quantifying water use in terms of its energy potential. The EIA did not take into account environmental and social variables in the different categories of water use, for example, techniques were not used to measure the "water footprint" and the amount of "virtual water" for each of the different impacts[68]. The River Lempa is the main water source in El Salvador, representing two thirds of the water potential in the country, which depends on its water for multiple uses, it is a source of life and its hydrological cycle is linked to the vitality of the country's ecosystems. Moreover, water fulfils an essential social function and it is known that the development and the relative wealth of the regions in El Salvador are linked to the availability of water, therefore the supply of water to meet basic needs and improve quality of life for the population should be prioritized[69], another variable that the EIA does not take into account. In turn, the source of the River Lempa is situated in Guatemala and passes through Honduras before entering El Salvador, therefore requiring a comprehensive management agreement between the three countries, a fact that is evident in the recent disputes between the two countries over the exploitation of the Cerro Blanco Mine in Guatemala. As confirmed by Dr. Angel Ibarra, president of the Salvadoran Ecological Unit, "*It is clear that in order to make progress along the path of social and environmental sustainability in the country, the recovery of the Lempa is a decisive battle; it is not an exaggeration to say that the Lempa's future largely determines the future of El Salvador*"[70].

This project demonstrates the priority given to the economic aspects over the social and environmental aspects of development and, aside from the abovementioned doubts about the economic sustainability of

65. "Estudio de Impacto Ambiental del Proyecto Expansión de la Central Hidroeléctrica 5 de Noviembre". (*Environmental Impact Study of the Project for the Expansion of the '5 de noviembre' Hyrdo-Power Plant*) Contract No. CEL-4561-S. May 2012.

66. Ibid, p. 5-8.

67. "Perfil de Proyecto. Expansión de la Central Hidroeléctrica 5 de Noviembre". Comisión Ejecutiva Hidroeléctrica del Rio Lempa (2013) (*Project Profile. Expansion of the '5 de noviembre' Hyrdo-Power Plant. Rio Lempa Executive Hydroelectric Commission*)

68. For his support and comments, we thank Carlos Salvador Zepeda, PhD student at the University of Warwick, UK.

69. Ibarra, A.; Campos, U. y Rivera, F. (2005): "Hacia la Gestión Sustentable del Agua en El Salvador. Propuestas básicas para elaborar una Política Nacional Hídrica". (*Towards the Sustainable Management of Water in El Salvador. Basic Proposals for a National Water Policy*) Salvadoran Ecological Office (Unidad Ecológica Salvadoreña - UNES), El Salvador, August 2005.

70. Ibid.

the project, the question arises whether the social and ecological importance of the River Lempa and El Salvador's dependence on this source of life, was taken into account during the decision-making process for LAIF financing. Or whether the decision to fund was based solely on the profitability of the investment and the objective of meeting the electricity demand and its generation from renewable sources.

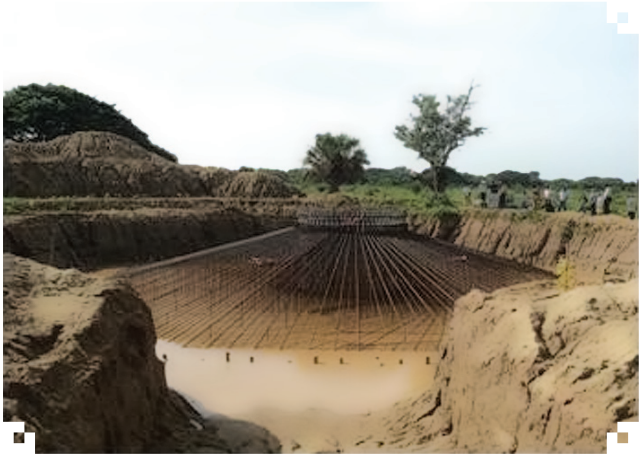
6.3. Bii nee stipa II wind farm (stipa nayaa), mexico

This project aims to promote the wind energy industry through a scheme of public-private financing for a wind farm in Ejido La Ventosa, Isthmus of Tehuantepec, of 74MW with 37 turbine wind generators. This represents the second stage of the Bii Nee Stipa (BNS) project, planned and developed by Gamesa Energía S.A. (Spain) and the Mexican company Cableados Industriales S.A. de C.V. (CISA), which consists of 3 phases. The first phase (BNS I, 26MW) was sold to Iberdrola (Spain) in early 2010. Enel Green Power (EGP, Italy) acquired the second phase of the project (BNS II, 74MW) and in December 2012 the completion of the third phase was announced (BNS III, 70MW). The project approved for a grant of € 3.3 million from LAIF is led by SIMEST (an Italian government institution for development finance whose mission is to support the activities of Italian companies) with a contribution of € 5 million and co-financed by the IDB with a corporate loan of USD 76 million granted to EGP through its subsidiary in Mexico, the Impulsora Nacional de Electricidad S. de R. L. de C.V. (INELEC). SIMEST also provided an interest rate subsidy for the financing granted by the Banco Bilbao Vizcaya Argentaria (BBVA, Spain) to EGP for an amount of € 44 million[71].

In 2011 Gamesa and CISA formed the Mexican company Stipa Nayaa S.A. de C.V. which owns and operates the BNS II wind farm, which was completed in June 2012 by Gamesa and CISA. The Stipa Nayaa company was acquired by EGP and INELEC in 2012 with capital funds provided by SIMEST, IDB EGP and the BBVA loan. The energy produced will be sold and used mainly as an energy self-supply scheme for two large multinational industrial groups: the Mexico Nestlé Group and FEMSA (Fomento Economico Mexicano S.A. - Coca-Cola bottler, owner of OXXO stores and other investments). These two groups have a small shareholding in Stipa Nayaa thereby becoming self-energy providers. The excess energy can be offered to other customers who participate in the self-supply scheme or sold to the Federal Electricity Commission (*Comisión Federal de Electricidad* - CFE). The transport of energy between the Isthmus of Tehuantepec and the national network is made under the scheme of "Public Works Financing" by the private sector, in return for the rights to the works and the ability to sell the energy to the CFE.

The LAIF grant of € 3.3 million will be used to finance the public infrastructure component, which is estimated to cost € 8 million in investment, of which LAIF is covering 41% of the cost. The financing agreement ("delegation agreement") has not yet been signed with SIMEST therefore the European Commission has not disbursed the resources, but according to Gamesa this component of the project has already been built. This situation raises a number of questions that have not been resolved by this investigation because the actors involved (EC, SIMEST, EGP) did not respond to requests directed to them about this issue. Two crucial questions are: How was the public component financed if it was considered that LAIF's contribution was crucial for this purpose? Will the EC offer a retroactive grant (for work already carried out)? And, if so, how will the LAIF resources be used once the financing agreement is signed with SIMEST? These questions lead in turn to doubts about how rigorously the project evaluation was carried out by the LAIF structures regarding the need and justification of the LAIF contribution, given that the project was funded and executed without the disbursement of LAIF resources. This is even more the case when the same company, EGP, executed a similar project (BNS III) just months after BNS II and without the need for a grant.

71. "Report and Financial Statements of Enel Green Power SpA". Enel Green Powe, December 31 2011.



The BNS II project profile submitted to LAIF argues that is aligned with the principles of International Labour Organization (ILO) Convention 169 through the involvement of local and indigenous communities in the agreements made in Ejidos La Mata, Ixtaltepec and through a series of activities promoted by EGP[72]. Contact was sought with EGP to obtain information on the implementation of these activities, but no response was obtained. A draft IDB document on the environmental and social strategy of the BNS II project, states that: "*There is no indication in the documentation that affected people have been appropriately consulted on the Project, which will be investigated during the Due Diligence*"[73]. No further information was found regarding this issue, nor the final IDB 'due diligence' report.

Wind farms in Tehuantepec have been resisted by indigenous and local people because they occupy, without proper consultation, their ancestral lands and some sacred territories, as well as generating social impacts. Evidence of this is the current situation regarding the construction of a large wind farm by the company Mareña Renovables by the company in the municipality of San Dionisio del Mar, in Oaxaca State, where the local community has organized a movement for resistance and the defence of their territory, and have been the target of threats, harassment and attacks. Their work in defence of their rights has been delegitimized through defamatory statements by State and local authorities, and some of the community leaders have had to leave their community and take refuge in safer places because of the high risk involved in their activities[74]. For its part, the Mareña Renovables company has ignored community resistance to the project and is pressing the authorities in Oaxaca to provide guarantees for the investment and facilitate the start of the works, without the consent of the local population and regardless of the cultural, social and environmental impact this will have[75].

The land in the area where the BNS II wind farm is built was mainly used for agriculture. The project developers report that all the farmlands are privately owned[76], yet community leaders in the region, such as Bettina Cruz, claim that some of these lands were declared to be communal by a government resolution some years ago. Developers and the government commonly argue that the lands where wind farms are installed are unproductive. However, Carlos Beas Torres, leader of the Union of Indigenous Communities of the Northern Zone of the Isthmus (*Unión de Comunidades Indígenas de la Zona Norte del Istmo* - UCIZONI), recalls that the lands where wind farms are situated today were once places of significant agricultural and

72. "Contribution Request nr A1 to be presented by written procedure of the Operational Board on April 2012", Latin America Investment Facility (LAIF). SIMEST, February 23rd, 2012.

73. "Environmental & Social Strategy – Draft", *Bii Nee Stipa II Wind Power Project – Mexico*. IDB, 2012.

74. "Informe la situación de los derechos humanos en Oaxaca. Grandes pendientes". (*Report on the situation of the comprehensive defence of human rights in Oaxaca. Much to be done*) Comité de Defensa Integral de Derechos Humanos Gobixha A.C. CODIGO DH, 2012, p. 68-78.

75. For further information, see: http://cencos.org/taxonomy/term/975

76. "Contribution Request nr A1 to be presented by written procedure of the Operational Board on April 2012", Latin America Investment Facility (LAIF). SIMEST, February 23, 2012.

livestock production. In La Ventosa, where the BNS II was constructed, "*a few years ago we produced the best cheese in the Isthmus, now food for livestock is scarce and so the production of milk and other dairy products has decreased, which is why many people lost their jobs*" [77]. Production and labour alternatives generated by wind farms are not sustainable or significant. During the wind farm construction phase local staff were hired (about 200 employees) generating a very short term bonanza (of a few months). After this stage, the vast majority of workers were left without jobs and without the alternative of agricultural production. Only very few local workers continue to be employed in surveillance and monitoring work, as the wind farm operates automatically and its maintenance is generally performed by foreign technicians.

In terms of the environmental impacts of the BNS II project, the information published by the IDB includes a document that contains a section describing the environmental problems in the area of influence and another section on the identification, description and evaluation of the environmental impacts. In this regard some possible impacts have been identified during land delimitation activities, the installation of wind turbines and vehicular traffic. The study concludes that the project will not cause serious damages to the environment because most of the impacts are moderate and temporary in duration, and highlights the need for a study on bird migration routes[78]. Gamesa and CISA commissioned a study of resident and migratory birds for this project, completed in June 2011. The study[79] concludes that it is not expected that the number of collisions (of birds with turbines) will be significant and cause negative impacts on bird populations, however it recommends developing a surveillance plan to monitor this issue. The request for contribution submitted to LAIF, states that SIMEST and IDB will monitor the environmental, social, labour, health and safety aspects of the project through their internal monitoring processes (eg. visits to the project site, review of documentation, etc..), however, to date there is no information available regarding this monitoring.

Finally, it is important to mention that the BNS II project was registered by Gamesa Energy in 2005 under the CDM of the UNFCCC in order to obtain Emission Reduction Credits (ERC). The Project Design Document (PDD) presented by Gamesa to the CDM states that the project needs the income that can be derived from the sale of ERCs, at a price of between 5 and 20 USD/t CO_2, to make the project financially viable[80]. However it is important to note that the carbon market has collapsed and ERCs which were listed on the market in 2008 at a price of USD 20/t CO_2 are in March 2013 set at a price of USD 0.44/t CO_2. At the time of writing (late March 2013) there is no record on the CDM section of the UNFCCC website of any request for issuance of ERCs for this project.

In conclusion, the BNS II project approved by LAIF has several elements for which it can be categorized as "bad practice" in development cooperation, even though in the technical assessment by the LAIF structures it is considered as a reference point of how LAIF can contribute to a public-private initiative in the energy sector. On one hand, everything appears to indicate that the grant requested and approved by LAIF was not entirely necessary and essential to the viability of the project, as this was executed without LAIF resources having been disbursed, calling into question whether the EC will give a retroactive grant for this project. On the other hand, the project is essentially a private initiative (private investment and implementation) for private purposes (energy produced for large companies), whose public component is minimal and will not generate direct benefits for the local population, while local energy rates for the people in the area continue to rise. The project was implemented in a context of significant social resistance to this type of project and an ongoing conflict between local people, the Mexican authorities and wind companies, a situation that apparently was not properly taken into account during visit of the EU Delegation to Oaxaca, or by the EC in the evaluation of the project and its context.

77. Beas Torres, C. (2012): "Los mitos del megaproyecto eólico del Istmo de Tehuantepec", (*The Myths of the wind megaproject in the Isthmus of Tehuantepec*) ALAI –America Latina en Movimiento, October 24, 2012.

78. "Guía sector eléctrico modalidad particular", Bii Nee Stipa II Wind Farm. IDB, 2009.

79. Montejo Díaz, J. E. (2011): "Reporte final del estudio de aves residentes y migratorias del proyecto eólico 'Bii Nee Stipa I', La Ventosa, Oaxaca." (*Final Report on the Study into Resident and Migratory Birds and the 'Bii Nee Stipa I' Wind Project in La Ventosa, Oaxaca*) Xalapa, Veracruz.

80. "Project Design Document (CDM – PDD) – Bii Nee Stipa", Clean Development Mechanism. Gamesa, 2005, pp. 14.

6.4. Integrated management of water resources (colombia)

This project aims to support the implementation of the Colombian government's National Policy for the Integrated Management of Water Resources (*Política Nacional para la Gestión Integral del Recurso Hídrico* - GIRH) and to support the implementation of its upcoming National Water Plan in 2014. The project, submitted to LAIF by the AFD with co-funding from CAF, consists of budgetary support over a 5-year period to the Colombian State, a mechanism for monitoring the implementation of the GIRH policy and technical cooperation. The specific objectives are: (i) ensuring that the selected river basins have been prioritized for the implementation of the actions; (ii) providing technical and financial means to comply with the policies of the Regional Autonomous Corporations (*Corporaciones Autónomas Regionales* - CAR), responsible for regional management of environmental and natural resources; (iii) integrating risk management in development planning for the river basins; (iv) ensuring the implementation of participatory management of river basins through Watershed Councils (Consejos de Cuenca); (v) providing the Institute of Hydrology, Meteorology and Environmental Studies (*Instituto de Hidrología, Meteorología y Estudios Ambientales* - IDEAM) with effective tools to monitor water resources in the priority areas.

The project has three main components: (i) budget support of € 137.8 million for the loans granted by AFD (€ 78.8 million) and CAF (€ 59 million) for the implementation of the GIRH policy; (ii) monitoring the implementation of the GIRH policy in an annual report based on relevant indicators selected for each environmental authority; (iii) technical cooperation and a pilot project. The grant approved by LAIF of € 4.5 million was allocated to the latter component. According to the information available at the end of March 2013, the financing agreement ("delegation agreement") between the European Commission and AFD is being negotiated to begin the implementation of this project component. LAIF's grant will be disbursed by AFD directly to the Ministry of the Environment, thereby making possible the development of methodological guidelines which will form the basis for the standardization of the implementation of the National Water Plan. Most of the costs will be for human resources (consultants and studies) and some investments (equipment and works). According to the project contribution application submitted to LAIF and information provided by the Ministry, the LAIF grant will be implemented as follows:

a) € 1 million in technical assistance for four years to the Ministry of the Environment and Sustainable Development.

b) € 2.8 million for a pilot project to implement the Lake Tota watershed development and management plan (*plan de ordenamiento y manejo de la cuenca* - POMCA), which seeks to strengthen CORPBOYACA (a government entity responsible for the execution of the project), strengthen expertise and strengthen community participation.

c) € 0.3 million for awareness raising and communications regarding the GIRH.

d) € 0.4 million to hire an external implementation unit to support the Ministry of the Environment with technical and financial support during the implementation of the project.

Lake Tota is the largest freshwater lake in Colombia with a *sui-generis* ecosystem which is located at an altitude of 3015 metres above sea level. Its ecological importance is undeniable but at the moment there are a number of environmental and social conflicts related to the improper use of its water resources and watershed, such as the extensive use of agrochemicals and fertilizers in large onion crops adjacent to the lake, the growing trout farming industry in floating cages (an activity that has been banned in other countries for being unsustainable), the demand for tourism infrastructure and urbanization along the banks, free and improper use of water for irrigation and other industrial activities without any control, water pollution caused by the dumping of waste and inadequate public services (drinking water supply, sewerage and rubbish collection) in the surrounding area. Added to this are deficiencies in the performance of state control and monitoring agencies, the absence of a visible autonomous body dedicated exclusively to the management of the basin of Lake Tota (e.g. a Watershed Board), and the fact that the lake does not benefit from any protection mechanisms. There is also serious concern about the impacts of recent pressure from mining exploration and extraction in the watershed area and the moors surrounding the lake, especially the exploration and exploitation of oil planned by the French multinational Maurel & Prom[81].

The project profile submitted to LAIF states that by improving water resource management the project will help to optimize the flow of rivers and therefore will contribute to climate change adaptation by reducing regional disparities in the distribution of water resources in Colombia. Information on the project on the AFD website notes that the project will have a positive social impact by reducing conflicts linked to water resources among the population, State institutions and the private sector. Disadvantaged people will benefit from the reduction of impacts related to the lack of water availability or flooding. There was no requirement for a socio-environmental impact study prior to the implementation of the project, however the Ministry of the Environment presented a socio-economic and environmental diagnosis to AFD which was used to construct the baseline for the implementation of the project.

In conclusion, this project has the potential to be categorized as "best practice" in development cooperation under LAIF, as it is supporting the implementation of an ambitious national policy (defined locally) for the integrated and sustainable management of a natural resource, which is defined as a public asset and prioritizes its social and ecological function over and above its economic value. The LAIF funding complements and strengthens the budgetary support granted by AFD and CAF to the national government, facilitating the implementation of a pilot project on a strategic watershed, emphasizes social and civic participation and could be a model for replication in other areas of the country. The project also provides tools and indicators for monitoring its implementation. It remains to be seen whether the potential of this project is implemented effectively and whether social participation is included properly, comprehensively and in a relevant manner. In this regard, it is of great importance that constant monitoring of the project implementation takes place and that it is not limited to government institutions but also includes consultation with and the participation of the population.

81. Information obtained from "Causa Tota" and the Civic Movement for Lake Tota and its Watershed (*Movimiento Cívico pro lago de Tota y su cuenca* - MOCILATO). See: http://www.causatota.net/index.html

7. Opinions on LAIF: civil society

This section is a compilation of the concerns and comments of various civil society representatives on the LAIF facility and the impact of the new EU cooperation strategies in Latin America, presented during the event held, on March 21, 2013 at the European Parliament: "Aid to the private sector: promoting responsible investment? Latin America as a testing ground".

These voices from civil society are: **Gérard Karlshausen**, board member of the European Confederation of Relief and Development NGOs (CONCORD) and international policy manager of the Belgian National Centre for Development Cooperation (CNCD)/11.11.11; **María José Romero**, Graduate in Political Science, currently working on private financing and financing institutions in development at the European Network on Debt and Development (EURODAD); **Bettina Cruz**, Mexican activist and human rights defender, member of the Assembly of Indigenous Peoples from the Isthmus of Tehuantepec in Defence of Land and Territory (*Asamblea de los Pueblos Indígenas del Istmo de Tehuantepec en Defensa de la Tierra y el Territorio* - APIITDTT) in Oaxaca (Mexico); **Antonio Tricarico**, representative from Counter Balance, an European coalition of development and environmental NGOs who carry out advocacy work before the European Investment Bank.

Gérard karlshausen

According to the new EU cooperation strategy, the majority of Latin American countries will soon lose the ODA they currently receive because they exceed the limit established for middle income countries. What will this mean in Latin America? What implications will this have for the aid this region receives and its role in the fight for the eradication of poverty? Furthermore, what will be the impact of the promotion of "green" investments and private sector participation? In this new situation, how should civil society organisations carry out their counterbalance and monitoring roles?

It is important to address the following aspects of the new cooperation strategies: i) consultation mechanisms must be authentic and not purely cosmetic, ii) guarantees must be established so that growth and development are really promoted, and iii) the private sector's impact on cooperation policies must be evaluated.

The scenario for European development financing has changed dramatically in recent years: grants have declined, the flow of private capital to developing countries has recovered substantially since its collapse in 2007, and public resources for development are increasingly channelled to the private sector. Public aid is channelled to the private sector in three different ways: 1) through DFIs; 2) through ODA, which is transferred to the private sector through public procurement processes; and 3) ODA that is used to support private companies by leveraging private funding.

1) DFIs have participated in the transfer of funds and loans to developing countries for decades. What is new is that the amounts have been increasing and that they are primarily assigned to the private sector. In the period 2000-2010 the sum that the private sector received from DFIs increased from 5 to 40 billion dollars, with a figure of 100 billion dollars estimated for 2015. In the case of public funds, it is important to use these resources wisely and transparently. The Eurodad report: "Private profit for public good? Can investing in private companies deliver for the poor?"[82] identified that around half of financing goes to support companies based in OECD countries and tax havens.

2) ODA is also transferred to the private sector through public procurement. The Eurodad report "How to spend it: Smart procurement for more effective aid" [83] finds that almost 50% of the total ODA is allocated to the procurement of goods and services from external suppliers for development projects. Again, here it is also essential to use the money wisely and transparently. The EURODAD report notes that two thirds of formally untied aid contracts from bilateral agencies also go to donor country firms.

3) ODA used to encourage private investment leverage presupposes the existence of a mechanism designed to offset declining public development budgets. At the European level, this is ensured through facilities that combine grants and loans (blending facilities), a mechanism that is not new, and which has been used for some time by the European Investment Bank and other bilateral agencies to subsidize their own loans. However, what is new in the present context is the extensive use of these mechanisms to leverage private funding from different sources and the new narrative being developed to justify their use. LAIF (one of 8 global facilities created by the EU) is directed towards the Latin America region. The most common grants offered are interest subsidies and technical assistance. LAIF targets the transport, energy and

82. See: http://eurodad.org/wp-content/uploads/2012/05/Private-Profit-for-Public-Good.pdf

83. See: http://eurodad.org/uploadedfiles/whats_new/reports/eurodad%20-%20how%20to%20spend%20it.pdf

socio-environmental sectors and financing for SMEs, which does not necessarily coincide with the development priorities identified by the EU or indeed those in the countries where they are implemented.

At the end of 2012, the EU Platform for blending mechanisms in external cooperation was launched, with the aim of revising the action standards of blending facilities, which means that this is exactly the right time to be discussing the LAIF mechanism. Based on various reports from different organisations, several problems must be highlighted. If the funds come from the private sector, whose priority is economic benefit and not development, who really benefits from economic leverage? The objectives of the private sector will replace those of public institutions and this will be reflected in the design and implementation of projects. Also, the higher the leverage, the lower the participation of public institutions, meaning that the latter may have less influence and economic interests will dominate.

There is also the problem of lack of transparency and accountability. It is not necessarily true that additionality brings benefits. The evaluation methods are unclear. The opportunity costs are high, because the resources used to finance such projects cannot be used in another way, especially to finance priority public services like health and education. Although these mechanisms serve to plug the gap in declining aid budgets, they can have a major negative impact on promoting development, and they therefore pose a great risk in this regard.

Bettina cruz

European investments in Mexico have reached the Isthmus of Tehuantepec, a region where there are strong winds throughout the year. It all started when the benefit of the wind was discovered, then companies started coming and sharing out the territory as if it were empty, without taking into account the five indigenous peoples who live there, nor respecting their rights established under international conventions (ILO Convention 169).

The construction of the Bii Nee Stipa II wind farm has not had any positive social impacts in the region: employment associated with the farm was limited to hiring labourers during the construction period, and there was heavy migration of European technicians into the area. The energy generated is not intended for local communities, and therefore is not conducive to their development. No process of free, prior and informed consultation was undertaken with local communities. We have not been consulted, they do not treat us as equals, and they do not respect our rights.

We indigenous peoples do not agree that we should have a project imposed upon us that is far from our world view. We are different, and we have the right to live according to our vision. We give more importance to welfare than to profitability.

The windmills were built on the best land for farming crops, which affects food justice. Some of us have been displaced from the area, because we received death threats from hired assassins. This is the situation we are living through, because of investments that are being established in our region, without consultation and without any benefits for us. There is no inclusion, no consultation, no guarantees for the people, and no respect for human rights. These projects are only bringing poverty to local communities in the region. We do not understand why European countries are funding projects that come to our lands to hurt us.

Antonio Tricarico

The scope of facilities for public-private partnership in development cooperation is highly questionable. For example, the objectives of the Italian company SIMEST involved in the wind farm project in Mexico, do not include the eradication of poverty, therefore how can they be considered as a responsible actor to receive public aid via association mechanisms? The competence of the actors involved in these mechanisms should be defined beforehand at the institutional level.

Financial institutions are not complying with Article 21 of the Treaty of Lisbon on the respect of human rights in all EU actions. Their objectives do not coincide with EU development goals. The European Ombudsman should examine violations of human rights in third countries associated with these grants.

The vision of a green economy is simplistic and highly questionable. The green economy label does not mean that something has been implemented sustainably and will have a positive impact on development. The case of Mexico illustrates how the development of technologies can lead to human rights violations. There are also projects that benefit from carbon credits provided by the Clean Development Mechanism. This is a scam that is not working, and all in the name of development.

What private sector are we talking about? There are many different types of aid, and many European experts, but there has been no transfer of technology. A lot of informal economic activities and informal businesses are not registered. It is also important to question whether public-private partnerships are the best way to support SMEs. At the end of the day, those who benefit are the private sector and financial development continues to be promoted.

8. Opinions on LAIF: European Parliament

This section contains comments from various Members of the European Parliament (MEP) on the LAIF facility, presented during the event, held on March 21, 2013 at the European Parliament: "Aid to the private sector: promoting responsible investment? Latin America as a testing ground".

These voices from the European Parliament are: **Gay Mitchell**, Irish Politian, MEP affiliated to the European People's Party, and member of the European Parliament (EP) Development Committee and the Special Committee on the Financial, Economic and Social Crisis; **Franziska Keller**, a German politician, MEP member of the Group of the Greens/European Free Alliance; **Thijs Berman,** Dutch politician, MEP from the Group of the Progressive Alliance of Socialists and Democrats, participates in the EP Development Committee and the Subcommittee on Human Rights; **Charles Goerens**, politician from Luxembourg, MEP affiliated with the Alliance of Liberals and Democrats for Europe, he has been Minister for Cooperation, Humanitarian Aid and Defence (1999-2005) and Minister of Foreign Affairs (2004) in his country.

Gay mitchell

The European and national budgets are under pressure, limiting the possibilities for development and infrastructure spending. However, we still need to show a commitment to the developing world, as there are still too many people with poverty problems which cannot be ignored. There are other more selfish reasons, such as commercial interests and preventing migration to the North. I believe in good public services in the context of social justice, when responsibility is taken for their actions. And for this to happen, a spirit of entrepreneurship and the involvement of business are essential elements. Enterprise and public services go hand in hand, and if we promote business services in Europe, we must also do so in developing countries.

The new EC DCI attempts to introduce some aspects of performance evaluation which will show us how to proceed in the future. Among the items included is the contribution of the private sector and SMEs. Importance is also given to insurance and the business opportunity this presents. There is also a concern about the problem of corruption. If we promote entrepreneurship, we should also implement measures to promote ethics, transparency and accountability, both in Europe and in developing countries. We must make sure that the action that the EC is undertaking actually corresponds to its desired objectives, including the promotion of SMEs and companies. As for the power we give to the EC for implementation, we must ensure that our concerns are taken into account, and that we can influence implementation.

Franziska keller

The EU is making big changes in its strategies for development cooperation, which means that before proceeding, it is important to discuss the consequences and impacts that these changes are having in the fight against poverty. The EC wants to give a greater role to the private sector. In Latin America we can already see the practical effects of the DCI reforms. In relation to this, a paper presented by ALOP and APRODEV indicates certain problems that may be emerging in this region related to the new public-private partnership mechanisms. Many questions arise: Who really benefits from these partnerships? Are they really the best way to contribute to poverty reduction? Could they even pose a risk to the developing countries? What are the implications of greater private sector involvement? In my opinion, the private sector can contribute to development, but their activities must follow the same goals and be monitored, given that the main objective of private companies is profit. Another question is, how do the large infrastructure projects contribute to poverty reduction?

Thijs berman

The development debate has changed in recent years, and currently includes the issue of economic output. It is important to ensure that the rapid economic growth being witnessed in developing countries is being carried out correctly and that it is inclusive growth. For this we need strong public intervention. Local public services have a definite role to play in ensuring, for example, that financial services are available to minorities. But the EU is also responsible and must play an important role. The EIB should perhaps focus less on large projects and invest in credit guarantees to offer leverage to microfinance and help them reduce their interest rates.

In the DCI we have opened up the possibility of mechanisms which blend loans and grants, and we need measurable indicators on the results, to know that the money has gone where we want it to go. We need to know what the contribution of public financing means exactly to the eradication of poverty. We need an inclusive and sustainable growth, and this requires a new development agenda. The inputs of civil society are important for the formulation of new policies, and for drawing lessons from results, CSOs are also essential in individual countries, where governments must understand that growth must be inclusive and that public involvement is also needed.

Charles goerens

If a wind energy project in Mexico is not working, this is a problem for the EU but also for the government of Mexico. The responsibility should be shared on both sides. ODA should serve to eradicate poverty and private sector funding cannot work against this goal. If there are problems, we need to get right to the source and evaluate private sector responsibility.

On the issue of a new partnership, it is the affected country which must decide on the relevance of a project, and decide what is useful and what is not. If civil society is excluded, then the Commission should consider whether it is worthwhile funding these projects. Because our goal is to seek development and that this development is sustainable.

We need infrastructure development in developing countries, such as internet access, and this requires greater private sector involvement. It is also important to consider the customers of these facilities, who may or may not be solvent. Responsibility must be shared between the corresponding states and their northern partners. Companies should follow a code of conduct that incorporates the principles of development assistance, and pilot projects to be submitted to the EC must clearly define who is responsible for what.

Partnerships must be authentic. In Southern countries parliaments and civil society must be present to accompany the projects, and on the other hand, the EP should also be more involved in defining strategies and setting priorities. The EP must ensure that development aid policies are clear, and if powers can be delegated to the EC, they can also be withdrawn. The EC and member states are responsible for what happens, but the partner states of the South are also responsible. In short, there must be constant dialogue.

There are countries with sufficient resources today and they should be removed from the list of countries that receive our grants, because there are other smart ways to go forward with them. We can help in other ways, including providing technical assistance rather than development aid. Or we can promote South-South cooperation. The principle of distinction must be applied, to give participation to all stakeholders. It is more relevant that firms from the South with a more appropriate vision of their country take care of the projects, rather than companies from the North who have different visions.

9. Recommendations for LAIF

Author: Camilo Tovar (Consultant)

This section offers a series of recommendations, based on the research and analysis presented in this report on the projects approved for funding in Latin America. On the one hand, these recommendations are related to improving transparency and facilitating access to information on LAIF, which would result in greater clarity for all stakeholders and rigour in the assessment of potential project impacts on development objectives. On the other hand, the recommendations propose a series of measures for the evaluation of projects, both during the selection phase, and in the subsequent implementation and monitoring of impacts.

- The LAIF Strategic Council should define clear criteria and guidelines on transparency and access to information concerning LAIF and the projects approved under this facility. It also should clarify the responsibilities and competencies of the different stakeholders in terms of access to information.

- Each project should be presented for evaluation by LAIF (contribution request) in a pre-established format including relevant and detailed information about the project, its objectives, financial scheme, expected impacts, contribution requested from LAIF and justification for LAIF funding, the appropriateness of the project to LAIF's strategic aims, the added value of the LAIF contribution, a risk analysis and information on the implementation, monitoring, evaluation and sustainability of the project. Based on the analysis of this information, in the same format, a technical assessment of the FIG should be included and its proposal for the LAIF Council decision. This "contribution request" (or fact sheet) of the projects submitted to LAIF should be publicly accessible once the project is approved by LAIF.

- For each project there must be a binding process of free, prior and informed consultation with the people directly, indirectly and potentially affected by the project. This consultation must take into account existing tools and guidelines to assess the risks and potential human rights impacts of the project[84]. The results of the consultations should be included in the "contribution request" presented to LAIF for funding.

84. For example: ILO Convention 169; the UN Guiding Principles on Business and Human Rights; the Maastricht Principles on the Extraterrestrial Obligations of States in the Area of Economic, Social and Cultural Rights; the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security; the Guidelines for the evaluation of risks and impacts related to human rights in development cooperation (BMZ Germany).

- The reports of the "Results-Oriented-Monitoring" carried out for projects co-financed by LAIF should be disclosed and publicly accessible on the EuropeAid/LAIF website.

- In addition to receiving and discussing the annual report on LAIF implementation, the European Parliament, in particular the Development Committee, should be part of and represented as a full member in the LAIF Strategic Council and in the policy group of the new "EU Platform for Blending in External Cooperation" established in December 2012.

- Civil society organisations (CSOs), and more specifically social organisations and NGOs working on development and human rights, should be part of and represented in both the LAIF Strategic and Operational Council and in the technical and policy groups of the new platform (EU Platform for Blending in External Cooperation). CSOs have extensive experience and accumulated knowledge to be taken into account in the definition of strategic direction, in the technical evaluation of projects (particularly with respect to development goals) and in the monitoring and evaluation of projects. CSOs could also be involved by using existing mechanisms and spaces used by the EU and other cooperation programs for consultation with CSOs. The role of EU Delegations is essential in facilitating these processes.

- The evaluation of projects submitted for LAIF financing should include as fundamental criteria, over and above financial profitability, the potential impact of the project on poverty reduction, social cohesion (reducing inequality and exclusion), and how the project supports regional integration in its broadest interpretation (not just in terms of interconnectivity and infrastructure).

- Each project submitted and found to be eligible for LAIF should undergo a prior assessment of its impact on poverty which: identifies its beneficiaries (target group), undertakes an analysis of the stakeholders, clearly defines the project objectives and aspects of poverty which they address, the expected results, the transmission channels and the opportunity cost.

- It should be a requirement for each project submitted to LAIF to have undertaken (or to undertake) an independent and rigorous Economic, Social and Environmental Sustainability Impact Study, and an Impact Study on Human Rights. These studies should be publicly accessible on the EuropeAid/LAIF website.

- All projects approved for LAIF funding must have built-in mechanisms that allow proper monitoring, follow-up and evaluation of project impacts on the eradication of poverty, inequality, exclusion, regional integration, the environment and human rights, based on relevant indicators and a participatory baseline defined in the project design.

10. Final reflections: responsabilities, future challenges, and the contribution of LAIF to the problem of climate change

Author: Laura Palomo (Advisor on the Environment and Climate Change)

The LAIF instrument is a financial mechanism that is part of the EU DCI. However, the strategic objectives of both entities appear inconsistent at first glance. The DCI talks about poverty, democracy and human rights. Meanwhile, LAIF pursues regional integration, environmental protection and mitigation/adaptation to climate change, as well as promoting socio-economic development; all of which is to be achieved through the construction of renewable energy and transport infrastructure supported by private sector development in the region.

The development of infrastructure and economic growth clearly contribute to lifting a country out of poverty and as an extension, to strengthening the Rule of Law. Nevertheless, it is also clear that the path is not direct but rather complex, since it presupposes conditions in the social fabric that are difficult to secure and/or control. If projects are not centrally integrated, especially in the design and implementation phases, a number of political or social issues (corruption, social inequality, violation of human rights, impunity, or even the activities of armed groups), often at the local level, can lead to negative impacts from these very projects.

The case of the Bii Nee Stipa II wind farm in Mexico is a clear example. Evidence suggests that LAIF funds have mainly contributed to the arrival of large European companies in the region, generating few positive impacts for local communities. Indeed, this has triggered problems related to respect for the human rights of local indigenous populations, energy and electricity price speculation, land speculation, and even the food security of local populations which is based largely on agriculture. Moreover, local communities have denounced the lack of consultation prior to project approval.

It may be acceptable that in a cooperation program a partnership is established between two parties involved, and that the lack of an effective institutional power through government is a very complex obstacle to overcome, but this does not absolve the European Union, large corporations and development banks of responsibility for their financing activities. It is essential that the control mechanisms associated with LAIF be robust and strict, both in the selection stage, and in the implementation and evaluation of projects, and that they take into account in an integrated way social, economic, environmental, and sustainability issues. The transparency of these mechanisms is also essential for them to be trustworthy and to therefore be approved by the groups involved.

The LAIF mechanism places a strong focus on environmental protection and the problem of climate change, which is another point of discussion. It is undisputed that the region faces a huge challenge with regards to climate change that requires and deserves international support, both to lay secure foundations for sustainable low carbon development and for adaptation to the expected impacts[85]. However, LAIF uses funds from ODA, development cooperation funds that should have an impact on the fight against poverty and inequality, and should be clearly distinguished from the new additional funds that the EU has committed to devote to the fight against climate change. Instead, LAIF projects are part of a system called "Climate change windows", used to account for its funds within the total budgets that the EU designates to climate change. This system could have a certain validity and use, yet its criteria are not clear[86].

Furthermore, taking into account that LAIF is part of the DCI, this mechanism should establish priorities on climate and environmental issues, guided by the instrument guidelines. That is, the actions should be directed towards the development and integration of the most disadvantaged sectors. For example, by giving greater weight to projects for the adaptation of communities most vulnerable to the changes brought about by global warming. Or by promoting improvements in regulatory and management systems, and in environmental control in the region, which are often precarious and directly affect vulnerable communities. Only one of the LAIF projects approved so far appears to be specifically targeted in this way[87], namely the Integrated Management of Water Resources in Colombia, in which LAIF contributed to the development of methodological guidelines for the standardization of the implementation of the National Water Plan. This project involves a pilot application in a region known for environmental and social conflicts associated with the improper use of water, so the results should be easily assessable when the project is completed.

Most of the projects funded by LAIF actions are aimed at climate change mitigation, mainly focusing on the energy sector. EU efforts in the region to promote low carbon development are laudable, if somewhat ironic, considering the slow progress of the EU in getting the countries in its own territory to reduce emissions and transform to renewable energy[88]. Nevertheless, the key question here is whether investing funds from ODA is the most appropriate way to deal with a challenge of this magnitude, and if these mitigation projects really have an impact on the fight against poverty and inequality in the Latin American region. The answer appears to be no, in the case of the Bii Nee Stipa II wind farm. In the case of the other projects funded by LAIF, the answer may vary, and in this vein, it should be mentioned again that the lack of access to information on LAIF project details rules out any in-depth analysis.

In several Latin American countries there are clear precedents of social problems associated with the development of renewable energy, in addition to those resulting from the construction of wind farms in the Isthmus of Tehuantepec in Mexico. In particular, in relation to the production of biofuels and the construction of hydro-power plants, in which there have been reports of illegal and violent forced evictions and violations of human rights and the rights of indigenous communities, impacts on food sovereignty and the right to water[89]. Precedents of this nature suggest that the energy transition in the region should be developed with extraordinary measures for social protection, and with essential meaningful interaction with local communities affected by projects and a robust consultation process.

85. The Climate and Development Challenge for Latin America and the Caribbean: Options for climate-resilient, Low Carbon Development," Report published by the IDB, ECLAC and the WWF Foundation. April 2013. Available at: http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37720722

86. Questions have been raised about the "window" assigned to the LAIF project entitled "Rural Roads Program" in El Salvador and its connection to climate change. Greater transparency in the evaluation criteria is needed.

87. Other projects also cover these issues among their objectives through investment promotion, which supposes a more indirect and less focused approach (Climate Change Program at the regional level). See LAIF operational report 2010-2011 by the European Commission.

88. "Renewable energy progress report". REPORT OF THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL REGIONAL COMMITTEE. Available at: http://ec.europa.eu/energy/renewables/reports/doc/com_2013_0175_res_en.pdf

89. See the work of CIFCA and colleagues on these issues (http://www.cifca.org/). For example: "Not everything Green is Good: Expansion of the production of sugar cane and oil palm in the framework of EU Trade Agreements with Central America, Colombia and Peru" and "EU Free Trade Agreements with Central America, Colombia and Peru: Water for Life or for Trade?".

On the other hand, if the projects focus on climate change mitigation, an assessment of their results would be relevant. This could be a complex task for projects aimed only at promoting investments, but could be easily addressed in other cases. The process for the selection and evaluation of projects should take into account environmental impact studies providing estimates about the savings in greenhouse gas emissions, instead of focusing their analysis on the economic benefits associated with these emissions savings[90]. Also arguable is the relevance of investments dedicated to climate action projects based on the profitability of the emission reduction credits which can be produced, such as in the case of the Latin American Carbon Finance Facility (LACFF). Considering the fluctuations to which the carbon market is subjected, and its current status in particular, as well as the lack of success that the sale of carbon credits is having in the fight to reduce emissions, this does not appear to be the best way to support climate change mitigation and social development in Latin America.

It is undisputed that the rapid economic growth experienced by Latin America urges the implementation of mechanisms aimed at combating its dependence on fossil fuels, thereby preventing an increase in emissions of greenhouse gases. However, this does not merely consist of the diversification of the energy system through renewable energy. Recently, a World Bank report focused on the region[91] indicated the need for investments to improve energy efficiency through more efficient procurement, transmission and distribution of energy as well as through the promotion of more efficient energy consumption. The report further stated regional energy integration as another important measure, with both economic and environmental benefits for Latin America as a whole.

Of the four projects specifically focused on the energy sector that LAIF has funded so far, two are for the construction or expansion of renewable energy production plants, one for wind power (the abovementioned project in Mexico) and the other for hydro-power (in El Salvador). The remaining two projects address the energy problem in a more integrated way: - the project in Nicaragua, Sustainable Electrification and Renewable Energy Program, combines aspects of energy transmission, energy efficiency and renewable energy application for energy supply in isolated areas; - and the project for the Central American region, the Green SMEs Initiative, involves small and medium local businesses with the goals of reducing energy consumption and promoting efficient use of energy and renewable sources.

There is a remarkable difference between the two types of projects. In the last two, local empowerment and training in technical energy issues are promoted, and there is a clear connection between addressing the issue of climate change and the resulting impacts on social groups that need particular support. By contrast, it is difficult to assess to what extent the Mexico wind farm will contribute to the reduction of the total balance of greenhouse gas emissions in the country; and, even more importantly in the context of development cooperation, in what way vulnerable or disadvantaged social groups will benefit from this support for energy production that, although cleaner, will simply add to availability on the national grid. Interestingly, a recently published research article based on lessons learned about the experiences of wind power projects in China and India[92], came to the conclusion that the effective transmission of energy technology depended more on the abilities of developing countries themselves, than on international projects related to climate change (such as the CDM).

The SME project is the only project solely funded by LAIF that is particularly directed towards private sector small and medium enterprises at the regional level, a sector which is one of the strategic priorities identified for this mechanism and that should be supported with even greater intensity. If the LAIF facility does not

90. Camilo Tovar's report on the Expansion of a Hydroelectric Plant in El Salvador indicates that in the environmental impact associated with the project "economic logic prevails over the social and environmental aspects of development" See this publication under "LAIF: Case Studies".

91. "Mitigating Vulnerability to High and Volatile Oil Prices: Power Sector Experience in Latin America and the Caribbean". 2012. Published by the World Bank. Available at: http://publications.worldbank.org/index.php?main_page=product_info&cPath=0&products_id=24373&cid=DM_issuuwidget_1

92. Science for Environment Policy, Lema, A. & Lema, R. (2013) Technology transfer in the Clean Development Mechanism: Insights from wind power. *Global Environmental Change*. 23: 301-313. Doi: 10.1016/j.gloenvcha.2012.10.010.

contemplate in its selection processes incentive mechanisms that encourage local private sector participation, perhaps it should. What is worrying is that a mechanism designed within the framework of development cooperation is in the end almost exclusively benefitting companies in OECD countries.

As a result of the Second Forum for Renewable Energy Financing in Latin America and the Caribbean, several articles were recently published in the press pointing out the possibilities of regional investment in the sector. There was also talk of how European companies specializing in renewable energy are abandoning their investments in the European region[93] and starting to move to more promising markets, namely in Latin America. Although this migration seems to go against the EU's ambitions for the role of renewable energy in its territory, the report recently published by the EC in this regard confirms the difficulties they are encountering. The point is that in a market full of possibilities it is now clear that European private companies do not need much support or incentives, let alone from ODA funds. On the contrary, perhaps protective mechanisms should be established for the local private sector, particularly SMEs, in order to counter a process that, although it could contribute to regional GDP growth, might also end up aggravating the problems of social inequality that already exist in Latin America.

The LAIF development cooperation strategy fits within the paradigm of the "green economy". It is a seductive concept that aims to simultaneously "attack" both poverty and environmental problems, by counting on the participation, and more importantly, the resources, of the private sector. The idea seems quite simple at first glance: it seeks to change the viewpoint of the economic system and direct it towards a more sustainable "green", horizon, which, in principle, "should" bring benefits for all ... However, the strategy is criticized by many civil society and environmental organisations, as well as by several researchers and political groups, who are concerned about the impacts caused by the private sector's economic interests, and consider the strategy to be insufficient to solve all the social and environmental problems we face. The preliminary results of this new trend, including LAIF projects, show us that it is creating a new and complicated "jigsaw", whose individual pieces must not be lost sight of if we do not want to end up creating a picture other than the one which was originally intended. The final situation could be more difficult to remedy than the original one.

93. In Spain, because of the economic crisis and the current lack of government incentives and commitment to support the energy transition.

11. List of abbreviations

AECID: Spanish Agency for International Development Cooperation (*Agencia Española de Cooperación Internacional al Desarrollo*)

AFD: French Development Agency (*Agence Française de Développement*)

ALOP: Latin American Association of Organizations for Development Promotion (*Asociación Latinoamericana de Organizaciones de Promoción al Desarrollo, A.C.*)

APIITDTT: Assembly of Indigenous People from the Isthmus of Tehuantepec in Defence of Life and Territory (*Asamblea de los Pueblos Indígenas del Istmo de Tehuantepec en Defensa de la Tierra y el Territorio*)

APRODEV: Association of World Council of Churches related Development Organisations in Europe

BBVA: Banco Bilbao Vizcaya Argentaria

BNS: Bii Nee Stipa

BRP: Blue Ribbon Panel of the IDB on the environment

CABEI: Central American Bank for Economic Integration

CAF: Development Bank of Latin America (*Corporación Andina de Fomento*)

CAR: Regional Autonomous Corporations (*Corporaciones Autónomas Regionales* - in Colombia)

CDM: Clean Development Mechanism

CEL: River Lempa Executive Hydroelecrtic Commission (*Comisión Ejecutiva Hidroeléctrica del Rio Lempa* – in El Salvador)

CFE: Federal Electricity Commission (*Comisión Federal de Electricidad* – in Mexico)

CIFCA: Copenhagen Initiative for Central America and Mexico

CISA: Cableados Industriales S.A. (Mexican Company)

CNCD: Belgian National Centre for Development Cooperation

CONCORD: European Confederation of Relief and Development NGOs

CSO: Civil Society Organisation

CSR: Corporate Social Responsibility

DCI: European Commission Development Cooperation Instrument

DEVCO: European Commission Directorate General for Development and Cooperation

DFI: Development Finance Institutions

EC: European Commission

ECLAC: United Nations Economic Commission for Latin America and the Caribbean

EEAS: European External Action Service

EGP: Enel Green Power

EIA: Environmental Impact Assessment

EIB: European Investment Bank

EIS: Environmental Impact Study

EP: European Parliament

ERC: Emission Reductions Credits

EU: European Union

EURODAD: European Network on Debt and Development

FDI: Foreign Direct Investment

FEMSA: Fomento Económico Mexicano S.A. (a large Mexican company)

FIG: Financial Institutions Group

GNP: Gross National Product

GIRH: Integrated Water Resources Management (*Gestión Integral del Recurso Hídrico*)

IDB: Interamerican Development Bank

IDEAM: Institute of Hydrology, Meteorology and Environmental Studies (*Instituto de Hidrología, Meteorología y Estudios Ambientales* - in Colombia)

IFI: International Financial Institutions

ILO: International Labour Organization

INELEC: Impulsora Nacional de Electricidad S. de R. L. de C.V. (Mexican Electricity Company)

KfW: Kreditanstalt für Wiederaufbau (German Credit Bank)

LA: Latin America

LAC: Latin America and the Caribbean

LAIF:	Latin America Investment Facility
LGBF:	Loan and Grant Blending Facilities
MDG:	Millennium Development Goals
MEP:	Member of the European Parliament
MERCOSUR:	Southern Common Market
MSMEs:	Micro, Small, and Medium-sized enterprises
MW:	Megawatts
NGO:	Non-Governmental Organisation
ODA:	Official Development Assistance
OECD:	Organisation for Economic Cooperation and Development
PDD:	Project Design Document
SELA:	Sistema Económico Latinoamericano y del Caribe
SME:	Small and medium enterprise
t CO_2:	ton of CO_2
UCIZONI:	Union of Indigenous Communities from the North of the Isthmus (*Unión de Comunidades Indígenas de la Zona Norte del Istmo* - in Mexico)
UN:	United Nations
UNEP:	United Nations Environment Program
UNFCCC:	United Nations Framework Convention on Climate Change

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