DFID and the World Bank: fossil fuel extraction, climate change and energy poverty

Bretton Woods Project, People and Planet, Practical Action, Greenpeace UK, Christian Aid

1. DFID's approach to climate change and energy is inconsistent and contradictory. Despite assertions in its white paper *Eliminating world poverty: making governance work for the poor* that "the UK is working for international agreement on urgent action to prevent dangerous climate change"[1] the UK Government continues to support oil and gas extraction projects around the world through the World Bank and other IFIs. By funding these projects the UK Government is undermining its own efforts to reduce greenhouse gas emissions. It is also perpetuating problems of conflict and human rights violations often associated with such extraction. Rather than endorse the use of UK aid money for extractive industry projects, DFID should lead the way towards low carbon development, and push for the World Bank to transform its current energy lending, adopt a new energy and climate change strategy and revisit the recommendations of the Extractive Industries Review (EIR).

2. The EIR was commissioned by the World Bank in 2001 in response to criticism of World Bank involvement in extractive industries. The final report in 2004 concluded that extractive industries projects can be compatible with poverty reduction and sustainable development but only if the right conditions are in place[2]. It made crucial recommendations with regards to human rights, indigenous peoples, affected communities, environmental and social impact assessments, biodiversity, good governance and transparency. It also called for the World Bank to phase out investments in oil projects by 2008 and increase investments in renewable energies by about 20 per cent annually. The majority of the recommendations were undermined by the World Bank in its management response[3].

3. In 2005 the G8 tasked the World Bank to take a leadership role in addressing climate change, and come up with an *investment framework for clean energy and development*. Its latest progress report will be release at the upcoming annual meetings in October. A longer term programme of country-level activities and global research is to be completed for the G8 summit in Japan in 2008. We believe that there are key reasons as to why the Bank as it currently operates is not the legitimate institution to be tasked with implementing this investment framework.

4. The World Bank has invested over $25 billion in fossil fuel projects since 1992 when the climate convention was signed, while devoting only a small fraction of its energy budget to clean and renewable energy sources. Despite laudable rhetoric on energy poverty and the impacts of climate change on the poor, the Bank continues to invest substantially in large oil and gas projects and conventional energy sources. In 2006 it increased the size of its energy sector commitments from $2.8 billion to $4.4 billion. Oil, gas and power sector commitments account for 77 per cent of the total energy sector programme while 'new renewables'[4] account for only 5 per cent[5]. In 2004 at the Bonn International conference on renewable energies, the World Bank announced that it would increase its lending for "new renewables and energy efficiency" projects by 20 per cent per year over five years. The Bank claims that this target

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[1] See DFID's White Paper on International Development, *Eliminating world poverty: making governance work for the poor,* July 2006, para 7.8, page 93 .

[2] EIR final report *Striking a better balance,* Emil Salim, 2004
http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK%3A20306686~menuPK%3A336936~pagePK%3A148956~piPK%3A216618~theSitePK%3A336930,00.html

[3] World Bank management response to the EIR, 2004

http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20605112~menuPK:336936~pagePK:148956~piPK:216618~theSitePK:336930,00.html

[4] 'New renewables' is a term used to cover renewable energy such as wind, solar, and mini-hydro. It does not include large hydropower (>10 MW) or traditional biomass.

[5] *Energy to reduce poverty: the urgency for G8 action on climate justice,* page 7, Practical Action, 2007
http://practicalaction.org/docs/advocacy/energy-to-reduce-poverty_g8.pdf

has been met and exceeded each year[6], but analysis by Friends of the Earth US finds that the Bank's "new renewable energy & energy efficiency" portfolio includes environmentally damaging large hydropower projects such as the Nam Theun 2 dam in Lao PDR, projects funded by the Global Environment Facility and carbon finance funds[7].

5. In the oil sector, over 80 per cent of the World Bank's approved finance goes to projects that export to northern countries[8]. These projects are not about alleviating energy poverty or improving energy access, but instead create increased wealth for oil companies and governing elites, whilst feeding oil addiction in wealthy countries. Oil companies are benefiting from this 'oil aid' at the same time that they register record profits. Independent research increasingly indicates that international oil companies are hindering, not promoting, development in poor countries, fuelling conflict and sinking oil-producing countries deeper into poverty and economic inequality[9]. Continued oil dependence also has a disproportionate impact on the world's poorest countries at a time of high oil prices, thereby undermining the benefits of debt cancellation and harming the very countries that international institutions like the World Bank should be helping.

Growing political consensus in the UK

6. In the UK there is a growing political consensus regarding the need to phase out the UK's support for fossil-fuel extractive projects via multilateral development banks, and scale up support for genuinely sustainable renewable energy. This is illustrated in policy papers from the major opposition parties, an Early Day Motion and statements from former development secretary Hilary Benn.

7. The Conservative's Quality of Life group's *Blueprint for a green economy, submission to the shadow cabinet* released in September 2007 urges DFID "to produce an energy and climate strategy, covering both bilateral and multilateral energy funding, which will work towards the phasing out of support for all fossil-fuel extraction projects and an increase in access to energy in the developing world through the promotion of decentralised and low carbon forms of energy and energy efficiency projects" [10]

8. Similarly the Liberal Democrat policy paper *Zero carbon Britain- taking a global lead*, states that "climate change is not given a high enough priority in development programmes and that all too often projects are supported which involve, to cite only two areas of concern, non-renewable energy or forest reduction" [11]. The paper states that "coordinated action" is needed through the World Bank, the EU and the OECD to ensure that climate change is mainstreamed into development programmes and initiatives and that "development objectives fully support climate mitigation".

9. The Liberal Democrat's paper also cites the Environmental Audit Committee's report of 2006 which concluded that "DFID's climate change policy lacks coherence". On the one hand "it highlights the seriously detrimental impacts of climate change on the most poor" and has a mandate to increase access to low carbon energy, alleviate poverty and help mitigate the effects of climate change. On the other "it is directly and indirectly responsible for very significant emissions of carbon into the atmosphere through the projects it funds"[12].

[6] *World Bank Group 2006. Improving Lives: World Bank Group Progress on Renewable Energy and Energy Efficiency Fiscal Year 2006, December 2006.*

[7] See *Global energy solutions bank on carbon trading,* November 2006 http://www.brettonwoodsproject.org/art-547310

[8] See *The energy tug of war: the winners and losers of World Bank fossil fuel finance*, Sustainable energy and economy network, 2004, page 2, *http://www.seen.org/PDFs/Tug_of_war.pdf*

[9] See resources on *End Oil Aid* http://www.priceofoil.org/endoilaid

[10] The Conservatives' *Blueprint for a Green Economy*, the report of the Quality of Life Policy Group, chaired by John Gummer MP, was published on Thursday 13 September 2007. Chapter 9: The Imperative of Climate Change, focuses on perverse subsidies in section 9.3.3.2: Investment priorities. The report makes recommendations to the Conservative Party, and the proposals will be debated by the party before becoming official policy. http://www.qualityoflifechallenge.com/documents/fullreport-1.pdf,

[11] *Zero carbon Britain- taking a global lead*, section 7.4.2, page 36/7. This policy paper was agreed at conference on 12 September 2007. http://www.libdems.org.uk/media/documents/policies/PP82%20Zero%20Carbon_FINAL.pdf

[12] *Trade, Development and Environment: The Role of DFID,* July 2006, paragraphs 92 and 93 http://www.publications.parliament.uk/pa/cm200506/cmselect/cmenvaud/1014/1014.pdf

10. In March an Early Day Motion (EDM) on *DFID's strategy on climate change and energy* was tabled by UK MP Michael Meacher. The EDM notes that DFID's "financial and political support for oil companies in developing countries through multilateral organisations", is "inconsistent with its mandate to alleviate poverty and help mitigate the effects of climate change in those countries". It calls on DFID to produce a strategy on energy and climate change which contributes to emissions reductions by "phasing out support for oil and gas projects, massively increasing support for renewable, decentralised energy supplies, and reporting regularly to Parliament on the impact of its energy and climate change strategy on carbon dioxide emissions and poverty alleviation as part of its duties under the International Development (Reporting and Transparency) Act 2006." Fifty-three MPs have signed on so far.[13]

11. In the 2005 evidence session, Joan Ruddock MP asked whether there was "an inconsistency between the lending policies of the international financial institutions and the UK's own commitment to climate change policies", pointing out that the World Bank's support for renewables was a mere six per cent of its energy lending. Then Secretary of State for International Development, Hilary Benn agreed that faster progress was needed, adding "I agree with you completely about the opportunity to skip the generation of power generation in particular that is very polluting". Speaking at the School of Oriental and African Studies in London in April 2007, Benn urged the World Bank to set "bold" new targets for renewable energy investments such as wind and solar, energy efficiency and low-carbon growth to help tackle climate change[14].

Ditch Dirty Development

12. A campaign by NGO People & Planet is calling for an end to the contradiction between government climate change targets and the continued use of development aid to support fossil fuel extraction projects. It points out that development aid, earmarked for poverty alleviation, is being put towards some of the most polluting industries in the world in order to ensure energy security for the wealthy industrial world with limited or no benefits to the poor in developing countries[15].

13. In April a report by NGO Practical Action, *Energy to reduce poverty: the urgency for G8 action on climate justice* criticises the World Bank's 'leadership' role to tackle climate change and solve energy poverty, given its promotion of a development path that will lock developing countries into fossil-fuel dependency. It calls on the World Bank to: end the use of aid money to support new large-scale fossil fuel projects, significantly 'scale-up' investment into renewable technologies, deliver large-scale rural electrification programmes based on decentralised systems, and deliver programmes which give the poor access to efficient stoves and sustainably-sourced biomass fuels.[16]

14. A Greenpeace report, *Energy [R]evolution*, presents an alternative to the International Energy Agency's world energy outlook upon which the World Bank's *Investment framework for clean energy and development* is based, and serves as a practical blueprint for how to cut energy related CO_2 emissions by 2050[17]. A follow up report, *Futu[r]e Investment* demonstrates how renewable energy forms a tiny part of the World Bank's energy portfolio, pointing out that in 2002-2003 the Bank's energy financing for big fossil fuel projects beat renewable and energy efficiency projects by a 17 to 1 ratio[18]. Greenpeace urges all IFIs rapidly phase out subsidies for conventional polluting energy projects.

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[13] EDM 1200: *Department for International Development's strategy on climate change and energy*
http://edmi.parliament.uk/EDMi/EDMDetails.aspx?EDMID=32957&SESSION=885

[14] *Speech by Secretary of State, Hilary Benn, Speech on the Future of the World Bank, Royal Africa Society/School of Oriental and African Studies, London*, 12 April 2007
http://www.dfid.gov.uk/News/files/Speeches/world-bank-april07.asp

[15] *Ditch Dirty Development*. People & Planet campaign website
http://peopleandplanet.org/ditchdirtydevelopment

[16] http://practicalaction.org/docs/advocacy/energy-to-reduce-poverty_g8.pdf

[17] *Energy [r]evolution*, Greenpeace, 2007
http://www.greenpeace.org/raw/content/international/press/reports/energy-revolution-a-sustainab.pdf

[18] *Futu[r]e Investment*, Greenpeace, 2007
http://www.greenpeace.org/raw/content/international/press/reports/future-investment.pdf

Adaptation

15. An Oxfam report found serious inadequacies in the World Bank's methodology for estimating the costs of climate change adaptation for developing countries[19]. In its report, Oxfam set the figure well above the Bank's widely cited estimate of $10-40 billion annually - at least $50 billion and far more if emissions are not cut rapidly. It points out that the Bank's estimate only accounts for some of the costs faced by 'macro actors' (donors, governments and the private sector), such as integrating adaptation into planning and policies, and climate-proofing new infrastructure. It has failed to consider the costs of climate-proofing existing infrastructure, as well as costs faced by 'community-level actors' for the vast majority of adaptation needs. Citing the latter as the most effective actors in supporting adaptation, Oxfam argues for an approach rooted in equity and justice and declares that finance for adaptation should be provided in addition to aid and defined separately.

The human and environmental costs of World Bank-supported oil and gas extraction

16. *Failing to end gas flaring in West Africa*. The World Bank supported West African Gas Pipeline project which aims to deliver gas from Nigeria to Ghana, Benin and Togo via a 680 kilometre pipeline is currently the subject of a claim to the World Bank Inspection Panel by affected communities in Nigeria[20]. They cite the inadequacy of the project's environmental impact assessment and lack of public consultations. It is also unclear how the project will reduce gas flaring in Nigeria as previously asserted by the World Bank, or bring benefits to local communities. Property owners received on average between $40 and $80 each, as "full and final payment" for the large tracts of land that were acquired for the pipeline's right of way. Grievance redress procedures have been deliberately obscured from the local communities.

17. *Gender impacts of the Baku-Tbilisi-Ceyhan oil pipeline*. Large-scale extractive industries projects often bring limited and short-term employment opportunities, fail to provide promised support for local communities or to alleviate poverty. The economic 'booms' that accompany such investments are often unsustainable, and their negative effects disproportionately harm more vulnerable social groups such as women and indigenous people. A 2006 study by NGOs CEE Bankwatch and Gender Action found that the IFC-financed Baku-Tbilisi-Ceyhan oil pipeline, a $3 billion project to transport crude oil across Azerbaijan, Georgia and Turkey has brought increased poverty, hindered access to subsistence resources, increased occurrence of still births, prostitution, HIV/AIDS and other diseases in local communities[21].

18. *Chad-Cameroon pipeline: failed commitments.* At the inauguration of the Bank-supported Chad-Cameroon oil and pipeline project in 2003, the Bank claimed that its involvement would help ensure that Chad's oil revenues would be used for the well-being of all Chadians, and that the project would be implemented in an environmentally and socially sound manner. Research by Cameroon's Centre for Environment and Development, the Chadian association for the Promotion and Defense of Human Rights, and US-based Environmental Defense finds that the Bank has failed on both counts. The project appears to have fuelled violence, impoverished people in the oil fields and along the pipeline route, exacerbated the pressures on indigenous peoples and created new environmental problems. Meanwhile ExxonMobil, the leader of the oil consortium and the world's largest oil company, is registering record profits[22].

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[19] *Adapting to climate change: What's needed in poor countries, and who should pay*, Oxfam, 2007 http://www.oxfam.org/en/files/bp104_climate_change_0705.pdf/download

[20] The request for inspection, submitted by Environmental Rights Action/ Friends of the Earth Nigeria can be found at: www.tinyurl.com/2xnb3q

[21] See *Boom time blues: big oil's gender impacts,* 2006 http://www.genderaction.org/images/boomtimeblues.pdf

[22] See *the Chad-Cameroon oil and pipeline project: a project non-completion report*, 2007 http://www.environmentaldefense.org/documents/6282_ChadCameroon-Non-Completion.pdf

Suggested questions:

-Will DFID match its practice to its principles, by urging the World Bank to revisit the recommendations of the 2004 Extractive Industries Review and fundamentally rethink its involvement in extractive industries, in particular the recommendation calling for the Bank to phase out its investments in oil production?

-Will DFID continue to push for higher targets for "new renewable" energy at the World Bank and for separate targets for "renewable energy and energy efficiency"?

-Will DFID develop a new energy and climate change strategy that would set a framework for monitoring and progressively reducing the climate impacts of development aid particularly as channelled through multilateral development institutions?

-Will DFID call for financing for adaptation to be provided in addition to existing aid commitments and defined separately?

-Will DFID insist that the World Bank evaluate and monitor the climate impacts of its lending?