

Pumping Poverty

Britain's Department for International Development and the oil industry



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Cover photograph: July 2004. Crude oil in drinking water well, Kpor, Ogoni, Nigeria. Local witnesses reported that Shell oil facilities had been leaking in this way for five months. Local streams were also heavily polluted with crude oil. © Tim Nunn/SDN



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Executive Summary

Pumping poverty

This report investigates the role of British overseas development aid in facilitating oil development. It finds that – far from helping the world’s poorest people – such aid often serves instead its wealthiest corporations, leaving the poor worse off than before and aggravating global climate change.

DFID’s mandate – poverty alleviation

A clearly articulated new direction was given to British overseas development aid when the Department for International Development (DFID) was formed under New Labour in 1997. Separated for the first time from the Foreign Office, DFID’s stated goals are to eliminate poverty in developing countries through sustainable development.

However, as Africa and climate change become the focus of the UK’s 2005 leadership of the G8 – and following recent controversial DFID support for multilateral financing of BP’s Baku-Tbilisi-Ceyhan (BTC) oil pipeline, together with its rejection of reforms proposed by the World Bank’s ‘Extractive Industries Review’ – fundamental questions are being asked over whether DFID’s policies on oil development are in fact counter to the interests of the poor.

The oil curse

The discovery of oil in a developing country is more often a curse than a blessing. Oil extraction hits the poor at a number of levels:

- At a local level, oil production damages people’s livelihoods and health – through direct pollution, by threatening food production and water supplies, and through the spread of disease.
- At a national level, there is a growing consensus among economists that the disruptive economic effects of oil investment act to drastically reduce growth and undermine the non-oil economy, as well as often leading to declining governance structures and a weakening of democracy.
- At a regional level, oil is frequently associated with greater militarization and conflict –through disputes over the control and ownership of resources, through

the use of revenues to purchase arms, and through the targeting of oil infrastructure by terrorists and other armed groups.

- At a global level, fossil fuels are the primary cause of climate change, which threatens catastrophic damages including massive sea-level rise, rising incidences of flood, drought and other extreme events, major water and food supply reductions, and the spread of disease.

In all cases, it is the poor and vulnerable who suffer most. And although oil development is often justified in terms of host countries’ energy needs, in reality oil is extracted primarily for export to industrialised countries rather than bringing energy to those in poor and remote areas who need it most. Indeed, the energy needs of the poor can better be met through renewable energy technologies, which are smaller-scale, less subject to price swings and do not pollute.

Although DFID recognises these threats, its incoherent policies on oil development fail to address them, fatally compromising its mandate of poverty alleviation and the achievement of the Millennium Development Goals.

Favouring oil companies over the poor

DFID serves as a partner in the UK government’s key policy of maintaining energy security. A major part of its role is to use development aid to reform developing countries’ oil taxation and regulation regimes to better favour British business interests – especially in the former Soviet Union. According to the Foreign Office, which coordinates work on this priority, a key aim is to: *“improve investment regimes and energy sector management in these regions, focusing on key links in the supply chain to the UK”*.

DFID continues to strongly support oil extraction in the developing world, both bilaterally and multilaterally, despite the obvious contradictions... Meanwhile, its support for renewable energy investment has been half-hearted at best.

For example, from 2000–2003, DFID recommended to the Russian government that it slash its taxes on oil extraction, transferring billions of dollars from the Russian state to foreign oil companies. DFID’s advisors were consultants that also had oil companies as clients, who had previously had long careers in BP and Shell, and one of whom had lobbied for lower tax on North Sea production since the early 1980s.

Spending taxpayers’ money – no records kept

Freedom of Information requestsⁱ have revealed that DFID does not keep records of many bilateral grants. As a result, neither DFID staff nor the public can discover what these taxpayer-funded projects achieved or whether they had a positive impact on poverty.

Many of these projects appear to have helped oil corporations more than the poor, but in the absence of information it is impossible to know for sure. For example:

- In 1997–98, DFID gave a grant to subsidise “engineering and laboratory studies on enhancing oil recovery” on an oilfield in China – DFID has no further information on what this grant was used for or why.
- In 1999–2000, DFID advised Georgia on its oil and gas pipeline legislation. It is not known whether this formed the basis of the legal framework for a BP-led pipeline. Agreed in 2000 between Georgia and the consortium, that framework will constrain the Georgian government’s ability to pass any new environmental, social, labour or other laws that affect the profitability of the project in its 40-year lifetime. Georgian President Mikhail Sakashvili has described this as “a horrible contract from BP, horrible”?
- Throughout the 1990s, DFID (and its predecessor ODA) gave nearly £4 million in grants to companies for “pre-investment feasibility studies” (essentially, subsidised market research) in the major oil-producing countries of Russia, Kazakhstan, Azerbaijan and also in Georgia. The recipient of only one small grant in Kazakhstan is known by DFID; it has no information on which other companies received grants, nor what they were spent on.

Public risk insures private profit

DFID represents the UK government in decisions made at the World Bank, and has been consistently supportive of Bank financing for oil projects. These total a massive US\$5 billion since 1992. DFID has also supported loans from the European Bank for Reconstruction and Development (EBRD) for oil projects in the Former Soviet Union and Eastern European states, totalling over \$1 billion since 1991.

82 per cent of the World Bank Group (WBG) financing has been for projects that primarily export oil to developed countries and therefore do nothing to meet the energy needs of developing countries. The WBG’s own Extractives Industry Review detailed this disappointing poverty alleviation record, stating that “project funding in the extractive industries has not had poverty reduction as its main goal or outcome”.

The WBG, EBRD and oil companies have all acknowledged that a primary role of this public finance is to reduce project risk for private investors. Effectively, by transferring risk from private onto public institutions, these projects are being subsidised with taxpayers’ money.

Rules broken and safeguards ignored

DFID pays scant regard to the merits of specific projects, or to the mandatory lending rules of the organisations it works with. The World Bank’s Operations Evaluation Department has reported that: “The Bank’s performance on environmental safeguard policies remains contentious. Implementation has been mixed... Compliance shortfalls ... have cast doubt on the integrity of quality assurance processes”. But DFID has not advocated rigorous compliance, for example:

- DFID strongly supported a loan to BP’s BTC Caspian oil pipeline in October 2003, just three weeks after Azerbaijan’s dynastic transfer of power from Heydar Aliyev to his son Ilham, in an election characterised by fraud and intimidation. Independent analysis by civil society groups had previously found the BTC project to be in breach of 173 World Bank and other mandatory international standards. Yet DFID did not respond to the analysis, and its consultant relied entirely on materials from BP in assessing the project.

ⁱ Under the Freedom of Information Act, and its predecessor, the Code of Practice on Access to Government Information

- In 2000, DFID also supported the World Bank loan to the ExxonMobil-led Chad-Cameroon oilfield and pipeline project. Chadian organisations have reported an increase in food insecurity and social tensions as well as increases in prostitution and associated HIV-AIDS. In Cameroon, pipeline construction has damaged fisheries and farmland. Once again DFID has not assessed these complaints and continues to present the project as a model of good practice.

DFID opposes pro-poor reforms

The World Bank-commissioned Extractive Industries Review (EIR) presented an opportunity for reform. However, throughout the process, DFID was one of the more retrogressive voices, complaining that the EIR's assessment was "unduly negative". In three separate submissions to the EIR, DFID stated its opposition to many of the key recommendations.

DFID recognises that climate change hits the poor hardest and threatens the achievement of the Millennium Development Goals. Yet it refuses to address the effect of its promotion of oil development in contributing to climate change, and locking developing countries into short-term, unsustainable development.

DFID accepts empirical evidence that oil extraction more often harms than helps development, and retards economic growth. It also acknowledges that without good governance in host countries this trend will continue. Despite this, DFID rejected the EIR's recommendation that the World Bank should focus on ensuring good governance before supporting extractive industries investment in developing countries. The mechanisms DFID supports to improve development outcomes from oil production are limited, focussed almost entirely on the Extractive Industries Transparency Initiative. Although that Initiative is welcome in itself, DFID has done nothing to demonstrate its adequacy. DFID also opposed the recommendation to protect the rights of indigenous peoples by ensuring their free, prior, informed consent to projects that displace them.

DFID's *own* governance is inadequate, both in its bilateral aid and record-keeping, and in its lack of due diligence when participating in decision-making in multilateral institutions.

Conclusion: Favouring the powerful over the poor

DFID continues to strongly support oil extraction in the developing world, both bilaterally and multilaterally, despite the obvious contradictions outlined above. Meanwhile, its support for renewable energy investment has been half-hearted at best.

This report concludes that DFID's incoherent policies on oil development have put the interests of more powerful UK government departments and big corporations ahead of the needs of the world's poor. This represents both a betrayal of its pro-poor mandate and a significant retreat from the Government's original objective of separating overseas development assistance from foreign policy. Instead, DFID's actions on oil development look more like a return to the discredited approach of tied aid, where overseas assistance is applied politically to help British interests rather than the poor.

Recommendations

We believe that DFID should:

- phase out over a limited timeframe all bilateral development aid for the oil industry
- press for a similar phase-out in multilateral banks and other funding institutions
- rigorously assess the poverty alleviation and sustainable development impacts of overseas development aid for the oil industry until a phase out is implemented, and
- proactively support sustainable renewable energy strategies in developing countries.

We further call for:

- a Parliamentary investigation into the impacts on poverty of DFID's support for oil development
- the filing by DFID in the House of Commons Library of its internal reviews and reports on effectiveness of its projects to date
- the publication by DFID of all of its votes and positions on projects seeking support from multilateral development banks; and
- ongoing Parliamentary scrutiny of DFID's 'due diligence' on specific projects, and the quality of its internal record-keeping.

Fuller recommendations are set out in the full report.

1 Introduction

1.1 DFID and poverty

A clearly articulated new direction was given to British overseas development aid when the Department for International Development (DFID) was established after the new Labour government took office in 1997. With overseas aid now separated for the first time from the Foreign Office, DFID's stated key goals are to eliminate extreme poverty in developing countries through sustainable human development.

DFID's two primary activities are:

- The provision of bilateral aid to developing countries;
- The management of the UK's contributions to, and decision-making in, multilateral institutions such as the World Bank.

DFID's adoption – together with the World Bank and a host of other development agencies – of the Millennium Development Goals in 2000 focuses its work even more tightly on the poorest of the poor.

There are eight Millennium Development Goals,¹ which aim by 2015 to:

- Eradicate extreme poverty and hunger;
- Achieve universal primary education;
- Promote gender equality and empower women;
- Reduce child mortality;
- Improve maternal health;
- Combat HIV/AIDS, malaria and other diseases;
- Ensure environmental sustainability; and
- Develop a global partnership for development.

As a spender of taxpayers' money, DFID is subject to scrutiny in the UK Parliament, in particular by the International Development Select Committee.



Shell oil spill at Rokpoku, Nigeria [2004]. The area was previously used for agriculture (Elaine Gilligan/FOE)

Recently concerns have been growing that where DFID's bilateral and multilateral aid supports oil development projects, it may actually undermine the goal of poverty reduction – both directly and by worsening climate change, which hits the poor hardest. Unfortunately, instead of addressing these concerns, DFID's response – particularly to the high-profile World Bank Extractive Industries Review – has so far been inadequate, and many civil society groups have been forced to conclude that the Department lacks a well-developed policy on oil development.

This report looks at DFID's role and performance in relation to oil investment in the context of its mandate to focus exclusively on poverty reduction and sustainable development. It concludes by making recommendations to DFID on policy development, and to Parliament requesting a formal review of DFID's activities in this area.

2 DFID and the oil industry

2.1 DFID bilateral grants – Creating favourable conditions for British business

Energy security is the energy policy buzzword of the early twenty-first century. The USA, which consumes 25 per cent of the world's oil, ceased to be self-sufficient in oil in the early 1970s. Ever since – and especially following the 1973 Arab oil embargo and subsequent nationalisations – access to a reliable and cheap supply of oil has been a foreign policy priority, mainly through maintaining stable and friendly regimes in key oil producing nations.

DFID and the UK's energy security

Britain and the USA are official partners in maintaining energy security. In April 2002, President Bush and Prime Minister Blair initiated the 'US-UK Energy Security Dialogue' at a meeting in Crawford, Texas.

The UK, although currently a net oil exporter, is scheduled to become a net importer by 2010 as North Sea production dwindles.² The security of the UK's oil and gas supply is therefore of increasing concern to the UK government.

The energy security agenda is shared with Britain's largest oil corporations, who need to expand their reserves holdings in order to satisfy their investors. BP and Shell, respectively Britain's biggest and sixth biggestⁱ companies, have considerable influence in government. BP's chief executive John Browne is personally close to Prime Minister Tony Blair, who made him a 'People's Peer' in 2001 (in fact his company is sometimes dubbed 'Blair Petroleum').³ Shell meanwhile maintains its closeness to government institutions through appointing senior public officials to its board – and this is especially focussed on those with foreign policy connections.ⁱⁱ

In essence security of supply means preventing control of a country's oil resources falling into the hands of

unfriendly or unstable regimes. In practice this often means placing production in the hands of Western corporations and locking the government into a long-term contract, in order to guarantee consistent production for a number of decades.

However, there are clear questions over the appropriateness of working on security of oil supplies in alliance with the USA, which has rejected the Kyoto Protocol on climate change, and which is pursuing a unilateralist approach to international relations more generally.

The UK's Foreign and Commonwealth Office (FCO) identified energy security as one of eight priorities for UK foreign policy in its December 2003 strategy document.⁴ In the document, the FCO cites DFID as a governmental partner in implementing this key strategic priority. Not only

The energy security agenda is shared with Britain's largest oil corporations, who need to expand their reserves holdings in order to satisfy their investors

i Shell Transport & Trading, the sixth biggest company listed on the London Stock Exchange, owns just 40% of the Royal Dutch Shell Group, the rest being owned by Netherlands-based Royal Dutch. The Group as a whole is of similar size to BP. In October 2004, following the fiasco over misstating of its reserves, the company announced the end of its dual structure, combining to form a single parent company, Royal Dutch Shell. This will be listed primarily on the London Stock Exchange, lifting it to second place on the FTSE listing.

ii For example, Sir John Kerr became a non-executive director of Shell immediately following his retirement as the most senior civil servant in the Foreign and Commonwealth Office (FCO) in 2002. From 1997 to 2002, Kerr was head of the Diplomatic Service and Permanent Under Secretary of State (pus) at the FCO. Before that, he was the UK's Ambassador to the USA, from 1995 to 1997. Before him, Sir Anthony Acland, a Shell non-executive director from 1991 to 1999, came from an almost identical background: Head of the Diplomatic Service at the FCO from 1982–86, and UK Ambassador to the USA from 1986–91

Box 1: The geography of 'energy security'⁵

The Middle East is the epicentre of global oil production, accounting for 63 per cent of the world's known oil reserves. As a result, in particular since the terrorist attacks of September 11th 2001 and the 2003 invasion of Iraq, debates on energy security have intensified.

The major oil-producing countries of the Middle East ejected Western oil companies, mostly in the 1970s, following disputes over what was seen as a colonial model, in which the companies took control of Middle Eastern oil assets under concession contracts.

New supplies were desperately needed both by Western governments to feed their economies and by Western companies to feed their shareholder returns. For both, 'energy security' has meant growth in the companies' own producing assets, and limiting the exporting countries' control over the market.

New discoveries in the North Sea and Alaska plugged the gap for the following two decades. By the early 1990s, these two provinces were providing only limited growth, and the industry sought new expansion in 'frontier' regions – new, small and technically difficult oilfields, especially in deepwater such as offshore West Africa and in the Caspian Sea.

Alongside these, the major prize during the 1990s, although risky, was Russia – which holds by far the largest reserves outside OPEC, at 6% of the world's total.

The success of the West's 'energy security' – or energy control – policies can be seen in the decline of the Middle East's share of production from around 50% of world supply in the mid-1970s to around 30% today. However, given the region's smaller share of production compared to its share of reserves, its significance in the global oil market can only grow, and by 2020 the Middle East will once again provide the main supply to the world.⁶

Against this background, the West is pursuing a twin strategy: in the short term to expand production both in frontier areas⁷ and in Russia, and in the longer term to gain re-entry into the Middle East.

Iraq will be the first Middle Eastern country to open up major oilfields to international oil corporations (its neighbours have offered only small and marginal contracts), although ongoing instability has made the achievement of that goal slower than expected. In October 2004, the then Prime Minister Ayad Allawi announced the guidelines that would form the basis of Iraq's future oil policy, which included policy proposals for newly-discovered reserves to be handed to the corporations through production sharing agreements, and for the Iraqi National Oil Corporation itself to be part-privatised.⁸

does the FCO identify the geographical sources of future oil supplies, in its aim to "help resolve disputes, and promote peaceful political and economic reform, in the Middle East, parts of Africa and the countries of the former Soviet Union", it also confirms the shared benefit with British multinational corporations, listing other aims which:

...improve investment regimes and energy sector management in these regions, focusing on key links in the supply chain to the UK

and

promote the export of UK technology and services, the import of best practice, and the efforts of British energy companies investing or trading abroad.⁹

This FCO document sees DFID's role as twofold, to:

- help create a favourable regulatory and taxation environment for investment by British and other multinational oil companies; and
- help create a stable political environment through good governance mechanisms.

The limitations of DFID's approach to governance are examined below in section 3.3. However, it should be questioned whether a good governance agenda pursued for reasons of the UK's national economic self-interest, rather than because of the normative value of human rights, conflict reduction and poverty alleviation, is likely to be effective or well-directed in the countries where it is applied.

CASE STUDY: Reforming Russia's oil taxation regime

From 2000–3, DFID provided a grant of £0.6 million for a project entitled 'Assistance with Oil Taxation Reform'.¹⁰

Since the mid-1990s, the Russian government has attempted to shift the primary basis of its oil taxes from turnover to profits, and DFID-sponsored consultants were brought in to recommend detailed mechanisms for establishing a profits tax. The DFID report recommended a tax system with four tiers, structured according to profitability, the highest of which would have a marginal rate of 55.6 per cent of profits.

This proposal constituted an enormous cut from that in the 2002 Russian government draft taxation paper, which recommended¹¹ a marginal rate of 72.7 per cent.ⁱⁱⁱ (For comparison, Norway's marginal rate is 78 per cent; the UK's top rate is 70 per cent for fields developed prior to 1993, and 40 per cent for other fields – both countries with considerably less oil than Russia.) If the Russian government accepts the recommended rate of tax, it will lose considerable potential for revenue.

In general, oil taxation regimes around the world reflect the power balance between state and companies, such that the more oil a country has, the greater the proportion of revenues that goes to the state. Russia has the seventh-largest reserves in the world. In all six of the larger producing countries,^{iv} oil production is entirely or almost entirely nationalised – so that all of the revenues go to the state.

The consultants chosen to advise on Russia's upstream^v taxation were Professor Alexander Kemp and David Reading from AUPEC Ltd, a company part-owned by Aberdeen University. Kemp, AUPEC's director, has been involved in lobbying for lower tax on oil extraction in the UK North Sea since the early 1980s.¹² AUPEC numbers amongst its clients numerous oil companies, including Shell, BP, ExxonMobil and Chevron. Kemp himself spent the early part of his career in Shell. AUPEC's Chairman and part-owner, Tom Cross, is managing director of Dana Petroleum, a company with oil-producing assets in Western Siberia, which would stand to benefit from any reduction in Russian oil taxation.¹³

Furthermore, the overall manager of the DFID-sponsored project was Bob Grabham, of the consultancy firm NERA, who previously worked for BP for 18 years.¹⁴ NERA's current and recent clients include Shell, British Gas, Exxon, Unocal and Yukos.¹⁵

There is no suggestion that the companies had direct influence over the project's findings and recommendations, but the backgrounds of the consultants, their potential conflicts of interest, and (in the case of Alex Kemp) their known views on taxation, raise questions about their appropriateness for this work – if the goals are supposed to be development and poverty alleviation.

While the potential for DFID's project to help relieve poverty is questionable, the benefit for British oil corporations seems far clearer. In 2003, BP made the biggest foreign investment in Russia ever, putting US\$6.8 billion into forming TNK-BP. TNK-BP is 50 per cent owned by BP and has become the third-largest oil company in Russia, with vast assets in Russia and Ukraine.

Establishing favourable investment conditions – but for whose benefit?

It is far from clear that DFID's agenda of creating favourable conditions for oil investment in developing countries is also in the best interests of development and poverty alleviation.

There is a potential conflict between an investor's desire for low tax and minimal regulation and a host country's development needs. Modern production sharing agreements – a common contractual arrangement in the oil industry – are so complex that it is easy for an inexperienced government, faced with an investor's battalions of lawyers, to sign on terms that simply are not in its interests. And since the contracts may freeze both tax and regulation (including any environmental, social, labour, human rights, economic or other legislation that affects the oil project) for a period of 25–40 years, the development impacts can be profound.

These contracts are largely irreversible – so if a country gets the terms wrong, it can lose its only chance to benefit from its non-renewable natural resources.

In the case study above, DFID's advocacy of a lower rate of oil taxation in Russia is difficult to square with its poverty alleviation mandate, while having clear benefits to British companies.

This was not DFID's only intervention in Russia's oil revenue system. In 1998, DFID gave a £95,000 grant to "develop the enabling framework for renewed investment in the Russian oil sector through well-focused training and advice on Russia's new Production Sharing Legislation".¹⁶ The use of production-sharing agreements however has been extremely controversial in Russia, as they are seen as giving overly favourable terms to foreign investors while denying the government a fair share of revenues. As a

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iii Based on top rate profits tax of 60%, compared to consultants' recommended top level of 35%. Marginal tax rate is combination of royalties, profits tax and corporation tax.

iv Saudi Arabia, Iraq, UAE, Kuwait, Iran, Venezuela

v Exploration and production

CASE STUDY: Handouts to companies in the name of ‘development’

Through the 1990s DFID and its predecessor the Overseas Development Agency operated an initiative called the Know-How Fund, whose role was to provide technical assistance to the countries of the Former Soviet Union and Eastern Europe, primarily to support these countries’ transition to market economies.

Through the Know-How Fund, both ODA and DFID financed a number of ‘Pre-Investment Feasibility Studies’ (PIFS). These took the form of grants to British companies who were considering investing in those countries, to fund their market research.

The authors of this report requested information on a number of major PIFS grants in oil-producing countries of the former Soviet Union, with a value totalling about £4 million (see table).¹⁷

Country	Dates of grant	Amount of grant
Azerbaijan	1992–1999	£450,000
Georgia	1994–2000	£200,000
Kazakhstan	1994–2000	£300,000
Russia	1992–1999	£3,000,000

Of these, DFID was only able to provide details of one grant, within the Kazakh scheme, for a 1999 feasibility study for the setting up of an environmental laboratory, primarily serving the oil industry. DFID did not know the amount of this grant, nor what the rest of the Kazakhstan budget was spent on. DFID had no records at all on how the money was spent in the Azerbaijan, Georgia and Russia schemes.¹⁸ It knew neither which companies the grants were given to, nor what the projects involved, nor even whether the projects were successful.

Certainly not all of the PIFS money was directed at oil projects; indeed it was available to several countries that have no oil industry. However, while a British company that receives such a grant to cover its research costs is a clear beneficiary, there are questions over to what extent the country that might receive investment from that company benefits, and whether subsidising British companies is the best way to achieve that supposed benefit. Unfortunately, since DFID has no records, these questions are impossible to answer.

result, only three have been signed. One of these, for the Shell-led Sakhalin II project, is estimated by the Russian Audit Chamber to have cost the Russian state \$19 billion compared to the old system of taxation.¹⁹

Although many of these DFID activities have been in the former Soviet Union, West Africa is also on the radar screen. Documents from US Secretary of Energy Spencer Abraham’s office discussing the US-UK Energy Dialogue reveal that the two countries have:

*...identified a number of key oil and gas producers in the West Africa area on which our two governments and major oil and gas companies could cooperate to improve investment conditions, good governance, social and political stability, and thus underpin long-term security of supply.*²⁰

DFID destruction of files – lack of institutional learning

If DFID is to be effective in ensuring positive outcomes from the projects it supports, one might have expected that projects would be monitored for their poverty alleviation performance, and the lessons applied to future projects.

Unfortunately, under “statutory file regulations”, DFID destroys its files on most of the bilateral projects it has funded five years after the grant²¹ – and some of them even earlier. On other projects, it seems DFID keeps no records at all.

For example, in 1997–98, DFID gave a grant of £286,000 to “carry out engineering and laboratory studies on enhancing oil recovery” from the Shuanghe oil field in China.²² This project appears to be of questionable developmental benefit; however under the five-year rule no details about the project exist.²³ Therefore, not only does the public not know the outcome, neither does DFID. Nothing is known about the development impact of the project, what the money was actually spent on, or indeed any aspect of the project at all.

In a more recent case, in 1999–2000, DFID advised Georgia on its oil and gas pipeline legislation.²⁴ In 2000, Georgia signed the Host Government Agreement (HGA)²⁵ with the BP-led BTC pipeline consortium, establishing a legal framework that will effectively constrain the Georgian government’s ability to pass any new environmental, social, labour or other laws that affect the profitability of the project in its 40-year lifetime.²⁶ This framework thus substantially undermines Georgia’s institutional development in terms of its regulatory and legislative capacity as well as the capacity of Georgia’s civil society to pursue fundamental rights. DFID has no records of the content of the advice it gave the Georgian government.²⁷ Did DFID advise the Georgian government on an agreement that the current Georgian President Mikhail Sakashvili has described as, “a horrible contract from BP, horrible”?²⁸

2.2 DFID and Multilateral Development Banks

Public risk protects private profit

The UK is a significant shareholder in many Multilateral Development Banks (MDBs) and DFID is the UK government department with responsibility for formulating and communicating UK policy for MDBs.

MDBs use financial contributions from their member (shareholder) countries to provide financial support to developing countries for economic and social development – to finance both sectoral and structural reforms at a national level, and specific project investments.

The one global MDB, the World Bank Group (WBG), is the world's biggest source of development finance. There are also a number of Regional Development Banks of which the UK is a member, including the European Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank, the Caribbean Development Bank, and the Inter-American Development Bank. The UK additionally has interests in the European Investment Bank^{vi} and also supports private sector activity in developing countries through the Export Credits Guarantee Department (ECGD). DFID is consulted

by the ECGD on projects in developing countries that may be controversial.

This section concentrates on the two biggest sources of MDB funding for the oil and gas industry: the World Bank Group (WBG) and the European Bank for Reconstruction and Development (EBRD).

DFID's influence in the WBG and EBRD is considerable. The UK government has about 5 per cent of shares in the WBG institutions,^{vii} and is in the exclusive 'top-five club' – the five countries that appoint their own Executive Director to the WBG's 24-member board. The other 179 countries have to elect and share 19 Executive Directors between them.^{viii}

With nine per cent of EBRD shares, the UK is also among the top six^{ix} EBRD shareholders who appoint their own Executive Directors, the other 54 countries sharing 15 EDs.^x

Box 2: DFID's role in MDBs

Hilary Benn, the Secretary of State for International Development, is Britain's Governor of the World Bank, while Gordon Brown, Chancellor of the Exchequer, is Britain's Governor of its sister institution, the International Monetary Fund. Each member country has a seat on the World Bank's Board of Governors, the Bank's ultimate authority, which meets once a year at the Bank's Annual Meetings to make top-level strategic decisions.

Most decisions, however, including those on both policies and specific loans, are made by the Board of Executive Directors (EDs). Britain's ED to both the World Bank and the IMF is a Treasury civil servant, supported by an alternate ED for each of the WBG (a DFID civil servant) and the IMF (another Treasury civil servant), as well as a team of advisers. They are instructed on WBG policy by DFID, which is required to consult with the Treasury on issues with a major financial impact.

In the European Bank for Reconstruction and Development, which has a similar structure, Gordon Brown is the UK's Governor, and Hilary Benn the Alternate Governor; the Executive Director is a DFID civil servant.

In most other regional development banks, DFID also provides an Executive Director.

vi The European Investment Bank (EIB) is not a development bank as such but does lend about ten per cent of its portfolio in developing countries, the rest being concentrated in the European Union. It lent \$160 million to the Chad-Cameroon pipeline and \$60 million to the Bolivia-Brazil pipeline. DFID guarantees certain loans made by EIB to developing countries.

vii The World Bank Group is made up of four institutions in which shareholders can exercise a vote. The UK's shareholding in each is as follows: International Bank of Reconstruction and Development (IBRD) 4.3%, International Finance Corporation (IFC) 5.04%, Multilateral Investment Guarantee Agency (MIGA) 4.46%, International Development Association (IDA) 5.1%.

viii The USA, Germany, France and Japan are the four other largest shareholders. The other 19 EDs each represent a number of countries, and have to bring all of their views to Board meetings.

ix along with the USA, Germany, Japan, France and Italy.

x as well as these 21 EDs, there are a further two, representing respectively the European Community and the European Investment Bank.

CASE STUDY: The Chad-Cameroon oil project

In June 2000, the World Bank approved a loan package worth nearly \$300 million^{xi} to the Chad-Cameroon oil project, the largest oil investment in Africa, following several years of considerable controversy. A month later, the European Investment Bank followed suit and approved a loan of \$120 million. Within the World Bank, DFID was a strong advocate of the project.²⁹

The \$3.7 billion project, led by US oil major Exxon,^{xii} involves oil production in the south of Chad, one of the world's poorest countries, together with a 1,000-km pipeline through Cameroon, and an export terminal on Cameroon's coast. The pipeline came onstream in October 2003.

But while private companies have benefited from the reduced risk on the project, the impact on the poor has been hotly debated.

Both countries suffer from enormous problems of corruption: in 2004, Transparency International's Corruption Perceptions Index rated Chad the fourth most corrupt country out of 146 countries surveyed, and Cameroon equal fifteenth most corrupt.³⁰ Until the 1990s Chad was in a state of civil war, and hostilities have re-erupted on a number of occasions since. According to Amnesty International, as recently as 1998 hundreds of civilians in the oil-producing area were massacred, with strong evidence to suggest that the security forces were responsible.³¹ In spring 2000, after the consortium had paid a \$25 million signing bonus to the Chadian government, \$4.5 million of it was immediately spent on counter-insurgency weapons (when this came to light, the World Bank intervened and the remainder was put into a revenue management account).

Despite this worrying context, the World Bank has described this project as a model for how oil projects can be effectively developed. In a press release for the inauguration of the pipeline, the Bank claimed that it was:

A new prototype of extractive program, one which is designed to carry oil wealth not to a few, but directly to the poor³²

The Bank's aims in assisting the poor were to be achieved through a relatively sophisticated framework, involving a Petroleum Revenue Management Law and a Petroleum Revenue Oversight and

Control Committee. The Law requires that 80% of oil revenues be spent on five priority areas (education, health, rural development, infrastructure, and water and environmental resources), 10% on poverty alleviation after oil income expires in the future, and 5% on development in the oil-producing region.

However, the law only covers part of Chad's oil revenues. It is restricted to royalties and dividends, whilst taxes and duties – which could be up to half of the country's total oil revenue – are excluded. It also only includes oil from three agreed oilfields, not new fields expected to be developed over coming years. Furthermore, questions have been raised about whether the 5% allocation to the oil-producing region will be enough to offset the negative impacts of oil development on agriculture and communities.

The World Bank's Inspection Panel, a three-member group reporting to the Board (to which project-affected people can apply for an investigation) received requests for investigation of the project from Chadians in March 2001, and from Cameroonians in September 2002. The complaints alleged negative impacts on local communities arising from failure of the World Bank to apply its own policies and procedures.

The Panel found 21 counts of non-compliance with Bank policies, with direct and negative impacts on poverty.³³ For example, although the World Bank acknowledged that the arrival of project workers would lead to an increase in HIV/AIDS and other sexually transmitted diseases in Cameroon,³⁴ the Inspection Panel reported that there has never been an assessment of the health impacts of the project, nor any gathering of baseline health data in the region or monitoring of the incidence of diseases.³⁵

The Panel also reported that much of the consultation for the project was carried out in the presence of security forces, making it unlikely that consultees would feel able to openly express their views about the project. The Panel added:

On more than one occasion when political repression in Chad seemed severe, the Bank's President personally intervened to help free local opposition leaders, including the representative of the Requesters, Mr. Yorongar [who asked the Inspection Panel to investigate], who was reported as being subjected to

torture... The Panel observes that the situation is far from ideal. It raises questions about compliance with Bank policies, in particular with those that relate to informed and open consultation.

Civil society organisations have been especially critical of the consultation processes with the Bagyeli 'Pygmy' indigenous peoples who live in the coastal forests of Cameroon. Research by the Forest Peoples Programme found that Bagyeli people were consistently poorly informed about basic issues of what the pipeline would involve and who was due compensation. Meanwhile, a lack of awareness of customary Bagyeli systems of land tenure has led to serious erosion of their land rights and undermined their livelihoods.³⁶

Furthermore, while the negative impacts are worrying, there are also questions as to the extent of the benefits from the project. The Inspection Panel commented:³⁷

The Panel was struck by the estimated financial returns to Chad over a 28-year period, having regard to the magnitude of the Project, and is concerned that it was unable to find any analysis to justify the allocation of revenues among Chad, Cameroon and the Consortium. While the Panel recognizes that [World Bank] Management sought to ensure that Chad had access to reputable legal and financial services in its negotiations with the Consortium, it remains concerned about the adequacy of the allocation of revenues to Chad.

Yet even these planned revenues may have been optimistic. In October 2004, a year after the pipeline opened, the Chadian government accused the consortium of under-paying the revenues agreed in their contract. Oil Minister Youssouf Abassalah announced: "Regarding the application of the contract, we have different views on what should be going to Chad in terms of the share of oil revenues".³⁸

DFID, however, seems not to share these concerns. In February 2004, Secretary of State Hilary Benn commented that:³⁹

DFID is confident that the World Bank's systems for the monitoring and implementation of this project, and for the investigation of any warranted complaints are appropriate.



Forest clearance for the Chad-Cameroon pipeline (Jens Küsters/Greenpeace)

World Bank financing of oil and gas projects

The World Bank Group's mission is "to fight poverty and improve living standards for people in the developing world".⁴⁰ Like DFID, its strategy is based on the Millennium Development Goals. However, also like DFID, there are questions over whether the poor are really its priority beneficiaries.

According to analysis by the Washington-based Institute for Policy Studies, the World Bank began lending to oil projects in 1977, in response to pressure from the USA (the Bank's largest shareholder) to help its drive for energy security.⁴¹ This was the year after Saudi Arabia and Kuwait nationalised their oil industries, and four years after the oil crisis of 1973. After an initial set of forays into oil and gas lending between 1977 and 1981, through the 1980s and 90s the Bank focussed specifically on facilitating private sector involvement in developing countries' oil production.⁴²

The World Bank Group comprises four financial agencies.^{xiii} The International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) provide finance to governments, while the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) provide finance to private sector companies.

In relation to oil development, the IBRD and IDA for the most part provide financing and advice for sectoral and structural reform, including privatisation, liberalisation and establishment of investor-friendly tax and regulatory

regimes. The IFC and MIGA mostly provide finance directly to specific projects.

As noted in relation to DFID's bilateral grants for fiscal and legislative reform, the outcomes are not always positive for development. According to a 2003 report by Catholic Relief Services:

Once the World Bank has decided to engage in an oil country, it has traditionally focussed on the policy environment related to oil exploitation, but this is narrowly defined. The rule of law is usually defined as investor rights, property rights and the sanctity of contract issues rather than more general rule of law and human rights issues...

The International Development Association (IDA), the 'soft loan' arm of the World Bank dealing with the world's poorest countries, encourages the introduction or revision of petroleum codes and other aspects of investment regimes in order to create an improved investment climate for oil companies.

Thus countries across Africa during the 1990s rewrote their petroleum and mining codes. These revisions often provide especially good terms for foreign investors... The resulting contracts in places such as Chad and Equatorial Guinea sometimes sign away a nation's wealth for a relative pittance.⁴³

The WBG has provided over US\$8.1 billion to support oil and gas extraction since 1992, around two thirds of it to oil. Of this financing, 82 per cent went to projects with the primary aim of exporting oil to developed countries rather than towards meeting local demand, according to analysis by the Institute of Policy Studies.⁴⁴

The WBG has provided over US\$8.1 billion to support oil and gas extraction since 1992, around two thirds of it to oil. Of this financing, 82 per cent went to projects with the primary aim of exporting oil to developed countries rather than towards meeting local demand.

xi comprising loans of \$92m from the IBRD to the governments of Chad and Cameroon, and \$100m of 'A' loans and \$100m from of 'B' loans from the IFC to the consortium

xii together with Malaysian Petronas and American ChevronTexaco

xiii A fifth agency, the International Centre for Settlement of Investment Disputes (ICSID), also falls within the World Bank Group.

CASE STUDY: The BTC Pipeline

During the 1990s the Caspian region was identified as one of the key 'frontiers' to secure new oil supplies from outside the Middle East and OPEC. In 1994 a consortium led by BP signed a production-sharing agreement dubbed the 'Contract of the Century' with Azerbaijan, to develop the country's largest oilfields, located offshore in the Caspian Sea.

Following the deal, the question of the export route from the landlocked Caspian became the centre of a geopolitical struggle. Although the shortest and cheapest pipeline routes would have been south through Iran to the Persian Gulf or west through Russia or Georgia to the Black Sea, the US opposed both options. Keen to maintain the isolation of Iran, to restrict Russia's influence over the region and to bolster the position of its ally Turkey, the US pushed hard for a longer route, running west through Georgia and then south to the Turkish Mediterranean port of Ceyhan.

The 1,700-kilometre Baku-Tbilisi-Ceyhan route was settled upon at a meeting of the governments in Istanbul in 1999, overseen by US President Clinton. BP was sceptical about the economics of the longer route, and in 1998 Chief Executive John Browne commented that the company would only be interested if "free money" were offered by governments to subsidise the project.⁴⁵ This free money came in two forms.

First, the Turkish government agreed to build its section of the line for a fixed price of \$1.3 billion. Analysts at the time estimated that the true cost would be around \$2 billion;⁴⁶ however on top of this \$700 million subsidy Turkey would carry the risk of any cost over-runs, and would pay the consortium a penalty of \$500,000 per day for any delay in completion of construction.⁴⁷ As such, Turkey's political gain is likely to be offset by a massive economic loss.

Second, in November 2003, the International Finance Corporation and European Bank for Reconstruction and Development agreed to provide loans to the project. Although both loans were at non-concessionary rates, both institutions stated that one of their key roles was to reduce risk for the private investors.⁴⁸

As a Board Member of the IFC and EBRD, DFID took a leading role in the BTC

pipeline, commissioning consultants to review compliance of the project with World Bank and EBRD policies, and taking a public advocacy role for the project.

Questions have been asked in Azerbaijan over whether the country got a fair deal from the 'Contract of the Century',⁴⁹ and indeed over whether export of crude oil was the best development option at all. Some opposition parties argue that Azerbaijan would have gained more revenue, and on a more sustainable basis, by refining the oil in-country, and exporting some of the products.⁵⁰

The political impacts of the project in Azerbaijan are even more disturbing. Oil revenue has served to keep the Aliyev family in power. The Presidential election in 2003, which was won by Ilham Aliyev (the son of previous president Heydar Aliyev), was described as "fraudulent" by official election observers from the Organisation for Security and Co-operation in Europe, and many members of the opposition parties were arrested and locked up.⁵¹ In his inauguration speech, Ilham Aliyev promised to use oil revenues to build up the national army, and hinted that he was prepared to restart the conflict with Armenia. The financing decisions by IFC and EBRD came just three weeks after these events, effectively endorsing the election.

Meanwhile, Georgia's President Mikhail Sakashvili has recently said that: "We got a horrible contract with BP, horrible".⁵² He was referring to the contract's terms both on Georgia's low transit fees – the country will receive just 12–17 cents per barrel⁵³ – and on the pipeline consortium's handling of environmental risks. The routing of the pipeline close to the Borjomi mineral water springs (which provide 10% of the country's exports) was opposed in 2002 by Georgia's environment minister on the grounds that it would be in breach of Georgian environmental law.⁵⁴ The minister only signed a construction permit when the consortium agreed to take extra environmental security measures in the area. However, in July 2004, Georgia forced the consortium to stop construction when it found that the pipeline builders were not applying the measures. Construction was only restarted following intervention by the USA.⁵⁵

Although no-one will directly lose their house to make way for the pipeline, in

Turkey the compensation payments to rural landowners have been so low (and in some cases zero) that many will lose their livelihoods, and some will be forced to move to city slums.⁵⁶ In Georgia, the Ministry of Interior has registered over 70 protests against the pipeline in villages along the route, where damage caused by the construction is seen to outweigh any local economic benefits.⁵⁷

Also in Turkey, the BTC pipeline will be guarded by the notorious Gendarmerie, a military police organisation that has been repeatedly criticised by the Council of Europe and the European Court of Human Rights, and has been associated with the destruction of villages, torture and 'disappearances', especially against Kurdish people. It is almost inevitable that the Gendarmerie will use the pipeline as a pretext for carrying out raids on local Kurds. Already at least one human rights defender has been arrested and beaten in custody, following his work to help affected landowners in Kurdish areas obtain compensation.⁵⁸

Action by the International Finance Corporation, or possibly by DFID, could potentially have prevented these problems. The IFC decided that it would not apply its Safeguard Policy on Indigenous Peoples (OD 4.20), although the Kurds meet the definition in the policy^{xiv} and have suffered a long history of discrimination and violence at the hands of the Turkish state. Application of that Policy would have required the project to form a plan to ensure that the Kurds were not harmed.

DFID's consultant supported the decision not to apply the policy, arguing that:

Preparation of an indigenous people's plan for the Kurds (and possibly other ethnic groups) could have been considered to be an onerous burden by BTC Co.⁵⁹

This timidity over placing burdens on BTC Co (the BP-led pipeline consortium) seems misplaced. It appears quite likely, judging by BP's comment on the necessity of "free money", that without World Bank support the project might not have gone ahead. In light of this, DFID's and the MDBs' support for such a damaging project seems difficult to justify.



BTC pipeline construction in the Borjomi National Park, Georgia, 2004 (WWF).

EBRD: Bankrolling oil projects in the former Soviet Bloc

Set up in 1991, the European Bank for Reconstruction and Development (EBRD) is a key player in financing oil development projects in the countries of the Former Soviet Union and Eastern Europe. In contrast to the World Bank Group and many other Regional Development Banks, poverty alleviation and sustainable development are secondary goals for the EBRD. Its primary purpose is to support the transition of former Soviet Bloc states to market economies.^{xv}

The EBRD has provided over \$1 billion of finance to oil and gas projects since 1991,⁶⁰ plus roughly a further \$400 million to oil refineries and to corporate financings in the oil sector (primarily privatisations of state companies).⁶¹ In its Natural Resources Operations Policy, EBRD lists its primary ‘Transition challenge’ (goal) as to “increase private sector participation and promote strategic investment”, which for oil extraction means “to attract sufficient foreign capital to develop this resource”.⁶² Thus the vast majority of these projects have involved Western multinational oil corporations.

The EBRD’s economics department is aware of some of problems of oil development. In an EBRD Working Paper in November 2001, Bank economists observed that:

Far from being a blessing that would have allowed resource-rich countries to cushion the impact of reforms and thus make faster progress, resource rents have often been wasted or appropriated by the ruling elites. Progress in key structural reforms has in some cases lagged behind even that in other CIS countries and significant policy challenges need to be addressed if natural resource wealth is not to turn into a lasting curse for the region.⁶³

However, this observation appears not to have dented the Bank’s enthusiasm for investing in oil projects.

Nearly a quarter of the value of EBRD’s oil sector project loans has gone to elements of the Azerbaijan-Georgia-Turkey Pipeline system. This BP-led mega operation consists of oil and gas fields in the Azeri Caspian Sea,^{xvi} the Baku-Tbilisi-Ceyhan (BTC) oil pipeline^{xvii} and the South Caucasus Gas Pipeline.^{xviii} (See case study opposite.)

The EBRD also lent over \$115 million to Phase I of the Shell-led Sakhalin II oil and gas project in Russia’s Far East. Construction is now taking place on the much larger Phase II, involving two further oil and gas platforms, offshore and onshore pipelines and an export terminal for liquefied natural gas (LNG). Costing between \$10 and 12 billion, it is described as the world’s largest ever integrated oil project. EBRD is now considering making a major loan to this Phase II project – a decision on which is expected later in 2005.

The Sakhalin project has been highly controversial. The economy of the island of Sakhalin is heavily dependent on fishing, yet the onshore pipeline will severely disturb salmon spawning areas, often by bulldozing through streams rather than drilling underneath them. Furthermore, the project consortium has prohibited salmon fishing in coastal waters near its LNG plant – provoking local fishermen to protest by blocking the LNG factory road with cars loaded with fishing nets.⁶⁴ In January 2005, local indigenous people’s groups began further protests against the project. The indigenous peoples practice a traditional subsistence economy based on fishing, hunting, reindeer herding and wild plant gathering, which will be badly damaged by the destruction of reindeer pastures and forests, and the decline of fish stocks. The groups state that they have not been properly consulted, nor even informed of the details of the project.⁶⁵

xiv IFC staff argued that Kurds were not indigenous in the sense that some rainforest peoples, for instance, are, and that although they meet the letter of the policy’s applicability definition, they do not meet its intention. The intention is quite unclear from the Policy; what is clear however is that it is the only available WBG mechanism to protect the human rights of ethnic minorities. (Furthermore, OD 4.20 was never suited to protect indigenous peoples with traditional cultural ties to their land, as it does not contain any specific protection rules, only a requirement to write a plan – see section 3.4)

xv The extent of its broader social goals are that its mandate restricts it to working in countries that are committed to democratic principles, and that its environment policies are intended to restrict environmentally damaging lending.

xvi 6 loans totalling over \$209million

xvii One loan of \$150million

xviii One loan of \$60million

Without World Bank support the [BTC] project might not have gone ahead. In light of this, DFID's and the MDBs' support for such a damaging project seems difficult to justify

Nor is the project necessarily a positive one in terms of incomes to the state. An economic analysis of the project by leading energy economist Dr Ian Rutledge of Sheffield Energy and Resources Information Services (SERIS) found that that "The terms of the Sakhalin II PSA [Production Sharing Agreement] are a major departure from standard PSA terms worldwide and are losing Russia considerable amounts of income." In fact, so unfavourable are the terms to the Russian state that he describes the PSA as a "production non-sharing agreement".⁶⁶

Reducing private risk

The figures for these banks' support for the oil and gas industry, while large, understate the great significance that these loans have for the industry's operation, particularly with regards to risky projects or projects that involve more than one host country. With resources increasingly shifting to countries with unstable regimes and poor governance, private companies seek public MDB funding mainly in order to build confidence in projects among private investors and leverage further capital from these sources. It also serves to cushion the risk that unstable regimes may in future default on loans. A government will be much less willing to eject foreign companies if it knows that this also means burning bridges with the World Bank or with other MDBs.



Category 2 oil spill on Sakhalin Island. The spill stretched along five kilometres of coast and left local residents ill (ECA-watch.org).

MDB financing supports – in some cases crucially – complex and controversial projects such as the Chad-Cameroon Pipeline, the Baku-Tbilisi-Ceyhan Pipeline and oil extraction on Sakhalin Island, amongst others. This is acknowledged openly by the banks. In the case of Chad-Cameroon, the World Bank stated in its Project Appraisal Document:

*The Bank Group's support has been a key element in catalyzing the involvement of the Private Sponsors, who have stated that they would be unwilling to proceed with the project without the Bank Group's participation, given the significance they attach to the mitigation of political risks provided by the Bank Group's involvement.*⁶⁷

Similarly with the BTC pipeline, the EBRD stated that:

*BTC sought EBRD involvement because there are political uncertainties in the Caspian region that could affect the investment in the pipeline. The EBRD could have a stabilising role and provide political comfort through its extensive investment experience in Azerbaijan and Georgia, as well as its close cooperation with those countries' authorities.*⁶⁸

The International Finance Corporation added:

*IFC's role in the projects is to: (i) assist in mitigating political risk perceived by international investors in a cross-border project.*⁶⁹

Representatives of the oil industry, in a letter to the World Bank's Extractives Industry Review (EIR), reinforce this. They state that the WBG finances "only a fraction" of the investment of the sector. However the oil industry "recognises and values highly the key role played by the WBG... most critically, as 'honest broker' which can bring together parties which otherwise might not easily cooperate."⁷⁰ In the same submission they also state:

In a number of projects the very existence of the WBG financial participation may make a project happen that otherwise would not be realised... The oil and gas industry sees WBG participation as decreasing risk by providing a de facto guarantee that projects will take place in an orderly manner with maximum support from the WBG and host governments.

3 DFID's Incoherent Oil Policy – Failing the World's Poor

3.1 DFID and the Extractive Industries Review

In recent years, evidence has increasingly been presented that oil development can worsen poverty: through the direct impacts of extraction projects on local people, through negative effects on host country economies and indirectly through climate change. For the most part, DFID accepts that these impacts go hand in hand with oil development. So how does DFID square this with its continued support for the oil industry?

An opportunity for reform

Until recently, DFID had no clear answers to questions of how, or indeed whether, its support for oil development squares with its poverty alleviation mission. However, in 2004 the Extractive Industries Review (EIR) was published. The EIR was commissioned by the World Bank to review its involvement in the extractives sector and investigate whether Bank-supported projects helped achieve its stated goals of poverty alleviation and sustainable development. Through the process, DFID's conflicting policies on fossil fuel development, poverty reduction and climate change were brought into the public domain for the first time.

In the subsequent sections we examine both the impacts on the poor of oil development, and DFID's policies for addressing them, in the context of the Department's poverty alleviation mandate.

Extractive Industries Review remit

The three-year EIR investigation was headed by former Indonesian environment minister Dr Emil Salim, and constituted an extensive international consultation process with affected communities, indigenous peoples, civil society, academics, trades unions, industry representatives, governments and WBG staff. It was guided by three questions:

- 1 Can extractive industries projects be compatible with the WBG's goals of sustainable development and poverty reduction?
- 2 Is it possible to translate resource wealth into sustainable development and strong poverty reduction in resource-rich countries?

- 3 What are the key reasons that extractive industries do not make a positive contribution to sustainable development and poverty reduction?⁷¹

Extractive Industries Review outcomes

The EIR report turned out to be highly critical of the WBG's record of lending to the extractives industry sector. It stated primarily that "project funding in the extractive industries has not had poverty reduction as its main goal or outcome".⁷² The report further concluded:

*[T]he World Bank Group does not appear to be set up to effectively facilitate and promote poverty alleviation through sustainable development in extractive industries in the countries it assists. In terms of staff and budget allocation the institution does not appear to be as committed to the social and environmental aspects of sustainable development as it is to the economic aspects of development.*⁷³

The review's recommendations are notable for the emphasis they place on the need to put poverty reduction, human rights, environmental protection and the rights of indigenous people before the interests of industry (see Appendix I of this report for the full recommendations).

Throughout the process DFID was one of the retrogressive voices within the World Bank, complaining that the EIR's assessment was "unduly negative", "fails to acknowledge the potential benefit the sector can bring" and that "the report at times uses emotive language that is inappropriate".⁷⁴ In three separate submissions to the



Demonstration on the World Bank's 60th birthday, Jakarta, Indonesia, 22/7/2004 (WALHI/FoE Indonesia)

EIR, DFID stated its opposition to some of the key recommendations. It opposed setting country governance preconditions for lending in the sector; it opposed the phase-out of WBG lending to oil production by 2008; and it failed to explicitly support the adoption of a target for increasing WBG renewable energy spending.⁷⁵ These issues are discussed in detail in the following sections.

The final report of the EIR was published in December 2003. In its response, the World Bank's management claimed to be accepting the bulk of the EIR recommendations, but through the clever use of language largely avoided committing themselves to any significant change in policy. DFID broadly endorsed this response, and a meeting of the Board of Executive Directors in August 2004 accepted the management's proposals, agreeing that they "substantively addressed the recommendations of the reviews".

Emil Salim however, who headed the review, disagreed. In his final comments to the Board, entitled 'Business as usual with marginal change', he wrote:

The World Bank Group Management (WBG) Response to the Extractive Industries Review (EIR) says that it agrees with the majority of the recommendations, but makes few commitments to addressing these recommendations fully or to implementing them. While EIR Recommendations aim at achieving poverty alleviation through sustainable development. The World Bank Group Management Response aims to predominantly pursue economic development in the extractive industry (EI) sector while slightly increasing attention to social and environmental development compared to the past.⁷⁶

3.2 Climate change and poverty

Climate change is a serious risk to poverty reduction and threatens to undo decades of development efforts... While climate change is a global phenomenon, its negative impacts are more severely felt by poor people and poor countries. They are more vulnerable because of their high dependence on natural resources, and their limited capacity to cope with climate variability and extremes.

**Hilary Benn, Secretary of State for International Development,
joint statement with representatives of other governments and multilateral institutions⁷⁷**

Threatening the poor, undermining development

DFID acknowledges that climate change is a major threat to the poor in developing countries,⁷⁸ and indeed that it threatens the achievement of the Millennium Development Goals. Climate change is caused primarily by emissions of 'greenhouse gasses' – by-products of the consumption of coal, oil and gas – and threatens the viability of ecosystems around the world. In many regions, the poor are dependent on ecosystems for day-to-day survival and are therefore most vulnerable to climatic changes. DFID has been involved in efforts to highlight the threat climate change poses to the poor in developing countries and advocates action to help the poor adapt to potential change. Table 2, below, is copied from a multi-agency report co-authored by DFID that outlines the impact of climate change on achieving the Millennium Development Goals.

The pre-eminent international body on climate change, the Intergovernmental Panel on Climate Change (IPCC), estimates that average surface temperatures will rise from 1990 levels by between 1.4 to 5.8°C by 2100.⁷⁹ The resulting impacts include increases in the frequency and/or severity of extreme weather events, with major consequences for those with the least resources or living in the most vulnerable areas.

More irregular rainfall, more intense droughts and greater risks of flooding could put food security and water supply at risk. As 69 percent of all cereal crops are rain-fed,⁸⁰ the threat to food production is severe. Up to 200 million people may be at risk from coastal flooding due to storm surges by 2080, adding to those in low-lying island nations who already face particular risk from sea level rise.⁸¹

Climate change-induced habitat shifts are creating a significant additional health risk by spreading vector- and water-borne diseases such as malaria, dengue fever and cholera. The proportion of the world's population at risk from malaria may rise from 40% to 80% by 2080, with serious implications for healthcare infrastructure.⁸²

Recent physical signals of change underway are cause for even greater concern: in early 2004 studies on the

atmospheric levels of CO₂ showed an unprecedented 3-year surge, above an already rising trend.⁸³ Research published in September 2004 found that several glaciers on the Antarctic Peninsula are surging into the sea at speeds which have increased eight-fold between 2000 and 2003.⁸⁴

In summary, according to the IPCC:

*The impacts of climate change will fall disproportionately upon developing countries and the poor persons within all countries, and thereby exacerbate inequities in health status and access to adequate food, clean water and other resources.*⁸⁵

In *Achieving Sustainability: poverty elimination and the environment*, DFID labels climate change as the "quintessential global environmental problem".⁸⁶ The report goes on to state:

*The impact of climate change is likely to constitute one of the biggest global environmental problems for the twenty first century. Despite the progress made so far through international negotiations much more action is needed if atmospheric concentrations of greenhouse gases are to be stabilised at an acceptable level.*⁸⁷

According to the IPCC: "The impacts of climate change will fall disproportionately upon developing countries and the poor persons within all countries, and thereby exacerbate inequities in health status and access to adequate food, clean water and other resources."



Girl in Yang Pangon village, near Duolun, Inner Mongolia. The drought in 2002 means that the grass has disappeared from the surrounding hills, and there's nowhere for her to take her sheep (Mark Lynas).

DFID and an international group of development agencies have acknowledged the threat climate change poses to poverty alleviation in the developing world. Their *Poverty and Climate Change* report, published in 2003, outlines a framework to integrate the likely impacts of climate change into development programmes. Strategies include factoring climate change into infrastructure design, conducting vulnerability assessments, improving micro-insurance schemes and preparing disaster management plans.

The need to phase out public funding for oil development

DFID also acknowledges that this strategy of 'adaptation', while clearly necessary, is not sufficient to address the problem. In the foreword to *Poverty and Climate Change*, the authors state:

...We understand that adaptation has to go hand in hand with mitigation of climate change by limiting greenhouse gases in the atmosphere. We also reaffirm that industrialized countries should take the lead in combating climate change and its adverse effects.⁸⁸

To some extent there is a 'challenge of timeframes' when it comes to responding to climate change and poverty. DFID is right to focus, in the immediate term, on 'adaptation' programmes that assist vulnerable countries and communities to increase their resilience in the face of the climatic changes which cannot be avoided – largely by-products of industrialisation in the global north. And it is undoubtedly true that climate change is not currently a primary driver for developing country energy choices, particularly for those in poverty and for whom basic modern energy remains unavailable.

However, DFID must play a greater role in emissions reduction strategies for the long term, by front-loading a more comprehensive approach to sustainable energy now

– both nationally and within local communities. This will help developing countries avoid higher future costs associated with emissions reductions, and from climate change itself.

Indeed, at the World Summit on Sustainable Development in 2002, Prime Minister Tony Blair reminded the international audience that:

...to stop further damage from climate change, and to stabilise the global climate system, in fact we need a 60% reduction [of emissions] worldwide".⁸⁹

In the UK, the Prime Minister has further clarified that this should be achieved by 2050, providing a sense of scale and urgency. This timescale points to fundamental changes to the provision of energy away from fossil fuels within a generation, something that investors in large-scale fossil fuel infrastructure projects with operating lifetimes of two to five decades cannot ignore.

In many cases, support by multilateral banks such as the WBG actually makes oil projects happen which would otherwise be too risky for private investors. As we noted in section 2.2, this enabling role has been articulated in general by representatives of the oil industry, and in particular cases (such as the Chad-Cameroon project) by the World Bank itself. By transferring the financial risk of private projects onto public institutions, such loans in fact constitute a subsidy.

Similarly, as we saw in section 2.1, much of DFID's bilateral support in relation to oil is geared towards creating investment conditions that are favourable for oil corporations, which will also have the effect of increasing oil investment.

DFID (both directly and through its role in multilateral institutions) is subsidising and facilitating a model of investment which increases the stock of fossil fuels and so exacerbates climate change.

At the centre of the extended controversy over the Extractive Industry Review (EIR) report was the recommendation that the World Bank Group (WBG) phase out its investment in oil production by 2008 – primarily because of its role in climate change. The report stated:

While recognizing that it is each country's right to set its own energy strategy, IBRD and IDA⁹⁰ should position themselves to help governments adopt sustainable energy strategies that address the energy needs of the poor and that minimize climate change, which will disproportionately affect the poor.ⁱ

ⁱ *Striking a Better Balance: The World Bank Group and Extractive Industries*. The Final Report of the Extractive Industries Review Vol 1. p.67

Table 2: Potential impacts of climate change on the Millennium Development Goals
Millennium Development Goals: climate change as a cross-cutting issue

<p>Eradicate extreme poverty and hunger (Goal 1)</p>	<p>Climate change is projected to reduce poor people’s livelihood assets, for example, health, access to water, homes, and infrastructure.</p> <p>Climate change is expected to alter the path and rate of economic growth due to changes in natural systems and resources, infrastructure, and labour productivity. A reduction in economic growth directly impacts poverty through reduced income opportunities.</p> <p>Climate change is projected to alter regional food security. In particular in Africa, food security is expected to worsen.</p>
<p>Health related goals: (Goals 4, 5 & 6)</p> <p>Combat major diseases</p> <p>Reduce infant mortality</p> <p>Improve maternal health</p>	<p>Direct effects of climate change include increases in heat-related mortality and illness associated with heat waves (which may be balanced by less winter cold related deaths in some regions).</p> <p>Climate change may increase the prevalence of some vector-borne diseases (for example malaria and dengue fever), and vulnerability to water, food, or person-to-person borne diseases (for example cholera and dysentery).</p> <p>Children and pregnant women are particularly susceptible to vector and waterborne diseases. Anaemia – resulting from malaria – is responsible for a quarter of maternal mortality.</p> <p>Climate change will likely result in declining quantity and quality of drinking water, which is a prerequisite for good health, and exacerbate malnutrition – an important source of ill health among children – by reducing natural resource productivity and threatening food security, particularly in Sub-Saharan Africa.</p>
<p>Achieve universal primary education (Goal 2)</p>	<p>Links to climate change are less direct, but loss of livelihood assets (social, natural, physical, human, and financial capital) may reduce opportunities for full-time education in numerous ways.</p> <p>Natural disasters and drought reduce children’s available time (which may be diverted to household tasks), while displacement and migration can reduce access to education opportunities.</p>
<p>Promote gender equality and empower women (Goal 3)</p>	<p>Climate change is expected to exacerbate current gender inequalities. Depletion of natural resources and decreasing agricultural productivity may place additional burdens on women’s health and reduce time available to participate in decision-making processes and income generating activities.</p> <p>Climate related disasters have been found to impact more severely on female-headed households, particularly where they have fewer assets to start with.</p>
<p>Ensure environmental sustainability (Goal 7)</p>	<p>Climate change will alter the quality and productivity of natural resources and ecosystems, some of which may be irreversibly damaged, and these changes may also decrease biological diversity and compound existing environmental degradation.</p>
<p>Global partnerships</p>	<p>Global climate change is a global issue and response requires global cooperation, especially to help developing countries to adapt to the adverse impacts of climate change.</p>

Source: *Poverty & Climate Change: Reducing the Vulnerability of the Poor through Adaptation*, p12. Multi-agency report, see: www.dfid.gov.uk/pubs/files/poverty-climate-change.pdf

DFID opposed the phase-out recommendation, commenting that “a blanket prescription to phase out engagement in fossil fuels by 2008 is not helpful”.

Thus although DFID recognises that climate change will harm the poor, and that mitigation efforts are needed, it is precisely this challenge of mitigating climate change –

by moving away from fossil fuels – that DFID has failed to address. Through this failure, not only is it contributing to climate change, but it is also locking developing country economies into a short-term development path, which cannot be sustained.

This contradiction in DFID’s policy must be resolved.

3.3 Oil production and development

There is mounting evidence that resource rich countries, with low administrative and political capacity, experience much higher levels of poverty than those without such resources. This characteristic is particularly apparent for oil extraction, due to the relatively high volumes of revenues produced.

Valerie Amos, then Secretary of State for International Development⁹¹

The resource curse and failures of governance

A key proposal in the Extractive Industries Review was that the World Bank Group withdraw from supporting oil development, in order not to exacerbate climate change. DFID rejected this proposal, stating that:

*A lack of World Bank involvement [in oil projects] could adversely affect growth potential, development opportunities and efforts to achieve poverty reduction.*⁹²

However, DFID has acknowledged that oil extraction tends to hinder development and poverty reduction. Clearly, DFID's policies are contradictory on this point.

Oil and the developing economy

There is an established and growing body of evidence detailing the negative economic and political consequences for developing countries of dependence on revenues from oil extraction and other natural resources. On the economic side, this well documented 'resource curse' suggests that the more dependent an economy is on natural resource exports, the worse its economic performance will be over the long term.⁹³ According to one study, countries without petroleum resources grew four times more rapidly than petroleum-rich countries between 1970 and 1993.⁹⁴ In the recent 'Extractive Industries Review' of the World Bank, it was noted that between 1970 and 2000 the number of petroleum-rich states with disappointing outcomes in terms of economic growth and poverty alleviation far outweighed the number of successful outcomes.⁹⁵

Stanford economist Terry Lynn Karl, writing with development adviser Ian Gary, provides a dramatic description of this perennial failure to use oil revenues to alleviate poverty:

The gap between the promise of petroleum and the perversity of its performance in recent times is enormous. Study after study demonstrates that, as a group, countries dependent on oil as their leading export have performed worse than other developing countries on a variety of economic indicators; they have performed worse than they should have given their revenue streams; and

*poverty within their borders has been exacerbated rather than alleviated over the past two decades.*⁹⁶

Undeveloped governmental institutions and weak civil society participation are strong factors leading to the inadequate management of often very substantial windfalls from oil exports.

Nigeria is perhaps the most emblematic example of the resource curse. According to the World Bank, "oil accounts for 40 per cent of GDP, 70 per cent of government revenues, and 95 per cent of foreign exchange earnings in Nigeria".⁹⁷ Since Nigerian oil was first discovered in 1956, the country has earned over \$340 billion from oil. Yet Nigeria remains as one of the poorest countries in the UN's Human Development Index, ranking 152nd out of 175 nations by wealth. Income distribution is highly unequal, with 70 percent of the country living on less than a dollar a day. Infant mortality is amongst the highest in the world.⁹⁸ The Global Corruption Report lists Nigeria as the second most corrupt country in the world. Not only have these vast oil revenues failed to help ordinary Nigerians, but oil production has also caused an ecological disaster for the people of the Niger Delta, where 90 percent of Nigeria's oil is produced.⁹⁹

However, even under a government with strong institutions, the dominance of oil presents major macroeconomic challenges. Economists point out that the abundant wealth and foreign exchange generated by oil revenues may cause rising exchange rates and inflation, sparking recession in other economic sectors like manufacturing and agriculture. Employment in these traditionally more labour-intensive sectors is likely to fall, worsening national income inequalities and curtailing the wider 'trickle-down' of oil wealth to the rest of the population.¹⁰⁰ This scenario, often described as 'Dutch Disease'¹⁰¹ after its effect on the Netherlands after the discovery of North Sea oil and gas, is exacerbated by national vulnerability to oil price fluctuation.

Oil and governance

A compelling case has also been made by political scientists that the dominance of natural resource exports in a developing economy can lead to persistent poor governance.¹⁰²



In Kazakhstan water is collected from standpipes. In spite of an oil fund with billions of dollars, for many people access to clean drinking water is very difficult (Christian Aid/Mark Edwards/Still Pictures).

Terry Lynn Karl has examined these trends in a host of oil-dependent developing countries:

As their economic performance worsens and their oil and debt dependence increases to levels higher than in the pre-bonanza years, most oil exporters' political stability also has suffered. From Nigeria and Venezuela to Indonesia and Algeria, riots, conflicts and outright civil war threaten the populations of OPEC countries. Just as gold once tainted King Midas' life despite his expectations to the contrary, oil seemed to 'petrolize' the economy and polity of these countries.¹⁰³

There is also strong evidence that oil impedes democracy, indirectly promoting authoritarian rule in many developing countries. Contributing factors include the so-called 'rentier effect' – where oil-rich governments can afford high social spending with low taxation, dampening pressure for representation and democracy – and a 'repression effect' where governments build up their internal security forces to ward off popular pressure. Additionally, the failure to move towards a more 'modernised' independent industrial and service sector workforce means a population is less likely to push for democracy.¹⁰⁴

DFID already recognises the socio-political pitfalls facing oil-producing developing nations:

The influx of large scale, extractives-derived revenues can be counter-productive to economic and political success, can insulate policy makers from their citizens / electorate and may undermine and corrupt good governance and perpetuate local and regional conflict.¹⁰⁵

Examples of countries with a history of oil-induced poor governance include:

Saudi Arabia: The world's biggest oil producer, run by a royal family entirely unaccountable to its people and protected by one of the world's best equipped security forces. Despite recent limited elections, Saudi Arabia remains one of the most autocratic polities in the world. The country's 4000 Princes live a life of unparalleled luxury while the populace has seen its average per capita income plummet from \$28,600 per annum in the 1981 to \$6,800 in 2001.¹⁰⁶

Azerbaijan: Heydar Aliyev took power in Azerbaijan in a coup in 1993 and built his political power base through relations with the West in securing the flow of Azeri oil to Europe and America. During elections in 2003, with

Heydar on his death-bed, his son Aliyev took over the country in an election characterised by intimidation and fraud.

Equatorial Guinea: Since oil was discovered in the early 1990s, the country has seen massive investment mostly from American oil companies. While most of the population lives in abject poverty, the President, his family and close associates fill Swiss Bank accounts and run businesses in the US and elsewhere. Political debate is non-existent; there are no daily newspapers in Equatorial Guinea, only monthly propaganda magazines. Recent coup attempts, made internationally famous by the participation of Mark Thatcher, have led to an increase in the activities of security forces.¹⁰⁷

Oil and militarization

Oil incurs a substantial opportunity cost on the many developing countries which invest heavily in building up their military in order to secure oil infrastructure, secure the resource itself or, as is so often the case, secure a leader's hold on power with its access to vast revenues. Iraq may be the clearest example of a country rich in oil but decimated by military ambition. Nigeria provides an example where oil is fuelling a protracted low-level conflict with huge costs to the country's development objectives. The examples below illustrate how oil related militarization hinders development and hits the poor the hardest.

The Pipeline Army in Colombia

In Colombia, the BP built and operated OCENSA pipeline is protected by a designated army unit that BP finances through a \$1 a barrel 'war tax' as well as direct payments to the Colombian Defence Ministry. The army has worked with local paramilitaries to terrorise anyone suspected of sympathising with local guerrillas or opposing BP's operations. The existence of the oil facilities and pipeline has raised the level of conflict in the area and cost many lives. Guerrilla groups frequently target it and the army uses revenue directly from oil companies to maintain the cycle of violence. In 1999, a report published by CAFOD, Christian Aid, CIIR, Oxfam GB and Save the Children Fund UK highlighted the role of oil infrastructure in this part of Colombia in exacerbating conflict and poverty in the region.

"BPXC (BP Exploration Colombia) has seriously underestimated the implications that its investments in a region of violent conflict would have for the security of the poor in the region. Given the country's history of conflict around strategic resources such as oil, the company's presence risks polarising local society, thereby a) creating victims of the armed conflict and b) contributing to increasing poverty, as a result of disputes over distribution of revenues, however unwittingly."¹⁰⁸

Oil and the cycle of violence in the Niger Delta

The Niger Delta currently faces a serious threat of civil war due to armed criminal gangs financed by stolen oil from a poorly maintained infrastructure. Oil has become a commodity which fuels conflict on an ever-increasing scale.

The roots of conflict in the Niger Delta begin with the widespread pollution caused by the oil industry, and the spectre of underdevelopment in the face of massive oil revenues earned by the government and multinational oil companies. Payments made to community groups by oil companies have also triggered conflict over leadership positions in communities where dominance guarantees access to such funds. Local youths, who face unemployment and a dearth of opportunity, are easily lured into criminal gangs which are increasingly forming networks to benefit from a lucrative trade in stolen oil, facilitated by corrupt politicians, security personnel and oil company employees. To make matters worse, local politicians recruited and armed youth groups to assist in the intimidation of opponents and their supporters prior to the 1999 and 2003 elections.¹⁰⁹

All of this is contributing to a situation in the Niger Delta where poverty is exacerbated by an increasingly insecure environment in which thousands of people have lost their lives, thousands of families have been displaced and made destitute and millions of dollars are wasted in a seemingly endless cycle of violence.

Saudi Arabia's vast security apparatus

It is perhaps no coincidence that the country with the most oil resources in the world is also a country that has the world's greatest per capita spend on defence. Saudi Arabia – with 25 per cent of the world's oil reserves – spent US\$262 billion on defence (or 18 per cent of GNP) between 1987 and 1997.¹¹⁰ In comparison, the USA spends only 4.6 per cent of its GNP on the military.¹¹¹ In Saudi Arabia, democratic participation is overridden by a

'Study after study demonstrates that, as a group, countries dependent on oil as their leading export have performed worse than other developing countries on a variety of economic indicators...and poverty within their borders has been exacerbated rather than alleviated over the past two decades.'

vast internal security force protecting a family of rulers who have little engagement with the problems of the populace.¹¹²

Saudi has always had to maintain a strong defence capability against regional rivals such as Iran, Iraq and Israel although it has not engaged in international conflict since a dispute ended with Muscat and Oman over the Buraimi Oasis in 1955. However, since its alliance with the United States in routing Saddam Hussein from Kuwait in 1991, it has faced escalating internal conflict with Al-Qaeda and similar fundamentalist groups. Saudi Arabia's oil resources have required a massive investment in military capacity to defend, incurring countless opportunity costs to Saudi Arabia and the countries that have vied for power in the region.

DFID's policy on oil and development

The evidence above suggests that far from helping relieve poverty, oil projects can actually make it worse. Thus rather than countering the climate change imperative to phase out public support for oil extraction, development and poverty considerations seem actually to reinforce it.

DFID lacks a clear policy justifying its bilateral support for oil extraction, but in relation to World Bank support, DFID argued in its submission to the Extractive Industries Review (EIR) that under the right conditions, extractive industries investment can be a blessing rather than a curse in terms of poverty alleviation, and that World Bank involvement can help ensure these "positive outcomes".¹¹³

However, against the weight of empirical evidence that oil projects worsen poverty and retard development, DFID's argument can only be supported if it is assumed that oil investments can take place very differently from how they have in the past. Yet DFID has failed to substantiate this assumption. DFID's most detailed published indication of policy on this subject, a 10-page submission to the EIR, throws no light on the matter. It contains no positive examples of extractive industry development, nor any analysis of what factors enable them to be achieved.¹¹⁴

It is generally accepted among experts on the extractive industries and poverty that a key factor in the negative development outcomes from extractive industry investments is the lack of good governance in the host country. In particular the ability of governments to manage revenues so as to achieve macroeconomic stability; the equitable distribution of revenues to the population; the effectiveness of mechanisms to combat corruption; and the strength of sectoral regulation.

The Extractive Industries Transparency Initiative

DFID's work on enhancing governance is focussed on the Extractive Industries Transparency Initiative (EITI), an initiative launched by Prime Minister Tony Blair at the 2002 World Summit on Sustainable Development in Johannesburg and subsequently led by DFID.

The EITI seeks to address the problem of extractive industries revenues being captured by political elites, a major feature of the so-called 'resource curse'. Traditionally cloaked in secrecy, the payments made by companies to host governments can often become the main revenue source that supports a regime's isolation from its citizenry. The EITI aims to open these payments up to scrutiny so that civil society can hold governments accountable for managing its revenues.

This is a welcome initiative, which has the potential to improve conditions in the countries where it operates, and DFID is to be congratulated for its leadership on the issue. However, the EITI remains somewhat limited in scope.

It is currently a voluntary scheme involving only those companies and countries that choose to take part. So far it has been adopted by Azerbaijan and Nigeria (both primarily oil-based extractive industries) and Ghana and Kyrgyzstan (both primarily mining). Being voluntary, it may not be accepted in some of the countries that suffer the greatest problems of poor governance and accountability – in other words, where transparency is most needed.

For example, in 2001 when BP agreed to publish its payments to Angola, the government threatened to terminate the company's production contract on grounds of confidentiality clauses. Angola has since attended the inaugural meeting of EITI in June 2003, but invented the category of 'observer' for itself, thus avoiding a commitment to enact any of the principles. It is quite common for production contracts to contain confidentiality agreements, and as long as the EITI remains voluntary it will not have the power to override them.

A further limitation is that the EITI has accepted the principle of aggregation of revenues paid by the various companies and projects in a country.¹¹⁵ In this system, companies are not required to publicly disclose their individual payments, but instead to pass them to an aggregating body such as the World Bank, which then combines the payments of all companies into a single total. This is a weaker form of transparency than that applied in industrialised countries, and has the major drawback that it makes verification (against other known data) by civil society impossible. Global Witness, the leading organisation behind the Publish What You Pay movement, comments that:

The adoption of aggregation, like voluntary disclosure, appears to reflect pressure on DFID by parts of the oil industry, notably in the US. It is not clear why some companies favour this approach: one possible reason is that aggregated disclosure would conceal the various legal but controversial methods that Big Oil uses to minimise its tax payment obligations.¹¹⁶

Transparency only one part of a complex picture

Even setting aside these limitations, it is self-evident that transparency, although welcome, does not alone make for good governance. While it may help in preventing corruption and can reduce the accountability gap between a government and its population, it does not remove either. More importantly, transparency does little to promote the institutional capacity to manage revenues or to regulate industry.

Azerbaijan, for example, has been a key focus for the EITI. Azerbaijan has published its oil revenues since 2000 but there is little capacity for civil society to influence the use of these funds. The 2003 elections in Azerbaijan were a model of fraud and intimidation all too commonly seen in oil-dependent states. The President's son – formerly vice-president of the state oil company – took over from his ailing and now deceased father. Opposition supporters were beaten and jailed, as were journalists who spoke out against the repression.¹¹⁷ In 2004, Azerbaijan was ranked as sixth most corrupt country out of 146 surveyed by Transparency International.¹¹⁸

Azerbaijan has been identified as suffering from 'Dutch Disease', where absorption of a country's productive capacity by the oil sector effectively strangles the non-oil economy. While output in the oil sector increased by over 200 per cent between 1995 and 1999, output in the non-oil sector decreased by about 39 per cent in the same period.¹¹⁹ Given that the oil sector accounts for 67% of Azerbaijan's economy,¹²⁰ the country is at considerable risk of oil price shocks. Despite these concerns, in early 2003, the government decided to use the State Oil Fund – which is intended to use oil revenues to develop the non-oil economy – to finance Azerbaijan's share of capital investment in the BTC pipeline.

In Nigeria, which ranked second most corrupt country in Transparency International's Global Corruption Report,¹²¹ the oil-producing Niger Delta region has seen its water and fishing resources devastated by oil pollution, as well as persistent air pollution, noise and 24-hour light from the flaring of gas. Oil companies have consistently failed to maintain their infrastructure, clean up spills or keep their promises to phase out flaring.¹²² Meanwhile, the region is currently in a state of escalating conflict, which is perhaps moving

towards civil war. A major inflammatory factor involves the theft of between 10 and 20 per cent of Nigeria's on-shore production,¹²³ which is being illegally siphoned off by local militias, and criminal gangs, sold on the black market, and the revenues used to purchase arms.

While revenue transparency may help reduce state-level corruption, and can perhaps form the basis for improving relations between local communities and the national government, it is unlikely to improve the oil industry's environmental performance or negative development impact. In other words, revenue transparency is a small, though important, part of the governance problem in oil producing developing countries. Unfortunately, it is the only problem that development agencies such as DFID are focusing on – and therefore stands little chance of having a significant impact on the lives of the poor in oil-exporting developing countries. The EIR recommended a system for addressing this that was completely rejected by both the World Bank and DFID.

Sequencing governance and investment

Whilst the Extractive Industries Review (EIR) recommended a phaseout of World Bank Group (WBG) support for oil projects by 2008, for other extractive industry projects (such as mining), it recommended the principle of "sequencing" governance and investment.

Since good governance is a necessary precondition for positive development outcomes, the EIR recommended that the World Bank Group should focus first on supporting the development of such governance mechanisms, and only support extractive industry investments once those structures are in place.

The sequencing proposals were supported by many of the Executive Directors of the World Bank,¹²⁴ but rejected by the Bank's management. DFID endorsed the World Bank Management Response recommendation, that countries simply be assessed for the quality of their governance, and a case-by-case judgement be made on whether to invest in extractive industries there.¹²⁵ By failing to commit to an approach centred on poverty alleviation, this effectively allows the continuation of the current system.

DFID argued:

While we agree with the importance of good governance as a prerequisite enabling the private sector to achieve its potential contribution to sustainable development, we do not believe that the World Bank should lose influence by automatically withdrawing from countries where good governance is considered inadequate.¹²⁶

Box 3: The Chad-Cameroon oil project: an illustration of the failure of simultaneous development of governance and investment

The Chad-Cameroon oil project (see page 10) illustrates clearly the failure of non-sequenced development of governance capacity before oil development takes place. Despite high levels of corruption, weak institutions and recent conflict, the World Bank believed that the project could go ahead by introducing governance measures in parallel with the oil development. Indeed, the Bank financed two capacity-building projects at the same time as the oilfields and pipeline.

However, the project International Advisory Group – which was set up to monitor and advise the World Bank and the two governments on implementation of the project – has repeatedly criticised the “two-speed” nature of the respective projects:¹²⁷

The commercial project is moving forward while the institutions are limping along: this places a dangerous handicap on the hopes of achieving a true development project.

The IAG charges that the capacity-building projects have failed to meet their objectives.¹²⁸ Indeed, the External Compliance Monitoring Group (set up to monitor the detailed implementation of the Environmental Management Plan) reported in June 2004, more than six months after the finish of construction, that still “government capacity to monitor the operations of the oil project is not yet fully effective”.¹²⁹ Likewise, in May 2004, the vice-president of the oil revenue oversight committee warned that the committee was underfunded, understaffed and deprived of information by both the pipeline consortium and the Chadian government.¹³⁰ And, according to the IAG, the local governments who were to manage the oil-producing region’s share of the revenues would not be in place until more than two years after the end of construction.

In an interview with the development organisation Catholic Relief Services, the Bank’s oil project manager in Chad, Jérôme Chevalier, admitted that the attempt to introduce governance capacity in parallel with the development of the oil project had not worked, but defended the Bank has having no alternative in this matter:¹³¹

This is a long term process of capacity building, perhaps 10 to 20 years, and we can’t tell operators when to invest. Once a decision is made, the private partner wants to move as quickly as possible and get income early. It is better for Chad to have oil build gradually, but that’s not real life.

But given that the Bank has accepted that this oil project would not have gone ahead without Bank involvement, Chevalier’s position is difficult to accept.

DFID’s position cannot be justified within its poverty alleviation mandate. Given that there is strong evidence that in the absence of good governance, oil projects are likely to have a negative impact on development, it is difficult to see what influence WBG or DFID aim to achieve. Indeed, it raises the question of whether DFID has motivations for supporting oil development that are not connected with poverty alleviation. At best, DFID may be seen as advocating a flawed philosophy of “development” – that foreign investment is necessarily good. At worst it is using poverty as a Trojan horse for advancing other, unstated, agendas.

In the case of bilateral aid too, DFID has not published a policy on squaring its support for oil development with poverty alleviation. As such, it has made no commitment to restrict its encouragement of foreign investment in countries’ oil sectors to those that have good governance.

EIR head Emil Salim comments that:

*When these main enabling conditions are **not** in place, direct investment in EI projects will most likely **not** contribute towards poverty alleviation, but [in] many cases reveal new environmental and social problems, resulting in new burdens for governments.¹³² [Emphasis in original]*

3.4 Local impacts of oil extraction

[Positive impacts of oil development] may be off-set by negative impacts on culture, health, livelihoods and environment. Some of these latter costs have been routinely externalised, giving a distorted view of the development merits of extractives activities.

Valerie Amos, then Secretary of State for International Development¹³³

The failure of social and environmental ‘additionality’

In the previous section we have seen that DFID’s claims, of oil projects helping to reduce poverty, are not supported. Yet DFID claimed that the World Bank Group (WBG) should maintain “influence” over projects. There may be a weaker argument in favour of this approach, that even if the projects can’t improve the lives of the poor, perhaps DFID or WBG influence at least reduces their harm.

Local impacts and the Millennium Development Goals

Oil incurs a heavy global environmental cost in the form of climate change, which will impact on the poor in developing countries most heavily. Oil production also causes local environmental damage in the areas where it



Oil spill fire in the Niger Delta (Chris Newsome, 2004)

is extracted. As with climate change, it tends to be the poor in developing countries who bear the brunt of these costs, for two reasons. Firstly the poor in developing countries are more dependent on local ecosystems for subsistence and are therefore most affected when local water and soil is contaminated by oil. Secondly, oil companies tend to operate in developing countries to far lower standards than they do in developed countries. As a result, spills are more frequent, clean ups are poorly carried out (if at all) and compensation is paltry or non-existent.

There are also social impacts of oil production that, once again, hit the poor in developing countries hardest – an example is the influx of temporary workers for construction projects and associated increases in prostitution, HIV/AIDS, crime, substance abuse and disease.

While, a few companies and governments have taken steps to ameliorate some of these impacts in recent years it is still far more common to find the industry operating to lower standards in developing countries than elsewhere. In many cases, developing countries simply lack the regulatory regimes and institutions necessary to prevent or remedy the worst of the oil industry’s impacts. Where civil society has attempted to seek redress through the courts, the system has proved far better at protecting corporate interests over the interest of local people.

In the table below, we briefly outline how local impacts of oil production, transportation, processing and consumption undermine achievement of the Millennium Development Goals.

DFID’s policy – “additionality”

So, can WBG or DFID involvement in a project substantially improve it, by mitigating these negative impacts?

In response to the Extractive Industries Review (EIR), DFID argued that extractive industries investments would go ahead anyway – but that World Bank involvement can help reduce their negative impacts.¹³⁴ In the jargon, the World Bank brings social and environmental ‘additionality’.

Table 3: The local impacts of oil production on achievement of the Millennium Development Goals

Millennium Development Goal	Impact from oil development
<p>MDG 1: Eradicate extreme poverty and hunger</p>	<p>Supplementary to the 'resource curse' issues discussed above, oil projects often impoverish those living around them.</p> <ul style="list-style-type: none"> ● Oil production pollutes land and water, destroying the livelihoods of those relying on farming and fishing. In Nigeria,¹³⁵ Ecuador¹³⁶ and Mexico,¹³⁷ decades of oil production have decimated the non-oil economy, leaving millions without a viable income. Land and water polluted by oil takes decades to recover. ● Through the flaring of associated gases, oil production pollutes local air, causing acid rain that destroys crops and damages buildings.¹³⁸
<p>MDG 2: Achieve Universal Primary Education</p>	<p>People affected and displaced by oil extraction and associated pollution face loss of livelihood. Under such circumstances children are forced to work to supplement the family income.</p>
<p>MDGs 3,5,6:</p> <p>Promote gender equality and empower women;</p> <p>Improve maternal health;</p> <p>Combat HIV/AIDS, malaria and other diseases</p>	<p>Oil development does little to promote gender equality and more often than not causes severe hardship for women.</p> <ul style="list-style-type: none"> ● During the construction of the Chad-Cameroon Pipeline prostitution and the resultant spread of venereal diseases and HIV/AIDS became a serious problem for many communities along the pipeline route.¹³⁹ ● In the Niger Delta, protests are commonly led by women against local oil facilities in protest at the neglect of their livelihoods in favour of oil production.¹⁴⁰ ● A 1999 study of the health impacts of oil production on local people in Ecuador found that there was increased risk of cervical cancer and lymphoma in women.¹⁴¹
<p>MDG 7: Ensure environmental sustainability</p>	<p>Oil pollutes the planet at every stage in the production process. In many cases the pollution is persistent and serious.</p> <ul style="list-style-type: none"> ● Extraction: Mud brought to the surface by the drilling process is rarely treated safely and commonly pollutes the local area. In Nigeria and Ecuador the pollution of local people's water and land by inadequate disposal of this mud (or tailings) is well documented.¹⁴² Such pollution has been linked to cancers and other ailments in local populations.¹⁴³ ● Transportation: Millions of tonnes of oil have been spilled during the transportation of oil in pipelines and tankers, and further spills are inevitable. Such spills devastate local environments, particularly coastal areas. Soils polluted by oil can take decades to recover and some organisms may never fully recover.¹⁴⁴ ● Processing: Oil refineries, where crude oil is processed into products, are notoriously polluting and communities living nearby suffer high levels of cancer and respiratory diseases.¹⁴⁵ ● Consumption: The consumption of oil products is not only the fastest-growing source of the greenhouse gas CO₂, but is also responsible for air pollution that causes acid rain, destroying forests and aquatic life in rivers, and making the air in cities a lethal mix of toxins. City air pollution caused by petroleum emissions is linked to increased asthma, heart attacks and other respiratory diseases.¹⁴⁶

The first strand of DFID's argument for World Bank involvement in oil projects – that the projects would go ahead anyway, with or without World Bank support – is not necessarily true. Although it may be the case in some projects, oil company sponsors of World Bank projects argued in a submission to the EIR that:

In a number of projects the very existence of the WBG [World Bank Group] financial participation may make a project happen that otherwise would not be realized... The oil and gas industry sees WBG participation as decreasing risk by providing a de facto guarantee that projects will take place.¹⁴⁷

In other words, if a project would not necessarily have gone ahead without World Bank support, then surely it would be better to decide whether or not to support it based on a comprehensive assessment of the project's impacts? If on balance these impacts are negative, the Bank should not support the project, period. DFID's first argument therefore looks like a self-fulfilling prophecy in support of business as usual.

The second element of DFID's case also needs examining. Do DFID and the MDBs have effective mechanisms for achieving influence on projects? For DFID's argument to stand, there must be a clear improvement to projects compared with how they would have been carried out without MDB support. This requires active 'due diligence', both by the banks themselves and by board members such as DFID.

The World Bank Group's Safeguard Policies

In 1997, the WBG formalised the adoption of its ten environmental and social Safeguard Policies. Their objective is "to prevent and mitigate undue harm to people and their environment in the development process."¹⁴⁸ The World Bank's website makes clear that "compliance is the expected standard"¹⁴⁹ – in other words, the policies are considered minimum required standards rather than aspirational goals.

However, the Bank's record on compliance has been somewhat mixed. The Extractive Industries Review reported that:

The reality in the field suggests that the current Safeguard Policies have been unable to ensure that "no harm is done" and that this is due to both poor implementation rates and deficiencies in the policies themselves.¹⁵⁰

A report by the Bank's Operations Evaluation Department in 2002 noted:

The Bank's performance on environmental safeguard policies remains contentious. Implementation has been mixed... Compliance shortfalls highlighted in highly visible projects have cast doubt on the integrity of quality assurance processes.¹⁵¹

Often Bank involvement comes too late in a project to have significant influence. In the case of the BTC pipeline, for instance, the IFC and EBRD began their due diligence on BTC in December 2001, too late to affect contentious project fundamentals such as route choice (decided in November 1999) and legal framework (signed and ratified in 1999 and 2000). Furthermore, the project sponsor's decision to proceed with construction (early works and appointment of contractors late summer 2002; full construction spring 2003) prior to financing approval by the IFC and EBRD (November 2003) denied them much of their opportunity for influence.

The current review of the IFC's Safeguard Policies¹⁵² could make the situation even worse, by changing from a rules-based approach to principles-based assessment of projects. This is ringing alarm bells widely because it could allow far greater interpretation, thus weakening standards rather than ensuring tight definitions and clarity on how private sector players should operate. As a letter from 140 civil society groups to the IFC put it:

"Both a principles-based approach and clear, binding and enforceable rules are necessary to ensure that IFC-supported projects are conducted in a participatory, transparent and socially and environmentally sustainable manner."¹⁵³

It is not just civil society that is critical of the approach. An internal paper by the World Bank's legal department, leaked to the *Financial Times*, said the IFC's proposals "deviated from the clarity attached to the decade-long effort to distinguish mandatory from discretionary action".¹⁵⁴

DFID's hands-off approach to compliance with Bank rules

Despite DFID's leading role in the World Bank Group, it takes a relaxed attitude to due diligence on its Board votes.

When the Secretary of State was asked how DFID assesses the development value of projects submitted to multilateral development banks for financing, he replied that "**If we were asked to comment on such proposals**, the criteria would include the development impacts, the likelihood of reducing poverty through growth or employment, the possible environmental and social impacts and the measures being proposed to minimise any adverse impacts"¹⁵⁵ [emphasis added].

Maintaining proper records should be a minimum requirement for any public body... DFID's claims that its advice and involvement are needed to improve governance in oil-producing developing countries can be seen as hypocritical, to say the least. DFID should start by correcting its own failures of governance.

This response demonstrates an avoidance of responsibility: the issue is not one of a bank asking DFID's advice or comment; the UK is a member of these institutions, and as such DFID (the UK's representative) must take a share of decision-making responsibility. DFID's defence is that it does not want to duplicate the due diligence undertaken by staff of the institutions themselves.¹⁵⁶ However, the suggestion is not that DFID should repeat all of the due diligence – rather that DFID should be prepared to check the compliance of projects instead of relying entirely on bank staff, especially where the staff's account of a project is disputed by civil society or by other actors.

For example, in the case of the BTC pipeline, 15 civil society organisations submitted an analysis of the project to DFID reporting 173 violations of mandatory WBG policies, EU directives and national law on the Turkish section of the pipeline alone.¹⁵⁷ DFID did not formally respond to the organisations, and made no apparent effort even to investigate the alleged violations, let alone correct them.

Unusually, on BTC DFID did employ a consultant to examine compliance. However, the consultant relied entirely on information supplied by BP, the project sponsor, even where the accuracy of that information was challenged by others.¹⁵⁸

Indigenous peoples and free prior informed consent

The EIR recognised that some of the most severe impacts of extractive industries' development are on indigenous peoples. Because of their fundamental social, economic, cultural and spiritual ties to their traditional lands, disruption or displacement by a mine or oil project can not only cause severe poverty, it can undermine indigenous communities' viability and even survival.

The World Bank Group's Safeguard Policy on indigenous peoples was written without the participation of indigenous peoples, and as such does not provide sufficient or appropriate protection. The main requirement of the Policy is that project sponsors develop a plan for avoiding negative impacts on indigenous peoples. However, according to research for the EIR

carried out by the Forest People's Programme and others, the Safeguard Policy has "rarely, if ever, been implemented to its full extent".¹⁵⁹

Given their vital connection with traditional lands, the EIR recommended that the World Bank not support projects which involved involuntary resettlement (forced eviction) of indigenous peoples, but instead only allow resettlement where they have given their 'free, prior and informed consent' (FPIC) to be resettled.

DFID consistently argued against this recommendation, parodying it as the right of any one individual to veto a development.

EIR head Emil Salim made clear what is meant:

FPIC is a process, which helps to assure and determine if, and how the local community will support a project and not become an obstacle to the client. It is not a veto or yes-or-no vote for a single person, group or even a simple majority. It is a process that defers to local and culturally appropriate decision-making and it determines affected communities level of support for an investment. This in turn informs the WBG whether or not the project should receive its financial support.¹⁶⁰

The World Bank's management tried to duck the issue by inventing the new formulation "free, prior, informed consultation"¹⁶¹ (a phrase endorsed by DFID¹⁶²) – which neither includes consent nor differs substantively from the current position.

DFID's resistance to FPIC is difficult to justify. Forest People's Programme's EIR-sponsored research, published with the final EIR report, outlined that indigenous people's right to FPIC is enshrined in international human rights law, including through the rulings of the UN Committee on Elimination of Racial Discrimination, the UN Committee on Economic, Social and Cultural Rights (UNCESCR) and the Inter-American Commission on Human Rights (IACHR).¹⁶³ Later research by FPP listed a further six UN agencies, two international agreements and twelve other international organisations that support the principle.¹⁶⁴ Thus DFID, alongside the World Bank



Leaking oil 'Well-Head 18' in Kpor, Ogoni, Nigeria [2004]. The crude oil is turned brown when mixed under the high pressure with the natural gas also being carried in the pipes. Local witnesses reported that the oil well, that is part of Shell reserves, had been leaking at this rate for five months. Local streams and wells for drinking water were heavily polluted with crude oil. According to the local 'Chief of Compound' this was the third spill since 1959 (© Tim Nunn/SDN).

Group management, is fighting against the body of international law to prevent a human rights and poverty alleviation measure.

DFID and governance – removing the log in its own eye

As with sequencing, DFID's rejection of the principle of FPIC raises questions about the seriousness of its commitment to the principle of additionality.

We saw in section 2.1 that DFID has failed to keep proper records on the majority of the bilateral grants related to oil development about which the authors of this report enquired. As such, it is unable to assess whether its aid has had a positive or a negative impact on poverty, to assess its own effectiveness.

This raises very serious issues of DFID's accountability for its expenditure of taxpayers' money. Maintaining proper records should be a minimum requirement for any public body. As such, DFID's claims that its advice and involvement are needed to improve governance in oil-producing developing countries can be seen as hypocritical, to say the least. DFID should start by correcting its own failures of governance.

Furthermore, DFID's hands-off approach to the application of WBG mandatory standards, and its own failure to keep proper records, not only undermine DFID's claims that the objective of their involvement in oil projects is to improve them; they also cast doubt on whether DFID is even capable of delivering such improvement.

In any case, the evidence of DFID's past record does not present any kind of convincing case for its continued participation in oil development projects.

3.5 Meeting energy needs

As with all development initiatives, it is crucial to take the local context into consideration when planning energy services. Large-scale energy programmes of the past did not consistently do this and often resulted in capture of benefits by the elites, lack of benefits for the poor and environmental damage.

DFID issue paper – Energy for the poor

Energy provision and energy security for the poor

Another argument DFID has given for the World Bank Group's continued role in oil projects is that:

*In several developing countries fossil fuels currently represent the most affordable and efficient option for meeting the energy needs of the poor.*¹⁶⁵

But elsewhere, DFID has acknowledged that large-scale projects (which oil developments invariably are) are often not the best means of meeting the poor's energy needs. In many cases, sustainable and renewable energy sources are more appropriate for energy provision, on top of their clear climate change benefit.

Indeed, 82 percent of World Bank financing for oil projects since 1992 has gone to projects that primarily export oil to developed countries,¹⁶⁶ and thus play a marginal role in national energy provision.

Access to energy

Secure, predictable access to modern sustainable energy is a pre-requisite for reducing community-level poverty, as well as the basis for national economic security. Yet serious challenges at both ends of the energy consumption spectrum are undermining attempts to alleviate poverty in many developing countries.

At the household level, two billion of the world's poorest people are currently without access to any modern forms of energy, with woefully inadequate international resources going to tackle this. At the national level, the heavy reliance of many developing countries on imports of fossil fuels, particularly oil, is putting them at risk of serious economic damage due to price volatility. Systematic attention to national plans for sustainable energy can be a large part of the solution.

Lack of access to modern forms of energy constrains both the capacity to escape hours of daily drudgery collecting basic fuels, and the capacity for community or household-level economic development. The majority of the poorest people are reliant on wood and animal dung to meet their basic energy needs.¹⁶⁷ While there is no specific Millennium Development Goal for energy, at the

World Summit on Sustainable Development in 2002 (WSSD), there was explicit acknowledgement of the role that 'access to energy' has for achieving the goal of halving the number of people living on less than \$1 per day. There was agreement that it is necessary to provide "affordable, economically viable, socially acceptable and environmentally sound sources", with attention to modern biomass.¹⁶⁸

DFID reinforced the case that the provision of energy has a central role in alleviating poverty in a report on the energy needs for the poor¹⁶⁹ prepared in the lead-up to WSSD. DFID points out that energy must be addressed in poverty reduction and that this requires diversified solutions and the need for a "people-centred approach and the need for a holistic approach to energy rather than a project based approach".¹⁷⁰

This is echoed in a major study of the role of energy in sustainable development by the United Nations Development Program (UNDP).¹⁷¹ The report from this study put forward five principles on which sustainable energy provision for rural communities should be based. The rural focus is important because the majority of the 'energy poor' are living in rural areas. These principles state the following:

The choice of energy sources (fuels and/or electricity) must be guided by preferences for sources that:

- Give the entire rural population, but particularly the rural poor, access through micro-utilities and community-scale systems for high-density settlements and through home/household systems for individual homesteads in settlements with low housing density.
- Are compatible with high-efficiency end-use devices.
- Lend themselves to cogeneration (i.e., the combined production of heat and power).
- Are decentralised/locally available to strengthen self-reliance and to empower people/communities.
- Are renewable and promote environmental soundness.¹⁷²



In Sri Lanka, ITDG has helped commercialise 60 new biogas schemes, which meet 75% of household cooking needs where they operate (ITDG/Zul).

As the table extracted overleaf from the UNDP report illustrates, oil barely has a role in the near-term provision of energy for the rural poor and is completely eliminated in the medium-term. Instead, appropriate demand and supply side options are identified, with significant health and other localised benefits as the energy sources cited are locally produced or are based on clean and efficient use of natural gas. Bio-fuels are emphasised as they give local people control over energy provision and can be a source of local industry providing employment opportunities.

Oil-import dependence and energy security

A second important factor in the energy-poverty nexus is at the national scale and affects developing countries with a heavy reliance on imported oil – a problem which is starkly illustrated by the impact of high oil prices in 2004. The May 2004 International Energy Agency (IEA) analysis of the sustained high oil price points out that, “adverse economic impact of higher oil prices on oil-importing developing countries is generally even more severe than for OECD countries”,¹⁷³ with the greatest impact being on the poorest and most indebted countries. It is not just the level of the price that is important but its instability – price volatility is a serious concern, particularly in nations

where the cost of fuel imports relative to GDP is high. Sub-Saharan African countries spent 14 per cent of their GDP on fuel imports in 2000. Sharp fluctuations in oil price can lead to a rapid economic adjustment and sharp contraction in domestic consumption. This is exacerbated by the fact that these countries have limited access to additional finance from international sources to pay for higher-priced oil.

In October 2004, India’s Finance Minister P. Chidambaram stated that high oil prices were hurting the Indian economy. He estimated that “every five dollars per barrel rise in the price of crude would push up inflation in India by 1.4 percent and retard GDP by 0.5 percent”.¹⁷⁴ 2004 has seen the oil price jump from US\$32 a barrel at the beginning of the year to a peak of just over US\$55 in late October.

The sustained high oil price, which is continuing into 2005, is precipitating a massive transfer of wealth from oil importers to oil exporters and the oil companies. Spending on oil will increase by 27 percent or roughly US\$295 billion globally.¹⁷⁵ Jeffrey Lewis, manager of international finance research at the World Bank told Associate Press reporter Brad Foss in October 04 that: “Without emergency funding, much of the organization’s \$2.5 billion in aid to struggling nations this year will have to be reallocated to fuel purchases by local governments, leaving health and education programs grossly underfunded or scrapped altogether.” This demonstrates the wider impacts of oil dependence on developing economies and highlights the value of fast-tracking support for alternative fuels.

Furthermore, the IEA highlights the inefficiencies of oil use in many developing economies. “On average, oil-importing developing countries use more than twice as much oil to produce a unit of economic output as do OECD countries”.¹⁷⁶ Their inability to switch quickly to alternative fuels adds to their vulnerability.

These concerns were echoed in the October 2004 meeting of the International Monetary Fund’s International Monetary and Financial Committee, chaired by the UK Chancellor of the Exchequer Gordon Brown. Calls were made for surveillance of the potential impacts of higher oil prices “especially on the most vulnerable” as well as “measures to promote energy sustainability and efficiency” in oil-consuming nations.¹⁷⁷

The sustained high oil price, which is continuing into 2005, is precipitating a massive transfer of wealth from oil importers to oil exporters and the oil companies... much of the [World Bank’s] \$2.5 billion in aid to struggling nations this year will have to be reallocated to fuel purchases by local governments, leaving health and education programs grossly underfunded or scrapped altogether.

TABLE 4: Energy sources and devices for the near, medium and long term

SOURCE	PRESENT	NEAR TERM	MEDIUM TERM	LONG TERM
Electricity	Grid or no electricity	Biomass-based generation Internal combustion engines coupled to generators	Biomass-based generation through micro-turbines and integrated gasifier combined cycle turbines (IGCC) PV/Wind/Small hydro/ Solar thermal	Fuel Cells for baseload power
Fuels	Wood/Charcoal/ Dung/Crop residues	NG/LPG/Producer Gas/Biogas	LPG/Biofuels/Syngas/DME	
TASK	PRESENT	NEAR TERM	MEDIUM TERM	LONG TERM
Cooking	Woodstoves	Improved Woodstoves /LPG Stoves	LPG/Biogas/Producer Gas/NG/ DME Stoves	Gaseous biofueled Stoves/ Electric Stoves/Catalytic Burners
Safe Water	Surface/Tubewell water	Filtered/treated/water/ UV filtration	Safe piped/treated water/ Decentralised water treatment	Ultra Safe piped/Treated water
Lighting	Oil/Kerosene lamps	Electric Lights	Fluorescent/Compact fluorescent lamps	Fluorescent/Compact Fluorescent lamps
Motive Power	Human/Animal powered devices	Internal combustion engines/ electric motors	Biofueled prime movers/ improved motors	Biofueled prime movers/ improved motors/Fuel Cells
Appliances		Electric appliances	Efficient appliances	Super-efficient appliances
Process Heat	Wood/Biomass	Electric furnaces/cogeneration/ Producer Gas/Natural-gas-fueled or solar thermal furnaces	Induction furnaces/biomass-fueled or Solar thermal furnaces	Biofuels/Solar thermal furnaces
Transport	Animal-drawn vehicles/Human powered Bicycles	Petroleum/Natural gas-fuelled vehicles	Biomass-fuelled vehicles	Fuel Cell driven vehicles

Source: UNDP (2002) Energy for Sustainable Development: A Policy Agenda

In summary, steadily increasing the capacity to deliver ‘energy security’ sustainably to developing countries – through energy efficiency, reduced energy intensity and alternative renewable sources of energy – is key to meeting daily energy needs, addressing poverty and reducing the damaging impact of energy-related economic shocks. It would also form a core strategy for tackling the longer-term issue of climate change.

DFID’s weak support for renewable energies

In its response to the Extractive Industries Review (EIR), DFID repeated the prevailing view that fossil fuels are the ‘most affordable’ option in many countries. While indeed this may often be true at present, it ignores many of the factors above: that oil production, particularly for export, is very unlikely to provide solutions for energy-poor communities, and that subsidies to fossil fuel development and the neglect of environmental costs contribute to the apparent ‘affordability’ of fossil fuels. Additionally, renewable energy and conservation are often cheaper in “off-grid” applications, particularly if one were to compare ‘distributed’ renewable energy with the cost of extending a centralised grid. In this regard, prevailing

views of the high cost of renewable energy, often articulated by the conventional energy sector,¹⁷⁸ are now being fundamentally challenged. Former International Energy Agency Senior Advisor for Energy Economics, Finance and Technology, Shimon Awerbuch, (now Tyndall Centre Fellow at Sussex University) used finance and risk concepts to assess the potential for renewable energy to reduce the high cost burden associated with fuel price volatility, even if renewables have higher upfront costs. For example, substituting renewable energy into the ‘portfolio diversity’ for Mexico’s electricity generation sector, to reduce fossil fuel use from 75 per cent to 60 per cent of the national electricity mix, cut overall generation costs from 5 US-cents/kWh to 3.6 US-cents/kWh. This was mainly because of the price stability of renewable energy compared to fossil fuels (in Mexico’s case, gas).¹⁷⁹

A further key disconnect in the debate is not so much a disagreement on the importance of renewable and efficient provision¹⁸⁰ but the disjuncture of scale. DFID’s approach reflects the status quo in that it is acceptable to talk about sustainable energy only when it is at the small project, rural poor end of the spectrum, but ‘real’ power infrastructure and centralised electricity generation projects



The Kenyan Tungu-Kabri Micro-hydro Power Project benefits 200 households (around 1,000 people) in the Mbuiru village river community (ITDG/Zul).

are still based on large-scale fossil fuel energy projects. 'Alternatives' are viewed as too small-scale, technologically immature, and costly by governments looking for solutions or finance. In other words the two ends are not lined up in a way that allows a real assessment of overall sustainable energy strategy, particularly where many of the options will be delivered through 'distributed' generation rather than through centralised systems.

This leads onto DFID's response to a second critical energy-related recommendation in the EIR: that WBG lending "concentrate on aggressively promoting the transition to renewable energy", specifying a 20 per cent annual increase in spending.

DFID is explicit in stating that the WBG's own response to this recommendation is "insufficient" and furthermore that: "The World Bank needs to make a greater and more urgent commitment to renewable energy, cleaner energy technologies, natural gas and improved energy efficiency".¹⁸¹ Yet despite this view – widely echoing that of civil society – during the course of the EIR DFID failed to state explicitly its support for the renewable energy target, nor did it state clearly an alternative goal or strategy. So while DFID can now appear 'good' on renewable energy it failed to translate this, when it mattered, into active support for specific changes to WBG lending.

Transition, scale-up and opportunity

Many developing countries have vast potential for grid-connected wind, small-scale hydro, solar and other technologies as well as the capacity to use methane from agricultural and livestock waste for energy. This signals the potential for a strong commercial base linked into renewable-sourced fuel and power supply.

Additionally there are new indigenous technologies and alternatives being developed – for example the development of biofuels from agricultural waste and high-yield plants such as jatropha. These can be used as substitutes for petroleum directly in existing engines. Jatropha in particular is being tested for large-scale use in India and South Africa.¹⁸² Such technologies could provide benefits for local income generation, erosion control and sustainable energy provision. However, it should not be presumed that current levels of petroleum consumption could simply be substituted with agricultural products such as jatropha. To attempt to do so would threaten global food production and decimate forests. The solution to the problem of oil dependence will likely come from many sources and must surely involve much more efficient energy use. It should be DFID's role, along with development banks and other development agencies, to actively support such technologies where they are most appropriate and can have the greatest impact.

The G8 Renewable Energy Task Force highlighted that Overseas Development Agencies (ODAs) and International Financial Institutions (IFIs) could do a lot more to support the transfer of renewable energy technologies to developing countries, improve market conditions, remove barriers to investment and reduce subsidies to fossil fuels. Unfortunately, the response from IFIs and ODAs to this has been so poor that the Task Force has been disbanded and its recommendations forgotten.

However, there are signs of change and new energy sector opportunities in developing countries that DFID should be ensuring it encompasses in a comprehensive approach to sustainable energy. The World Bank has agreed a substantial \$200 million loan to Turkey for private sector investment in renewable energy¹⁸³ (a stark contrast with its own very low ambition level for increasing renewable energy lending). And at the June 2004 Ministerial International Conference on Renewable Energies in Bonn, China announced a target for 10% of its installed power capacity from renewables by 2010 (from small scale hydro, wind and solar) – estimating that the country would need \$49 billion of investments to meet that goal. This could indicate a future shift in the centre of gravity in the worldwide renewables industry¹⁸⁴ to one being driven from within developing countries rather than from outside.

4 Conclusions and recommendations

4.1 Conclusions

A policy vacuum and conflicting objectives

DFID does not have a clear policy on support for oil development, nor on mitigation of climate change. This report has illustrated how in most cases oil developments are inimical to poverty alleviation. Even if DFID disagrees on some of the specific cases, it acknowledges at least that this is often the case. Yet DFID has no concrete guidelines on how to judge which oil developments may help alleviate poverty and which may exacerbate it. Furthermore, it has a weak attitude to compliance with existing policies and standards, especially for multilateral development banks. Nor does it actively monitor the impacts of projects it has supported in the past.

Instead, DFID asserts that oil investment can help development through the revenue it generates. The mechanisms DFID supports to improve development outcomes from oil production are however extremely limited, and are focussed almost entirely on the Extractive Industries Transparency Initiative. Although that Initiative is welcome in itself, DFID has done nothing to demonstrate its adequacy, and suggests that more substantial reforms (such as the sequencing of governance before investment) are unnecessary or even unwelcome.

DFID's argument that a continuation of the status quo is necessary to provide for the energy needs of the poor is misplaced, as the majority of oil investments made by Western oil corporations and/or supported by multilateral development banks are geared towards export to industrialised countries. Moreover, there are good arguments why fossil fuels do not even present the best options for energy supply within developing countries, due to their inappropriate scale to meet the rural poor's needs, and to the economic damage caused by price swings at an international level.

Furthermore, while recognising the serious threat posed to the world's poor by climate change, DFID continues to offer institutional, political and financial support to oil development, effectively locking the world's energy economy (and especially developing economies where oil is produced) into a collision course with the planet. DFID's work helping developing countries adapt to the impacts of climate change is little more than a sticking plaster for

as long as other development activities continue to exacerbate the root cause of the problem. As such, DFID is at divergence with the progressive policy on climate change advocated by other parts of the UK Government and led by the Prime Minister, which call for 60 per cent cuts in global greenhouse gas emissions by 2050.

Meanwhile, although DFID's own mandate is focused on poverty alleviation, the Department is identified as a partner in delivering the security of oil supplies, a cross-government priority which is led by the Foreign and Commonwealth Office (FCO). FCO's strategy on 'energy security' makes clear its shared benefits with British oil corporations, notably BP and Shell.

Furthermore, DFID's first submission to the World Bank's Extractive Industries Review contains a preamble that clearly demonstrates the conflict of interests it faces and the importance placed on the UK's vested interests in the extractives sector.

...The United Kingdom has significant interests in the extractive industries sector. (...) The UK is home to major international mining, oil and gas companies, extractive sector trade associations and NGOs focusing on the activities of sector. Of course, we also have our own domestic extractive sector for both mining and oil/gas supplies.¹⁸⁵

It seems this may itself be a driver for DFID's decisions in this area.

DFID's policy vacuum in this area is being filled instead by the objectives of more powerful government departments and corporations. This represents a significant retreat from the original bold objective behind the creation of DFID for separating overseas development assistance from foreign policy. Instead it looks more like a return to the discredited approach of *tied aid*, where aid is applied politically to help British interests rather than the poor.

DFID's lack of policy instead harms the interests of the poor, through the damaging direct impacts of projects, through economic and political retardation and through the indirect but devastating consequences of climate change.

4.2 Recommendations

Recommendations for DFID

In recognition of the negative impacts of oil extraction on poverty alleviation, DFID should phase out, over a limited timeframe, all bilateral development aid for the oil industry.

Whilst this phase out is implemented, DFID should rigorously assess the poverty alleviation and sustainable development impacts of overseas development aid for the oil industry. DFID should evaluate existing bilateral grants, and where possible use its influence to improve their poverty alleviation impact.

In order to assist the Government's goals of reducing greenhouse gas emissions worldwide, DFID should formulate a strategy to address the causes of climate change to augment its strategy for adaptation. This must involve proactive promotion of a low-carbon development model, delivered through a coherent strategy of support for sustainable renewable energy provision in developing countries, including timings and targets.

DFID should reject the principle of aggregation in the Extractive Industries Transparency Initiative, instead requiring individual company payments to be disclosed.

Recommendations for DFID in multilateral development banks

Following the WBG's rejection of the majority of the recommendations of the Extractive Industries Review (EIR), DFID should use its vote on specific projects and policies in line with those recommendations – specifically, denying investment approval in the absence of adequate institutional and governance capacity or of free prior informed consent of indigenous peoples, voting against financing of oil projects after 2008, and using its influence to argue for a phaseout strategy.

DFID should push the other MDBs of which it is a member to adopt the recommendations of the EIR, encouraging them to employ best practice ahead of the World Bank Group.

During the phaseout period, DFID should take active responsibility for its votes in multilateral development banks, requiring a rigorous assessment of the positive and negative poverty impacts of projects, and only vote in favour of projects that have a significant and demonstrable poverty alleviation benefit. These assessments should be published on DFID's website.

For both existing projects, and during the phaseout period, DFID should ensure that compliance with World

Bank Group Safeguard Policies (and equivalents in other MDBs) is fully enforced, and double-check claims by project sponsors or MDB staff where those claims are disputed. DFID should resist any attempt to water down or 'streamline' the explicit requirements of the policies through the IFC's review process. Instead, DFID should push for firmer policies where necessary, including in the areas of human rights and indigenous peoples.

Recommendations for Parliament

The International Development Select Committee should carry out an investigation into the positive and negative impacts on poverty of DFID's support for oil development, including its participation in the Foreign and Commonwealth Office's 'energy security' strategy and the US-UK Energy Dialogue.

Parliamentarians should request that DFID make available – through the House of Commons Library – its internal reviews and reports on effectiveness of its projects to date.

Parliamentarians should push DFID to publish its votes and positions on projects seeking support from multilateral development banks.

Parliamentarians should push DFID to be transparent in the purpose and nature of its bilateral grants. Parliamentarians should scrutinise DFID's due diligence on specific projects, and the quality of its internal record-keeping.

Appendix I

Box: The Recommendations of the Extractives Industries Review

Governance

- Strengthen governance first so that countries are able to withstand the risks of major extractive developments. Develop explicit governance criteria, transparently and in a participatory manner, which should be met before investments for the extractives industry.

Pro-Poor Policies

- Help client countries assess the advantages and disadvantages of the oil, gas, and mining sectors compared with other development options and undertake a comprehensive options assessment before a project is supported.
- Support projects that benefit all affected local groups, including vulnerable ethnic minorities, women and the poorest.
- Provide an equitable share of the revenues to local communities.
- Ensure that poverty reduction plans are in place prior to project start
- Support projects with voluntary resettlement and resettled groups must be substantially “better off”
- Ensure that public health services associated with projects are available to all in the vicinity
- Require health impact assessments to be conducted during project preparation

Human Rights and Indigenous Peoples

- Develop system-wide policy integrating human rights into the Safeguard Policies and establish a human rights unit
- IFC/MIGA should assess human rights records of sponsor companies prior to involvement
- Endorse and comply with all four core labour standards
- Ensure that borrowers and clients engage in consent processes with indigenous peoples and local communities directly affected by oil, gas, and mining projects, to obtain their free prior and informed consent
- All agreements with indigenous people and affected communities should be covenanted in project agreements/contracts
- Ensure that the revised Indigenous Peoples policy is consistent with international law and agreed upon by consensus of Indigenous Peoples
- Convene a legal roundtable discussion prior to approval of new indigenous peoples policy

- No support for extractive industries in areas of conflict or at high risk of conflict
- Ensure that local grievance mechanism is in place for all extractive industry projects

Environment

- Increase support of renewable energy lending by 20% annually
- Ban the use of riverine tailings and suspend all support for projects with submarine tailings pending outcome of independent studies
- Develop tailings criteria and should revise its cyanide guidelines to be more consistent with UN, EU guidelines and minimize support for mines using toxins, like cyanide, and promote safer substitutes
- Clarify ban on financing of extractive industry in protected areas as defined by UN, Natural Habitats Policy, or as designated by national or local governments
- Use safe, modern and well run vessels to carry oil or hazardous cargoes
- Establish clear guidelines on mine closures and condition financing on the set-aside of sufficient closure funds, which should be “ring-fenced” even after the World Bank Group’s exit
- Emergency response plans should be in place at project outset and conform to best practices

Disclosure and Transparency

- Disclosure of (revenue) payments on company and government level
- Vigorously pursue revenue transparency at country and company level
- Disclosure of: project contracts and agreements, like IPAs, HGAs, PSAs, PPAs; monitoring documents, economic, financial, environmental and social assessments.
- Environmental and social obligations should be covenanted in loan and project agreements and those should be disclosed
- Documents should be made available in local languages, in a timely and culturally appropriate manner
- Produce and disclose a net benefit analysis for all projects
- Establish an information ombudsman to oversee application of the disclosure policy and decisions about confidentiality

Institutional and Procedural Changes

- Phase-out support for oil by 2008, and formalize its moratorium on lending for coal projects immediately.
- Require comprehensive Environmental and Social Impact Assessments, including health impacts, for all policy lending affecting the extractive industry sectors in countries with significant EI or anticipated growth in EI sectors
- All extractive industry projects should be classified as Category A except where there is a compelling reasons to the contrary
- Create staff incentives to ensure safeguard policy compliance and achieve poverty alleviation impacts
- Increase the number of staff trained as human rights, social, environmental specialists
- Involve environmental, social, human rights and poverty specialists early in project cycle

Endnotes

- 1 See for example <http://www.un.org/millenniumgoals/>
- 2 DTI (Feb 2003) Energy White Paper.
- 3 See for example, *Financial Times*, August 01, 2002, Oiling the Political Engine, by Tobias Buck, David Buchan, Krishna Guha and Sheila McNulty.
- 4 UK International Priorities: A Strategy for the FCO. Available at: <http://www.fco.gov.uk/Files/kfile/FCOstrategyFullFinal.pdf>
- 5 Figures are for 2003 from BP Statistical Review of World Energy 2004.
- 6 See for example: <http://www.eia.doe.gov/emeu/cabs/pgulf.html>
- 7 'Frontier areas' in this context means areas such as the Caspian Sea and parts of west Africa outside of Nigeria that are new territory for the multinational oil companies. These include: Azerbaijan and Kazakhstan in the Caspian and Equatorial Guinea, Chad, Sao Tome and Deep Water Angola amongst others.
- 8 Reported in *International Oil Daily*, September 30, 2004, Iraqi Plan for Radical Oil Reform Runs Into Controversy.
- 9 Foreign and Commonwealth Office (December 2003) UK *International Priorities: A Strategy for the FCO*. Pp.40-41. Available at: <http://www.fco.gov.uk/Files/kfile/FCOstrategyFullFinal.pdf>
- 10 National Economic Research Associates, AUPEC Ltd, Independent Fuel and Energy Institute / Vanguard, 2002, Russia: Oil Tax Reform – Phase 2 Extension Final Report, Summary.
- 11 Outlined in *WEP* magazine, 2003, Is an effective taxation of the crude oil rent possible in Russia?, translation of original Russian supplied by Bob Grabham of NERA.
- 12 Since the early 1980s, Kemp has been frequently quoted in the media on North Sea tax issues, has published numerous papers calling for lower taxes, and often works with the industry (in particular, with trade association the UK Offshore Operators' Association) to make that case. In recent years, he has continued to be highly vocal. In 1998, Kemp argued against Chancellor Gordon Brown's plans to increase North Sea taxation, plans which Brown subsequently shelved. In 2002, Kemp argued strongly against Brown's decision to increase in Corporation Tax for North Sea oil companies from 30% to 40%. He argued for the abolition of Royalties, which Gordon Brown agreed to in 2003. He called for abolition of Petroleum Revenue Tax on pipelines, which was then also announced in 2003.
- 13 Dana has stakes in the South Vat-Yogan, Salym and Sortym fields, together accounting for 13% of the company's production in 2003. See website, <http://www.danapetroleum.com/Operations/russia.htm>
- 14 NERA website, at http://www.nera.com/Expert.asp?e_ID=1173 accessed 8/6/04.
- 15 NERA brochures, Energy Risk Management and Valuation, on website at <http://www.nera.com/image/6305.pdf> and At a glance – services for global investors, at http://www.nera.com/image/AAG_Global%20Investors_Sepetys_6.2004.pdf (both undated).
- 16 AIDA Development Gateway database, project ID 292518038, at http://aida.developmentgateway.org/AiDAActivityShow.do?mode=AiDAActivityShow&sco_id=1009004&res_name=aida:activity Further details on this project were requested from DFID, under the Code of Practice on Access to Government Information; DFID responded that it had no files on the project (see section below on destruction of files).
- 17 Lorne Stockman of PLATFORM Research, open government request to DFID (under Code of Practice on Access to Government Information), 8 November 2004. Dates and amounts of projects taken from AIDA database of development grants, at <http://aida.developmentgateway.org/AidaHome.do>
- 18 Response by Richard Sharp of DFID Open Government Unit, 10/1/05, to application under Code of Practice on Access to Government Information by Lorne Stockman of PLATFORM, 9/11/04.
- 19 Auditing Chamber of the Russian Federation (2000), Report on the Sakhalin II PSA, p.58.
- 20 Spencer Abraham's report to President Bush on UK-US Energy Dialogue, available from PLATFORM Research.
- 21 Emails from John Pollock and Richard Sharp of Public Enquiry Unit, DFID, 20/4/04 and 19/8/04, to Lorne Stockman.
- 22 Listing of DFID grants for energy projects, sent to Lorne Stockman by Steve Mollison of DFID, 11/2/04.
- 23 Emails from John Pollock and Richard Sharp of Public Enquiry Unit, DFID, 20/4/04 and 19/8/04, to Lorne Stockman.
- 24 Blanche Sas of Denton Wilde Sapte, March 2000, Interim report of project, supplied by DFID.
- 25 Host Government Agreement between and among the Government of Georgia and the MEP Participants, 28/4/00, at <http://www.caspiandevlopmentandexport.com/Downloads/BTC/Eng/agmt2/agmt2.PDF>
- 26 See Amnesty International, May 2003, 'Human rights on the line' at <http://www.amnesty.org.uk/business/btc/>; and Campagna per la Riforma della Banca Mondiale et al, October 2002, 'Preliminary Analysis of the Implications of the Host Government Agreement between Turkey and the BTC Consortium', at http://www.baku.org.uk/publications/preliminary_legal_analysis_oct_02.pdf. Both are analyses of the Host Government Agreement for the Turkey section of the pipeline, but that for the Georgia section is broadly similar.

- 27 Although DFID supplied an interim report on the project, this reported on progress in implementation, and not on the content of the advice. The final report and advice were not held by DFID [Response by Richard Sharp of DFID Open Government Unit, 1/11/04, to application under Code of Practice on Access to Government Information by Greg Muttitt of PLATFORM, 1/10/04. Also email and telephone communication between Sharp and Muttitt, October 2004].
- 28 Transitions Online, 9th August 2004: We Won't Be Intimidated.
- 29 To explain DFID's support, Clare Short, the then Secretary of State, stated to the Select Committee on International Development in 2002 her view that "If you take, for example, the Chad-Cameroon pipeline, these are desperately poor countries which have got oil. They must be allowed to exploit it surely for the benefit of their development which means a pipeline and surely it is better to have the World Bank engaged." [Minutes of Evidence, 5/11/02, available at: <http://www.publications.parliament.uk/pa/cm200102/cmselect/cmintdev/1297/2110505.htm>]
- 30 Transparency International press release, 20 October 2004, Corruption is rampant in 60 countries, and the public sector is plagued by bribery, says TI.
- 31 Amnesty International, Annual Report 1999: Chad.
- 32 World Bank press release, 10 October 2003, Chad-Cameroon Pipeline Represents New Approach' – An Interview with Country Director Ali Khadr on the start of oil production in Chad.
- 33 The Inspection Panel's report on Chad (Investigation Report no.23999, dated 17/9/02) found non-compliance with:
- the Bank's policy on Environmental Assessment (OD 4.01) on seven counts (paras 7–13);
 - the Bank's policy on Economic Evaluation of Investment Operations (OP 10.04) on five counts (paras 38, 42–45); and
 - the Bank's policy on Poverty Reduction on two counts (paras 53–54; also 49–52).
- The Panel's report on Cameroon (Investigation Report no. 25734, dated 2/5/03) found non-compliance with:
- OD 4.01 (Environmental Assessment) on six counts (paras 10, 13, 14, 18, 19–22, 50); and
 - The Bank's policy on Indigenous Peoples (OD 4.20) on one count (para 70).
- 34 World Bank, Project Appraisal Document, Annex 4, p.74
- 35 Inspection Panel Cameroon Investigation Report (no. 25734, dated 2/5/03), pp.44–47.
- 36 John Nelson, Justin Kenrick and Dorothy Jackson, Forest Peoples Project, May 2001, Report on a Consultation with Bagyeli Pygmy communities impacted by the Chad-Cameroon oil-pipeline project.
- 37 Inspection Panel Cameroon Investigation Report (no. 25734, dated 2/5/03), para 39, p.xvii.
- 38 Reuters, October 11, 2004, 'Chad Criticizes Exxon-Led Consortium Over Oil Money'.
- 39 Hansard written answers, 23 Feb 2004 : Column 98W, available at <http://www.publications.parliament.uk/pa/cm200304/cmhansrd/v040223/text/40223w26.htm>
- 40 The World Bank Annual Report 2004, p.8.
- 41 Vallette, J & S. Kretzmann (April 2004) The Energy Tug of War: The Winners and Losers of World Bank Fossil Fuel Finance. Washington DC:Sustainable Energy & Economy Network-Institute for Policy Studies. Available from http://www.seen.org/PDFs/Tug_of_war.pdf
- 42 *Op. Cit.* p.8.
- 43 Ian Gary and Terry Lynn Karl, 'Bottom of the Barrel – Africa's oil boom and the poor', pub. Catholic Relief Services, June 2003, p.18.
- 44 Vallette, J & S. Kretzmann (April 2004) The Energy Tug of War: The Winners and Losers of World Bank Fossil Fuel Finance. Washington DC:Sustainable Energy & Economy Network-Institute for Policy Studies. Available from http://www.seen.org/PDFs/Tug_of_war.pdf
- 45 *Financial Times*, 4/11/98, Wisdom of Baku Pipeline Queried.
- 46 See *Sunday Business*, 1/7/01, Lazard Win Puts Caspian Oil Deal Firmly On Line.
- 47 BTC Pipeline, Lump Sum Turnkey Agreement between The State Oil Company of the Azerbaijan Republic, BP Exploration (Caspian Sea) Ltd et al and Botas Petroleum Pipeline Corporation, Appendix 2 to that certain Host Government Agreement between the Government of the Republic of Turkey and the MEP Participants dated 19 October, 2000, clause 8.2.
- 48 EBRD, 'Ten questions on the BTC pipeline', July 2003: "BTC sought EBRD involvement because there are political uncertainties in the Caspian region that could affect the investment in the pipeline. The EBRD could have a stabilising role and provide political comfort through its extensive investment experience in Azerbaijan and Georgia, as well as its close cooperation with those countries' authorities."
- IFC, Report to the Board of Directors on proposed investments in ACG Phase 1 and the BTC pipeline, 14 October 2003: "IFC's role in the projects is to: (i) assist in mitigating political risk perceived by international investors in a cross-border project".
- 49 See Turan News Agency, Baku, 19/9/03, translated by BBC Monitoring International Reports: BP is Fleecing Azerbaijan Claims News Agency.
- 50 Green Alternative *et al*, International Fact-Finding Mission, Preliminary Report, September 2002, Azerbaijan, Georgia, Turkey Pipelines project – Azerbaijan Section.
- Azerbaijan's refining industry has collapsed since independence, and is now operating at only 40% of its capacity, largely due to lack of crude supply [US Department of Energy, Energy Information Administration, Country Analysis Briefs – Azerbaijan, June 2003]. Meanwhile, there is very poor availability of oil products in Azerbaijan, and there has been a skills exodus from the country as the refining sector has collapsed. As a result of limited crude deliveries to the refineries, Azerbaijan suffered a fuel crisis in the spring of 2000 and was forced to import crude from Iran in order to produce enough fuel oil to keep the country's thermal power plants working [NewsBase, 20/6/00, 'FSU refineries: Azerbaijan's refineries'].
- 51 See the Institute for Democracy in Eastern Europe special Azeri election 03 pages at <http://www.idea.org/azerijanelections.html>
- 52 Transitions Online, 9th August 2004: We Won't Be Intimidated.
- 53 *Oil & Capital*, 27/5/02: Baku-Ceyhan Pipeline is on the Verge of Starting.
- 54 Letter of Nino Chkhobadze (Minister of Environment and Natural Resources Protection of Georgia) to John Browne (Chief Executive of BP), 26 November 2002: BP representatives are requesting the Georgian Government to violate our own environmental legislation.
- 55 *The Independent*, 9 August 2004: Rumsfeld Intervention rescues \$3bn BP Pipeline.
- 56 International Fact-Finding Missions, August 2002, March 2003 and September 2004; reports available at www.baku.org.uk/missions.htm

- 57 Environmental News Service, 2 August 2000: Permit Problems, Landslide Danger, Halt Huge Oil Pipeline.
- 58 Statement of Ferhat Kaya (Chairman, DEHAP Central District, Ardahan), May 2004 – available at www.baku.org.uk/ferhat_statement.htm
- 59 BMT Cordah Ltd: Compliance Review of the Environmental Assessment of the Baku-Tbilisi-Ceyhan (BTC) Pipeline, report to DFID, 30 October 2003, sec 6.4, p.45.
- 60 EBRD Project Evaluation Department, July 2004, 'Special study – extractive industry review', p.6. The figure of \$1bn runs to end of 2003, so does not include the \$150 million loan to the BTC pipeline, signed in February 2004.
- 61 From project summaries on EBRD website, <http://www.ebrd.com/projects/psd/index.htm>
Refineries include:
Slovnaft, Slovakia, 1994 and 1995, EBRD €63m.
Fergana Refinery, Uzbekistan, 1997, €83m.
INA: Rijeka Refinery, Croatia, 2001, €36m.
Corporate financings include:
SPP Bond Issue, Slovakia, 1999, €30m.
Lukoil Medium Term Working Capital Facility, Russia, 2000, €72m.
SNP Petrom Pre Privatisation Loan, Romania, 2002, €95m.
- 62 EBRD, Natural Resources Operations Policy, 1999, p.7
- 63 EBRD, Working Paper No 65, November 2001, 'Nature's blessing or nature's curse: the political economy of transition in resource-based economies', by Akram Esanov, Martin Raiser and Willem Buiter.
- 64 See website of Sakhalin Environment Watch, <http://www.sakhalin.environment.ru/en/sakhalin2/msakhalin.html>
- 65 Socio-Ecological Union, SEU TIMES, January 19, 2005, 'Oil TNCs try to suppress indigenous protest at Sakhalin'.
- 66 Dr Ian Rutledge, of Sheffield Energy and Resources Information Services (SERIS), 'The Sakhalin II PSA – a Production 'Non-Sharing' Agreement – analysis of Revenue Distribution', published by PLATFORM, CEE Bankwatch Network, Friends of the Earth, Pacific Environment, Sakhalin Environment Watch and WWF.
- 67 The World Bank and International Finance Corporation, Project Appraisal Document, Chad-Cameroon Petroleum Development and Pipeline Project, 13 April 2000, Report No: 19343 AFR, p.22.
- 68 EBRD, 'Ten questions on the BTC pipeline', July 2003.
- 69 IFC, Report to the Board of Directors on proposed investments in ACG Phase 1 and the BTC pipeline, 14 October 2003.
- 70 Letter from representatives of BP, Shell, Norsk Hydro and the International Association of Oil and Gas Producers presented at Lisbon in December 2003 in reaction to the final report of the EIR. See: <http://www.ogp.org.uk/Highlights/Issues/0104.pdf>
- 71 *Striking a Better Balance: The World Bank Group and Extractive Industries*. The Final Report of the Extractive Industries Review Vol 1. p.5. http://www.worldbank.org/ogmc/files/eirreport/volume1_english.pdf
- 72 *Op. Cit.* p.21.
- 73 *Op. Cit.* p.64.
- 74 DFID submissions to the EIR 20 October 2003 and 30 December 2003. Available from PLATFORM Research.
- 75 *Ibid.*
- 76 Emil Salim, 22 July 2004: Business as Usual with Marginal Change, EIR Final Comment on the WBG Management Response to the EIR by the EIR Eminent Person.
- 77 Foreword to Poverty and Climate Change – Reducing the Vulnerability of the Poor through Adaptation. June 2003. The report was prepared by African Development Bank, Asian Development Bank, DFID, Directorate General for Development-European Commission, Federal Ministry for Economic Cooperation & Development-Germany, Ministry of Foreign Affairs-Development Cooperation-The Netherlands, Organisation for Economic Cooperation and Development, United Nations Development Programme, United Nations Environment Programme and the World Bank. Available at: <http://www.undp.org/energy/docs/poverty-and-climate-change-72dpi-part1.pdf>
- 78 In August 2004, DFID produced a set of 13 fact sheets examining the impact of climate change on poverty. See: <http://www.dfid.gov.uk/pubs/files/climatechange/keysheetsindex.asp>
- 79 IPCC (2001) Summary for Policy Makers, Climate Change 2001, Impacts, Adaptation and Vulnerability – a report of Working Group II of the Intergovernmental Panel on Climate Change. P. 8 Available at <http://www.ipcc.ch/pub/un/syrenng/spm.pdf>
- 80 Rosegrant *et al* (2002) The Role of Rainfed Agriculture in the Future of Global Food Production. EPTD Discussion Paper No. 90. International Food Policy Research Institute. Washington DC.
- 81 IPCC (2001) Summary for Policy Makers, Climate Change 2001, Impacts, Adaptation and Vulnerability – a report of Working Group II of the Intergovernmental Panel on Climate Change. Available at <http://www.ipcc.ch/pub/un/syrenng/spm.pdf>
- 82 DFID (2004) The Impact of Climate Change on the Health of the Poor. DFID Key Sheets on Climate Change No.4. Available at: <http://www.dfid.gov.uk/pubs/files/climatechange/4health.pdf>
- 83 See Commonwealth Scientific and Industrial Research Association, press release, March 2004. Available at <http://www.csiro.au/index.asp?type=mediaRelease&id=PrCarbonDioxide2>, Also referenced in New Scientist, 'Kyoto Protocol is just the beginning', October 6, 2004. This notes a 'record' rise of CO₂ concentrations of 3ppm last year alone, and raises the concern that the ability of oceans and forests to absorb emissions may be reaching saturation point.
- 84 Nature Online, 23 September 2004, Glaciers are flowing faster, As its fringes collapse, the ice of Antarctica is slipping into the sea, by Philip Ball. This article also points out that in Western Antarctica, glaciers are now releasing 250 billion tonnes of ice into the sea annually – which is enough to raise global sea levels by 2 millimetres per decade, and is renewing concern within the scientific community over the stability of the entire West Antarctic Ice Sheet. If that slides into the sea, sea levels could rise by five metres, five times higher than 'normal' upper end climate change predictions for the next century.
- 85 IPCC (2001) Summary for Policy Makers, Climate Change 2001, Impacts, Adaptation and Vulnerability – a report of Working Group II of the Intergovernmental Panel on Climate Change. P. 12 Available at <http://www.ipcc.ch/pub/un/syrenng/spm.pdf>
- 86 DFID (2000) Achieving Sustainability: poverty elimination and the environment. P.19. DFID Target Strategy Paper. Available at: <http://www.dfid.gov.uk/pubs/files/tspenvironment.pdf>
- 87 *Ibid.*
- 88 Poverty & Climate Change. P.v.
- 89 Prime Minister Tony Blair's speech at World Summit on Sustainable Development. 2 September 2002.

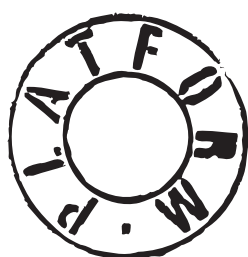
- 90 International Bank of Reconstruction and Development and International Development Association, are two of the five institutions that make up the World Bank Group – the two together are commonly known as the ‘World Bank’. The latter provides highly concessional financing and grants to the poorest countries. See www.worldbank.org/whatwedo
- 91 UK government submission to the Extractive Industries Review of the World Bank, 13 September, 2004. Available from PLATFORM Research.
- 92 DFID letter to EIR, 30 December, 2003. Available from PLATFORM Research.
- 93 Sachs, J. and Warner, A. (1997) Natural Resources and Economic Growth. Revised version. Harvard Institute for International Development Discussion Paper.
- 94 Auty R. (1997) Natural Resources, the State and Development Strategy. In *Journal of International Development* Vol. 9, No. 4, pp. 651–663.
- 95 The World Bank (2003) *Extractive Industries and Sustainable Development: An Evaluation of World Bank Experience*. Washington DC.
- 96 Ian Gary and Terry Lynn Karl (June 2003) *Bottom of the Barrel – Africa’s oil boom and the poor*. Catholic Relief Services, p.18.
- 97 McPherson C.P. (2002) *Petroleum Revenue Management in Developing Countries*. Washington DC: The World Bank.
- 98 Ian Gary and Terry Lynn Karl (June 2003) *Bottom of the Barrel – Africa’s oil boom and the poor*. Catholic Relief Services, June 2003.
- 99 See for example: Okonta I. and O. Douglas (2001) *Where Vultures Feast: Shell, Human Rights and Oil in the Niger Delta*. San Francisco: Sierra Club Books.
- 100 For example, described in ‘Iraqi Oil: A Gift from God or the Devil’s Excrement?’ in *Strategic Insights*, Volume II Issue 7 (July 2003). This is the monthly electronic journal produced by the Center for Contemporary Conflict at the Naval Postgraduate School, Monterey, California, available from www.ccc.nps.navy.mil
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- 102 See for example amongst others: Ross, M. (2001) Does Oil Hinder Democracy? In *World Politics*. Vol. 53, pp.325–61; Karl T.L. (1997) *The Paradox of Plenty: Oil Booms and Petro-states*. Berkeley & London: University of California Press.
- 103 Karl, T.L. (1999) The Perils of the Petrostate: Reflections on the Paradox of Plenty. In *Journal of International Affairs*, Vol. 53 No.1, p.32.
- 104 Ross, Michael L. (2001) Does Oil Hinder Democracy? In *World Politics* Vol.53, pp.325–61.
- 105 DFID, 13 September 2003. The UK Government’s Submission to the World Bank’s Extractive Industries Review. Available from PLATFORM Research.
- 106 Institute for Advanced Strategic and Political Studies. December 2001. Available at: <http://www.israeleconomy.org/nbn/nbn485.htm>
- 107 The Nation April 2002: <http://www.thenation.com/doc.mhtml?i=20020422&s=silverstein>
- 108 Inter-Agency Group, July 1999, Good intentions are not enough, Policy Paper, p.4.
- 109 Human Rights Watch (February 2005) *Violence in Nigeria’s Oil Rich Rivers State in 2004*. A Human Rights Watch Briefing Paper.
- 110 The Federation of American Scientists Arms Sales Monitoring Project [http://www.fas.org/asmp/profiles/saudi_arabia.htm] Dollar figures are in constant 1997 dollars.
- 111 *Ibid.*
- 112 Mark Curtis (2004) *Web of Deceit: Britain’s Real Role in the World*. London: Vintage.
- 113 See for example UK Government submission to Extractive Industries Review, sent by DFID, 13/9/03. “In resource-rich countries extractive industries are simultaneously an opportunity and a threat to development prospects. Revenues from the extractives sector have the potential to promote broader based growth and development for poverty reduction. This is being achieved in some cases. In others, however, not only is this potential not being realised but the sector is undermining developmental progress... This situation is not, however, inevitable, and the WBG has an important role in encouraging and ensuring positive outcomes from the sector’s activities”
- 114 In a letter of 16th March 2004, the authors of this report asked the Secretary of State for International Development a number of questions, including:
- Has DFID assessed the impacts and effectiveness of previous fossil fuel project funding by the World Bank Group?
- What policies govern DFID decisions over projects in the oil and gas sector?
- How does DFID establish that an oil or gas project would have an unacceptably high impact and that support for that project would be in breach of its wider funding policy?
- On what specific occasions has DFID judged that an oil development project would have an unacceptable impact and refused support?
- On what specific occasions has DFID used its voting influence to substantially alter, or to reject, oil and gas projects seeking funding from the World Bank Group or the European Development Bank?
- In his reply of 20th April, Hilary Benn declined to answer these questions, instead just making some general points about the Extractive Industries Review (about which he had not been asked).
- 115 Extractive Industries Transparency Initiative, Revised Draft Reporting Guidelines, 23 May 2003.
- 116 See *Global Witness* (March 2004) *Time for Transparency: Coming Clean on Oil, Mining and Gas Revenues*. Available at <http://www.globalwitness.org/reports/show.php/en.00049.html>
- 117 See extensive coverage of the 2003 election crackdown in Azerbaijan from Human Rights Watch at <http://hrw.org/doc/?t=europe&c=azerba> Also see: <http://www.eurasianet.org/departments/election/azerbaijan/index.shtml>
- 118 Transparency International, Corruption Perceptions Index, October 2004.
- 119 Svetlana Tsalik (2003), *Caspian oil revenues – Who will benefit?* Caspian Revenue Watch. See also eg David Hoffman, Oil and Development in Post-Soviet Azerbaijan, *NBR Review*, vol. 10 No. 3, August 1999, National Bureau of Asian Research; Mary Kaldor and Yahia Said, Oil and Human Rights in Azerbaijan in Edie, Bergesen, Goyer (eds), *Human Rights and the Oil Industry*, Intersentia, Oxford, 2000, p.96.
- 120 Svetlana Tsalik, *Caspian oil revenues – Who will benefit?* Caspian Revenue Watch, 2003. Available at: <http://www.eurasianet.org/caspian.oil.windfalls/>
- 121 <http://www.globalcorruptionreport.org/>

- 122 See Shell in Nigeria: Oil & Gas Reserves Crisis and Political Risks, shared concerns of investors and producer communities. Available at: <http://www.stakeholderdemocracy.org/main/content/view/8/2/>
- 123 WAC Global Services Report (2004). Peace and Security in the Niger Delta. Leaked internal Shell report, available from PLATFORM Research.
- 124 Chairman's summary, Meeting of the Executive Directors, 3 August 2004. "While several Directors suggested the sequencing of the World Bank Group's engagement in EI in accordance with existing levels of governance and institutional capacity, others stressed the importance of having a minimum standard of governance in place as a prerequisite for World Bank Group engagement. Still others, while recognizing the importance of governance, cautioned against application of a rigid framework which would work to the disadvantage of the poorest countries with weak capacity that may need the World Bank Group's assistance the most."
- 125 DFID press release, United Kingdom position on the World Bank response to the Extractive Industries Review, 17 August 2004. "The World Bank should clearly set out the criteria it will use to decide if support is to be provided, and in each case there should be an action plan on how the World Bank will support countries to turn intentions into practice". "Criteria" is ambiguous here, but given DFID's earlier submissions its likely interpretation is general guidelines rather than specific facets of governance that must be in place; furthermore it fits closely with the Management Response: "WBG and other governance indicators will help assess risk and gauge developing-country capacity. The engagement of the IMF and WBG in the country and specific country and project circumstances will help us judge whether to support projects... For all the EI projects we support we will carefully evaluate governance capacity and risks at the national, sectoral and local levels and use the results in decisions on sequencing our activities in EI... The WBG does not believe, however, that it is appropriate to depend only on such specific quantitative indicators to determine its engagement in the EI sector or in particular projects... a one-size-fits-all approach will not work". See <http://www.worldbank.org/ogmc/>
- 126 DFID letter to Professor Salim, 30 December 2003. Available from PLATFORM Research.
- 127 International Advisory Group, Report of mission to Cameroon and Chad, November 14–25, 2001, published December 21, 2001, p.11.
- 128 International Advisory Group, Report of mission to Cameroon and Chad, 17 May – 5 June, 2004, published July 9, 2004, p.ii.
- 129 D'Appolonia, Report of the External Compliance Monitoring Group, Tenth site visit, April-May 2004, published June 2004, p.45.
- 130 BBC News, Chad's oil watchdog 'powerless', 25/5/04, <http://news.bbc.co.uk/2/hi/africa/3748061.stm>
- 131 Interview with Jérôme Chevalier, World Bank offices, N'djamena, September 30, 2002, in Ian Gary & Terry Lynn Karl (June 2003), Bottom of the Barrel – Africa's oil boom and the poor. Catholic Relief Services.
- 132 Emil Salim, 22 July 2004, Business as Usual with Marginal Change, EIR Final Comment on the WBG Management Response to the EIR by the EIR Eminent Person.
- 133 UK government submission to the Extractive Industries Review of the World Bank, 13 September, 2004. Available from PLATFORM Research.
- 134 Letter from Hilary Benn to Emil Salim, in response to final draft of Extractive Industries Review, 30 December 2003. "Investment in extractive industries will happen with or without the participation of the World Bank, The World Bank Group can greatly influence change towards better governance for the better an prevent poor practice from developing." Available from PLATFORM Research.
- 135 See Okonta I. and Douglas, O. (2001) *Where Vultures Feast: Shell, Human Rights and Oil in the Niger Delta*. San Francisco: Sierra Club Books.
- 136 See Kimerling J. (1996) Oil, Lawlessness and Indigenous Struggles in Ecuador's Oriente. In Collinson H. (1996) *Green Guerrillas: Environmental Conflicts and Initiatives in Latin America and the Caribbean*. London: Latin America Bureau. Also: Oil exploitation in Ecuador's Amazon basin produces a 'public health emergency' at <http://publications.paho.org/english/news.cfm?ID=123>
- 137 See *Human Rights and Environment In Tabasco* available from Global Exchange, 2017 Mission St. #303/ San Francisco, CA 94110.
- 138 See: http://www.foe.co.uk/resource/media_briefing/gasflaringinnigeria.pdf
- 139 See Aids could follow African Pipeline at: <http://www.globalpolicy.org/soecon/develop/aids/2003/0618pipe.htm>
- 140 See: <http://www.waado.org/Environment/OilCompanies/Women/Women2002Rebellion/ERAREports/ERAREports-ProttestingWomen.html>
- 141 San Sebastián, M. Dr. & Dr. J. A. Córdoba (1999) *The "Yana Curi" Report: The impact of oil development on the health of the people of the Ecuadorian Amazon*. Translation by Kristen Keating. Departamento de Pastoral Social del Vicariato de Aguarico, London School of Hygiene and Tropical Medicine, Medicus Mundi.
- 142 See Okonta I. and Douglas, O. (2001) *Where Vultures Feast: Shell, Human Rights and Oil in the Niger Delta*. San Francisco: Sierra Club Books.
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- 144 See Pearce F. (1995b) Devastation in the Desert In *New Scientist* Vol.146 No.1971, Pp.40–43 AND Pain, S. and Kleiner, K. (1994) Frustrated West Watches as Artic Oil Spill Grows. In *New Scientist* Vol. 144, No.1950 Pp. 8–9.
- 145 See: http://www.refineryreform.org/refinery_basics.htm and http://www.groundwork.org.za/Pamphlets/oil_refineries.htm
- 146 BBC (6 May 1999) Exhaust Emissions. See: http://news.bbc.co.uk/1/hi/health/medical_notes/336738.stm
- 147 Letter from representatives of BP, Shell, Norsk Hydro and the International Association of Oil and Gas Producers presented at Lisbon in December 2003 in reaction to the final report of the EIR. Also see: <http://www.ogp.org.uk/Highlights/Issues/0104.pdf>
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List of acronyms used in this report

BTC:	Baku-T'bilisi-Ceyhan Pipeline	IPCC:	Intergovernmental Panel on Climate Change
DFID:	UK Department for International Development	ITDG:	Intermediate Technology Development Group
EBRD:	European Bank for Reconstruction and Development	IMF:	International Monetary Fund
ECGD:	UK's Export Credits Guarantee Department	LNG:	Liquefied Natural Gas
EI:	Extractive Industry	MIGA:	Multilateral Investment Guarantee Agency
EIR:	the World Bank's Extractive Industries Review	MDBs:	Multilateral Development Banks
EITI:	Extractive Industries Transparency Initiative	MDGs:	Millennium Development Goals
FCO:	UK's Foreign and Commonwealth Office	ODA:	Overseas Development Agency (DFID's predecessor)
FPIC:	Free, prior and informed consent	OECD:	Organisation for Economic Cooperation and Development
FPP:	Forest People's Programme	OPEC:	Organisation of Petroleum Exporting Countries
GDP/GNP:	Gross Domestic Product / Gross National Product	PIFS:	Pre-Investment Feasibility Studies
HGA:	Host Government Agreement	PSA:	Production Sharing Agreement
IAG:	International Advisory Group (to the World Bank)	SERIS:	Sheffield Energy and Resources Information Services
IAHCR:	Inter-American Commission on Human Rights	UNCESCR:	UN Committee on Economic, Social and Cultural Rights
IBRD:	International Bank for Reconstruction and Development	UNDP:	United Nations Development Program
IDA:	International Development Association	WBG:	World Bank Group
IEA:	International Energy Agency	WSSD:	World Summit on Sustainable Development
IFC:	International Finance Corporation		
IFI:	International Financial Institution		



RESEARCH

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Platform Research Ltd investigates the political, ecological and social impacts of the corporation. Our current focus is on oil industry influence over the British government and presses for policy that supports the public interest over the corporate.

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Many non-governmental organisations have read this report and have commented as follows:

This report is a timely reminder of the responsibilities of donor countries to ensure that the projects they support do not contribute to human rights violations, and that the oil companies undertaking these projects are held accountable for their social and environmental impacts by the states hosting their operations.

Peter Frankental, Amnesty International UK

This is a clear, well-documented and timely investigation into DFID's role in promoting UK oil interests overseas, and how this is undermining DFID's stated aims of poverty reduction and sustainable development. Essential reading for those wishing to understand the reality behind Britain's claims of leadership in addressing climate change and poverty.

Carolyn Marr, Down to Earth

The impacts of climate change will be especially devastating for the world's poor. Currently, money from the Department for International Development that should be spent to support the most vulnerable is actually making the problem worse by helping multinational oil corporations bring more fossil fuels to market. This timely report uncovers the details of how DFID is favouring the interests of big oil over the needs of the poor.

Meredith Alexander, People and Planet

We fully back this report's recommendations calling for greater scrutiny of DFID's role in supporting the oil and gas industry. We are not convinced that DFID's support for the oil industry can be justified in poverty reduction terms.

Barbara Stocking, Director of Oxfam GB

With the UK presenting Climate Change and Africa as the key challenges facing the G8, it is particularly pertinent that DFID reviews its interactions with carbon intensive activities. DFID has a role to play, both in reducing the impact of existing oil exploration and production, and in seeking alternatives.

James Leaton, WWF

This report presents strong evidence demonstrating how DFID is failing to put development needs and public concern above the interests of big business. Drawing on the solid campaigning work of the groups involved, it highlights that there are currently no guidelines to assess whether DFID's policy in this area actually reduces poverty, and where international standards are being generated, DFID is weak when it comes to applying them.

Clare Joy, World Development Movement

This brilliant report is a must-read for officials in the world's richest countries as they consider the future of development aid. *Pumping Poverty* exposes the perverse use of taxpayer funds to advance transnational corporations' interests in total disregard for poverty-alleviation and the global environment.

Jim Vallette, Sustainable Energy and Economy Network (USA)

This report highlights one of the hidden ways in which the UK government continues to subsidise the oil industry. If the UK government is to meet its goals on climate change it must stop all support for the industries that cause it and switch to supporting industries that don't. Greenpeace UK supports the recommendations in this report.

Charlie Kronick, Policy Advisor, Greenpeace UK.

Oil is the currency of struggle, exploitation and environmental destruction too often in countries receiving aid. DFID is supposed to promote hope and human development. But 'Pumping poverty' demonstrates a gap between rhetoric and reality in government policy as deep as an oil well. It also shows the need for a paradigm shift in thinking about energy, climate change and development.

Andrew Simms, Policy Director, nef (new economics foundation)