# THE EUROPEAN INVESTMENT BANK'S DEVELOPMENT AND CLIMATE FINANCE:

## WHAT'S IN IT FOR SUSTAINABLE AGRICULTURE?

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JUNE 2024

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**ACKNOWLEDGEMENTS:** Teresa Anderson, Javier Garcia, Paula Castro, Karol Balfe (ActionAid), Olivier Lessard, Hanna Saarinen (Oxfam), Michael Farrelly (AFSA), Ivan Mammana (Via Campesina).

We would also like to thank the European Investment Bank for providing feedback on the report.

Views and opinions expressed in this report are those of Counter Balance and ActionAid and do not necessarily reflect those of the organisations or individuals consulted.

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**About Counter Balance**
Counter Balance is a coalition of 9 NGOs whose mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies.

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# EXECUTIVE SUMMARY

**Industrial agriculture is the second largest contributor to climate change, second only to fossil fuels.**

The global food system, dominated by a highly concentrated and financialised market that disproportionately benefits the Global North, exacerbates inequalities, environmental degradation, and food insecurity. Large-scale agribusiness expansion in the Global South, often justified as needed to combat poverty and hunger, has instead deepened economic dependencies and undermined local agriculture. Women, who are a significant part of the agricultural workforce, face substantial disparities in land ownership, pay, and access to resources, factors further exacerbating poverty and inequality faced by women.

An alternative to the current system is the introduction of agroecological farming practices that apply principles aimed at reducing agriculture's emissions footprint and strengthening the resilience of smallholder farming systems and livelihoods. This approach represents a sustainable alternative that enhances resilience to climate change and reduces reliance on harmful inputs.

While the EU has been among the first to recognise the detrimental environmental impact of industrial agriculture through its Farm to Fork Strategy and the European Green Deal, it has failed to meaningfully translate sustainable agriculture into a comprehensive and coherent framework in its external policies. This is particularly reflected in the lack of sufficient public financial resources mobilised for sustainable agriculture and agroecology in the bloc's external funding. Some of the core EU policies further undermine sustainable agriculture and continue to lock developing countries in an export and import-dependent intensive agriculture model.

Agriculture funding channelled from the European Investment Bank (EIB) – the world's largest multilateral bank – to the Global South countries as part of the EU's development policy reflects this issue. The Bank continues to expand industrialised agriculture practices that harm the climate and small farmers' livelihoods, failing to contribute to food security and sustainability across the world.

Our analysis shows that at the end of 2023 the EIB had EUR 5 billion outstanding loans to the agriculture and forestry sector, and an estimated EUR 800 million of these loans went to agribusiness projects outside the EU. Between 2020 and 2022, the EU also provided EUR 337 million in guarantees for loans to agribusiness by the EIB and other European Development Finance Institutions (DFIs).

The analysis of a number of case studies has shown that the EIB does not seem to prioritise support for sustainable agriculture in its global lending operations. Instead, a closer look at three case studies in this report shows that the climate aspect of EIB's finance is questionable, with projects supporting export commodities, unsustainable agricultural and industrial practices, and large shady companies, while opting for problematic financial engineering and not providing adequate environmental and human rights impact assessments.

The numbers show that the EU is not living up to its own climate rhetoric. If the EU wishes to be a progressive force on climate issues, it needs to dramatically improve its agriculture policies and lending practices. The EIB should take necessary steps to ensure a just development and climate finance for agriculture is centred on supporting the needs of those in most vulnerable situations and protecting the planet. Member States, as shareholders of the EIB, have a primary responsibility in shifting the Bank's investment policies in line with international guidelines and standards they have committed to. The European Parliament should also scrutinise the agri-food investments of the Bank in its annual review. Necessary steps for the EIB include the following recommendations:

- End any new support to climate harmful and export-oriented agriculture projects in its external lending operations to align with a climate resilient development pathway.

- Create a sustainable agri-food system and agroecology task force that can elaborate a strategy towards financing sustainable agriculture and prioritise highly concessional lending to public institutions, cooperatives and other actors with a proven capacity to support sustainable agriculture and agroecology. Particular attention should be given to small-scale farmers and women in this strategy.

- Conduct a thorough analysis of climate and developmental additionality of its projects financed directly and via financial intermediaries. These assessments must be made publicly available – as well as assessments for subprojects implemented by financial intermediaries – and ensure that projects' impact on local food security and sovereignty, as well as the developmental, environmental and human rights impacts on local communities and biodiversity can be publicly scrutinised. These assessments should take into account impact on women and children, local communities and indigenous people, and respect of ILO labour standards by the EIB's clients.

- Refrain from financing agricultural projects through financial intermediaries that lack a strong public development and environmental mandate, but instead invest resources to improve the EIB's own capacity to select projects with a strong positive local environmental and social impact and which clearly contribute to local food security.

- Increase its share of adaptation finance in the form of highly concessional finance to avoid exacerbating the debt burden of partner countries. In this context, the EIB should develop its own debt assessment mechanism and include climate resilience debt clauses in its lending operations.

Additional recommendations are provided at the end of the report.

# INTRODUCTION

The European Union plays a major role in shaping global food systems. It is the largest aid donor and source of foreign direct investment globally and has the world's largest multilateral development bank. The EU is also the biggest exporter and importer of food. Its trade, development and climate policies are closely related, but sometimes also contradictory when it comes to agriculture.

At a critical time when climate change severely impacts agriculture, development and climate finance is ever more relevant. However, geopolitical and economic interests dominate the EU's external finance – at the expense of progressive policies supporting agroecology, sustainability, food security and poverty eradication.

To outline urgent changes needed in order to achieve those objectives, this report aims at unpacking the EIB's external investment strategy in agri-food systems set within the broader developmental and environmental objectives of the EU. To do so, the report first sketches out the main challenges of the global food system from a climate and development perspective while analysing how the EU seeks to address them. It then examines the historical context and international financial architecture that have shaped the current policies of the bloc and the Bank, as well as the policies and interventions of the EIB in the agriculture sector. It provides three case studies zooming in on concrete projects of the Bank which reflect current trends. Finally, it provides recommendations to the EIB.

Rael Ngolitian, Kenya.
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# CHAPTER 1. AGRICULTURE POLICIES

## A. THE GLOBAL FOOD SYSTEM AND ITS CLIMATE IMPACT

Today's food system is characterised by a global, highly concentrated and financialised market that operates with 'just enough and just in time' value chains to the disproportionate benefit of the Global North. It relies on hectares-wide mechanised monocultures of single crops that are heavily dependent on agrochemical fertilisers, pesticides and herbicides sold by a handful of producers. Four crops alone account for 60% of the calories grown by farmers and are concentrated in a few countries.[1] The rapidly growing corporate capture of the food system throughout the value chain (seeds, agrochemicals, fertilisers, machinery industries) has reinforced the industrial food and farming model. Four corporations control 90% of the global grain trade.[2] The financialisation of the agrifood sector[3] has also exacerbated already prevailing imbalances of power and wealth in the food system, making it more unequal and vulnerable to shocks.[4] It concentrated the production and consumption unevenly at the global level, creating food billionaires, yet simultaneously increasing food insecurity and inequality.[5] While this agriculture model is highly profitable for a handful of companies and individuals, it still relies heavily on public subsidies, particularly in the Global North, 87% of which are environmentally harmful.[6]

Besides creating extreme inequalities, the current agriculture model has detrimental environmental consequences. It contributes to widespread degradation of land, water and ecosystems, global warming, biodiversity losses, and livelihood stresses for farmers around the world.[7] For example, just seven agricultural commodities were responsible for 26% of tree cover loss between 2001 and 2015.[8] According to the Intergovernmental Panel on Climate Change (IPCC), agriculture, forestry and other land use is the second largest emitting sector, accounting for 22% of global emissions.[9] This increases further if we integrate the production and transport of synthetic nitrogen fertilisers (which are not accounted for in agriculture in the IPCC model) on which industrial agriculture is heavily reliant. Intensive livestock production, mostly in the form of factory farming, is the main source of agricultural emissions, responsible for 66% of the agricultural methane production. Adding up all emissions, studies note that the global food system is responsible for up to 37% of global emissions.[10]

## BOX 1: WHAT'S AGROECOLOGY AND WHY IS IT IMPORTANT?

Agroecology is a science and a set of farming techniques, but also a social movement anchored in the farmers' collective rights which advocate for a diversity of locally adapted agriculture and food systems mainly practised by smallholder farmers. In this way, agroecology protects the livelihoods of smallholder farmers, particularly women farmers,[11] providing an alternative to export-oriented production controlled by corporate agribusinesses that require expensive inputs, facing small margins and aggressive land expansion.

These farming techniques have increasingly been recognised as key technical interventions necessary to address the climate crisis[12]. Firstly, the reliance on local, highly diverse crops, seeds and livestock breeds and on nutrient-rich compost and manure means they are highly resilient and adaptable to the escalating effects of climate change. Secondly, agroecology does not rely on fossil fuel-dependent fertilisers nor on chemical pesticides, mechanised or large-scale monocultures, which increase GHG emissions and exacerbate biodiversity loss.

On the contrary, industrialised agriculture typically relies on large-scale plantations, extensive use of agrochemical fertilisers, pesticides, and herbicides, and the use of hybrid or genetically modified seeds requiring annual purchase. It relies on mechanised farming, monocultures of single crop varieties over vast areas, and focuses on commodity crops for export, with agribusinesses controlling and profiting from nearly every step.

We refer to sustainable agriculture in this report as a model that meets the needs of present and future generations by efficiently producing safe, high-quality agricultural products while protecting the natural environment and improving the economic conditions of farmers and local communities.

## PERPETUATING AGRICOLONIALISM

The over-reliance of today's global food system on international trade and export-oriented cash crops is intrinsically linked to persistent patterns of European colonialism. Former colonies such as Haiti were often coerced into becoming slavery-dependent plantations for monocultures such as cotton, sugar and wheat, at the expense of more historically diversified local cultures and to the benefit of the metropolis. This extractivist model was then perpetuated in different forms after the formal decolonisation through aid and neoliberal market reforms agenda favouring geopolitical and business interests of the Global North.

A model of agriculture based on exports from the Global South was driven by international financial institutions, such as the International Monetary Fund and the World Bank in the late 1970s. In the early 1980s, a major debt crisis hitting developing countries further reshaped food policies in the Global South, notably under the Structural Adjustment Programs led by the WB and IMF.[13] At that time, development funding dropped amid the debt crisis, austerity, and a long downward trend of prices of agricultural products.

The rules set by the World Trade Organization since 1995 have had a detrimental effect on integration of agriculture in the world markets to the benefit of rich countries and big agribusiness while reducing public subsidies where they are most needed.[14] The forced liberalisation[15] of food markets together with the weakening of state capacity have largely undermined developing countries' ability to meet domestic food needs without relying on imports while at the same time serving as a cheap breadbasket for the Western

countries. The promotion of public private partnerships by international donors has led to prioritising large-scale projects by foreign companies to the detriment of smallholder farming.[16] In effect, the Global South was incorporated into the world economy based on neocolonial structures of global value chains, driving poverty and food insecurity.

The 2007/2008 food crisis put agricultural development back high on the development finance agenda; it was promoted as a strategic sector to tackle food insecurity, climate change, unemployment and poverty. In spite of this, the global food insecurity actually increased. The growing focus on food and energy security has also led to major land grabbing by multinational corporations in the Global South as a form of agricolonialism to secure food supply and increasing demand for biofuels.[17] While there was a major need for investment in agriculture, policy-makers now started looking at food insecurity or poverty as a financial problem that can be addressed by using development funds by Multilateral Development Banks (MDBs) to attract private investment. The discussion of which type of agriculture was needed to solve the underlying issues gave way to a focus on what kind of agriculture and development finance support could generate the revenue streams needed to suit private investors' desired rate of return.[18]

As a result of these historical processes driven by the Global North, food production in the Global South has been centred on cash crops such as cocoa or coffee for export to generate revenues while relying on imported staple crops such as wheat and rice forming the basis of food systems and food security. They are often highly subsidised in industrialised countries, whose exports of staple crops surplus drive down prices and incomes of the farmers, weakening local agriculture, livelihoods and food security.[19] At the same time, cash crops are highly volatile in international markets which the Global South countries depend on, making them vulnerable to price fluctuations they have no control over.[20]

Africa is the most food-import-dependent region in the world and spends 13% of its import expenditure on food and agriculture commodities. For countries like Benin and Comores, it reaches 40%.[21] The resulting structural trade deficit weakens the value of African currencies and drives unsustainable debt accumulation. The African Development Bank estimated that the continent was a net importer of food and ran a deficit of USD 35 billion in 2015, which is expected to triple by 2025.[22]

## AGRIBUSINESS AND DEPENDENCY

The unprecedented expansion of agribusiness activities together with land grabs in the Global South have been often justified by invoking the fight against poverty and hunger with development aid.[23] The argument goes that this intensive export-oriented model allows governments to generate revenues which can cover import needs and new investments to diversify their economies. But the so-called trickle-down effect on which this development model rests is long disproven.[24] Globally set prices, a succession of crises, and the extreme volatility of staple crops as well as inputs such as fertilisers have instead generated dependency not only on imports but also on foreign currency in these countries needed to repay the debts.[25] Public budgets are further drained due to tax breaks and incentives supporting foreign investments and the expansion or development of new agribusiness projects.[26] Profits generated by agricultural multinationals are often syphoned off through transfer pricing to tax havens.[27] Public budgets are also squeezed by substantial fertiliser subsidies granted by governments to make up for their price volatility. For instance in Malawi, fertiliser subsidies have reached 75% of the national agriculture budget.[28]

This approach also prevails with multilateral development banks such as the EIB and national development banks such as the Belgian BIO[29] following the World Bank's 'Agriculture for Development' model.[30] It is

fundamentally skewed towards large-scale, export-oriented and mechanised farming, while small-scale farmers are only supported as long as they can be integrated in global value chains.[31] It has had devastating effects on local communities and small-scale farmers as they have been continuously dispossessed of their lands, sometimes hired back through informal and precarious contracts.

Many people facing hunger are themselves food producers and most often women. Women are particularly vulnerable in the agriculture sector. While constituting 43% of the agriculture workforce globally, up to 50% in South East Asia and sub-Saharan Africa, they own merely 20% of lands at the global level[32] and are paid on average 25% lower than men.[33] In Western Africa, women represent only 8% of the land owners and receive only 10% of credits granted to the sector.[34] The Food and Agriculture Organisation of the United Nations (FAO) has in fact found that if women were to access the same resources as men, this could lift out of poverty 150 million people.[35]

## B. THE EU'S INSUFFICIENT SUPPORT FOR SUSTAINABLE AGRICULTURE

While the EU has been among the first to recognise the detrimental environmental impact of industrial agriculture through its Farm to Fork Strategy and the European Green Deal, it has failed to meaningfully translate this vision into a comprehensive and coherent framework in support of sustainable agriculture and agroecology in its external policies. This is particularly reflected in the lack of sufficient public financial resources mobilised for sustainable agriculture in its external funding. What is worse, some of the core policies have harmful spillover effects and contribute to lock developing countries in intensive industrial agriculture.

### EU CLIMATE POLICIES AND AGRICULTURE

The European Green Deal was introduced by President von der Leyen in 2019. As a part of it, the European Commission adopted a Farm to Fork Strategy to shift the EU's Common Agricultural Policy (CAP)[36] away from an intensive industrial agriculture model heavily reliant on pesticides and fertilisers to a sustainable agriculture more respectful of the environment and biodiversity. The strategy also guides EU development interventions in partner countries.[37] It contains an external dimension that considers the impacts of its policies and financing on countries outside of the EU, with a particular emphasis on climate change adaptation and mitigation, agroecology and sustainable landscape management in developing countries.[38]

In principle, in this document, the Commission recognises the role of smallholder farmers and workers, including vulnerable groups like women and migrants, in building a sustainable, inclusive and fair agri-food system through its external policy. However, the strategy also indicates the EU's short-term conflicting interests. For instance, while it calls for the reduction of pesticides over time, it stresses the importance of respecting international trade commitments on the matter during the transition.

The EU has also committed to the UN Sustainable Development Goals (SDGs) in 2015, of which the SDG 2 provides for the achievement of food security worldwide, the promotion of sustainable agriculture and an improved nutrition for all.[39] The EU has also committed to align all internal and external policies with its

international commitments for sustainable development through the so-called principle of 'Policy coherence for Development', enshrined in the Treaty on the Functioning of the European Union (TFEU).

Despite these commitments and policies, sustainable agriculture and agroecology receive far too little attention in the EU's external action, lacking a comprehensive and coherent framework. The Farm to Fork Strategy has only initiated a process that has since faced major opposition, both within the EU institutions and from various stakeholders. The main flagship initiatives have not been translated into legislative proposals, most notably the Framework For Sustainable Food Systems (FSFS), the animal welfare protection regulation and the pesticide reduction regulation (SUR).[40] Even though these regulations had mostly a domestic scope, their abandonment reflected the failure to prioritise just transition and climate in EU agricultural policies. Similarly, the Farm to Fork Strategy has only been translated into the external action frameworks in the form of an internal guidance note, which despite positive language, suffer from the lack of binding targets and objectives. For instance, the EU lacks a comprehensive vision of agroecology that could guide its external action.[41]

Lastly, the regulation that governs the EU's development policy, the Neighbourhood, Development and International Cooperation Instrument (NDICI), has only identified the support to sustainable agriculture, including agroecology and smallholder agriculture, as an objective in the annexes related to the geographical and thematic envelope, which is not mentioned in the core text.[42] This is a setback from the previous regulations and the new European Consensus on Development (2017) which committed the EU and its Member States to 'ensure access for all affordable, safe, sufficient and nutritious food.'[43]

This setback reflects a broader shift in the EU's approach to external action and development policy. The most notable characteristic of this shift is the growing conditioning of specific development objectives to overarching Eurocentric strategic interest. Under different domestic constraints such as the post-2008 financial and euro crisis which affected development budgets, the institutional impetus from the Lisbon Treaty, the rise of far-right populist movements, and shifts in geopolitical environment where global players are increasingly challenging the EU's international position, the EU has been progressively 'politicising, monetising and securitising' its development aid.[44] This is best reflected by the Global Gateway strategy[45] and the most recent leak of the Commission's international partnerships draft 'briefing book' which outlines its vision of the future of EU development policy and external action.[46] SDGs, human development and poverty eradication, which have been historical pillars of the EU's external action and development policy, are barely mentioned in the document. Instead, economic and geopolitical interests are prioritised, as criticised by civil society organisations (CSOs).[47] These developments further undermine the role sustainable agriculture could play in concluding truly fair international partnerships for the EU, and leave little prospect for positive developments in the near future.

## NOT ENOUGH PUBLIC RESOURCES FOR SUSTAINABLE AGRICULTURE

These developments are also reflected in the evolution of the European financial architecture for development. On the public budget side, the EU institutions dedicated 5,5% of their official development aid to agriculture in 2021, which amounted to 1.5 billion.[48] This is taking place in an international context where ODA for agriculture as a share of total ODA is stagnating and slightly decreasing, estimated in 2021 at 5% and amounting to USD 9.9 billion.[49] The decrease is sharper when it comes to support for sustainable agriculture. A recent external evaluation of the Commission's support to sustainable agriculture and food systems reports a substantial reduction between the previous budget cycle (2014-2020) and the current one (2021-2027)

– a budget cut by more than three, shrinking from EUR 1.25 billion to EUR 350 million over 7 years.[50] The EU's external funding in support of agroecology in developing countries remains weak. A study from CIDSE and Coventry University reported that only 2.7% of EU multilateral cooperation funds channelled through UN agencies have been dedicated to the agroecological transition.[51] While the study doesn't cover bilateral funding which remains the bulk of the EU's development support, the conclusion seems in line with other studies at the national level which, find that only 5% in the UK, 12.6% in France, 16% in Belgium and 1.4% in Denmark have been dedicated respectively to agroecology in their external budgets. In the case of the EU's blending instruments, the International Panel of Experts on Sustainable Food Systems (IPES) reports that the 'sustainable agriculture' investment window of the European Fund for Sustainable Development defines sustainability very vaguely and in fact focuses much more on the growth of production volumes in the project financed.[52]

While public budgets in support of sustainable agriculture have significantly decreased in recent years, the change in the modalities and financial instruments of EU development aid is equally concerning. So-called 'blending instruments', which use a mix of grants, guarantees, and public loans to derisk and mobilise private investors, have been mainstreamed in the EU's development budget in the current 2021-2027 Multiannual Financial Framework (MFF), and have grown in size from EUR 29 billion to EUR 53 billion, now making up 70% of the EU's total development budget. The main blending instrument used under the former MFF, the European Fund for Sustainable Development (EFSD) created a dedicated investment window for agriculture: the Sustainable Agriculture, Rural Entrepreneurs and Agribusiness Investment Window.

Many risks are associated with such financial mechanisms. While the justification for the use of blending lies in the attraction of additional private capital, recent research has found that little additional capital has been mobilised, particularly in low-income countries.[53] Similarly, it is particularly hard to track the developmental additionality of this modality which justifies the use of public resources, as pointed out by the European Court of Auditors in its EFSD assessment.[54] More critically, the use of blending in the case of agriculture is biased towards the support for particular segments of the local population, particularly men, who have a privileged access to resources such as land, capital, information and markets, which gives them an advantage to adopt the kinds of innovations proposed by agri-business enterprises, while marginalising small scale family farmers, particularly women.[55]

## THE LACK OF POLICY COHERENCE FOR SUSTAINABLE AGRICULTURE

As reported in the peer review by the Development Assistance Committee (DAC), members of the Organisation for Economic Co-operation and Development (OECD), some EU agriculture and trade policies are responsible for significant negative spillover effects on developing countries. The EU is recommended to better identify the impact of EU regulations on the development of its partners.[56] Chief among them is the Common Agriculture Policy (CAP), which has a detrimental impact on food security in the Global South. EU agriculture has become increasingly export-oriented, seeking new markets for production surpluses. In a constant trade surplus, the EU is nonetheless heavily reliant on the import of raw agriculture materials, essentially from developing countries.[57] As a result, the EU's trade preferences have had a devastating impact on the Global South's agri-food systems.

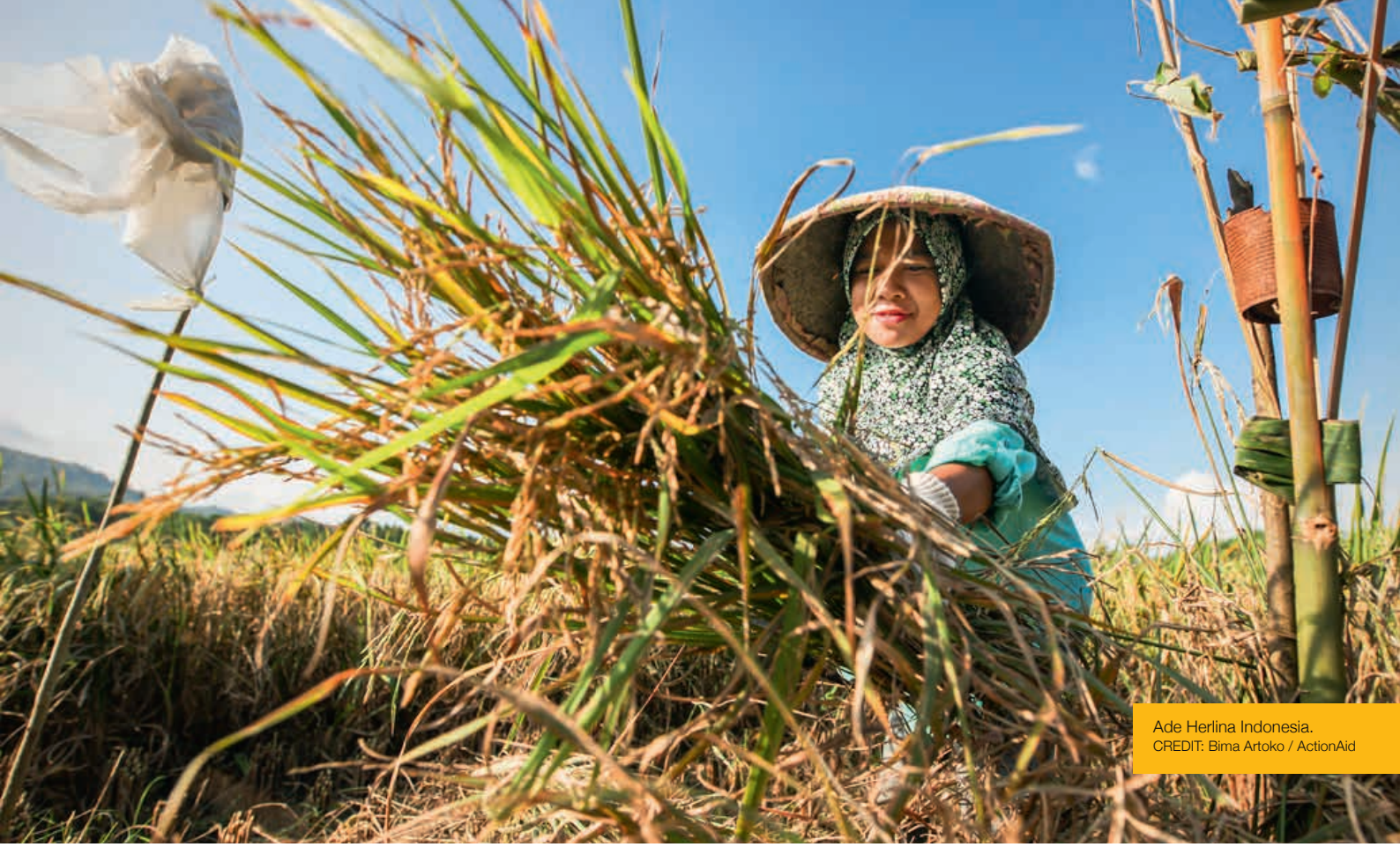
Despite being presented as pro-development, trade agreements between the EU and its Global South partners disproportionately reflect the EU's own interests backed up by conditionality clauses, including those of its multinational agribusiness and agrichemical corporations. The discourse of the EU's policy elites in its trade relations is based on hegemonic perspectives, reflected in the use of words such as 'partnership'

and ‘dialogue’. The EU’s offers are presented as if no alternative exists to the trade deals that aim to maintain unequal relations and strengthen the EU’s central position in the international food chain, while keeping Global South ‘partners’ in a dependent position with low added value.[58]

While trade liberalisation promises to support local producers (especially in the Global South), in accessing new markets and technologies, the power dynamics between the EU and the Global South countries have not empowered local smallholder farmers.[59] The systematic inclusion of trade liberalisation provisions and the need for partner countries to align to intellectual property rules has often increased their prices notably for seeds.[60] Instead, it created unfair and devastating competition between heavily subsidised products exported from the EU and local production and regional value chains.

The EU’s trade agreements also weaken partner countries’ public finances necessary to meet the needs of a growing population through provision of public services in education, health, or environment, and inhibit their capacity to conduct ambitious policies and protect their own agricultural sector. In the case of Western Africa, it is estimated that EUR28.4 billion would be lost by public authorities by 2035 due to tax revenue losses if a regional trade agreement with the EU were to materialise. In Senegal specifically, this would cause a loss of 46.6% of its customs revenue – 26% of total revenue. To fix these problems, the EU suggests increasing VAT, putting the burden on already vulnerable populations.[61]

Beyond the devastating effects of its trade policies, the EU has failed to regulate and redirect its private global investment away from the intensive industrial agriculture, land grabs and deforestation that fuel climate change and deepen poverty. Fuelled by EU banks and financial services, European companies are some of the core contributors to industrial agriculture. ActionAid’s research has found that EU banks have provided USD 87.42 billion in finance to industrial agriculture in the Global South between 2016 and 2022. For instance, the French bank BNP Paribas is the biggest international financier of Cargill in the Global South, whose activities in Brazil have been repeatedly linked to deforestation. Another example is finance to Bayer,[62] the German company which bought the controversial agrochemical and biotechnology company Monsanto, which has been the main recipient of the banks’ financing for expanding intensive industrial agriculture in the Global South between 2016 and 2022.[63] The recent exclusion of the financial industry’s core operations[64] from the Corporate Sustainability and Due Diligence Directive (CSDDD) reflects powerful financial interests, notably from the banking industry,[65] and the desire to generate continuous profits in the Global South, including from agribusiness opportunities, regardless of social or environmental impacts.



Ade Herlina Indonesia.
CREDIT: Bima Artoko / ActionAid

# CHAPTER 2. EIB'S DEVELOPMENT AND CLIMATE FINANCE FOR GLOBAL AGRICULTURE

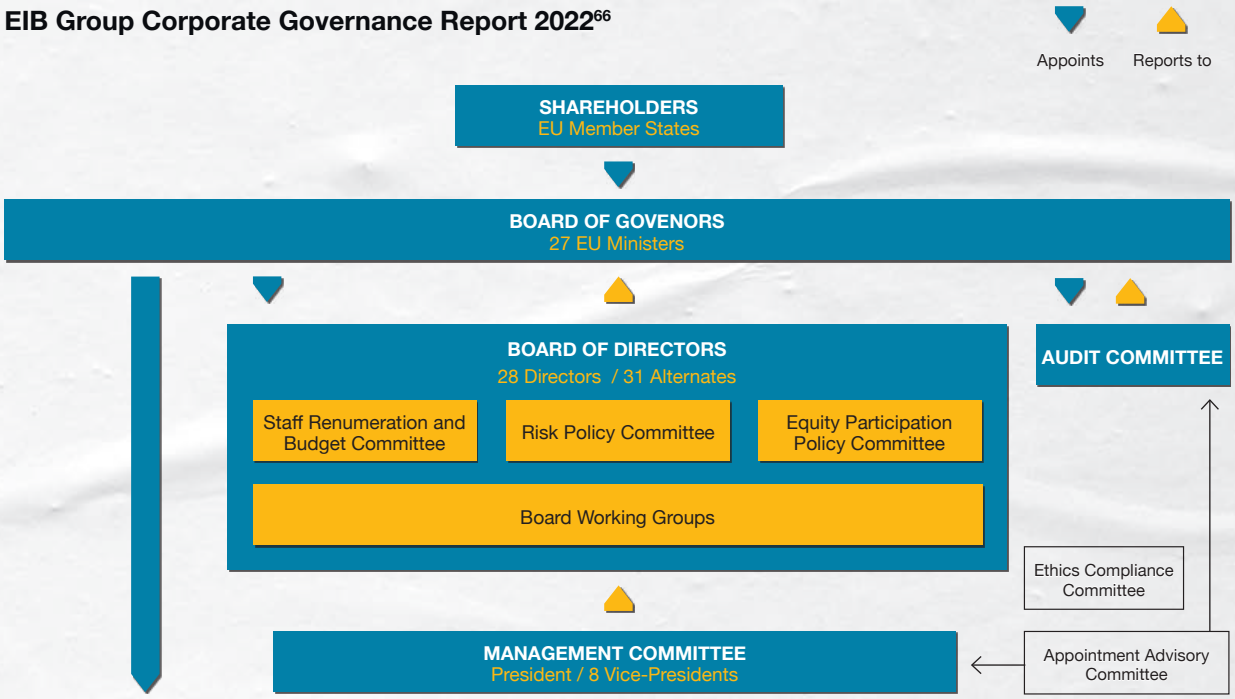
As the largest Multilateral Development Bank in the world, the EIB could play a significant role in financing sustainable agricultural projects in the Global South that have strong development additionality and go towards an environmentally friendly agricultural model. Yet, the EIB is failing its development mission and its full alignment with the Paris Agreement. As the financial arm of the European Union and its Member States, the EIB has competing interests that make its geopolitical and economic interests prevail over its development commitments and principles. Its vision of international climate finance, which should include external operations in the agri-food sector, is therefore deeply rooted in the unequal international financial architecture and ignores the historical responsibility of the EU for climate change. This sustains patterns of extraction and dependency in developing countries that are inherently detrimental to the people and the planet. It is dramatically reflected in the lack of concessionality and additionality of the Bank's international climate finance, the over-reliance on financial intermediaries and the little attention given to low- and middle-income countries. As a result, the EIB finances few agricultural projects in the Global South due to its risk aversion and its intermediaries' profit expectations which are not compatible with the development and climate challenges. More critically, the projects it supports perpetuate an export-oriented and intensive agriculture model that is deeply unsustainable and rooted in colonial patterns of trade.

## THE COMPETING INTEREST OF THE EIB IN ITS DEVELOPMENT OPERATIONS

The EIB's operations outside of the EU do not prioritise development, but use their lending capacity to serve European geopolitical and commercial interests through a strategy of making projects attractive for private investors. As a multilateral development bank, the EIB differs from purely commercial banks in that its decisions are theoretically guided by development priorities shaped by EU policy. This is what justifies the use of EU budget guarantees that are dedicated to international aid and are counted as development aid.

The EIB is the largest multilateral development bank globally with EUR 544 billion on its balance sheet. The Bank provided EUR 95 billion in loans in 2023. It is the bank of the EU: the Member States are the shareholders of the EIB and the Bank is governed by the Ministers of Finance who make the key strategic decisions (in the Board of Governors). The board of Directors approves all projects and policies, and it is made up of a representative from each Member State (mostly officials from the Finance Ministries) and one member from the European Commission. The European Parliament also evaluates the activities of the Bank in annual reports, but their recommendations are non-binding. The EIB has come closer to EU policy making in the past years, playing important roles in the implementation of the European Green Deal and the Global Gateway.

**EIB Group Corporate Governance Report 2022**[66]




The EIB has been financing projects outside of the EU for decades, but in 2022 these were brought together under a new department, EIB Global. Its main goal is to align the Bank's activities outside the EU with the Union's priorities – such as the Global Gateway (the Commission's strategic external investment plan prioritising geopolitical and domestic commercial interests), EU development objectives, the SDGs and the Paris Agreement. To do so, the EIB leverages its technical and financial expertise and resources to mobilise private investment.[67]

With the creation of EIB Global, the Bank positioned itself to be the main implementing partner of the Global Gateway by facilitating at least one-third of the set out investments that are supposed to amount up to EUR 300 billion. It channels the largest share (EUR 26.7 billion) of the EFSD+, which provides almost EUR 40 billion in total in the form of guarantees. The role of these guarantees is to mitigate risks for projects financed by development finance institutions and private investors – combined with grants and concessional loans in the so-called 'blending' – outside the EU that are supposed to have a development additionality.

EIB Global also committed to prioritising the Global Gateway projects, an approach to development finance whose prime objectives are geopolitical competition, strengthening of supply chains (especially with regard to the so-called 'critical raw materials') and promoting commercial interests of economic actors inside the EU. This presents contradictions in the stated objectives: how will EIB Global ensure that the EU's development and human rights objectives are met if at the same time it is supposed to prioritise promoting the EU's geopolitical and business interests under the Global Gateway? These competing interests are best reflect by the presence of agricultural and food companies on the Business Advisory Group[68] of the Global Gateway. These companies have negative human rights and environmental records such as Bayer[69] or Danone.[70] The EIB Global's strategy itself contains similar weaknesses: it's unclear about supporting developing countries' needs, emphasises mobilising private investments, prioritises quantity over quality in its climate finance, advocates for cooperation with export credit agencies which further dilutes development objectives and aims to reduce the project appraisal cycle which increases risk of negative environmental and social impact.[71]

Yet, the EIB didn't have a formal consultation process for the strategy, which highlights the Bank's top-down decision-making problem and the lack of democratic process involving the Global South stakeholders in planning the development agenda. Moreover, the EIB has neither a proper human rights due diligence process and risk assessment nor an explicit requirement for the Bank's clients to conduct human rights impact assessments to ensure they are protected (not to mention promoted). The Bank has a problematic track record of disclosing environmental and social impact information of projects in time before approval and when its funds go via financial intermediaries – which is often the case for the EIB's lending to agriculture in the Global South. In that case, very little is publicly known about where the money ends up and what environmental and social impact this has.[72]

## THE EIB'S NEOCOLONIAL VISION OF INTERNATIONAL CLIMATE FINANCE

The EIB, as the EU multilateral development bank, contributes to the provision of the EU's international climate finance as committed by the block under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement. As such, the EIB climate finance is reported biannually to the UNFCCC. In fact, it constitutes half of the amount provided by the 'EU institutions', distinct from the provision from Member States in the accounting breakdown. This obligation stems from the UNFCCC's principle of "common but differentiated responsibility and respective capability' whereby historical polluters such as the EU are given a primary responsibility of supporting developing countries to address climate change, through financial means and technological support.

The EU is one of the planet's biggest historical polluters, causing developing countries in the Global South to suffer the disproportionate and devastating impacts of climate change. To help developing countries cope with the climate impacts that they have done little to cause, the EU must pay its fair share

of climate finance in the form of grants that demonstrate direct development additionality.[73] However, by mostly offering loans, the EU's climate finance contributions are in fact pushing climate-vulnerable countries in the Global South deeper into debt. This can create perverse dynamics in which countries are forced to expand and export fossil fuels and industrial agriculture in order to earn the foreign currency required to pay back such loans.[74]

International climate finance is part of an international finance architecture that is inherently detrimental to developing countries. This approach obfuscates the historical responsibility of the rich countries of the Global North and perpetuates the neocolonial use of economic and geopolitical power to access cheap resources, markets and labour in the Global South, further driving climate change. This is secured through policies demanding privatisation, liberalisation and austerity, often linked to overindebtedness. In effect, international financial architecture where the rich countries hold almost all of the decision-making power results in the Global South developing the Global North: for every dollar flowing towards the Global South, 30 flow back to rich countries.[75] In this context, it is clear that development finance for agriculture is just a drop in the ocean which can't address the structural forces keeping the Global South in a state of servitude towards rich countries.

The EIB's Climate Bank Roadmap ignores these problems in the international financial architecture, structural power imbalances, and lack of access to decision-making. But these are issues that are essential for the countries in the Global South to address unjust debt burdens, and to access their fiscal resources as well as development finance. With more fiscal resources, low- and middle-income countries would free up public investment capacity to develop sustainable agricultural projects built around local supply chains and meeting domestic food security needs. The Roadmap reflects this neocolonial approach: the developing countries merely need to be 'helped' to ensure green investments – and the private sector is there for the task.[76]

This approach is also reflected in the Bank's strategy for a just transition outside of Europe, which seeks to support regions and cities in developing countries affected by transition away from a carbon-intensive economy. Unsurprisingly, the EIB's just transition vision narrows down on the micro-level of the problems. The Bank aligns its activities with EU policies and external action principles that fail to ensure economic justice for developing countries – including availability of sufficient resources for environmental and socio-economic investments needed for reaching development objectives. In effect, while the official objectives and narratives of the EIB's policies include undoubtedly positive objectives – such as ensuring broad access to and benefit from the low-carbon and climate resilience finance that the EIB provides, or building resilience of the people and employment sectors most vulnerable to climate change – the Bank's current trajectory casts doubt over its ability to deliver on such promises.

Surprisingly, the EIB does not mention agriculture among its global just transition objectives, despite the substantial needs in a sector that can have a high development additionality and contribute to tackling ecological degradation and inequality. Similarly, gender is a low priority in the EIB's current climate finance. According to the Bank, in 2022 only 8% of EIB projects supporting climate action and environmental sustainability contributed to advancing gender equality and women's economic empowerment.[77]

Even though the problems of the international financial architecture go well beyond the EIB, the Bank has the capacity to redress some of its flaws. First, the Bank should provide climate finance to the Global South in the form of highly concessional loans which directly benefit end users and have a high development additionality. Depending on the type of project financed, concessional loans can be made more advantageous for final beneficiaries by providing guarantees and grants. Moreover, the EIB and EFSD+ must ensure their lending does not lead to unsustainable debt levels. The EIB currently makes debt assessments using the World Bank/

IMF methodology, institutions that have come under fire for breeding indebtedness of recipient countries.[78] In an evaluation of EFSD+, the ECA also remarks that for example Cambodia is unable to absorb the allocated guarantees because its internal rules preventing overindebtedness do not allow taking up such a high volume or loans.[79] This highlights the risk these guarantees and attached loans pose in terms of generating unsustainable debt levels in countries that don't have such preventive mechanisms. There is little chance the EIB will allocate funding for such projects if it doesn't explicitly include them amongst its priorities.

In effect, the EIB's climate investment strategy perpetuates unjust economic, social and political relationships between Europe and the Global South. It also leads to an ineffective strategy to tackle the global climate crisis. Even though the EIB and other MDBs proudly state they are reaching their climate finance objectives, international climate finance does not help the Global South to pursue their development objectives on their own terms, free from the constraints imposed by the current international financial architecture.

## THE LACK OF IMPACT IN EIB'S INTERNATIONAL CLIMATE FINANCE

The EIB boasts its growing levels of climate lending. However, this does not result in a high impact on the ground, especially in middle- and low- income countries, as the Bank fails to provide concessional lending directly benefiting local actors. It continues to employ a strategy of attracting private investors which sidelines development needs and is unsuccessful in mobilising sufficient resources. Additionally, the use of intermediaries is problematic from a climate and development perspective.

In 2023, the EIB's investments outside of Europe amounted to EUR 8.4 billion. The EIB plays a prominent role in climate finance among multilateral development banks (MDBs). It is still the only MDB to have stopped financing unabated fossil fuel energy projects, and declared its intention to become the 'EU Climate Bank' in 2019. As such, the EIB plays a key role in implementing the European Green Deal, including its external dimension.

Yet, this role should be carefully framed and monitored to avoid worsening the debt burden of developing countries in their fight against climate change. Unfortunately, the EIB has substantially decreased the share of concessional loans and equity of its total climate lending which went down from 19% in 2017 to 2% in 2021. Moreover, some grants are given under the EFSD and EFSD + lending, but, in combination with guarantees and loans, to further take away risk and make projects more profitable for private investors. Such an approach cannot constitute an effective tool for climate action.[80]

This follows a larger trend: according to the Joint report on MDBs Climate Finance,[81] their climate finance reaches nearly USD 100 billion in 2022, up from USD 82 billion in 2021. Even though these MDBs allocate more development finance towards low and middle-income economies, these are mostly loans with the aim to derisk and attract private investors. Moreover, this strategy is particularly unsuccessful in low- and middle-income countries, as loans by MDBs mobilise significantly less private money than in high-income countries. Assumptions about the amount of money that can be raised through 'co-financing' and 'leveraging' with private actors serves to inflate the EU's numbers, while also creating dependency on public-private partnerships. This means that projects will need to be designed around their ability to generate profits demanded by investors, not to support environmental and social needs as a priority.[82]

Similarly, the EIB recognises poor and developing countries are more impacted by climate change while having the least resources available to deal with the shocks to their social and economic systems and states that climate loans in these countries must be concessional.[83] Yet, only 11% of the Bank's development climate finance goes to the least developed countries (LDCs).[84]

The use of financial intermediaries for financing climate projects in the Global South is also problematic because it diverts development aid from where it could make the best contribution to the development of a sustainable agriculture sector. The profit expectation of private investors in combination with the risks and economic uncertainties of agricultural projects mean that projects will be designed to generate sufficient returns for private investors. Financial intermediaries mobilise private capital in richer countries and often ignore the poorest countries. There is also a lack of democratic control: the financial intermediary ultimately decides what gets financed and what does not. The EIB's oversight to make sure projects financed by financial intermediaries respect environmental, human rights and other social standards is very weak. Allocating development finance and budget via financial intermediaries also promotes the financialisation of economies and privatisation. This means that for agriculture projects to be financed, they need to be profitable enough to be interesting for private investors, which means the countries have less freedom to make other priorities in how they develop their agriculture and at least part of the revenue generated will flow back to the investors.[85]

## THE MARGINALISED ROLE OF AGRICULTURE IN DEVELOPMENT FINANCE

The EIB pays lip service to the need to support agriculture in developing countries, but it is only a marginal part of its portfolio. This is a recurring phenomenon among MDBs and relates to the economic risks and limited profitability of agriculture projects, which make it harder to make projects bankable for private investors. Instead of responding to the situation by providing highly concessional lending the Bank prefers to have a limited exposure and operate via financial intermediaries, further supporting an unsustainable export-oriented industrial agriculture model with public funds.

According to the Climate Bank Roadmap, the EIB wants to enable the transition to a fair, healthy and environmentally friendly food system within and outside the EU. It subscribes to the Commission's Farm to Fork Strategy, endorsing the need to reduce dependency on pesticides and excess fertilisation, increase organic farming, improve animal welfare, and reverse biodiversity loss. Given the dominance of SMEs and midcap companies in the agricultural sector and the EIB's high threshold of loans, EIB financing relies on financial intermediaries and funding of bigger companies. In terms of direct projects, the Bank committed to supporting corporations and cooperatives by investing in research and development, bioeconomy projects in rural areas, and the development of national-level advisory programmes to change to low carbon practices.[86]

The EIB Global refers only marginally to the agriculture sector in its Global Strategy – noting it will seek to leverage relationships and repeat business with EU clients keen to grow their non-EU activities through investments in sustainable practices and technologies such as fintech, off-grid/mini-grid electricity, agriculture, ICT, innovation and health.[87] In 2022 the EIB provided EUR 649 million in direct lending to climate action and environmental sustainability investments in the bioeconomy sector, with an additional EUR 572 million supporting broader Paris-aligned investment in these areas. EIB's climate action lending in the sector can be broken down across the value chain, with some 30% going to agriculture, 38% to agri-food and forest industries, 20% to bioenergy, 7% to fisheries and aquaculture and 4% to forestry.[88] Clearly, the agriculture sector, in or outside the EU, has not been high on the agenda of the EIB, even though it is listed now as one of the 8 priorities in a leaked Strategic Roadmap for 2024-2027, but only mentioning agriculture inside the EU.[89]

At the end of 2023, the EIB had EUR 5 billion loans to the agriculture, fisheries and forestry sector in its loan portfolio, 1% of the total outstanding loans.[90] The report doesn't provide details on how much of this lending

went to developing countries, but a previous EIB report on agriculture and the bio-economy notes that the Bank lent EUR 31.1 billion to agriculture and the bioeconomy between 2016-2020. 30% of this amount (EUR 9.5 billion) went to agriculture, 16% (EUR 5 billion) of this total amount consisted of loans outside of the EU.[91] If these proportions are still accurate today, the EIB would have EUR 800 million in outstanding loans to agriculture and forestry outside of the EU.

The EIB and EU's willful blindness to industrial agriculture's role as the second biggest cause of climate change is further underlined by the provision of EUR 337 million in guarantees for loans (part of which are loans from the EIB) to agribusiness in developing countries between 2020 and 2022 under the EFSD and EFSD+ programme.[92] Instead, the EIB finances projects which are in fact promoting agro-industrial practices that contribute to global warming. The EIB signed a EUR 250 million loan to Kernel Group, one of the largest diversified agribusiness companies in Ukraine. The loan aims to support the expansion of Kernel's seed-oil production capacity, significantly improve its logistics structure, finance the construction of biomass-fired combined heat and power plants and increase storage capacity across several regions of Ukraine.[93]

The EIB's nominal ambition to increase support for agriculture as part of its external investments in support of SDGs, in combination with a limited effective exposure to this sector, is a more general phenomenon in the MDB world. There are structural reasons related to the nature of the agricultural sector which form an obstacle to the success of the strategy relying on private finance to generate sufficient financing. The agricultural sector comes with a lot of economic uncertainties and high costs (such as weather variation, land and water management, and volatile agricultural commodity prices) compared to investments in infrastructure or the financial sector. These uncertainties related to the profitability of agriculture investments, especially in primary production, led many development banks to prioritise other sectors – and outsource the selection of projects to financial intermediaries to reach investment volumes with the least dedication of resources possible.[94]

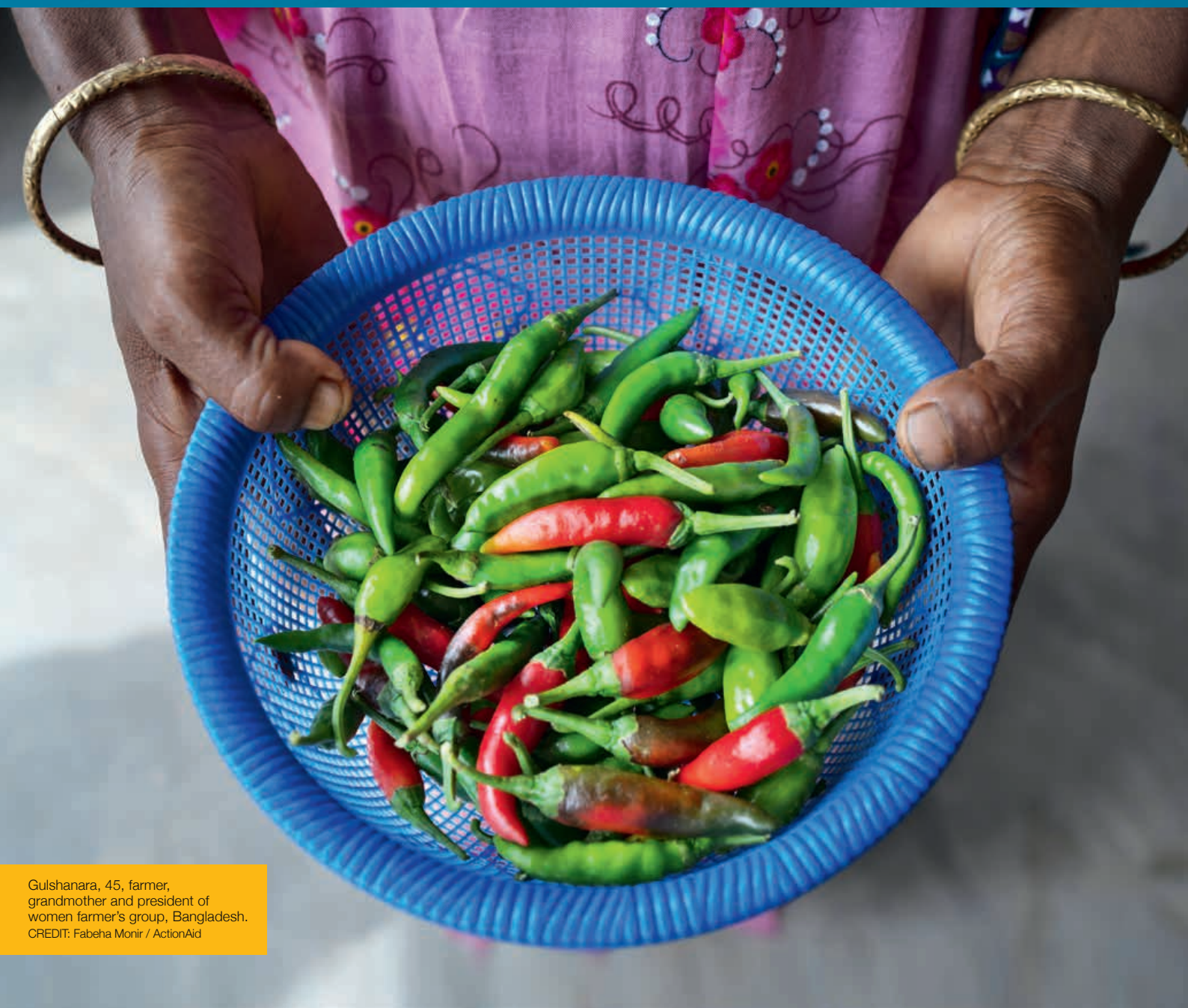
Historically, development banks finance major and already well-developed companies requesting large amounts of patient capital, typically for rent-seeking plantations producing sugar, palm oil, rubber or bananas. By supporting these cash crops, development banks promote a development model based on export-led agriculture. These banks have also maintained a client network that dates back to the colonial period or early independence. Large-scale sugar companies played an important role in Proparco and EIB's agricultural investments in Sub-Saharan Africa between 2000 and 2013.

In the last decade, this support for large-scale primary agricultural production companies declined and turned to upstream (processing and trading) and downstream (seeds and fertilisers) agro-industries and financial intermediaries. Between 2000 and 2020 the EIB invested in 28 agricultural projects via the 'African, Caribbean and Pacific Investment Facility.' Throughout this period, there has been a disinvestment from agriculture, especially from primary production, which has been partially replaced by lending via financial intermediaries.While in the early 2000's projects with financial intermediaries were rare, in the 2010's the overwhelming majority of the agriculture projects financed under the ACP Investment Facility went via financial intermediaries.[95] According to the EIB, currently 80 % of the total lending to the bioeconomy sector, which includes agriculture, goes via financial intermediaries.

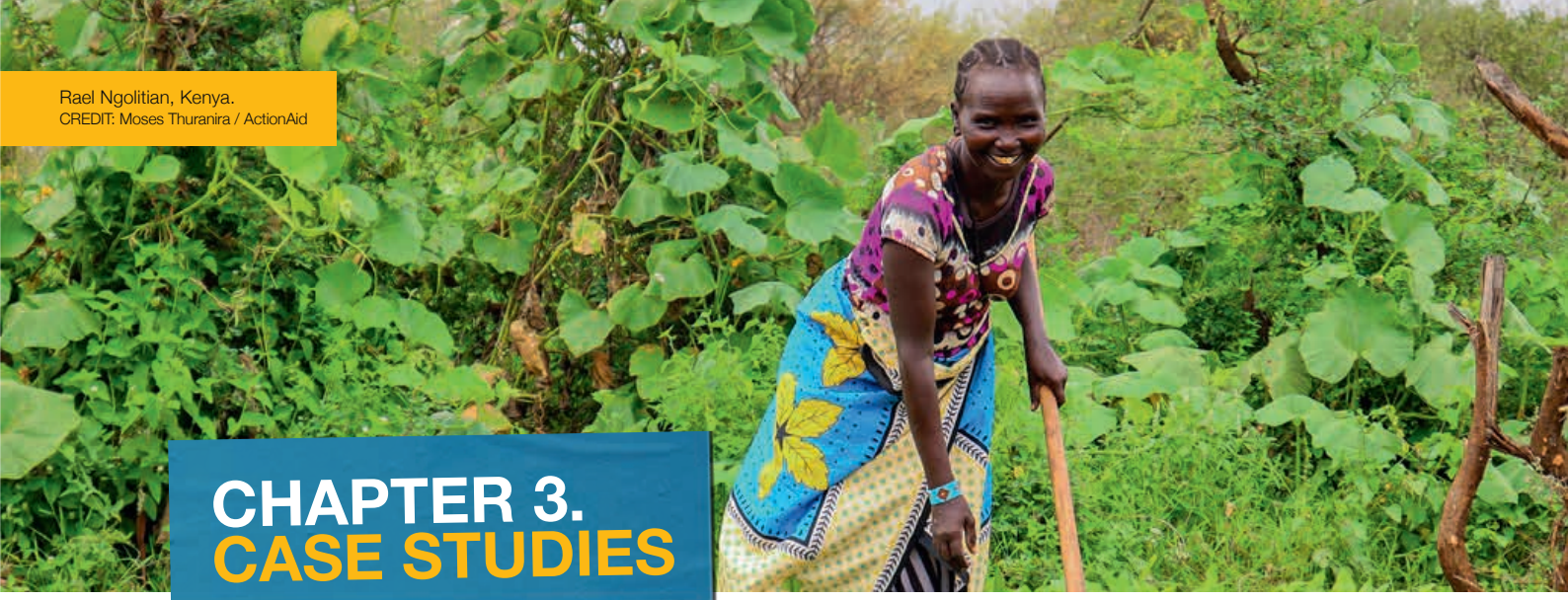
Government-backed public financial development institutions such as the EIB cannot just back away from financing the sector, because food security plays an important role in the SDGs. Small-holder farmers are the backbone of global food systems, and agroecology is essential to preserve biodiversity and adapt to and mitigate climate change. But instead of thinking about less market-based solutions that could overcome the lack of profitability, democratic control and other problems in the sector, development banks try to look for new business models to cater to the needs of private investors. Mechanisms that prioritise development objectives in their mission to support sustainable agriculture and food security are therefore sidelined.

## BOX 2: NEXUS BETWEEN UNSUSTAINABLE AGRICULTURE AND UNSUSTAINABLE DEBT

Unsustainable food systems are a critical part of the debt crises facing the Global South, with severe consequences for food sovereignty and security. This vicious cycle is driven by multiple factors, including the climate crisis, import and currency dependencies, food price vulnerability and extractive financial flows.[96] While facing the worst impacts of the climate crisis through more frequent and extreme weather events, Global South countries are increasingly dependent on imports of food and fertilisers, as well as export-oriented cash crops controlled by agribusinesses. These extractive dynamics, paired with high vulnerability to food price volatility means that Global South communities enter into a vicious and harming debt cycle exacerbated by decades of divestment from social services and domestic agricultural production. On top of this, cuts in public expenditure as a result of structural adjustment programmes led to an increase of public private partnerships and other agri-development financing which have contributed to further erosion of state functions and accountability mechanisms, and are arguably undermining public finances in the longer term.



Gulshanara, 45, farmer, grandmother and president of women farmer's group, Bangladesh.
CREDIT: Fabeha Monir / ActionAid



Rael Ngolitian, Kenya.
CREDIT: Moses Thuranira / ActionAid

# CHAPTER 3. CASE STUDIES

Three projects financed by the EIB in the agriculture sector have been selected as case studies for this report. They reflect current limitations of the EIB to fund smaller agricultural projects directly, including a low risk appetite, a too high minimum loan size threshold (normally EUR 25 million), and a lack of expertise and staff in recipient countries. As a result, the Bank chooses rather intermediaries who are responsible for selecting sub-projects or larger companies deemed as more secure investments, in order to avoid bearing potential costs related to weather vulnerability and lower profitability.

The EIB also chose to finance export commodities such as cashews or cocoa, which are sought after in Western markets, but have questionable additionality to local food security. Moreover, their prices are volatile and usually low due to the unjust international market. In addition, exporting raw food items rather than supporting local productive capacity further up the value chain and prevents higher added value creation to recipient countries. At the same time, these projects exhibit marginalisation of smallholder farmers in the EIB's development and climate finance, which risks exacerbating agro-industry's contribution to climate change and weakening localised sustainable food security systems.

**Case studies: overview**

| Project | Promoter | EIB finance | Product | Key concerns |
|---|---|---|---|---|
| **COFINA – Green African Agri Value Chain Côte d'Ivoire, Senegal (2023)** | Compagnie Financière Africaine (COFINA), a for-profit transactional financial services group, provider of the so-called 'mesofinance' in Africa | A loan of EUR 26 million (16.1 Côte d'Ivoire, EUR 9.75 Senegal)<br><br>Backed by EFSD+ Guarantee | cashew and cocoa cultivation | • dodgy financing model<br>• influenced by global market prices<br>• financial risk covered, not farmers' risk<br>• food security risk |
| **Senegal River Valley Rice Senegal (2016)** | Compagnie Agricole Saint-Louis (CASL), a joint stock company registered in Paris and majority owned by a French entity Arthur Straight Investissements (ASI) | A loan of EUR 15 million | rice | • land rights and other negative impacts on smallholder farmers<br>• negative environmental impact, including on a natural park which is a UNESCO World Heritage site |
| **Angola Agri-Business Expansion Angola** | Webcor.<br>a multinational agro-industrial food production and distribution company | A loan of EUR 49 million | food processing | • questionable contribution to food security and nutritional needs<br>• negative impact on climate<br>• urban-centred, leaving out vulnerable rural communities |

# CASE STUDY 1: COFINA – GREEN AFRICAN AGRI VALUE CHAIN

The COFINA initiative in Senegal and Cote d'Ivoire is one of five sub-projects in the EIB's envelope of credit lines for a 'green agricultural value chain' in sub-Saharan Africa, which entails up to EUR 200 million of loans backed by an EFSD+ guarantee.[97] The loans are assigned to financial intermediaries who then finance small and medium size enterprises as well as mid-caps in the agriculture sector. According to the EIB, the project intends to address market failures of imperfect information and obstacles to access to finance, while contributing to achieving several Sustainable Development Goals: gender equality, decent work and economic growth, sustainable cities and communities, climate action, and partnerships for the goals.

## BUSINESS MODEL

The promoter of the project is Compagnie Financière Africaine (COFINA), an African financial group active in West and Central African countries. It operates as a for-profit transactional financial services institution and is the first provider of the so-called 'mesofinance' in Africa, even though it is officially registered and regulated as a microfinance institution. In this way, COFINA aims to provide loans to emerging middle classes by addressing financial needs above microfinance and below the commercial banks' level. The entity was established in 2014 by an Ivorian banker formerly active in the French banking sector, Jean-Luc Kofinan.[98] COFINA was founded with the help of international capital: one of key investors acquiring a minority stake in COFINA was a private equity firm Mediterrania Capital Partners – licensed in Mauritius and Malta, countries with very favourable tax jurisdictions[99] – which also received rounds of equity finance from the EIB.[100]

Outsourcing agriculture support to financial groups such as COFINA reflect the EIB's low risk appetite. Agriculture projects tend to pose higher risk due to vulnerability to weather conditions, lower profitability, and higher awareness of potential social and environmental issues. This means that a thorough and resource-intensive appraisal and evaluation procedures are required, especially for smaller sustainable agricultural projects. In effect, to reduce costs, minimise risks, and avoid responsibility for potential failure, development finance institutions such as the EIB opt for intermediated operations while satisfying its declared goals to finance agriculture projects.

Moreover, financing for-profit private financial institutions such as COFINA treats agriculture as an asset class and risks deepening financialisation of development policy. Public institutions are well positioned to select projects that prioritise social and developmental objectives as a priority and provide comprehensive solutions set within integrated local food security networks. Instead, the EIB's choice of an intermediary such as COFINA de facto outsources a corporate risk management in agriculture to a private fund. On top of that, it taps into the EU guarantees to secure private profits of shareholders instead of the farmers.[101]

## AGRICULTURE AND DEVELOPMENT IMPACTS

The EIB's finance through the COFINA group focuses on cashew and cocoa production, which are leading export commodities.[102] On one hand, these commodities provide an important source of income for the farmers and workers. However, the resulting power asymmetry in global markets leaves local exporters to the whims of international capital, with the majority of revenue captured by rich nations. Moreover, in the

context of global agricultural supply chains described in the report, it is important to reflect on the origins of this focus – cocoa was introduced to Africa in the 19th century, and its farming in West Africa has been linked to slavery. To this day, the chocolate industry denies any issue of forced labour and child slavery.[103]

As a result of the integration of the cocoa industry in Côte d'Ivoire into current global food chains, revenues from labour, processing and sale are deeply unequal. In sales, most of the profits go to the Western companies as well as European vendors of related products, marketing and other value chain actors.[104] At the same time, investment and operations costs are high in Côte d'Ivoire, making it even more challenging to secure sufficient finance to increase productive capacity in the sector necessary for operating in the global capital market.[105]

Value creation is limited also in the cashew sector supported by COFINA in Côte d'Ivoire – the world's leading cashew exporter. Similar to value creation limitations in the cocoa industry, investments tend to flow into raw nut plantations rather than into the processing capacities and boosting the domestic productive sector. Moreover, most food and cash crops have low yields, and the farmers who depend on them are unable to diversify into higher value-added activities for reasons including lacking access to land, capital, and finance.

Moreover, rising global demand and subsequent expansion of cashew (as well as cocoa) plantations cause significant deforestation, and damage fauna and flora in single-crop cultivation with pesticides.[106]

The EIB excludes from its financing activities aimed at producing or using agricultural or forestry products associated with an unsustainable expansion of agricultural activity on land that had the status of areas of high carbon stock and biodiversity (i.e. primary and secondary forests, peatlands, wetlands and natural grasslands). For this project, technical assistance has been set up to help Cofina bring its environmental and social management system in line with EIB standards in this area. However, it is unclear what are the practical results of this process. The EIB's lack of enforcement of compliance with its standards is problematic and the process of raising any rights or environmental violations detected in projects is intransparent. This is particularly the case in operations via financial intermediaries.

In terms of social impacts, expanded cashew cultivation threatens food security as farmers must buy an increasing amount of other essential food staples. As a result of global price volatility, price shocks and overproduction, rural communities are left exposed to food insecurity while their environment is continuously degraded.[107]

Moreover, farmers receive only a marginal share of profits and remain underpaid, and cocoa price set by international enterprises is insufficient to help alleviate poverty. Their precarity is further compounded by an absence of guaranteed minimum prices to producers,[108] or violations of governmental price and minimum wage regulations.[109] Additionally, COFINA sets out to finance automation of the production chain.[110] This can pose risks to jobs in manual processing, employing mostly women, without policies in place to guarantee new employment opportunities as a part of a comprehensive multi-stakeholder project structure. Given the structural issues in the global market value chains and unfair wealth distribution, serious doubts emerge as to the project's ability to support decent work and help Cote d'Ivoire or Senegal meet its development objectives.

COFINA Group is also set to support cereals and horticulture in Senegal. Cereal cultivation faces challenges in production, resulting in imports. Rural communities are most vulnerable to yield and price fluctuations.[111] Due to impacts of weak harvest, instability, and growing consumer prices, the number of food insecure people in Senegal increased by 80% in 2022 compared to the previous year. Further factors of hunger and malnutrition can be attributed to the relatively high rural and urban poverty, weak productivity and agricultural

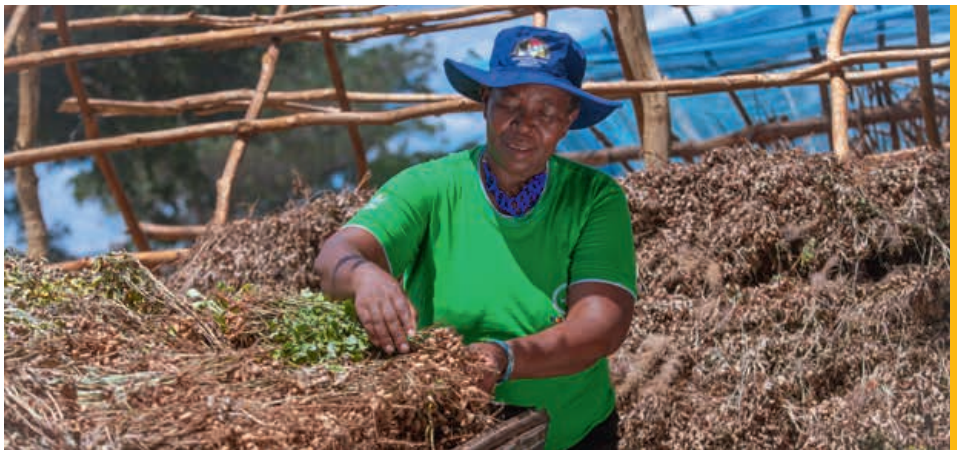
diversification. In effect, domestic food production does not correspond to the existing demand.[112] Senegal imports 70% of its food, while domestic grain production covers only half of the people's basic food requirements.[113]

Meeting urgent needs of the most vulnerable communities, addressing malnutrition and hunger, and strengthening smallholder farmers, women, and agroecological farming techniques is crucial for delivering on other development goals.[114, 115] In this context, supporting local resilient food security structures is essential, especially as the informal market plays a leading role in Senegal's cereals market.[116] But as the scope of COFINA for-profit 'mesofinance' includes SMEs as well as mid-caps, it is unclear whether or to what extent small farmers and sustainable agroecological farming practices will benefit from such funds as opposed to industrial agricultural entities. This is particularly concerning as the EIB's intermediated finance projects are intransparent, and such information is not made available to the public by the bank.

## ENVIRONMENT AND CLIMATE

Given the high risk farmers face due to harvest and climate fluctuation, development projects in agriculture should be centred at enabling local sustainable food production by financing and shielding farmers – not financial institutions – from debt risk. Profit-driven financial intermediaries are not well positioned to support farmers exposed to climate change impacts, as well as high operating costs and lack of governmental investment in relevant infrastructure. Loans should not contribute to indebtedness, and development grants and guarantee tools must protect farmers directly.

To address some of those challenges, a more integrated approach would be appropriate through supporting comprehensive governmental programmes and working with public institutions. This can mean for instance supporting and financing sustainable infrastructure expansion conducive to farmers and reducing operational costs, integrated local organisations and trade networks, or conservation solutions addressing environmental risks.[117, 118] It is unclear what climate solutions (and if any) the entities financed by COFINA will implement. According to the EIB information for the umbrella project, the intermediaries have to commit to allocate at least 30% to sub-projects tackling adaptation and mitigation according to pre-defined criteria.[119] While the EIB's list of activities considered as climate action reflect the EU's taxonomy, it remains unknown to the public what exactly COFINA considers and reports as such activities in its project. As a result, the EIB can end up reporting the finance as a part of its climate action claims, without any meaningful evidence or information about the projects and results of its loans.



Southern Africa Food Crisis response 2020-21 - activities included training smallholder farmers on agroecology farming techniques to increase crop yield and adapt to the impact of the changing climate.
CREDIT: Joseph Tembo/ ActionAid

# CASE STUDY 2:
# SENEGAL RIVER VALLEY RICE

The 'epic scale' project consists of a loan to Compagnie Agricole Saint-Louis (CASL), Senegal's biggest rice producer.[120] Co-financed by the EIB and the African Development Bank (AfDB), it reportedly received more money than any other business in the agricultural or agro-industrial sector in Senegal.[121] Its aim is to develop over 4,000 ha irrigated rice plantations, construct processing and storage facilities, and provide an 'outgrower scheme' with farmers with whom the promoter will work to operate the large farm and mill. The project is also set to support private investment in the agriculture sector.[122]

## BUSINESS MODEL

CASL is a joint stock company registered in Paris and majority owned by a French entity Arthur Straight Investissements (ASI). Some of its leadership team involves French nationals with ties to French colonial settlers of Senegal, also operating in agro-industry. Moreover, several figures close to government officials are reported to be involved in the project, including the former Minister of Agriculture, as well as the eldest son of a former president whose company has a monopoly in axle loads of heavy goods vehicles between Dakar and Bamako.[123]

In 2017, Laurent Nicolas, the founder and the CEO of CASL, was ousted from the company – a dismissal he brought to the court in Paris.[124] Subsequently, it was reported that the company was in crisis and close to a collapse due to infighting of its shareholders.[125] The EIB confirmed that the project is currently on hold as it has run into operational and financial difficulties. These were triggered by a combination of agronomical, operational and management issues that have severely affected the productivity of the farm and industrial operations. This raises concerns about potential negative fallout – and how it will be addressed – on the farmers and employees involved in the project, or on the food security and agricultural yields. To support small farmers and local food security systems, the Bank should support entities with high transparency and accountability and a clear development mandate.

Zuhura Kisango, Asha Saidi and Fatuma Abdallah harvest sea weed off the coast in Kilwa district, Tanzania.
CREDIT: William Vest-Lillesoe/ ActionAid

## AGRICULTURE AND DEVELOPMENT IMPACTS

Senegal is the second largest rice importer in sub-Saharan Africa, and rice is the most consumed cereal on a daily basis. Supporting domestic rice production in Senegal is needed for achieving food security goals, and the urgent importance of self-sufficient food policies is evident in light of a recent food crisis in West Africa exacerbated by the COVID-19 pandemic and the Ukraine war.[126, 127] Reducing import dependency is also a good objective in order to alleviate the competition pressure on Senegalese farmers in the face of Indian imports.[128]

Lack of domestic processing capacity exposes Senegal to import dependency of final products, and prevents the farmers from gaining value from Senegalese supply chain and benefitting from job creation.[129] Small-scale production constitutes the majority of rice cultivation in Senegal. Small family farms cover 95% of agricultural land, and include 80% of the Senegalese population. Most of them are subsistence farmers selling smaller amounts. Low yields are a key challenge, impacted by access to irrigation systems and equipment, as well as climate change and unfavourable and unpredictable weather patterns.[130]

Given the share of small farmers in Senegal's agricultural sector, small-scale processors and local agricultural networks should be included in the modernisation process and have better access to credit to not be pushed out of the market or end up swallowed up under a bigger agro-industrial entity.[131] Yet, large farmers receive most of the subsidies in Senegal.[132] The industrial agriculture model risks neglecting smallholder farmers and weakening links between rural and urban markets, exacerbating poverty and the population's exposure to market fluctuations of rice imports.[133]

CASL's business model is industrial rice production for the Senegalese market. The project integrates farmers' land in the industrial farm complex despite reported preference of farmers to keep the land and operate it themselves. It was also reported that the farmers who have eventually decided to sell their land received minimal compensation for the land bought by CASL – contrary to its initial promises to the local communities – to set up irrigated rice parcels on an industrial scale.[134] This followed an attempt by CASL to buy land in other areas, which was rejected by local actors due to fears of land grabs and inadequate compensation.[135]

According to the information shared by the EIB with the authors of this report, the people involved and interviewed deemed the process to be fair and transparent, and the compensation package agreed with the promoter was well accepted; it included provision of drinking and irrigation water to riparian villages, professional formation schemes, and social amenity investments. The EIB further noted that the affected communities saw the development of the project as an opportunity to revitalise activities in the area and to reduce unemployment and poverty in the rural areas within the project development areas and beyond. The Bank also said that the promoter established a fund under shared management and co-decided on future investment allocations with the communities, and hired a specialist on environmental and social matters to monitor implementation of the social action plan and to assist the management in grievance procedure. However, this information is not made publicly available by the EIB, highlighting structural difficulties in assessing the quality of promoters' consultations and impacts of their interventions in support of local communities.

This approach to agriculture modernisation through concentration around agro-industrial corporations risks shrinking the number of smaller farms and agricultural workers, and lead to higher urbanisation and pressure on cities. Instead, agricultural investments should benefit the farmers as a priority, not the industrial profits, and offer capital, coaching, infrastructure and protection schemes, an approach currently neglected in international development finance.[136]

Part of the project will use infrastructure developed by the Senegalese government in collaboration with MCC (Millennium Challenge Corporation) aiming at improved irrigation systems and water management in the Senegal River Delta to bring agriculture to the area. MCC is a US development agency focusing on reducing poverty via economic growth. MCC's conditionality and required reforms agenda have been criticised for entrenching recipient countries into free market neoliberal structures – and by extension existing inequalities.[137, 138] Many of the MCC's operations – such as those in Nepal,[139] Sri Lanka,[140] or Benin[141] – encountered opposition and protests for encroaching upon countries' sovereignty, further eroding land rights though land privatisation and land grabs by foreign corporations and investors.[142] The EIB-financed project fits into this investment pattern given the criticism raised with regard to consultations, land rights and implications for small-holder farmers.[143] The MCC-Senegal Compact included investments in the agricultural sector, expanding market access and building roads and irrigation networks. However, MCC's irrigation schemes in other African countries were criticised by authors of MCC evaluation studies themselves, arguing strongly against the MCC large-scale irrigation systems and instead advising small-scale irrigation and rainwater harvesting systems that can benefit a far larger amount of the people.[144]

## ENVIRONMENT AND CLIMATE

The project is located near a natural park area which is a UNESCO World Heritage site, Parc National des Oiseaux de Djoudj. The EIB states that this project has no direct influence on the park or its hydrology, but a Senegalese NGO Lumière Synergie Développement argued that it violates the Environmental Code and threatens the park's fauna and flora due to negative impact of the fertiliser used, leading to water contamination.[145] The EIB acknowledges these only as 'potential indirect effects' (use of agrochemicals and risks to the aquatic fauna).

To compensate for the recognised negative impacts on vegetation in the area cleared for the project and to restore firewood, the CASL project included afforestation initiative for firewood. The size of areas slated for afforestation was set to that equal to just 2% of the cleared area. Information evaluating the afforestation project is not available at the EIB's website. This is essential due to a set of challenges and limited afforestation benefits raised by scientists. Moreover, reforestation to restore and conserve historical forests has been suggested as a preferred option to afforestation (planting new trees where there were previously none).[146]

Climate change has major impacts on agriculture and food systems, especially on small farmers and their adaptation and resilience. At the same time, industrial-scale agriculture is polluting and water intensive. Rice cultivation itself also produces significant greenhouse gas emissions, being the second biggest contributor after livestock.[147] Methane-reducing water management techniques exist to minimise the emissions.[148] The EIB does not seem to demand this as a condition for financing. A comprehensive support and protection of smallholder farmers through public programmes and legal framework is essential for sustainable food systems, shielding farmers from indebtedness or from being forced to abandon rice cultivation and subsistence farming to move to other more profitable agricultural activities due to market and capital pressures.[149]

Some of the key challenges to sustainable rice production in Senegal further include water management capacity, high production costs, access to seeds, fertiliser, credit and equipment, and availability of paddy fields and milling capacities.[150, 151] Soil fertility cultivation thanks to practices such as soil conservation has an important impact on food security. In 2019 the Senegalese government has included agroecological transition in the national policy framework.[152] Yet, as industrial production can guarantee better and faster returns, it is often prioritised and advances in resilient agroecological practices lack needed investments.[153] The EIB is currently also considering financing Agropole Centre, a large agro-industrial and logistics zone in Senegal promoted as an opportunity for foreign businesses to establish themselves directly in Senegal and benefit from the facilities.[154, 155] This agropole focuses on peanuts, cereals and salt as priority sectors, and processing and marketing.

Amina, an ex-pastoralist forced to change farming methods in Isiolo, Kenya.
CREDIT: Mumbi Bakari / ActionAid

## CASE STUDY 3: ANGOLA AGRI-BUSINESS EXPANSION

TA food processing project in Angola focuses on increasing national food processing capacity by supporting one agro-industrial company Webcor – namely wheat mills inside an industrial park, a pasta factory, and a dairy processing subproject (factory modernisation).[156]

The project was initially approved by the EIB and on the Bank's website, pending the final signature. However, according to the EIB, the project has not been signed and has been taken off the website. This analysis is based on the documentation that was publicly available at the time of the research (January 2024), including the project's Environmental Social and Data Sheet that is still online at the time of the report's publication.

## BUSINESS MODEL

The project promoter is Webcor, a multinational agro-industrial food production and distribution company focusing on sourcing, manufacturing, distribution and commodity trading as well as 'Fast-Moving Consumer Goods' (FMCG). It focuses on a number of foods like dry pasta, tomato paste, canned tuna, or frozen chicken. It was established in 1978 by a Lebanese Belgian entrepreneur Ali Nesr in the Democratic Republic of the Congo (then called Zaire), when the country was run under a military dictatorship of Mobutu and riddled with corruption and a kleptocratic government.

Webcor has a number of subsidiaries present in Angola, as it expanded activities outside of DRC as the era of Mobutu came to an end. For instance Angoalissar is now one of the largest food importer and distributor in Angola working with over 300 national and international brands. Other subsidiaries include Webcor-acquired Angolan dairy producer Lactiangol, Grande Moagens de Angola, or Imex Industria. It also acquired for instance Italian Pasta Berruto. Webcor Group is registered in Switzerland, ranked as the fifth biggest international tax haven.[157] It includes Webcor Real Estate, Webcor Distribution, Webcor Investments and a number of other financial entities. One of the subsidiaries of Webcor Group registered in Malta and Webcor's CEO Wissam Nesr are listed in Paradise papers, a huge data leak exposing tax manoeuvring through tax havens by multinationals and rich individuals to avoid higher corporate income taxes.[158]

## AGRICULTURE AND DEVELOPMENT IMPACT

Angola has been a key African oil exporter, which led to major inequalities and poverty rates due to uneven wealth redistribution. Over half of the population in Angola is multidimensionally poor (2021).[159] 54% of the rural population live below the poverty line, and Angola was ranked 97 out of 116 in the 2021 Global Hunger Index.[160] Poverty, poor dietary diversity, sanitation and hygiene conditions as well as gender inequality are some of the driving factors of food insecurity and malnutrition. Rural households rely on agricultural activity for food. Inadequate care and feeding practices further exacerbate acute malnutrition affected by droughts.[161]

According to some estimates, Angola imported approximately 46% of its food in 2022.[162] Growing import prices have been a burden for Angola, negatively impacting the purchasing power of households.[163] It is not clear from Webcor's operations that the products it intends to invest in are going to address Angola's food security or nutritional needs, or are simply oriented at market consolidation as the driving agenda. Impacts on access to affordable food is essential for poor households, where improvements were previously marked with lower food prices in key areas such as vegetables and cereals. But it is unclear whether Webcor can contribute to lowering access of poor households to crucial food items.[164] Moreover, 60-65% of FMCG firms' sales take place in cities, and the urban and rural poor risk being left out.[165]

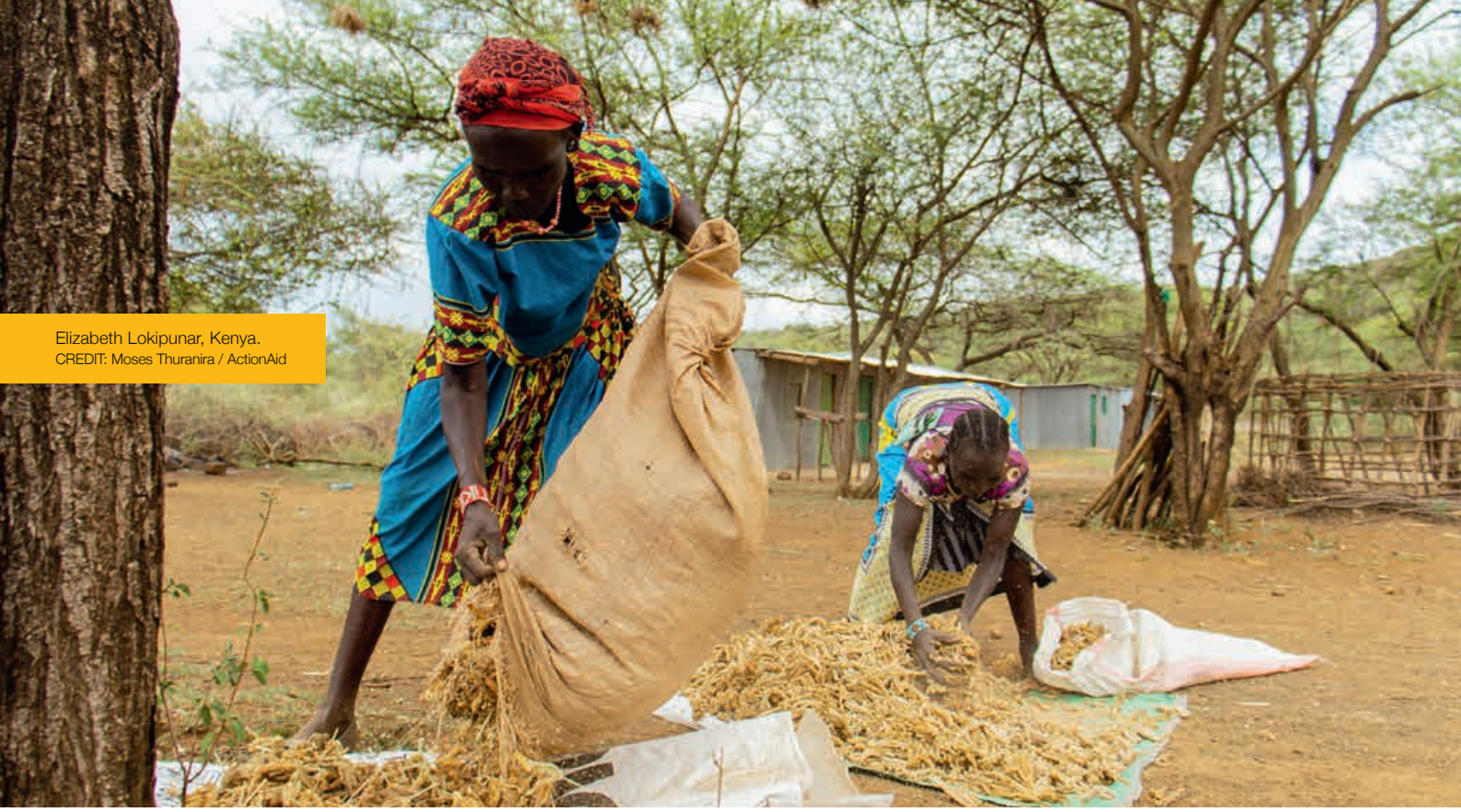
FMCG companies are accused of contributing to a range of noncommunicable diseases such as heart disease or diabetes with problematic marketing campaigns of unhealthy products or intransparency of ingredients. Low-income households and developing countries are often targets of such practices. Prompting WHO to issue guidelines to call for greater regulation of marketing by ultra-processed food companies due to such negative impacts on public health.[166]

## ENVIRONMENT AND CLIMATE

The FMCG sector is a major contributor to climate change, biodiversity loss and environmental destruction, causing negative human rights impacts on people, as well as on the stakeholders in the FMCG sector and agricultural value chains. Instead of FMCG, global food systems should transform to expand regenerative and sustainable agriculture practices, conserve biodiversity, soil and water, reduce emissions, provide healthy and sustainable food, and protect and strengthen livelihoods.[167]

Considering and initially approving the financing of a project that contributes to a trade and corporate agriculture model for expanding market encroaches upon available support to small farmers, who are at the centre of our global food production and provide food for up to 70% of the world's population.[168] In

Angola, weak support for decentralised community land-use, lack of investment and land access, and large-scale farmland takeover by foreign investors and local elites are substantial challenges for small farmers and communities.[169] At the same time, the agricultural sector employs most of the labour force, and in 2023 small farmers accounted for over 80% of agricultural production.[170, 171] Comprehensive investment in sustainable agriculture – including labour, machinery, irrigation systems and climate adaptation techniques – is key to poverty reduction and meeting people's socio-economic needs.[172]



Elizabeth Lokipunar, Kenya.
CREDIT: Moses Thuranira / ActionAid

# CHAPTER 4. CONCLUSION AND RECOMMENDATIONS

There are structural issues in the agriculture sector leading to economic uncertainties and high costs, such as weather variation, land and water management, or volatile agricultural commodity prices. As a result, these uncertainties extend to the profitability of agriculture investments and have led many MDBs to prioritise other sectors in their development and climate finance. The EIB Global refers only marginally to the agriculture sector in its Global Strategy.

The type of finance by MDBs such as the EIB Global to agriculture also reflects unjust global food systems. Historically, development banks have financed large and already well-developed companies requesting large amounts of patient capital, typically for rent-seeking plantations producing sugar, palm oil, rubber or bananas. By supporting these cash crops, MDBs have promoted a development model based on export-led agriculture. In the past decades, investments in the agriculture sector declined, especially in primary production, which is partially replaced by lending via financial intermediaries.

Now, the selection of projects can be increasingly outsourced to financial intermediaries to reach investment volumes, while minimising the resources that banks like the EIB have to spend themselves. But as the case studies looking at the EIB's agriculture projects show, this approach is unlikely to adequately address food security and risks eroding rather than supporting smallholder farmers at the centre of the global food systems, agroecological practices, and local food security networks. Moreover, the current approach of the EIB does not sufficiently address climate change, including resilience and adaptation, and instead contributes to environmentally damaging practices in agro-industrial food chains.

Finance to agriculture from development and climate budgets of the EIB and other MDBs needs urgent reform. For this purpose, we recommend the following steps to the EIB:

- End any new support to export-oriented agriculture projects in its external lending operations to align them with a climate resilient development pathway.

- Conduct a thorough analysis of climate and developmental additionality of the projects it finances directly or indirectly, which shall remain the leading driver of its investment decisions. Despite general information about the alignment with the SDGs, case studies have shown that the additionality of EIB investments is poorly defined and not the key driver of investment decisions.

- Refrain from financing agricultural projects through financial intermediaries that lack a strong public development and environmental mandate. Instead, invest resources to improve the EIB's own capacity to select projects with a strong positive local environmental and social impact and that clearly contribute to local food security. As a development bank, it should embrace the economically risky nature of agriculture investments and be ready to take on a significant part of the risk to benefit the people, not to lower the risk for private investors. When working through intermediaries, the EIB should opt for cooperation with local development banks and public agricultural institutions promoting sustainable agriculture.

- Adopt a holistic approach to its investments in the agriculture sector by clearly prioritising highly concessional lending for sustainable agriculture and agroecology activities, instead of the current narrow focus on commercial loans. The case studies have shown risks of adverse developmental, environmental and social impacts on local communities and the environment. In addition, these investments have poor evidence of an effective contribution to food security and sovereignty. On the contrary, they support cash crops and export-oriented projects. The EIB's strategy and investment decisions should therefore be driven by the six principles of food security as defined by the High-Level Panel of Experts on Food Security and Nutrition.[173] Moreover, investments should be aligned with the recommendations of the Civil Society Mechanism (CSM) of the Committee on World Food Security (CFS) for supporting 'territorial markets'[174], and with the UN Declaration on the Rights of Peasants and Other People Working in Rural Areas.[175]

- Prioritise its lending to public institutions, cooperatives and other actors with a proven capacity to support sustainable agriculture and agroecology. The EIB should work with experts and CSOs to develop a specific strategy to increase its support for agroecology. Agroecology is recognised by the EU as an effective approach to strengthen resilience of the most vulnerable communities and food sovereignty. This can be done by recruiting expert staff or creating a 'sustainable agri-food system and agroecology' task force. Funding in this context should be highly concessional to avoid further indebting vulnerable states and communities.

- Increase its share of adaptation finance in the form of highly concessional finance to avoid exacerbating the debt burden of partner countries. In this context, the EIB should develop its own debt assessment mechanism and include climate resilience debt clauses in its lending operations.

- Ensure the EIB investments in agriculture in the Global South doesn't reinforce gender inequalities. The EIB should back projects with services and products contributing to gender equality and increasing opportunities for women.

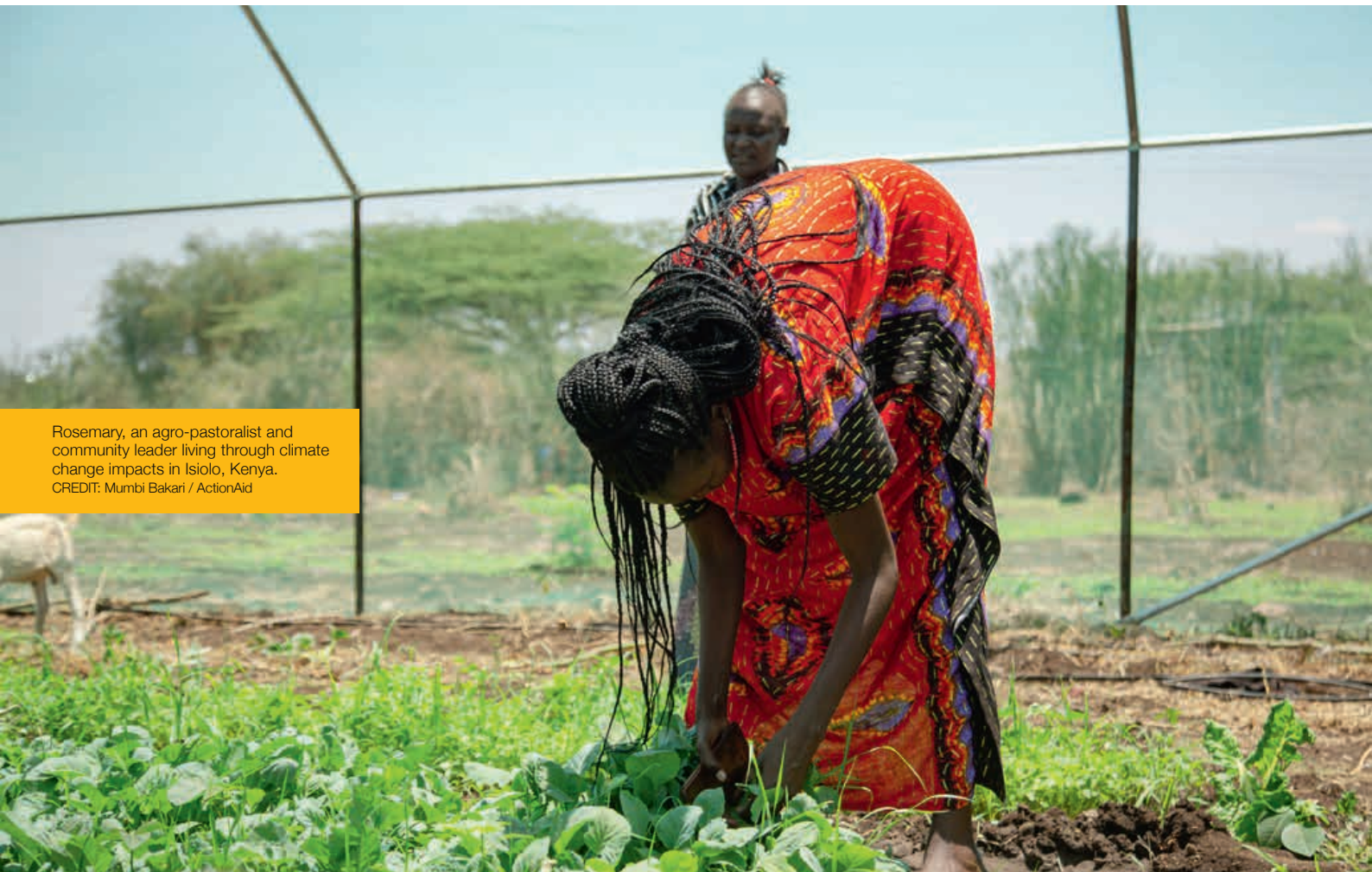
- Improve transparency. Due to the lack of information, impacts have been difficult to assess throughout the case studies, highlighting the EIB's transparency deficit, especially with regard to intermediated operations. It has also been impossible to determine with accuracy the scale of the Bank's investments in sustainable agriculture as the EIB doesn't seem to have such a classification system (or at least doesn't make it public).

- Conduct a thorough analysis of climate and development additionality of its projects financed directly and via financial intermediaries, including systematic ex ante and ex post assessment of projects,and ensure that all projects' impact on local food security and sovereignty as well as the developmental, environmental and rights impacts on local communities and biodiversity can be publicly scrutinised. These assessments should be made publicly available and easily accessible. The EIB should demonstrate how it evaluates these assessments and how it enforces their standards in case of non-compliance. Particular attention should be given to the impact on women and children in these assessments as well as indigenous groups. The impact on health should also be fully integrated.

- Ensure that all its clients, including in loans to financial intermediaries for sub-projects, have binding commitments to provide decent labour conditions and wages in line with ILO standards, including evaluations in the value chain linked to the EIB financing. This information should be publicly disclosed for all projects and regularly evaluated, with clear procedures in case of non-compliance.

- All its operations should ensure the full application of the free, prior and informed consent of local and indigenous communities impacted by EIB-supported projects. Here, the EIB should mobilise more resources to improve its capacity for verification, ensuring this takes place instead of relying on 'tick-box exercise' statements of its clients. The EIB should also systematically consult civil society organisations both in Europe and in partner countries working on agriculture-related issues, integrating their recommendations and expertise in decisions regarding which projects to support, and throughout project cycles.

- Exclude any financial operations where an entity or leadership of that entity has been investigated or sentenced for criminal or financial wrongdoing, or involved in any tax avoidance scheme or at risk of doing so (for example, by being registered in, or having a subsidiary in, a tax haven).



Rosemary, an agro-pastoralist and community leader living through climate change impacts in Isiolo, Kenya.
CREDIT: Mumbi Bakari / ActionAid

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June 2024