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Recommemations for Addressing Environmental Impacts of African Development Projects Funded by Chinese Banks

Tais Ludwig*

INTRODUCTION

The past decade has seen a significant increase in Chinese investment in infrastructure and development projects abroad, particularly in Africa. Although China is not the largest investor in African economies, it is the largest investor of the BRIC countries to invest in the region, with total investments valued at US$27.7 billion in 2012. Chinese direct foreign investment in Africa also increased from $317 million in 2004 to $2.52 billion in 2012, or by nearly 8 times. China’s Premier Li announced in a speech delivered at the African Union’s Chinese-built headquarters in Ethiopia that Chinese direct foreign investment is also expected to quadruple to US$100 billion between 2014 and 2020.

While developing African economies welcome the increased investment, little concern is given to the direct and indirect environmental impacts large development projects have on a region. Environmental laws in most African nations are typically limited in their scope and enforceability, and Chinese environmental regulations are rarely enforced abroad, even when they apply to the banks and enterprises involved with a project. It is also important to note that many of the Chinese environmental laws and guidelines that apply, particularly those that apply to the China Development Bank (CDB), lag behind the internationally accepted environmental standards that most multilateral development banks (MDBs) require of the projects they finance.

The little importance given to applicable domestic and Chinese environmental laws and regulations, the minimal stakeholder engagement, and the lack of enforcement of these laws, prevents affected communities and civil society from utilizing the proper grievance mechanisms, when available, to bring action against violations of these laws. These weaknesses must be addressed to ensure that both environmental and related social rights are being recognized and protected by project proponents.

ANALYSIS

There are many examples of Chinese-funded development projects around the continent that have had detrimental environmental impacts, with the most well known being some of the various hydroelectric dam projects. The Bui Dam project in Ghana, for example, is notorious for its environmental and biodiversity impacts, as well as for its poor environmental assessment. The project was financed by the Export Import Bank of China and built by the Chinese company Sinohydro. Wildlife biologists criticized the dam, claiming it not only would contribute to the flooding of national parks, but that it would severely threaten Ghana’s rare black hippopotamus. The environmental assessment that was done did not address the contributions the dam would make to the release of greenhouse gases into the atmosphere, nor did it consider the potential impacts of climate change on droughts and the dam’s future electrical outputs.

In Sudan, the Merowe Dam was constructed with no proper environmental impact assessment. Construction was also started without the approval of Sudan’s environmental ministry, which is a violation of Sudanese law. Although the project was completed in 2010, no environmental assessment has been made available to the public, and activists and impacted communities worry that when the effects and impacts of the project become clear, it will be too late to take action.

Ethiopia’s Gibe III hydroelectric dam project on the Omo River, which is currently under construction, has also been riddled with violations of both environmental and social rights. In 2006, construction on the dam began with blatant violations of Ethiopia’s own environmental and procurement laws, as well as of the national constitution. The initial environmental impact assessment was published long after construction began, and it did not address any of the project’s most serious impacts, including the severe drop in water levels of Lake Turkana, whose main water source is the Omo River. Once the first environmental impact assessment was released, many of the MDBs that were considering investing in the project, including the World Bank and European Investment Bank, decided against it. In 2009, the World Bank’s Vice-President for Africa, Obiageli Ezekwesili, expressed concern over the management of the project, and particularly focused on the environmental impact assessment, saying it was “not conclusive.” She also questioned the manner in which the contract was awarded to the Italian firm Salini Costruttori without competitive bidding, which led to the African Development Bank commissioning a study that showed that many important aspects of the project were not considered in the initial environmental impact assessment.

In each of these examples, Chinese banks financed at least a large part of the project, and in none of these cases did the Chinese banks involved comply with applicable environmental policies. The banks failed to ensure that the requirements of the Chinese Green Credit Policy and Guidelines—which require...
projects funded by Chinese financial institutions abroad to meet the requirements of domestic environmental laws—as well as the appropriate applicable international norms and standards were met.17

Chinese banks face a number of challenges to achieving compliance with the Green Credit policy, ranging from limited transparency and stakeholder engagement to poor governance in host countries, as well as a broad range of standards compiled by individual banks that vary in quality and coverage, which essentially dilutes the efficacy of the guidance.18 A year after the Green Credit Guidelines were published, the Chinese Ministry of Commerce and Ministry of Environmental Protection issued a similar guidance document addressing the role of Chinese enterprises and contractors who implement development projects abroad in environmental protection.19 It is critical that the Chinese financial institutions and enterprises that are investing and working in Africa ensure that Chinese environmental and social standards are met throughout a project’s lifespan, while also complying with all other environmental regulations that apply.

RECOMMENDATIONS

The Chinese government has begun to establish the legal tools necessary to ensure environmental and social impacts of development projects are addressed and mitigated. However, enforcement, particularly of projects abroad, has been severely lacking. It is vital that China focus on improving its enforcement of its environmental and social policies and regulations on Chinese banks and enterprises that invest and work abroad.

China should follow the established international practice of MDBs by creating a grievance mechanism that is available to affected stakeholders and members of civil society. This will not only allow stakeholders to become more engaged in the process, but assists the Chinese government with enforcement efforts. It is also crucial that the government engage and consult with stakeholders, as well as strictly enforce environmental assessment laws. Allowing for public access to assessments and other relevant information in a timely manner will strengthen community awareness of project impacts. It will also provide an opportunity for local communities to become educated on the impacts of the project, as well as the laws and regulations the project proponents must abide by. Properly educated locals will be able to bring forward complaints of potential violations in a timely manner, again assisting with enforcement efforts.

ENDNOTES: RECOMMENDATIONS FOR ADDRESSING ENVIRONMENTAL IMPACTS OF AFRICAN DEVELOPMENT PROJECTS FUNDED BY CHINESE BANKS


PAULINA GARZON, MANUAL LEGAL SOBRE REGULACIONES AMBIENTALES Y SOCIALES PARA LOS INVERSIONES EN EL EXTERIOR: UNA GUÍA PARA LAS

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