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Impacts of International Financial Institutions on the Environment and Socio-Economics: Cases from Armenia and the World

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The purpose of this research is to study the impact of investments by international financial institutions on the environment and socio-economic situation of communities. The research primarily focuses on some of the biggest international financial institutions and their investments in energy and natural resources globally and in Armenia. Based on the analysis of these cases, as well as on various reports this research shows the impacts of these investments on nature, the socio-economic situation of communities and draws conclusions on the interconnection between environmental destruction and poverty.

The research also highlights the violation of human rights taking place as a result of such investments. Such rights include the right to clean and safe water, food, housing, physical and mental health, life, clean environment, labor, participation in decision making, etc. The goal of this research is to suggest policies to the state and to the private sector which will not prevent states from implementing their obligations towards human rights protection.

Considering that in many developing states, including in Armenia, investments are viewed as the best instrument to improve the socio-economic situation, while Armenia is currently burdened with making more payments for servicing its public debt, rather than for education, healthcare or other spheres, below we present policy suggestions for improving current socio-economic situation, creating a human rights based governance and establishing 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.
- 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 instutions 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.

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