



Open Society Foundations - Armenia

# **The Impact of International Financial Institutions on the Environment and Socio-Economics: The Cases from Armenia and the World**

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## Contents

Introduction.....	4
Energy Projects, Environmental Problems and Poverty:.....	5
the Opposite Side of Investments .....	5
The Situation in the World.....	5
The Situation in Armenia.....	7
The Link between International Financial Institutions, Environmental Problems and Poverty .....	8
World Bank and International Finance Corporation .....	8
European Bank for Reconstruction and Development .....	11
European Investment Bank.....	13
German Development Bank.....	14
Asian Financial Institutions.....	14
Russian Financial Institutions .....	15
Human Rights Affected by Irresponsible Investments of Financial Institutions .....	16
Policy Recommendations Benefitting the State and the Environment.....	19
Bibliography .....	22

## Introduction

For years economic growth and development have been the ultimate goal of almost all countries on their path towards population's wellbeing, poverty eradication and state's prosperity. Despite the fact that since 1980s world economy has seen growth in 380 percent, the number of people living in poverty, i.e. those living on less than 5 USD per day, has also increased by 1.1 billion. (Hickel, 2015) Thus the model of economic growth doesn't seem to work from the perspective of poverty eradication. The model of economic growth is not working also because according to scientists, the level of average global consumption exceeds the planet's bio-capacity in about 50 percent. Moreover, developed countries share big portion of consumption rates in the world. Thus some economists suggest forgetting the model of economic growth and development and think over a new model. (Hickel, 2015)

Despite these suggestions and forecasts of climatologists, rich countries, corporations and big financial institutions, such as World Bank and its International Finance Corporation, European, Russian, Asian and other development banks continue investing in programs in different countries, especially in energy sector, which are problematic from the perspective of overall wellbeing and environmental protection.

*Therefore the goal of this research is to*

- *study energy investments of financial institutions and the harms caused to the environment,*
- *study the outcomes of such investments on the socio-economic situation of the locals this way understanding the link between unsustainable projects and the socio-economic situation of communities based on examples from the world and Armenia,*
- *present the clash of these investments with human rights,*
- *suggest policy recommendations to the state and investors which will not contradict with the obligations of the state in the sphere of environmental, socio-economic and human rights protection.*

This kind of research is particularly important for taking necessary measures to address international challenges, such as climate change and poverty, as well as for designing the right policies for the transitioning economy and politics in Armenia.

For addressing these questions and suggesting policies, the following materials were analyzed: project descriptions of financial institutions implemented in the world and in Armenia, reports of the financial institutions, as well as of international environmental and human rights organizations, standards of financial institutions, articles by investigative journalists, as well as global and Armenian media coverage of various investment cases.

## Energy Projects, Environmental Problems and Poverty: the Opposite Side of Investments

### The Situation in the World

According to a World Bank study the poorest and most vulnerable sections of society in different countries form the majority of displaced people as a result of hydropower plant construction. For example, a study of over 100 development projects in India showed that nearly half of 1.6 million displaced persons were tribal populations. (VanCleeef, 2016) As a result, many indigenous persons who were already poor become even poorer as a result of forced evictions. This is the result of dependence of indigenous people on nature, for example, rivers, therefore, the displacement on the one hand, changes in the river flow downstream, as well as in its quality, quantity and reduction of fish on the other hand eliminate the irreplaceable river ecosystem. Particularly women in indigenous tribal populations earning their living from farms and gardening suffer from such negative changes in the ecosystem. (VanCleeef, 2016) Even small hydropower plants are known to cause harms to river ecosystem and the locals.

Researches show that often productivity of hydropower plants doesn't correspond to forecasts given by their financiers and constructors since most often planning and impact assessments ignore the impact of hydropower plants on climate change and intensifying droughts. (Asher, 2018) In 2000s independent World Commission on Dams studying the effects of large dams presented its study according to which specifically displaced people, communities downstream, taxpayers and the natural environment in different countries have paid high price for big dams, while the benefits were not equally shared between the investors and locals. (International Rivers, 2006) Researches find small hydropower plants as well problematic due to states creating favorable conditions for the construction of small hydropower plants considering those as a source of renewable energy as a result of which they often don't strictly control the project planning phase. The result is cascades of small hydropower plants built on rivers that have a devastating effect on the locals and the ecosystem on a bigger scale. (Opperman, 2018)

Another example of interconnectedness between natural resource exploitation and locals' impoverishment is mining industry. In addition to socio-economic problems caused by hydropower plants, other problems related to health and subsequent expenditure is added in case of mining. There are numerous cases of displacement caused by mining industry, including cases when locals are displaced for the project access to their lands, as in the Republic of Guinea back in 2015-2016 when 380 families were displaced for a gold mining project, (Inclusive Development International, 2017) or the case of Ecuador when 32 families were displaced for a copper mining project. (Hui, 2019) Locals are also forced to leave when their lands get polluted and are no longer fit for living as was the case of tailing dam disaster in iron mine in Brumadinho municipality of Brazil. As a result of dam collapse 270 people died and serious environmental harms occurred with agricultural lands being polluted and locals evacuated as a result. (EcoNews, 2019)

Studies show that voluntary or involuntary displacement as a result of mining or other energy projects create "new poverty". This term is used specifically for describing the situation of deterioration of locals' socio-economic situation as a result of environmental degradation. Some of the factors leading to new poverty are loss of land, job, property, habitat, as well as identity loss related to that habitat, absence of socialization and risks of marginalization, suspension of education,

risks of non-availability of healthcare or social services, as well as particular vulnerability to these risks of specific groups such as elderly, women or indigenous groups. (Downing, 2002)

Moreover, in these studies displacement is described not only as the physical change of habitat, but also creation of such conditions, as in case of mining, when people lose arable lands, rivers and fish stocks, cultural spots or any other place that would be a source of income for the locals. Apart from direct land loss, the study also mentions other factors that contribute to poverty, such as insufficient compensation for land that makes purchase of land elsewhere impossible, or soil pollution, which in its turn makes its cultivation impossible. These factors are closely linked to loss of jobs, however, which is often dismissed by investors, companies or the state. The study doesn't compare jobs created by mining with those in agriculture, considering the unsustainable and temporary character of the former. The study also highlights the deteriorating economic situation of women considering their involvement in agriculture and their absence from mining sector. (Downing, 2002)

Studies from several Australian mining towns show that as a result of mostly men being involved in mining works, women are mostly burdened with homework, their participation in public life decreases, they become financially dependent on their husbands and overall daily life in mining towns becomes unfavorable for women as a result of which their mental health also deteriorates. (Sharma, 2012)

Another study among natives working in mines in Canada highlights deteriorating mental health among men working in mines which in its turn has a more profound impact. The study links deteriorating mental health with difficult working conditions, which despite high remuneration lead to problems such as alcohol addiction, gambling, violence, prostitution and spread of sexually transmitted diseases. (Gibson & Klinck, 2005)

As for the impact of mining on the deterioration of physical health as well as its effects on economic situation, Downing's study not only regards health risks as the negative outcome of unsustainable projects, but also sees it as a factor contributing to impoverishment, since polluted environment not only means physical health deterioration and related expenses, but also expenses related to change of habitat and the mental stress caused by it. (Downing, 2002)

Some of the adverse impacts on health for the population living near the mines include respiratory diseases, harms caused to the organism from the polluted soil and water, heart diseases, etc. caused by emissions of metal particles during explosions, leaks from mine tailings, winds spreading mine dust, as well as metal particles absorbed in the food. As for the health conditions of mine workers, the list includes further problems of musculoskeletal, respiratory and auditory disorders caused by vibrations, respiratory problems due to dust exposure, pneumoconiosis or black lung disease in case of coal mine workers caused by the dark components in the dust, physical injuries sometimes with lethal outcomes, all caused by unsafe working conditions. Some of the mental health problems caused by stressful nature of mining additionally lead to depression, excess alcohol consumption, insomnia which in its turn lead to memory deterioration, weakened immunity, blood pressure, increase in cholesterol, etc. (Stewart, 2019)

And yet there are studies showing that too close cooperation among the state, mining companies and health services for miners and the communities may result in an incomplete analysis of the health situation in the community since they are not addressing wider causes of health problems, as well as the economic implications of poverty. (Stewart, 2019)

## The Situation in Armenia

In Armenia as well energy projects are implemented, such as construction of medium or small hydropower plants, mines, etc. which impact the environment and the socio-economic situation of the communities. Studies from Armenia show that the environmental flow from small hydropower plants is usually not sustainable enough for preserving the river ecosystem and biodiversity. (EcoLur, 2016) The studies also show that small hydropower plants not only harm the ecosystem and the socio-economics of the locals as a result of reduction of number of fish, non-irrigated gardens, but also promote inequality by benefitting the rich businesses and sometimes politicians at the expense of the locals. (Aghalaryan, 2015)

Another study published by the American University of Armenia in 2013 shows that despite the economic growth, mining sector also contributes to inequality and poverty in Armenia. This study as well highlights that harms caused by the mines are often underestimated, while the mining operators do not take into account the negative consequences, which in its turn results in deterioration of the environment and local resources. (Grigoryan, 2013) The author also mentions cases when residents had to sell their properties to the mining companies for lower price, which according to him creates potential risks leading to poverty. This risk increases also as a result of absence of health insurance in mines as a result of which the miners and their families may face additional burdens of healthcare costs. (AUA Acopian Center for the Environment, 2013)

There are several researches from Armenia showing the interconnection between pollution from mining and health impacts. For example in 2013 American University of Armenia studied soil samples from 11 communities in Lori and Syunik regions that have mines, copper smelters and mine tailings. The study found elevated level of lead, arsenic, chromium and cadmium in soil samples taken from residential areas, school yards and touristic spots in Alaverdi, Akhtala and Armanis communities. The study warned about consequences of such pollution on the health of residents. (Akopyan, Petrosyan, Grigoryan, & Melkomian, 2014) In Alaverdi town, for example, there is an increased likelihood for stillbirth, abortion cases based on doctor's prescription, as well as infant mortality compared to other communities. Scientists link this with the pollution of environment with heavy metals and sulfur dioxide. (EcoLur, 2015)

In 2018 Czech scientists as well studied the soil and water samples, as well as eggs and human hair in order to identify the quantity of metal particles and the effects on human health. These researches have as well showed high concentrations of copper, arsenic, molybdenum, zinc and lead on the shores of river Debed, in residential gardens and children's playgrounds. Hair samples taken from those consuming fish also showed high concentration of metal particles. Scientists link this to river pollution. ( Bystrianský, Šír, Straková, & Krejčová, 2018) Studies also found carcinogenic chemical compound – dioxin, in chicken eggs kept by the residents. (Petrлік & Straková, 2018)

These studies not only cover soil, water and air pollution from mines and tailings and their negative impacts on health, but also their negative impacts on economic situation highlighting that the pollution especially in residents' gardens (as those are irrigated with the polluted river) can harm plants and result in lowered fertility. ( Bystrianský, Šír, Straková, & Krejčová, 2018) Some residents as a result consider applying to courts for receiving compensation for the damages inflicted upon their health and income. (Panorama, 2019)

The Informational-Analytical Center for Risk Assessment of Food Chain of the Center for Ecological Noosphere Studies of National Academy of Sciences of Armenia implemented another study in 2019

in copper and molybdenum mining town Kajaran. The studies of vegetables recorded elevated level of mercury, cadmium, lead, molybdenum and copper and concluded its possible negative effects on human health. (Pipoyan, Stepanyan, Stepanyan, Beglaryan, & Merendino, 2019)

For years this Center implemented many studies aimed at revealing pollution levels in soils and plants near mining areas, as well as the Center alarmed the state bodies – Ministry of Agriculture, Healthcare, etc. regarding the food safety. And yet the Center assesses the state responses as insufficient. (Panorama, 2019) Moreover, considering the increase of industrial lands by 30 percent in the past 10 years, as well as the presence of 613 mines and 700 ha of tailings, (Ampop, 2019) concerns for soil degradation and thus food security arise not only for specific communities but for the state as a whole. These concerns grow especially when considering researches indicating that areas with low quality soil usually have high poverty rates. (UN Convention to Combat Desertification, 2019)

And yet health and economic damages are not limited to soil, water and air pollution. Work related deaths in mines are most widespread in the world accounting to 15.000 cases per year. This is the number of registered cases, while the real number can be much higher. (The World Counts, 2019) These cases, as well as cases of health damages caused by occupational accidents resulting in miners being unable to continue working (Mkhitarian, 2019) in their turn create economic hardships for miners and their families, especially in Armenia, where mine operators do not usually organize insurance for their employees. In 2018, 20 cases of occupational accidents were recorded in Armenia with 3 cases of death and 20 cases of injured. (Panorama, 2019) In 2017-2018 overall 57 occupational accidents were recorded in mines and open pits with 56 injured. (Ghazaryan, 2020)

Global and local cases therefore demonstrate that when approving energy projects, as well as when planning and implementing them, it is not enough to guide oneself with rates of economic growth. A much more profound analysis of socio-economic impacts is necessary based on long term impact assessment of the investment project for avoiding environmental pollution, economic losses for the state and the locals, as well as for avoiding human rights violations. States should exercise such an assessment duty for state funded projects, as well as for investment projects of private investors especially since countries like Armenia are quite open for investments by foreign companies and financial institutions. And yet, how reliable are such investments?

## The Link between International Financial Institutions, Environmental Problems and Poverty

### World Bank and International Finance Corporation

In 2015 a joint study was published by International Consortium of Investigative Journalists (ICIJ) and The Huffington Post according to which around 3 million 350 thousand persons were forced from their homes and lands since they lived in the path of a World Bank (WB) project. This number could be much higher since according to the investigative journalists the bank not always counts the number of people negatively affected by its projects. (Chavkin, Hallman, Hudson, Schilis-Gallego, & Shifflett, 2015)

The study was implemented by 50 journalists from 21 countries who carried out interviews and researches on the effects of WB projects in countries like Albania, Brazil, Ethiopia, Honduras, Ghana, Guatemala, India, Kosovo, Peru, Serbia, etc. The investment projects were in the field of dams, power plants or other big projects. Not only these projects violated human rights, but they didn't meet the bank's own standards. (Chavkin, Hallman, Hudson, Schilis-Gallego, & Shifflett, 2015)

The study reveals that WB and its International Finance Corporation (IFC) financed a number of states and companies that have been accused of committing torture, rapes, murders and other human rights' violations. Only in 2009-2013 World Bank invested some 50 billion USD in projects graded as high risk for their irreversible social or environmental impacts. The study also shows that specifically farmers, fishermen, forest inhabitants and indigenous communities have been hit hard by these projects. Even some current and past employees of the bank mention that the WB standards were often compromised due to pressures within the bank to approve big projects. They note that success of the bank is measured by the number of financed programs and therefore additional requirements that increase the costs of the project are usually ignored. (Chavkin, Hallman, Hudson, Schilis-Gallego, & Shifflett, 2015)

World Bank's own study of 2014 revealed that in 60 percent of its projects under study the bank failed to document what happened to people after they were forced from their lands, while in 70 percent of cases it didn't record if there were complaints and whether those complaints were resolved, thus indicating that grievance mechanisms existed on paper but not in practice. (Chavkin, Hallman, Hudson, Schilis-Gallego, & Shifflett, 2015)

Despite the bank's plans to eradicate poverty in the world by 2030, different studies indicate about human rights violations, increase in inequality, mass evictions, threats to food security, use of child and forced labor, all caused by the projects funded by WB. Moreover, there are no factual records of positive results regarding bank's poverty goals. (BrettonWoods Project, 2019) The studies show that the bank's success in poverty reduction over the past 40 years refer to China only, where the bank's standards, however, were not followed, while the poverty reduction rate has slowed down in the past years. Analysts even criticize WB methodology for poverty measurement, and thus its ability to actually decrease poverty rates are questioned as well. (BrettonWoods Project, 2019)

According to studies WB contributes to poverty not only through unsustainable projects, but also through financing projects with conditions as a result of which states are forced to cut public wages, increase value added taxes or introduce regressive tax systems, weaken labor rights protection mechanisms, cut or privatize social services, etc. Such policies not only lead to inequality, but they also prevent states from implementing their human rights obligations. WB also ignores the repeated calls to measure harmful impacts of its projects. (BrettonWoods Project, 2019) Meanwhile World Bank's International Finance Corporation additionally invests in unsustainable projects through mediators, as in case of India (inclusive development international, 2016) and South-East Asia (inclusive development international, 2017), where the IFC invested in banks which in their turn financed these unsustainable projects of corporations.

Even revisiting its own social and environmental standards that was initiated in 2012 and approved in 2016 didn't receive positive responses since the new standards were qualified as much weaker than previous ones. (Pred & Bugalski, 2016) Moreover, these standards that came into force in 2018 were enforced for some but not for all projects financed by the bank. For example, these standards

are not envisaged for projects which the bank finances with conditions for national policy and institutional reforms. (BrettonWoods Project, 2019)

Another example of contradiction between its stated goals and actual investments is the bank's projects in coal power plant constructions. Although since 2014 the bank doesn't directly invest in coal power plants, yet a study of 675 investment projects shows that from 2014-2018 the bank approved 12 billion USD for fossil fuel projects and only 5 billion USD in renewable energy projects. At the same time the bank required from governments to adopt investment incentives for coal, oil and gas projects. Researchers consider such steps contradicting the bank's own goals for preventing climate change. (Rich, 2019)

***In Armenia*** as well one of the goals of World Bank is to decrease poverty rates and thus in its report the bank considers climate change as a serious challenge for both long term sustainable development, as well as for poverty reduction. The bank mentions in its report the drought risks for agriculture and water access highlighting that climate change will result in reduction of water resources and soil degradation. The report names some causes of soil degradation as loss of forests and mining pollution. And despite the improving laws, the report mentions that their implementation is still weak. (The World Bank Group, 2019) Therefore, the bank plans to strengthen water users' association and improve productivity of water management through its irrigation projects. It also assisted the Armenian government in drafting new laws for mine management and continues advising the government on drafting mining policies that will improve sector management and law enforcement. (The World Bank Group, 2019)

And yet in Armenia as well there is an inconsistency between statements and actual investments of the bank. For example an irrigation project implemented in Armenia- Kaghtsrashen gravity irrigation system project, was coined as unsustainable by the communities affected by the project as well as by the environmentalists. Concerns over the project were not only due to its environmental and economic impacts as there were risks for water decrease in Azat river, negative impacts on the ecosystem and economic hardships for nearby communities depending on the river. (Inspection Panel, 2016) The communities were also expressing concerns over insufficient public hearings during which the rejection of the project by the locals was ignored, while active residents were intimidated. (Petrosyan, 2016) Even after changing the project, no new public hearing was held in the affected communities and no new environmental impact assessment was implemented. (EcoLur, 2017) Additionally the locals' needs for water was subordinated to the needs of officials, who according to investigative journalists, were going to benefit from the new irrigation system. (Media Center, 2016)

Another controversial investment of the bank in Armenia has been IFC's investment in a gold mining project in Amulsar area of Vayots Dzor region. Since 2007 IFC had invested about 13 million USD as well as become a shareholder of the company that planned to operate the mine. However, according to international and local scientists this mining project posed substantial risks for the region's ecosystem and water resources. (CEE Bankwatch Network, 2019) Additionally local residents expressed their concerns over the project impacting the economic situation of the region considering the agricultural lands near the planned mine site and the risks of their pollution, as well as the risks for the resort town of Jermuk and therefore the negative effects of the mine on the welfare of the locals operating the resorts. With these and other risks in mind the locals applied to IFC's ombudsman office back in 2014. (Compliance Advisor Ombudsman, 2014) The latter recorded a number of omissions in the project that didn't meet IFC standards, such as insufficient public

hearings, underestimation of risks of the project for the nearby communities, as well as for the touristic brand of Jermuk town, etc. (Liakhov & Khudoyan, 2018)

Even though IFC stopped its participation in this project in 2017, its decision, as mentioned in its statement, was based on the successful completion of its role in this project, as well as on the compliance of the project to IFC standards and thanks to attracting other private investors in this project. Despite the scientists' assessment of this project as risky and IFC ombudsman's qualification as insufficient, IFC's statement praised this project as an exemplary one for other mining projects in Armenia which can greatly contribute to Armenia's economy, while IFC will search other opportunities for investments "where it is needed most to foster sustainable economic development." (Business & Human Rights Resource Center, 2017)

This project, currently under investigation in several court cases, (EcoLur, 2019) as well as revealed to be involved in corruption cases, (EcoLur, 2019) has now been suspended by the nearby communities since mid-2018. They have blocked the roads leading to the mountain this way expressing their disagreement to this project and thus preventing pollution of the environment and adverse effects on the economy of the region. (Liakhov & Khudoyan, 2018)

### European Bank for Reconstruction and Development

Bankwatch Network has been following the activities of the European Bank for Reconstruction and Development (EBRD) in the past 20 years. In 2014 it published a report criticizing the bank's approach according to which the bank aims at developing the private sector hoping that development in other sectors will follow accordingly. The report calls on the bank to make careful decisions when investing, not underestimate public participation and give proper response to cases of corruption and human rights violations. Although the bank has improved its standards, the report mentions that the bank hasn't ceased from financing controversial projects that devastate the environment, as in case of hydropower plants in Georgia, North Macedonia, mining projects impacting livelihoods as in Oyu Tolgoi in Mongolia. The report also mentions that the bank has problems with transparency and access to information, as well as the bank is unable to provide any compiled study of the positive impacts of its projects. (CEE Bankwatch Network, 2014)

The report also criticizes the term "good international practice" applied to all funded projects and suggests to use instead more precise EU environmental standards. The report considers the vision of the bank on social justice as insufficient mentioning that these standards are not fully integrated in EBRD's deals as a result of which the bank doesn't assess the impact of its projects for example on poverty reduction even in most economically disadvantaged communities, believing that development of the private sector will benefit everyone. The report also questions the social justice vision of the bank mentioning that the bank invests even in such projects which do not need financial support at all, such as projects of Russian, Polish, Greek big corporations and oligarchs for constructing hotels, shopping malls and roads. The report mentions that the bank invests in almost all projects of the private sector naming them transitional. (CEE Bankwatch Network, 2014)

The report also mentions that despite the bank aiming at reducing its investment in projects contributing to the climate change and thus limiting its financing of coal power plants since 2014, yet, EBRD's stance on climate change is not clear considering the absence of its goals in reducing greenhouse gases, as well as continuous investments in oil, gas and big hydropower plants. (CEE Bankwatch network, 2014)

EBRD's investments in hydropower plants have caused protests especially in the Balkan region and Georgia. For example, EBRD invested in hydro-projects in Georgia despite locals' expressing their opposition and despite the deficiencies of the Georgian Law on Environmental Impact Assessment when it comes to informing citizens and engaging them in decision making. Georgian laws protecting community lands are as well deficient and therefore their use for any project, including hydropower plants risks leaving the communities without pasture lands, irrigation water, additionally causing displacement of the residents due to floods, reduction of food supplies, etc. (CEE Bankwatch network, 2019)

EBRD, World Bank and another European bank – European Investment Bank, invested in around 82 hydropower plants in the Balkans despite the fact that 37 of these were located in protected areas. Individuals and organizations opposing these and upcoming projects made a statement calling the banks to stop investing in locations with rich biodiversity instead investing in green, renewable energy sector, (Jovanović, 2018) as well as pushing for a more transparent decision making. (Balkan Green Energy News, 2018)

However, this and other financial institutions continue investing including in socially and environmentally controversial projects also applying diplomatic leverages when necessary. One such example is the abovementioned Olu Tolgoi project, the biggest gold and copper mine in Mongolia. This project concerned not only the affected communities, but also the international civil society due to insufficient environmental impact assessment that lacked tailing management, mine closure and recultivation plans, as well as due to diversion of the Undai river which is the sole source of surface water in the area. Its diversion is estimated to impact the ecosystem, the locals and the herders. (Bank Information Center, 2013) Generally, despite Mongolia having one of the fastest growing economies in the world thanks to its natural resources, one third of its population lives in poverty. (CEE Bankwatch network, 2014)

Apart from World Bank, IFC, EBRD, International Monetary Fund (IMF) and several major Anglo-Australian and Canadian corporations, U.S. embassy in Mongolia as well as several other states such as UK and Canada were also involved in this project. According to leaked information the mining corporations approached the mentioned states suggesting to influence the Mongolian government in order the latter stayed out of the mining business while creating a transparent, predictable, best practice-based, rule of law approach to regulating and profiting from its resources. (SOMO, OT Watch, 2020) Moreover, leaked correspondence from the U.S. embassy shows that the U.S. interests in this project were due to the project creating a big market for the U.S. equipment and other goods of about 200 million USD. After parliamentary elections in 2008 and presidential elections in 2009 efforts of western countries and mining companies made it possible for decision making in Mongolia favoring market relations. (SOMO, OT Watch, 2020)

As for the Mongolian government, which had changed its laws on water, roads, windfall profits tax and corporate tax for this project, it owned only 34 percent shares of this project. Moreover, not having sufficient money for covering its expenses in the project, the Mongolian government took a loan from one of the corporations operating the mine. As a result, some financial reports highlight that Mongolia will gain little income from this mining thus leaving no positive effect on economy or population of Mongolia. (SOMO, OT Watch, 2020)

***In Armenia*** as well EBRD is a shareholder and has invested about 11 million EUR in the abovementioned Amulsar gold mine project despite the flaws of the project and despite its own

statement about its values upholding democracy and socio-environmental responsibility. (European Bank for Reconstruction and Development, 2019) Back in 2014 communities brought a complaint to this bank as well, however, the bank rejected the complaint mentioning that the bank doesn't finance the extraction process and therefore cannot be responsible for possible impacts during the extraction process. (EcoLur, 2019) Despite that the bank mentions in its website that it is aware of the risks and yet it is assured that through risk mitigation the project will meet international best practice as well as bank's own standards. (European Bank for Reconstruction and Development, 2016) EBRD is also a shareholder in one of Armenian banks – Ameriabank which also planned to invest around 24 million USD in this controversial project. (EcoLur, 2016)

The U.S. and British diplomatic missions were also involved in the Amulsar project with statements appraising the mine project, visiting the site, (EcoLur, 2013) expressing concerns after communities had blocked the roads, (Mkrtchyan, 2018) calling the environmentally and socio-economically controversial project as one meeting international best standards, naming it an exemplary project for Armenia and continuously meeting Armenian officials over this project. (Rowley, 2019)

Various reports and analysts view such cooperations between the states and the private sector as promoting and protecting corporate interests to the detriment of democracy. Such cooperation is concerning not only due to their negative impacts on the environment and the socio-economics, but also due to increase of the state's foreign debt, which subsequently negatively affects the environment and population's social and economic situation. (UN Human Rights Office of the High Commissioner, n.d.) One such cooperation is the investment of the EBRD and European Investment Bank (EIB) in landfill projects in Armenia. The biggest of these is planned to be built in Yerevan with 16 million EUR loan provided by these banks. The full cost of the project is 26 million EUR. Environmentalists expressed their concerns regarding this project since it increases Armenia's foreign debt and yet offers a temporary solution to the waste management as the project lacks sustainable components. No waste recycling is planned in the project, while the landfill will be built on additional territories with limited capacity of 30 years. Environmentalists consider this unsustainable in both environmental and economic terms, since in the future additional funds will be necessary to implement a recycling project and therefore state debt will increase further reducing spending in other spheres, including social and environmental protection. (Armenian Environmental Front, 2017)

### European Investment Bank

And yet international financial institutions continue making statements about sustainable and green investments. For example, EIB announced to play a leading role in European Green Deal (the latter foresees eliminating Europe's effect on climate change by 2050), as well as end financing fossil fuel projects from 2021. Despite this, even the bank's president announced that bank's methodologies measuring climate investments are sometimes misleading resulting in mainly box-ticking. (Chadwick, 2020)

The bank is also accused of lack of transparency, failing to address applications of those affected by its projects, implementing projects through companies that avoid taxes or are registered in offshores, of having weak oversight of human rights protection (CEE Bankwatch network, Counter Balance, 2016) and of having insufficient complaint mechanisms, (CEE Bankwatch Network, 2018) despite

the call of 25 international civil society organizations in 2017 to improve and strengthen its complaint mechanism. (Counter Balance, 2017)

EIB is also involved in controversial mining, oil, hydropower projects especially outside of Europe. For example, in Georgia EIB and several other financial institutions are involved in a controversial hydropower plant construction on Nenskra river in Upper Svaneti. There is a significant opposition to this project for both the risks of negative impact on the environment, as well as for evicting the indigenous Svan communities from their lands and depriving them of their livelihoods. (CEE Bankwatch network, 2019) Apart from EIB other banks such as EBRD, Asian Development Bank, Asian Infrastructure Investment Bank, Korea Development Bank are also involved in this controversial project.

### German Development Bank

Financial institutions are engaged in hydropower construction in Armenia as well, despite the questionable character of the latter as a source of renewable energy and despite the growing opposition in recent years for both their negative environmental and socio-economic impacts. For example, German Development Bank (KfW) provided loans for both relatively big hydropower plants such as Vorotan (Avanesov, 2017) and Kanaker, (Armenpress, 2004) as well as for some minor plants in Armenia. (Armenian Banks, 2012) IFC is also involved in Vorotan hydro power project despite the investigations showing that this plant was privatized in violation of Armenia's laws on water and state property privatization, as well through non-transparent and corrupt deals. (Grigoryan A. , 2014)

Environmentalists have continuously raised concerns with small hydropower plants too, including those financed by the German Development Bank, calling on them to ensure sustainability of such projects when providing funds. Even heads of some small hydropower plants admit that this bank aims not so much at sustainable investments in renewable energy sector as at making sure that it gains profits - a reason why it doesn't consider investing in plants on rivers polluted from mining as the costs are higher due to technical maintenance. (EcoLur, 2014)

### Asian Financial Institutions

Although fewer investment cases of e.g. Russian or Asian banks are discussed in this study, the impact of their investments on the environment and the socio-economics is no less problematic. For example, during the People's Convention on Infrastructure Financing that took place in Mumbai and in which civil society representatives from India participated, a resolution was adopted mentioning that investment policies of Asian development banks are as undemocratic and deteriorating the environment and people's socio-economic situation as in case of investments from western financial institutions. They mention the investments of China led Asia Infrastructure and Investment Bank (AIIB) in India specifically in construction of towns and roads which resulted in displacement of locals and their impoverishment due to loss of their lands. The resolution also mentions that a scenario similar to other countries is observed in India when the state keeps claiming shortage of resources for public welfare - social, healthcare, educational sectors, and yet they spend public money on megaprojects of international financial institutions even when these projects are not economically or else justified. (Mumbai Resolution, 2018)

AIIB along with EBRD, EIB, World Bank and Asian Development Bank (ADB), is also involved in a controversial gas project that supplies Azerbaijani gas to Europe through Georgia, Turkey, Albania and Italy. Apart from its environmental unsoundness, the project is also criticized for displacing communities from their lands, as well as for securing big money flow to undemocratic countries such as Azerbaijan. (CEE Bankwatch network, 2019)

Asian Development Bank is also criticized for ignoring socio-economic impacts of its investments, as in case of Cambodia where families faced poverty due to being displaced for a railway project or in case of Indonesia where a healthcare program was implemented with controversial results. During the financial crisis in Asia in 2003, International Monetary Fund advised Indonesia to cut down public expenditure. In order this move didn't negatively affect the healthcare system, as it usually happens when taking such austerity measures, Asian Development Bank initiated a support program for the healthcare system and later declared about its success. But the actual healthcare expenditure, the number of vaccinated children, the decreased number of people visiting healthcare centers, as well as the increase in infant mortality rates showed a different picture. Despite the reduction of healthcare expenditure, foreign private companies benefited from an increase in hospital spending mostly on expensive equipment. (Simms, 2014) Considering that Asian banks spend millions of US dollars in various projects and yet 1.2 billion of people out of 4.5 billion in Asia live on less than 3 USD a day, analysts warn Asian banks about serious challenges ahead. (Khasru, 2017)

This research, however, concentrates less on Asian banks due to relatively fewer comprehensive researches existing on communities harmed by these banks as compared to studies on investments of western financial institutions. Another reason is the lesser involvement of these banks in projects in Armenia as of now. Yet another reason is that despite financial institutions play a substantial role in policy making and enforcing, e.g. providing loans in exchange for institutional and policy reforms (this, according to some analysts, leads to imposing the policies of those states which have big contribution in a financial institution), AIIB led China's policy is not to interfere with policy making in countries where it provides funds. (Kelley, 2019) Still, the generalized, non-mandatory standards of Asian financial institutions are similar to western financial institutions (Kelley, 2019) and, therefore, the number of comprehensive researches on the negative impacts of these banks on the environment and socio-economics will increase soon as well.

### Russian Financial Institutions

As for the Russian financial institutions, these are as well involved in energy and fossil fuel investments, as in case of Sberbank's investments in GeoProMining Gold company, which in its turn exploits biggest gold mine in Armenia. Apart from providing the company some 250 million USD loan, the bank also holds 31.47 percent of the company's shares. Russian Central Bank in its turn is a 50percent + 1 vote shareholder in Sberbank. (Aghalaryan, 2019)

This gold mining project also raises environmental and occupational safety concerns. The miners themselves not only highlight the air pollution from explosions at the mine, but also pollution of the underground water which the company pumps into nearby river which in its turn flows to the lake Sevan. This lake feeds many villages and fields in Armenia. The plans to construct a water treatment unit remained on paper. As for the miners' safety, the miners express concerns regarding the safety of the open pit and therefore their own safety and yet, instead of correcting these faults, the company fires those raising these concerns. (Aghalaryan, 2019) Residents of the nearby community also

express their concerns regarding the harms caused by air pollution to their health, as well as to their agricultural lands. (EcoLur, 2019)

The gold from this mine is processed some 200 km away from the mine, at Ararat gold enrichment plant in Ararat valley, where accidents were recorded as well, such as animal poisoning due to leakage and pollution of locals' gardens. Locals also expressed concerns regarding their health deterioration. (Gvasalia, Galstyan, & Kustikova, 2017)

The employees of Agarak copper-molybdenum combine also operated by this company have as well raised their concerns over their working conditions, (Ghazaryan, Hetq, 2019) while activists have recorded continuous toxic leaks from this combine to the nearby river. (Gvasalia, Galstyan, & Kustikova, 2017)

This company also operates in Georgia and Russia where violations of local laws and cases of soil and water pollutions were as well recorded. (Gvasalia, Galstyan, & Kustikova, 2017) Although investments of Russian financial institutions especially in extractive industry are not distinguished with their responsible attitude, it is even harder to hold these financial institutions and companies responsible, especially considering the oppressed civil society in Russia.

## Human Rights Affected by Irresponsible Investments of Financial Institutions

When international financial institutions, states and corporations cooperate for investments as in cases discussed in this research, specifically in the sphere of energy (mining, hydropower plants, dams), the impacts are both direct and indirect and not only environmental problems, but also concerns for rights of communities arise. Bigger portion of population is also affected since both environmental harms as well as food security have much wider impact.

When states, financial institutions and corporations are guided by the profitability of the project, indicators of economic growth, and yet do not implement positive and negative impact analysis, highlight short-term gains and not long-term impacts, do not secure community participation or in case of participation the community opinion is not taken into account, or when people are left without fair compensation, or when other violations occur as mentioned in this work, not only environment, but also human rights closely linked with the environment suffer, such as the right to clean and safe water, food, household, physical and mental health, right to life and many other rights.

### ***Right to Health***

In this study cases of negative impacts of mines on mental health were discussed as in Canadian and Australian mining towns. The negative impact of mines on physical health of communities were also discussed as in cases of Alaverdi, Akhtala, etc. Cases of unsafe occupational conditions in mines were also covered and data was presented regarding occupational fatality rates globally and in Armenia. It is necessary to highlight the state's obligations regarding the right to health and life. As such the UN International Covenant on Economic, Social and Cultural Rights, to which Armenia is party of, frames states' obligation to protect rights, such as "the right of everyone to the enjoyment of the highest attainable standard of physical and mental health" (article 12), while the UN International

Covenant on Civil and Political Rights (to which Armenia is party of) outlines every human being's inherent right to life (article 6). (OHCHR, 1966) To implement the right of everyone to the enjoyment of the highest attainable standard of physical and mental health, the Covenant outlines an obligation for the state to improve all aspects of environmental and industrial hygiene, as well as to prevent, treat and control of occupational and other diseases.

### ***Right to an Adequate Standard of Living***

Right to health is closely intertwined with the right to an adequate standard of living. The violation of the latter right was discussed in cases of environmental degradation caused by mining or other energy projects, as well as in cases when communities were evicted or left with inadequate compensations, as in cases of construction of dams or hydropower plants in India and Georgia, or degradation of living standards of residents living near mine tails in Armenia.

UN International Covenant on Economic, Social and Cultural Rights outlines “the right of everyone to an adequate standard of living for each and their family, including adequate food, clothing and housing, and to the continuous improvement of living conditions” (article 11). (OHCHR, 1966)

Those cases where community soil sample testing, as in case of Lori region, or testing of vegetables, as in case of Syunik region, showed elevated concentration of metals, or in cases when plants dried out as a result of irrigating those with polluted rivers, these cases denote the violation of rights to safe food and water. As a component of the right to adequate food, clothing and housing, and continuous improvement of living conditions, the UN Covenant on Economic, Social and Cultural Rights also highlights the state responsibility for securing food supplies and water accessibility. Specifically the right to clean and safe water is recognized as an important factor for implementing the right to health as well as the right to adequate standard of living. (Committee on Economic, Social and Cultural Rights, 2002)

### ***Right to Work***

This study also covered cases of violation of the right to work, including cases when occupational safety obligations are not met, as in case of gold mine in Sotk or copper-molybdenum mine in Agarak. Another form of violation of this right include cases when farmers, gardeners, fishers are deprived of their work and income due to energy projects near their communities and the subsequent environmental degradation. Studies mentioned in this work do not compare jobs created e.g. at mines with farming or similar jobs taking into account the unsustainable and short term nature of the former.

Apart from the right to safe working conditions the UN Covenant on Economic, Social and Cultural Rights also outlines the right to work, specifically the right of everyone to the opportunity to gain one's living by work which one freely chooses or accepts (article 6). (OHCHR, 1966)

It is necessary to mention that although these rights are discussed separately, not only these rights are closely intertwined but are primarily linked with environmental protection.

### ***Access of Information, Right to Participation in Decision Making, and Remaining Free from Discrimination***

As in cases of gold mine project in Amulsar or Kaghtsrashen irrigation project, communities also raise problems and violations such as lack of community consultations and disregard of community

opinion, which led to locals physically obstructing the projects to make their voices heard and to safeguard their rights.

These rights are proclaimed by the Aarhus Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters, as well as by the UN International Covenant on Civil and Political Rights. The Convention as well as article 25 of the Covenant provide everyone's right to take part in the conduct of public affairs, (OHCHR, 1966) as well as the right to be informed about projects affecting the environment and the right to participate in decision making processes. (UNECE, 1998)

Moreover, Kaghtsrashen project case also brings forward the right to remain free from discrimination. This and other projects, the implementation of which would benefit one community at the expense of others, or would provide a few persons or corporations with big profits and yet the community would be left with no prospects of development, or worse, it would be left with polluted environment, or in cases when communities would face eviction, or when indigenous people, minorities or women would be threatened with eviction and lack of means for sustaining themselves, as in projects implemented in India; in all such cases there is the threat of discrimination, which is, however, banned by number of international laws, including the UN International Covenant on Civil and Political Rights, article 26. (OHCHR, 1966)

### ***Women's Rights***

This research also covered cases when energy sector investments lead to violation of women's rights, as in cases when women lose their agricultural work and income due to environmental pollution or in case of mining, they become dependent on their spouses working there, which may lead to mental health problems as discussed in cases of Australian mining towns. Such projects therefore prevent states from implementing their obligations as outlined in the Convention on the Elimination of All Forms of Discrimination against Women (to which Armenia joined in 1993). Article 3 of this Convention outlines that all state parties shall take measures in political, social, economic and cultural fields to ensure full development and advancement of women for guaranteeing them the exercise and enjoyment of human rights and fundamental freedoms on a basis of equality with men. (OHCHR, 1979)

### ***Other Rights***

An even more detailed study of cases discussed in this research paper would allow for recording further violations of rights, such as violation of rights of indigenous communities, when construction of hydropower plants, mine exploitation and subsequent environmental degradation result in evictions of indigenous people, who may often have no registered property. Such investment projects may also lead to violation of cultural rights, when e.g. dams or mine tailings occupy cultural or historical sites this way also depriving the locals of the opportunity to develop alternative economic activities, such as tourism and earning through it. As a result of community evictions children suffer too whose rights to education or access to social or healthcare services is as well violated. A more detailed study of all these cases can reveal further violations of human rights.

## Policy Recommendations Benefitting the State and the Environment

Cases discussed in this paper show that although private companies and financial institutions greatly impact the socio-economics, yet, no mandatory mechanisms are drafted and implemented that would hold not only the states, but also the private sector responsible for environmental pollution or human rights violations. Despite this, non-mandatory Guiding Principles on Business and Human Rights have been drafted by the UN Secretary-General's Special Representative for Business and Human Rights John Ruggie and adopted in 2011, which highlight states' responsibilities to protect human rights, including from the third party – private sector, as well as points at the private sector's responsibility to respect human rights. (OHCHR, 2011)

Cases discussed in this paper, however, also show that there are occasions when the states cooperate with the private sector and use their leverages, including diplomatic, to promote their investment projects and their own interests at the expense of other states' environment and people. Moreover, analysts express concerns that in case of financial institutions, where one state has a major financial contribution, there is the risk of imposing that state's political agenda in countries where the financial institution makes investments.

There are also cases discussed in this paper when developing countries themselves view investments as a solution to their social and economic problems and therefore are ready to attract investments at any cost, even if the conditions of these investments do not meet the interests and needs of the communities or pose serious risks for the whole country in long-term.

Whether prior to major political events in 2018, or after them, investments have always been viewed as the best instrument for improving socio-economics in Armenia. Yet Armenia's public debt is about 51 percent of GDP (it is planned to reduce it to 48.2 percent in 2020), (Hergnyan, 2019) and thus nowadays the state has to allocate more funds for covering the state debt and its interests, rather than for healthcare, education or other spheres. (Hergnyan, 2019)

And yet for drafting more sustainable policies, below we present steps necessary to implement for improving the current socio-economic situation and for full realization of rights, as well as for providing clean and safe environment for current and future generations.

### **Policies for the state:**

- Before approving an investment project especially in energy and natural resource sectors, a detailed socio-economic study should be implemented assessing the benefits as well as direct and indirect negative impacts of the project on the environment and the communities. This assessment should present the short and long-term benefits and harms for the nature, people, economy, healthcare and other sectors allowing for a more justified decision. At the same time human rights defenders, e.g. Human Rights Defender's Office should be involved in studying human rights implications of the investment in order to prevent any aspect that would lead to human rights violations or prevention of implementation of state obligations.
- When investment projects are planned or approved, in addition to environmental and human rights components, other components should be included contributing to poverty elimination, gender equality and addressing the challenge of climate change. Such

mechanisms are suggested by the UNDP-UNEP Poverty-Environment Initiative which suggests including poverty elimination and environmental protection in policy making in the sphere of economics. The implementation of such policies is important not only for the states, but the states should also demand implementation of such policies from the private sector. ( Kempf, 2018)

- The state should continuously diversify renewable energy sources aiming at achieving the production of energy that will be sustainable and harmless for the environment. The state should also continuously assess the degree of sustainability of renewable energy sources, since in time some sources prove to be not so renewable as they had been thought of, as in case of hydro power plants.
- During the planning of investment projects as well as prior to approving them, public participation should be ensured, as well as the community opinion should be taken into account. For this purpose it is necessary to provide access to information through technological means (placing the announcement on the webpage and social media pages of the municipality, in online media), as well as through notifying community members with letters, publishing in local newspapers, announcing through TV. To ensure public participation and consideration of their opinion, infrastructure (e.g. a hall for the community discussions), options for community follow up (in case of questions or suggestions), as well as possibility for voting should be available.
- During the project implementation the public should be presented with reports on public spending, as well as on the process of project implementation on community lands. More areas rich in biodiversity should be protected and investment projects should abstain from implementing energy or related projects in such areas.
- Apart from higher fines envisaged for environmental pollution or harms, monitoring bodies should perform stricter control of economic activities.
- In the investment agreements the state should avoid including such tax incentives which provide financial institutions and private companies with surplus profits leaving the state with polluted environment, impoverished communities and increased burden of public debt. Such tax incentives include tax breaks, stabilization clauses, etc. The latter, for example, allows the investors to protect their investments from political or legislative risks, so that possible future legal reforms do not impact the investment. However, such clauses can prevent the state from performing its duties in protecting the human rights and the environment.
- All financial agreements of the state should also be approved by the parliament.
- The state should also develop codes of conduct for the civil servants, including political and diplomatic, to prevent any conflict of interests of the latter with those of the investors. For example, a “freezing” term of several years should be determined only after which a position can be taken preventing any conflict of interests.

#### **Policies for the private sector (financial institutions, private companies):**

- When planning and financing investment projects, financial institutions and companies should be guided by John Ruggie’s Guiding Principles on Business and Human Rights, which provide steps for respecting human rights and not preventing states from fulfilling their obligations in this sphere.
- Update and improve principles of financial institutions and companies based on the abovementioned Ruggie’s Principles.

- Avoid investing and implementing projects in rich biodiversity areas which would otherwise lead to ecological crisis in a specific country as well as negatively impact the global climate.
- When financing a project, a financial institution or company should act in a transparent manner, while financial institutions should also not hide the information about those commercial banks through which they fund projects.
- Implement independent assessment and record not only positive but also negative outcomes of the project this way also providing those harmed by the project with necessary compensations, as well as taking measures for preventing same omissions in the future projects.
- When financing projects, financial institutions and companies should refrain from making economic preconditions in order not to undermine states' right to independently developing own policies and thus not affecting their sovereignty.
- Encourage diversification of the economy and fund only sustainable projects.
- In cooperation with the state, ensure participation of communities and the civil society in the project implementation, as well as take their suggestions, decisions and reports into consideration.
- Financial institutions and companies should make it their mandatory policy to allocate a share of proceeds from an investment project to the local communities.
- Financial institutions should provide funds only after the communities, civil society and national specialists are acquainted with and approve of the environmental and social impact assessment of the project. During the implementation of the project investors should continue monitoring the impact of the project on the environment and human rights.
- Acknowledging that each state has a unique cultural heritage, while some states have culturally and ethnically diverse communities, financial institutions and companies should implement an additional assessment on how the planned project or investment will impact the culture of each state and of each community in the state, this way also avoiding harming their cultural heritage.<sup>1</sup>

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<sup>1</sup> Some of the policy recommendations are based on the recommendations from the research on Mongolia by the Center for Research on Multinational Corporations (SOMO). (SOMO, OT Watch, 2020)

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