



**Friends of  
the Earth  
International**

phasing out international  
financial institutions  
financing for fossil fuel and  
mining projects

demanding local community self-determination  
position paper | january 2002







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Peruvian farmers looking out over the plain of the Yanacocha gold mine where once was a mountain (by Sjoerd Panhuysen).

## introduction

Friends of the Earth International (FoEI) is calling for all International Financial Institutions (IFIs), including all Multilateral Development Banks (MDBs) and Export Credit Agencies (ECAs), to phase-out their financing of fossil fuel and mining projects within a period of five years.<sup>1</sup> Current IFI lending practices in these sectors do not contribute to the eradication of impoverishment and the creation of sustainable societies, as they disregard the finite nature of natural resources and exacerbate rather than ameliorate inequities.

This phase-out should cover all phases of the fossil fuel and mining cycles: prospecting, exploration, test drilling, exploitation, as well as construction of related infrastructure such as pipelines and roads, and any financial and regulatory advice or programs by IFIs that favor such projects.<sup>2</sup> For mining, phase-out coverage includes all mines involving extraction with major surface or sub-surface ecosystem disruption; mining that involves submarine (riverine or ocean) tailings disposal and any mining where the nature of the ore-body is high in mercury, copper, arsenic or other toxic materials.

As a first step toward a complete phase-out of their support for fossil fuel and mining projects, all IFIs should establish an immediate moratorium on any new projects in these sectors. Such a moratorium will allow space for establishing 'no-go zones' for fossil fuel and mining projects in areas of 'high conservation value' (ecologically sensitive, biologically rich or environmentally sensitive cultural areas); indigenous lands or areas where local communities oppose these projects; or areas of 'critical armed unrest' where activity may exacerbate militarization and armed violence.

There could be some exceptions on the phase out for projects, which, under the specific local or regional circumstances, directly benefit local communities, have a clearly discernible positive effect on the environment, or are otherwise necessary to allow societies to move towards a higher level of sustainability. This should be linked to a general shift in the energy portfolio of the IFIs, away from fossil fuel based projects, towards projects directly aimed at providing energy services to poor communities and at avoiding climate change; decentralized power generation, renewable energy projects and energy efficiency measures.

All bilateral export credit, investment and finance agencies, (typically known as ECAs) that provide loans and guarantees to corporations for fossil fuel and mining projects must be part of this proposed phase-out. From 1994 to 1999, ECAs provided more than US\$40 billion in loans and guarantees to upstream oil and gas development, without any basic environmental requirements or attempts to promote sustainability.<sup>3</sup> ECAs are so non-transparent that similar figures for mining are not even available. This makes them by far the biggest source of public funding for the fossil fuel and mining sector. Without fundamental changes in the lending practices of ECAs, their development will exacerbate the imbalances of economic and environmental distribution and the inequity of international relations.

IFI-financed fossil fuel and mining projects often enable wealthy transnational corporations to remove resources and profits from impoverished countries, leaving greater impoverishment, increased debt and environmental destruction in their wake. These projects neither lay a good foundation for sustainable societies nor help alleviate the plundering of local communities. This is contrary to the stated objectives of these IFIs. Academic studies, even though they

# introduction

use incomplete indicators such as Gross Domestic Product (which fails to measure real progress of society on meeting its basic needs), nevertheless have shown that there is little statistical evidence of a positive link between fossil fuel and mining investments to enhanced Gross Domestic Product (GDP).

IFI-financed fossil fuel and mining projects add to a country's total debt, and debt repayment to IFIs diverts resources from other areas, including social and environmental programs. Countries are not even earning a return worth the debt these projects create. On the local level, the balance can be even more negative, as communities suffer from the negative effects associated with such projects, without reaping any of the supposed benefits.

At the same time, fossil fuel and mining investments pollute local and regional environments and lead to deforestation of sensitive, biologically rich zones, while often undercutting efforts to protect ecologically important areas. Offshore oil and gas production leads to devastating pollution of pristine marine areas.

Moreover, fossil fuel and mining projects contribute to global climate change, creating long-term dependence on fossil fuels. To avoid catastrophic global warming as soon as possible an equitable arrangement needs to be achieved to eventually phase-out the use of fossil fuels. IFI lending should contribute to achieving this shift.

The evidence is overwhelming that fossil fuel and mining projects funded by IFIs have too often entrenched corrupt and dictatorial governments, exacerbating human rights abuses by those governments in the process. Similarly, fossil fuel and mining projects cause instability in socially sensitive areas, particularly

where oil activity and the competition for control of oil revenue may cause or exacerbate armed conflict. In addition, in areas inhabited by indigenous and subsistence communities, fossil fuel and mining projects interfere with the very basis of their survival, further marginalizing and disadvantaging these already vulnerable communities.

It is time for such destructive lending practices to cease. In this paper, FoEI proposes a way forward to achieve this goal.

# overview of ifi lending for fossil fuel and mining projects

## overview of ifi lending for fossil fuel and mining projects

All of the IFIs devote significant shares of their annual loans, investments and guarantees to fossil fuel and mining projects. It is estimated that in the period 1995-1999, IFIs allocated around US\$55 billion to projects in these sectors (not including fossil fuel thermal generating plants). However, the quality of publicly accessible data is such that it is difficult to make a precise estimate. It should be noted here that public IFIs leverage other sources of capital, which adds significantly to the total amount of investments in these sectors.

Institución	Total estimado para minería y combustibles fósiles
Total Grupo del Banco Mundial <sup>4</sup> 1995-1999	US\$ 5 950 millones
Banco Mundial (IBRD e IDA) <sup>5</sup> 1995-1999	US\$ 3 682 millones
Corporación Financiera Internacional (IFC) <sup>6</sup> 1995-1999	US\$ 1 458 millones
Agencia Multilateral de Garantía para las Inversiones (MIGA) <sup>7</sup> 1995-1999	US\$ 807 millones
Banco Europeo de Inversiones (EIB) <sup>8</sup> 1996-1999	US\$ 3 215 millones
Banco Europeo de Reconstrucción y Desarrollo (EBRD) <sup>9</sup> 1995-1999	US\$ 946 millones
Banco de Desarrollo Asiático (ADB) <sup>10</sup> 1995-1999	US\$ 2 025 millones
Banco Interamericano de Desarrollo (IDB) <sup>11</sup> , 1995-1999	US\$ 1 073 millones
Agencias de Crédito para la Exportación (desarrollo de petróleo y gas río arriba, sin minería) <sup>12</sup> 1994-1999 <sup>13</sup>	US\$ 40 500 millones

Tabla 1: Monto de Préstamos de IFI a Proyectos de Minería y Combustibles Fósiles

# problems associated with fossil fuel and mining projects

## problems associated with fossil fuel and mining projects

### **a. no guarantee for economic growth**

Multilateral Development Banks justify their involvement in the fossil fuel and mining sector with a reference to the positive effect on GDP growth that can be expected from these projects. In this logic, the extraction and export of natural resources will result in an increase of GDP and thus, through an assumed 'trickle down' effect, to the general improvement of living conditions of everybody.<sup>4</sup> At the same time, ECAs are devoid of an MDB-style 'poverty alleviation' (or even sustainable development) mandate, and argue that no investment is unwise so long as it is 'credit worthy' and results in increased country exports for industrialized countries.

But it is not richness in natural resources, nor whether those resources are exploited, that determines if society at large is going to benefit. Crucial is who controls the revenues deriving from the exploitation and who decides how adverse effects are borne. Such projects can lead to the impoverishment of whole communities, who may lose their access to communal lands or other resources. As a result of a deeply unjust global trade system, countries are trading away valuable assets for the future under very unfavorable conditions. In the current economic system that is determined by interests of powerful industrialized countries, with their insatiable consumer demand, the conservation of these resources is impossible.

Yet, even from a traditional development perspective, there is no body of statistical

evidence demonstrating that fossil fuel and mining investments substantially enhance GDP for most 'developing' countries, or that these projects automatically deliver measurable benefits for the majority of those living in countries thus being plundered of their resources. This is starkly clear to the many thousands of poor communities around the world who have the misfortune to live next to an oil or gas field or a large mine. In fact, MDBs have persisted in lending billions of dollars every year for decades to the fossil fuel and mining industries.

Those countries being plundered also fall low on the 'Human Development Index' developed by the United Nations Development Program (UNDP). This index incorporates life longevity, knowledge and literacy levels, and a decent standard of living.<sup>5</sup> These same countries have barely made a dent in their poverty levels and fall low on the Human Poverty Index on 'absolutely poverty'.<sup>6</sup>

In a paper published for the Harvard University Institute for International Development, economists Jeffrey Sachs and Andrew Warner point out, "One of the surprising features of modern economic growth is that economies with abundant natural resources have tended to grow less rapidly than natural resource-scarce economies."<sup>7</sup> Sachs measures countries' natural resources sector focus within the ratio of primary product exports to GDP. The Sachs paper cites statistical evidence that "the world's star performers have been the resource-poor economies of East Asia- Hong Kong, Korea, Singapore and Taiwan, while many resource-rich economies such as oil-rich countries of Mexico, Nigeria and Venezuela have gone bankrupt."<sup>8</sup> On average, countries with a high correlation of natural resource-based exports to GDP tend to have a lower growth rate.<sup>9</sup> Finally, the authors agree that a natural resource exploitation focus for economic develop-

# problems associated with fossil fuel and mining projects

ment “might pose an actual disadvantage,” as a country faces lost opportunity costs from failing to build up industries, communities and policies that would foster sustained economic growth.<sup>10</sup>

Studies show that the kinds of rent-seeking behavior so prevalent in natural resource-rich countries lead almost inevitably to serious inefficiencies, which lowers the overall growth trajectory for the country. This is partly because of a virtual ‘feeding frenzy’ in which various powerful interests, domestic and international, compete for the rights to exploit the resources, and end up inefficiently and often corruptly developing these sectors. Very often this leads to inequitable distribution of the revenues that ignores or leads to abuses of the local communities and destroys other natural resources, including forests, agricultural land, clean air and clean water.<sup>11</sup>

Venezuela, with an economy mainly thriving on oil, is a good example of this. Anibal Romero, a Political Science Professor at Simon Bolivar University, states; “This is a sick society, and it is sick as a result of an illness called oil. Oil is easy to produce, it can be done by others, with imported equipment, and it always sells. As a result, it has asphyxiated the rest of the economy and led the majority of Venezuelans to believe that if they are not rich, it is because someone has stolen what belongs to them”.<sup>12</sup>

## **b. negative impacts on communities**

Fossil fuel and mining operations are significant sources of ecological degradation, even in wealthier nations with stronger environmental protection mechanisms. In poorer countries with weaker environmental standards, less oversight and virtually non-existent enforcement capacity, the likelihood of oil spills, toxic emissions and contamination is

increased. Transnational corporations often act with little caution when operating in these countries, while governments and communities are also less equipped to limit and repair environmental damage when it occurs.

As a result, human health is adversely affected in a variety of ways. Spills, gas flaring and improper disposal of waste all result in toxic releases that are dangerous and even deadly to humans. These toxic wastes poison groundwater, farmland, livestock and marine resources, the very base on which the world depends. Mining operations are also known to lead to other dangers; for example, the incidence of malaria has been shown to increase in mining zones from mosquitoes breeding in stagnant pools created as a result of surface mining.<sup>13</sup>

Nowhere are natural resource degradation and the social inequity stemming from these investments more clear than in the Niger Delta of Nigeria. This region accounts for an overwhelming percentage of Nigeria’s oil production of more than two billion barrels per day, but most of the communities in the region lack access to basic services.<sup>14</sup> Chevron’s huge Escravos terminal has loaded countless millions of barrels of oil for thirty years, yet the fifteen thousand people living in the concession adjacent to it have no running water, gas, electricity or medical services.

Pipeline explosions due to unauthorized access are also a frequent occurrence in the Niger Delta. In the past few years, there has been an endless stream of oil pipeline explosions killing at least 2,000 people.<sup>15</sup> These explosions underscore the truth behind extraction in many countries. It is this perverse ‘development’ that too often is associated with fossil fuel exploitation and mining in developing countries.

# problems associated with fossil fuel and mining projects

As a result of the pollution and inequities in the region, peoples' movements such as the 'Movement for the Survival of the Ogoni People' (MOSOP) and the Ijaw Youth Council have called for their environment to be restored and adequate compensation given for damage done to their communities. In response to protests organized by these movements, and the associated threat of lowered oil production, police forces of the Nigerian Government and transnational oil companies such as Chevron have reacted with oppressive violence and harassment of local communities.<sup>16</sup> Similar events with Shell in this region are well documented.

Mining projects have created uprisings and negative impacts for local communities as well. Problematic projects include the Freeport McMoRan mine in Irian Jaya; the Kumtor Gold Mine in Kyrgyzstan; the Ok Tedi mine and the Lihir Mine in Papua New Guinea; and a series of proposed and ongoing International Finance Corporation backed investments in copper and gold mining operations in Peru. In the Peruvian case, the mines operated by Newmont destroy sensitive ecological areas, harm social development goals and have had a negative impact on local community health and safety.<sup>17</sup>

FoEI maintains that current models for the relationship between IFIs and the companies they support on the one hand, and local communities on the other, are woefully inadequate. IFIs and those companies often use community relations programs to neutralize these communities. Participation in such projects sometimes overcomes local opposition but does nothing to mitigate or prevent project impacts. What is lacking in this approach is respect for the fundamental right of local communities to approve, reject or moderate a project that affects their livelihoods and land.

## **c. loss of precious ecosystems and biodiversity**

From Siberia's boreal forests to the mangroves of Central America, from the rainforests of the Amazon basin and Africa to coastal and oceanic environments everywhere, fossil fuel and mining operations already now cause irreversible damage to ecosystems. Consequently, each day priceless biodiversity is being lost. The exploration and possible exploitation of new fossil fuel and mining reserves, along with associated new roads to open up the concessions, threatens forests and frontier zones in critical so-called 'High Conservation Value' (HCV) areas<sup>18</sup> and 'hotspot' regions<sup>19</sup> around the world. Much of this exploration is financed by IFIs.

It is estimated that at least 22 countries have frontier forests threatened by oil and gas exploration, while at least 38 have coral reefs and 46 mangrove areas threatened by oil and gas exploration.<sup>20</sup> In fact, nearly all of the world's last major frontier forest areas face an immediate to medium-term threat from oil and gas exploration, as each contains regions overlapping in part with petroleum and mineral basins.<sup>21</sup>

## **d. increased risk of climate change**

The effects of climate change already now are wreaking havoc on the poorest in Southern countries.<sup>22</sup> Scientific studies show fossil fuel use as the major cause of global climate change. It is therefore imperative that fossil fuel use be phased-out globally. This requires removing incentives and various types of subsidies that lead to continued use of fossil fuels, while moving aggressively to support non-fossil fuel alternatives.

## problems associated with fossil fuel and mining projects

By continuing unabated investment in fossil fuel and mining projects, IFIs are actively undercutting any greenhouse gas emission reductions that may be gained by application of the Kyoto Protocol, as these investments lock in the fossil fuel development model for years to come.<sup>23</sup> In June 2000, for example, the World Bank approved a US\$200 million loan for the Chad-Cameroon Oil and Pipeline Project. This project alone is estimated to ultimately contribute 446.4 million metric tons of carbon dioxide (MtC) to the atmosphere, according to World Bank figures. The main corporate beneficiaries of this loan, Exxon-Mobil and Chevron, have been key players in the effort to discredit the science of global warming and undermine the Kyoto climate treaty.<sup>24</sup>

The U.S. Overseas Private Investment Corporation and the U.S. Export-Import Bank, the two U.S.-based ECAs, supported projects with lifetime emissions values of 1139 MtC in an average year between 1992 and 1998 and those figures continue to grow. This amounts to at least three and as much as twenty three times the carbon reductions expected under the Kyoto Protocol's Clean Development Mechanism, a system supposing to enable industrialized countries to earn emissions reduction credits by fostering clean development abroad.<sup>25</sup> IFIs are presently backing projects that will result in billions of metric tons of greenhouse gas emissions currently unaccounted for by the Kyoto Protocol or any individual country.

In light of climate change, the world can ill afford to tap all of the already-identified fossil fuel reserves. It has been estimated that the amount of fossil fuels in identified reserves, in billions of barrels of oil equivalent, is about 9077. Yet calculations based on the Intergovernmental Panel on Climate Change's<sup>26</sup> analysis for the Framework Climate Convention, indicate that only around 1939 billion barrels

are 'safe' to burn (e.g., in order to avoid catastrophic climate change)- or about 21 percent of existing reserves.<sup>27</sup>

Since the climate change implications of just using these identified reserves are already staggering, FoEI sees no reason to explore for more fossil fuels, especially with enormous direct and indirect subsidies from IFIs.<sup>28</sup> Yet it is estimated that the international oil and gas industries have spent around US\$150 billion over the past three years just to explore for new sources.<sup>29</sup> Much of this investment is aimed at meeting the insatiable consumption 'needs' of industrialized countries, but does nothing to meet the needs of the impoverished and others disadvantaged by the current development paradigm.

### **e. increased ecological debt**

*"The cumulative responsibility of industrialized countries for the destruction caused by their production and consumption patterns is called the 'Ecological Debt'."*

*Aurora Donoso, Friends of the Earth/  
Acción Ecológica (Ecuador)*

IFIs backed by Northern industrialized nations demand more exploitation of natural resources in developing countries, in order to comply with external debt obligations and to meet Northern consumption patterns, while disregarding the social and environmental impacts of this development. This debt repayment policy usually mandated by the IFIs leads directly to the destruction of forests, biodiversity loss and climate change.

Because of the negative social, environmental and economic impacts of fossil fuel and mining projects, there is a growing movement for recognition of the existence of an Ecological Debt, owed by the North to the South. This claim is based

# problems associated with fossil fuel and mining projects

on the principle that the continued exploitation of fossil fuel and mineral resources of countries in the Global South is a form of illegal plunder that leads to the destruction of forests, loss of biodiversity and induces climate change, and that therefore a debt repayment is owed by Northern industrialized countries to these countries and the local communities.

In September 2000, the Southern Peoples Ecological Debt Creditors Alliance was formed. The alliance brings together representatives of countries that are owed Ecological Debt, in order to establish the responsibility of the Northern industrialized countries, their governments, companies and IFIs, for the environmental destruction in the countries of the Global South, and the planet in general.<sup>30</sup> One key demand of the coalition is for restoration and repair of the damage caused by the exploitation of natural resources and related impacts of climate change, which has undercut efforts to self-determination in many parts of the world. This should include reparations to local communities negatively impacted by fossil fuel and mining projects.

## **f. marginalization and genocide of indigenous peoples**

*"We will in no way sell our Mother Earth. To do so would be to give up our work of collaborating with the spirits to protect the heart of the world, which sustains and gives life to the rest of the universe, it would be to go against our own origins, and those of all existence."*

*Statement of the U'wa People, August 1998*

From the Amazon Basin to the Asia-Pacific region, indigenous peoples' ways of life are built on age-old traditions and deep ties to, and interdependence with, the ecosystems where they live. Fossil fuel and mining operations have devastated the homelands of scores of indigenous peoples and nations around the

world, resulting in loss of their territories, livelihoods and cultural identities, as well as grave reductions in population.

Worldwide, there are numerous major conflicts and hundreds of smaller ones regarding exploration for, and exploitation of fossil fuels and hard minerals on indigenous lands. Many of these conflicts remain unsolved until this day. A report by California based Project Underground, "Drilling to the Ends of the Earth", shows that indigenous peoples on every inhabitable continent and in at least 39 countries face an immediate to medium term threat from new oil and gas exploration.<sup>31</sup>

Even when there is no physical intrusion of their territories, indigenous groups often suffer from the negative effects associated with fossil fuel and mining operations in frontier areas. Examples are the large scale immigration to the area of single male laborers, with associated problems of prostitution, violence and alcohol abuse, the uncontrolled spread of diseases, unsolicited exposure to alien cultural values, modern advertising (the 'Bright Lights of the Distant City', luring away younger generations) etc. These phenomena form a direct threat to the physical and cultural survival of indigenous peoples.

Fossil fuel and mining exploitation in Latin America, for example, underscores the severity of these confrontations. In Colombia, the indigenous U'wa people have threatened mass suicide due to uninvited oil exploitation by Occidental Petroleum on their sacred lands.<sup>32</sup> In the Amazon region of Ecuador, a growing group of Ecuadorian indigenous activist groups, who have earlier witnessed the destruction caused by oil exploitation in the traditional territories of the Cofan and Huarani people, are taking steps to try to reroute or halt completely the construction of the country's new heavy crude oil pipeline (OCP).

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IFIs must respect the traditional land rights and distinct values of indigenous peoples, and not undercut the development path they choose for themselves by enabling fossil fuel and mining investments on their territories.

## **g. human rights violations**

*“There is a symbiotic relationship between the military dictatorship, the civilian dictatorship, and the multinational companies, who grease the palms of those who rule, because they need to be there. All strategies towards the capture of political power in Nigeria are aimed and directed at the capture of oil wealth and oil wells.”*

*Oronto Douglas, Environmental Rights Action/FoE Nigeria*

Many of the countries with fossil fuel and mining projects financed by MDBs and ECAs suffer from massive corruption and authoritarian regimes. Those in power and the elites from repressive countries often form alliances with transnational corporations involved in extractive industries, a situation which then could lead to terrible human rights abuses. These abuses vary from forced relocation of populations that are literally blocking the way of ‘progress’, to the brutal and sometimes deadly suppression of those who demand fair compensation and pollution clean-ups.

Current examples include the repression against the Ogoni people and others in Nigeria, who struggle to achieve a clean-up of the pollution on their land by the oil industry and a fair share in the profits for regional development.<sup>33</sup> Another example is the demands of the Amungme in Irian Jaya, Indonesia, calling for fair treatment and compensation from the largest gold and copper mine in the world. MIGA and the U.S. Overseas Private Investment Corporation both lent Freeport McMoRan their political support

for years. There are hundreds of more such cases around the world.<sup>34</sup>

In situations where benefits to local communities are promised as a rationale for IFI investment, blind faith in corrupt dictatorships prevents implementation. In the case of the Chad-Cameroon pipeline, backed by the World Bank, COFACE (the French ECA) and the U.S. Export-Import Bank, a special accounting system was setup to calculate the amount of oil revenues to be spent on education, health and other developmental priorities. This accounting system was a key rationale for project approval and the World Bank holds this system as a model for future fossil fuel and mining investments. US Ex-Im Bank explicitly justified its involvement by stating that its approval would increase leverage on implementation of these and other requirements. However, no sooner was the project approved than Chadian President Idriss Deby took US\$ 4.5 million from the ‘bonus’ he received from the oil consortium to finance arms deals, leaving the World Bank deeply embarrassed.<sup>35</sup>

## **h. exacerbate and cause armed conflict**

*“The United Nations declared that 200 people are dying a day from the war-induced ‘forgotten emergency,’ of hunger.”*

*Angola Peace Monitor, April 2000*

*“It’s one of the most exciting areas in the world right now”*

*Director of Chevron-Angola*

Fossil fuel and mining projects are all too often found in the middle of socially sensitive areas, where the competition for control of oil revenue may cause or exacerbate civil wars and domestic armed conflicts. This is the situation at present in Angola, Chad, Colombia, Democratic Republic of Congo, Sierra Leone, Sudan and the whole of the Caucasus.

## problems associated with fossil fuel and mining projects

In Angola for example, the country produces about 785,000 barrels of oil per day through IFI-backed projects such as the Cabinda oil fields, making it the second largest oil producer in sub-Saharan Africa. However, revenues are not being put towards reconstruction of this long-impooverished country, but rather are being used by the government to fuel its side of the civil war conflict with the rebel movement. The oil sector has been shrouded in secrecy, and there have been persistent allegations of enormous corruption. The result is that foreign currency reserves have run dry and social sector services targeted for these revenues are not being implemented.

The situation has also led to growing anger between the different classes, as the 80 percent of Angola's population living in impoverished conditions note that basic education and sanitation services are often non-existent, while ruling elite classes are gaining massive wealth from oil revenue. Now, belatedly, oil sector reforms including increased transparency are being suggested.

# the phase-out and how it will work

## **the phase-out and how it will work**

FoEI calls upon all IFIs to phase out their lending for all fossil fuel and mining projects within five years. However, in order to start phasing out these projects, it is necessary to formulate a set of priorities.

In reviewing the present status of disputes worldwide between civil society and companies promoting these types of projects, it is immediately obvious that most disputes involve one or a combination of the following types of areas: a) 'high conservation value zones' (ecologically sensitive or biologically rich areas); b) the territories of indigenous peoples and nations; c) culturally and environmentally sensitive areas for local communities; or d) areas of 'critical armed unrest.'

As a first step towards a complete phase out, FoEI therefore demands an immediate ban for any projects situated in the areas mentioned above. This requires an effort from IFIs, in cooperation with NGOs and local communities, to develop a clearly defined list of these areas. While this is a monumental task, it is by no means impossible. There are already a number of NGOs engaged in mapping exercises that establish areas of 'high conservation value' and other no-go zones that FoE proposes. The following paragraph lists examples of such efforts.

# defining the no go zones

## defining the no go zones

### **a. indigenous peoples' lands**

In 1998, Rainforest Action Network and Project Underground released a report entitled "Drilling to the Ends of the Earth: The Ecological, Social, and Climate Imperative for Ending New Petroleum Exploration" The report assesses the threats of new petroleum exploration to the climate, fragile ecosystems and to indigenous peoples. It shows that indigenous peoples on every inhabitable continent face an immediate or near-term threat from oil and gas exploration. "Drilling to the Ends of the Earth" includes six maps that for the first time overlay priority exploration areas with old growth forests, mangroves, coral reefs and indigenous populations, showing in almost every case that these exploration sites endanger natural areas and threaten indigenous people.<sup>36</sup>

### **b. wilderness areas and biodiversity hotspots**

Biodiversity is not evenly distributed on the planet. Some areas harbor far greater concentrations of living creatures than others do. Conservation groups have identified biologically rich areas under the greatest threat of destruction as 'biodiversity hotspots'.<sup>37</sup> They concentrate their conservation efforts on these areas in order to have the most impact. There are presently 25 identified priority hotspots that are based on three criteria: the number of species present, the number of those species found exclusively in an ecosystem and the degree of threat they face. If a major portion of the world's plant and animal species are found in approximately 2 percent of the planet's land surface, then a strong focus on the conservation of these targeted regions will

help maximize results, including through positive investments and donations by the private sector, international aid agencies and IFIs.<sup>38</sup> The maps of these hotspots provide a concrete tool for evaluating a proposed IFI investment.<sup>39</sup>

Many international NGOs, as well as thousands of national, regional and local NGOs and people's organizations, recognize the importance of protecting major wilderness areas and have campaigns oriented toward achieving that goal.<sup>40</sup> The primary difference between hotspots and so-called 'wilderness' areas is the degree of threat they face. Whereas less than 25 percent of natural vegetation remains in the hotspots (some have less than 10 percent of their original habitat), wilderness areas generally are claimed to have at least 75 percent undisturbed natural vegetation, with a human population density usually of no more than five persons per square kilometer. These wilderness areas are great storehouses of biodiversity, as well as being major watershed areas. They are often the last places where indigenous people have any hope of maintaining traditional lifestyles. Sadly, these areas are also the targets of large timber companies, oil and mining companies and logging companies seeking to exploit the last remaining large blocks of intact forests.

Scientists of World Wildlife Fund have identified more than 200 outstanding terrestrial, freshwater, and marine habitat areas that must be protected if we are to preserve the web of life for future generations.<sup>41</sup> Similarly, Birdlife International is establishing a map of important ecosystems that must not be altered for the survival of rare species.

# defining the no go zones

## **c. frontier forests**

Large areas of ecologically-intact natural forest, or 'frontier forest', are valuable for numerous reasons: they shelter global biodiversity and store carbon; if harvested in a responsible way, they can provide an endless supply of forest products, contributing to sustainable local and national economies; they provide opportunities for recreation and eco-tourism; and they fulfill important spiritual and aesthetic needs.

Sadly, most frontier forests are in acute danger. The World Resources Institute estimates that about 39 percent of the remaining frontier forest is threatened by logging, mining, and other large-scale development projects. Since 1998 the petroleum industry has cut 15 million kilometers of seismic line- or more than twice the U.S. road network- for exploration purposes, most of it in forest areas, which open them up to further destructive activities. WRI has prepared maps of those areas.<sup>42</sup>

## **d. critical marine areas**

Although several environmental organizations have focused attention on the protection of various types of marine areas, they have typically concentrated their efforts on near-shore environments, except for areas designed to protect species' habitats, such as the Southern Ocean Whale Sanctuary and various coral reef parks.

Greenpeace International has been campaigning to block oil and gas exploration and leasing in the Atlantic Frontier, an area to the west of the Shetlands and out to the Rockall Trough and Plateau, which is a large stretch of very deep, largely pristine ocean.<sup>43</sup> This is another example of the types of areas that FoEI also urges to be put off limits to exploration, with a ban on any financing from IFIs and ECAs.

If all of the various maps described above were integrated using a GIS approach, the full set of overlays would reveal quite precisely the range of no-go areas that should be respected by IFIs. IFIs should engage in a targeted discussion on the establishment of such no-go zones with all stakeholders.

# a different energy agenda

## a different energy agenda

While FoEI wants IFIs to move away from fossil fuel and mining projects, this does not imply that these institutions have no role to play in meeting the dual global challenge of eradicating poverty and avoiding catastrophic climate change.

The eradication of poverty in the world requires many different changes to be made, by many different actors. FoEI stresses that efforts to combat poverty must first be aimed at ensuring that impoverished people regain control over their own lives, by tackling the injustice and inequity underlying many poverty situations, and then provide people with essential services as education, health care, clean water and a healthy environment, access to land and resources to sustain themselves. Access to clean energy is one of these essential needs that must be met.

To avoid catastrophic climate change, it is imperative that the world moves away swiftly from a carbon-based economy towards sustainable societies based on renewable energy sources. IFIs could *potentially* contribute to tackling both problems at the same time.<sup>44</sup>

To do so will require a big shift in the current lending portfolio of IFIs, ECAs included. What would a sustainable energy lending portfolio, providing energy to impoverished communities while simultaneously alleviate the threat of climate change, look like? FoEI maintains that it would require IFIs to terminate their support for all fossil fuel exploitation and exploration, as well as the financing of

energy production units dependent on these fuels. Because of the numerous, well-documented problems associated with them, large dams are also not an appropriate energy source for investment.<sup>45</sup>

Instead, IFIs should invest their resources in non-fossil fuel energy supply and use that will directly benefit the estimated 2 billion people who presently lack modern energy services. Those investments should feature decentralized power distribution systems in rural areas, cutting-edge micro technologies and small-scale renewable energy systems. There is no shortage of good alternatives to existing fossil fuel projects.<sup>46</sup>

IFIs should also limit their support to those projects and policy-based loans in the energy sector that directly alleviate poverty and promote sustainable economic development. In most cases, cost-benefit analysis already shows that renewable forms of energy and decentralized power distribution are the most viable way to reach remote, rural areas that are off the grid. It costs at least US\$1000-US\$1500 per kilowatt in developing countries to build or replace an electric grid, and even more in rural areas with dispersed populations. By supporting emerging markets in solar, wind and fuel cell technology, IFIs and ECAs could bring energy to hundreds of millions of people in rural areas by the year 2020.<sup>47</sup> They would be promoting energy that will not exacerbate pollution problems or global climate change, but rather are part of the overall solution.<sup>48</sup>

## a different energy agenda

Additionally, IFIs should be concentrating on assisting countries to capture the hundreds of millions of dollars that are lost each year through energy inefficiency and energy losses. Investments in preventing heat loss and in co-generation processes, which simultaneously produce both hot water and electricity, could save these countries billions of dollars in the coming decades. Combined with energy efficient lighting and building techniques, this would reduce energy imports and thereby conserve foreign exchange.<sup>49</sup>

Partly this work involves support for the implementation of the correct policy framework, which in turn would help ensure that the prices of energy and mineral resources include their environmental costs, so that better choices are made both by investors and consumers. The World Bank and other IFIs have paid lip service to this for years already, but so far no moves are made to achieve this. The policy framework that exists at present is inherently biased and wrong if one takes even remotely seriously the idea of 'getting prices right.'

This is nowhere more true than in the fossil fuel and mining sectors, where everyone agrees that the prices of products do not reflect longer-term environmental costs at all. Such a policy framework based on the incorporation of all environmental costs would not preclude targeted policies to ensure that low-income households keep access to basic energy supplies, subsidized public transport etc.

# steps to take by ifis

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For the reasons set out above, Friends of the Earth International urges International Financial Institutions (Multilateral Development Banks and Export Credit Agencies) to agree on a **moratorium** for new investments in fossil fuel and mining projects. This moratorium would allow for:

- The establishment of a **strict ban** on financing by any IFI for any new fossil fuel and minerals exploration projects in areas of high conservation value, territories of indigenous peoples' and nations, areas where local communities oppose such projects, and areas where investments will exacerbate armed conflict. IFIs should immediately consult and work openly with civil society and governments to establish these critical no-go zones.
- A detailed **reevaluation of all pending projects** which have an impact on the areas mentioned above, with the objective to find better alternatives for these projects or to cancel the project when no such alternatives exist
- Development of **concrete action plans for a complete phase-out** of financing for these types of projects within five years. These plans should systematically identify policies and projects that help **phase-in a positive targeted energy lending** shift, to enable IFIs to target the dual goal of eradicating poverty and preventing catastrophic climate change.
- IFIs must **assume responsibility for any damage** caused by their projects to ecosystems and to the economic and social situations of communities. It is therefore necessary to carry out

a study of the impacts that energy policies and projects of IFIs have had on developing countries and the plight of specific communities. IFIs must provide resources for the compensation of damage and the physical restoration of affected areas.

- IFIs must acknowledge the need to **limit investments** in other sectors and projects that are based on technologies with high use of fossil fuels and oil byproducts.
- IFIs should respect the sovereign rights of communities to choose their own development path, based on their own priorities and preferences. Therefore, IFIs must **establish participatory systems** through which communities to be affected by IFI financed projects can freely establish their decisions on the project, with the capacity to modify or veto such projects.
- **Export Credit Agencies** have been documented to finance the environmental and social destruction of local communities and to exacerbate long-term global climate change. ECAs must begin meaningful transformation towards binding environmental standards and portfolio shifts away from fossil fuels and towards renewable energy within two years, or they should be abolished.

Accomplishing these changes will require leadership by the management and action by the Board of Directors of each MDB, and by the controlling government institution for each ECA. To implement such a phase out effectively, IFIs should make use of existing cooperative mechanisms among themselves to generate harmonized approaches.<sup>50</sup>

## notes

<sup>1</sup> For the purposes of this paper, IFIs are broken into two groups: 1) Multi-lateral Development Banks- This includes the World Bank Group (IBRD, IFC, IDA, MIGA), Inter-American Development Bank, Asian Development Bank, African Development Bank, European Investment Bank and the European Bank for Reconstruction and Development; and 2) Export Credit Agencies (ECAs).

<sup>2</sup> This is the role the World Bank has taken with respect to the West African Gas Pipeline; it finances the regulatory reform framework that will enable the project but so far it does not directly support the project.

<sup>3</sup> Crescencia Maurer with Ruchi Bhandari, "The Climate of Export Credit Agencies", World Resources Institute, Climate Notes, May 2000.

<sup>4</sup> When the World Bank approved the Chad Cameroon pipeline project in June 2000, it seemed to question its own logic when it stipulated that part of the revenues had to be deposited in a fund specifically earmarked for social investments.

<sup>5</sup> UNDP, Human Development Report 2000, p. 170-171. Chad is ranking 161, Nigeria ranking 151, Ivory Coast 154, Indonesia ranking 109 and Bolivia ranking 119. It must be noted here that the Human Development Index is no perfect yardstick, as it only registers statistical correlations but hides the mechanisms responsible for the process of impoverishment.

<sup>6</sup> Id. HPI-1 looks at the percentage of children under 5 who are underweight, probability at birth of not surviving to 40, adult illiteracy rate and access to safe water and health services. For example, in oil rich Nigeria 37.65% of the population lives in absolute poverty and 27.7% faces these conditions in Indonesia.

<sup>7</sup> Harvard Institute for International Development, Harvard University, "Natural Resource Abundance and Economic

Growth," by Jeffrey D. Sachs and Andrew M. Warner, Abstract, October 1995. The authors note that the findings are highly suggestive and that other policy changes could play a large role in economic growth as well.

<sup>8</sup> Id. p2

<sup>9</sup> Id.

<sup>10</sup> Id. p 3.

<sup>11</sup> Id. p4, citing the work of economists Lane and Tornell (1995) and the related case studies of Gelb (1988) and Auty (1990).

<sup>12</sup> "Venezuela Finds Source of Wealth Is Also A Curse," New York Times, Section 1 Page 3, August 2000.

<sup>13</sup> See the recent report by Thomas Akabzaa, a lecturer at the Department of Geology of the University of Ghana, for Third World Network, a worldwide network of critical scholars from the South. Apart from malaria, the study also found elevated levels of many other diseases associated with mining in the Tarkwa-Prestea-Bogoso and Nsuta areas of the Western region of Ghana, where about 70 percent of the area is given to mining concessions.

<sup>14</sup> "New Oil Pipeline Explosion Kills At Least 40 In Nigeria," Agence France Press, July 25, 2000.

<sup>15</sup> "In The Oil-Rich Niger Delta, Deep Poverty and Grim Fires," New York Times, Section A, Page 1, August 11, 2000.

<sup>16</sup> Human Rights Watch, "The Price of Oil: Corporate Responsibility and Human Rights Violations In Nigeria's Oil Producing Communities," January 1999.

<sup>17</sup> In April 2001, Project Underground, on behalf of affected communities in the region filed a complaint with the IFC Ombudsman for violation of IFC safeguard policies by the Yanacocha mine.

<sup>18</sup> There are a variety of criteria that can be used to establish what HCV means, including areas of high richness, high endemism (high richness and endemism

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means outstanding biodiversity), rare or highly threatened habitats or species areas, large intact blocks of habitat that preserve natural ecological processes and phenomena, or any representative example of habitats (whether intact or degraded if that is all that remains - but in the degraded case, anything that's restorable). A committee of The Forest Stewardship Council is trying to define what HCV are. Examples of areas that can be delineated include: (1) for representation of globally rare habitats - Mediterranean, tropical dry and temperate rain forests; (2) for outstanding biodiversity value - entire eco-regions such as in Madagascar, Philippines and Indonesia; (3) for intactness - 'frontier forests' in the Amazon, Congo Basin, Papua New Guinea, and boreal forests generally.

<sup>19</sup> British ecologist Norman Myers created the biodiversity hotspots concept in two scientific papers published in 1988 and 1990. Myers recognized that a modest number of hotspot ecosystems covering a small total land area, most often in tropical forest areas, accounted for a high percentage of global biodiversity. Conservation International has worked with Myers and other scientists around the world to refine the concept.

<sup>20</sup> See Rainforest Action Network and Project Underground, "Drilling to the Ends of the Earth", 1999.

<sup>21</sup> Id.

<sup>22</sup> See Friends of the Earth International, "Gathering Storm: The Human Cost of Climate Change," September 2000.

<sup>23</sup> Kate Hampton; Sustainable Energy and Economy Network, "Banking on Climate Change: How Public Finance For Fossil Fuel Projects is Short Changing Clean Development," November 2000.

<sup>24</sup> See "Broken Promises; the Chad Cameroon oil and pipeline project; profit at any costs?" FoEI, June 2001 [www.foei.org/ifi.htm](http://www.foei.org/ifi.htm)

<sup>25</sup> Id. See also, "OPIC, Ex-Im and Climate Change: Business As Usual?" Institute for

Policy Studies, Friends of the Earth-US, and International Trade Service, April 1999.

<sup>26</sup> Recognizing the problem of potential global climate change, the World Meteorological Organization (WMO) and the United Nations Environment Programme (UNEP) in 1988 established the Intergovernmental Panel on Climate Change (IPCC). The role of the IPCC is to assess the scientific, technical and socio-economic information relevant for the understanding of the risk of human-induced climate change.

<sup>27</sup> See Rainforest Action Network and Project Underground, "Drilling to the Ends of the Earth" 1999. See also Greenpeace International, "Carbon Logic", 1999.

<sup>28</sup> In any event, the private sector is fully able to take care of itself in both the fossil fuels and mining sectors, and should bear the full risks of their investment choices, without the benefit of hidden subsidies from IFIs and Bilateral agencies.

<sup>29</sup> See "Drilling to the Ends of the Earth", Project Underground, 1999.

<sup>30</sup> For more on the concept of Ecological debt see [www.cosmovisiones/deuda\\_ecologica](http://www.cosmovisiones/deuda_ecologica). See also "Fossil Fuels and Climate Change Position Paper." Oilwatch 6<sup>th</sup> Conference of the Parties of the Climate Change Convention-COP6. The Hague, November 2000. [www.oilwatch.org](http://www.oilwatch.org). The paper outlines several illustrative cases where irresponsible lending practices by IFIs and Northern industrialized nations have plundered countries and created Ecological Debt.

<sup>31</sup> See [www.moles.org](http://www.moles.org)

<sup>32</sup> See [www.amazonwatch.org](http://www.amazonwatch.org) or [www.ran.org](http://www.ran.org).

<sup>33</sup> See "The price of Oil, : Corporate Responsibility and Human Rights Violations in Nigeria's Oil Producing Communities", Human Rights Watch (New York · Washington · London · Brussels), 1999 (available at [www.hrw.org/hrw/reports/1999/](http://www.hrw.org/hrw/reports/1999/))

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nigeria/Nigew991-05.htm)

<sup>34</sup> See George Akpan “Environmental and Human Rights problems in Natural Resources Development - Implications for Investment in Petroleum and Mineral Resources Sectors” (1998).

<sup>35</sup> See “Broken promises; The Chad Cameroon pipeline project; profit at any cost?” FoEI, June 2001.

<sup>36</sup> The maps can be viewed on the web at: [www.moles.org/ProjectUnderground/motherlode/drilling/map.html](http://www.moles.org/ProjectUnderground/motherlode/drilling/map.html) This functional site shows the situation at the macro-level but then allows the user to click different areas for a closer focus, showing where there will be conflicts with indigenous lands. See [www.amazonwatch.org/megaprojects/map.html](http://www.amazonwatch.org/megaprojects/map.html) for a good map of controversial projects in the Amazon Basin.

<sup>37</sup> See [www.conservation.org](http://www.conservation.org).

<sup>38</sup> The World Bank has agreed to a US\$150 million program to help Conservation International fund its hotspots protection efforts. The Bank then shouldn't be using other money to undermine this protection by financing fossil fuel and mining projects in those areas.

<sup>39</sup> The maps can be viewed at [www.conservation.org/Hotspots/where.htm](http://www.conservation.org/Hotspots/where.htm).

<sup>40</sup> At the international level this group includes International Union for Conservation of Nature and Natural Resources, Conservation International, World Wide Fund for Nature, Rainforest Action Network, World Rainforest Movement and the Nature Conservancy. Many individual member groups of these and other NGOs likewise share the vision of protecting pristine wilderness areas from fossil fuel and mining activities.

<sup>41</sup> The WWF Global 200 Report can be viewed at [www.worldwildlife.org/global200/](http://www.worldwildlife.org/global200/)

<sup>42</sup> These regional maps can be viewed at [www.wri.org/ffi/frontier/](http://www.wri.org/ffi/frontier/)

<sup>43</sup> Currently, exploration and drilling plat-

forms are operative in the four fields so far discovered (Foinaven, Schiehallion, Clair, and Suilven). Over a wider area extensive seismic testing is being carried out, despite the Atlantic Frontier being the home of whales, including the very rare blue whale, dolphins, and that it is an intricate, little known marine ecosystem which is virtually untouched by pollution so far; a marine wilderness area.

<sup>44</sup> Whether IFIs can really play a positive role in the development process is, according to FoEI, critically dependent on the implementation of other reform measures, such as a strong commitment to transparency and accountability –reflected in an open information policy, improvement of, and strict compliance with a whole range of safeguard policies and the establishment of effective complaint mechanisms. Furthermore, Even more important is that it would require IFIs to move away from their current orientation to neo-liberal policies and, in the case of the World Bank, a departure from the current strict adjustment policies. The energy agenda outlined here must be part of this bigger reform agenda in order to be really effective, but this is not further elaborated upon in this paper. See [www.foei.org](http://www.foei.org).

<sup>45</sup> See the end report of the World Commission on Dams at [www.dams.org](http://www.dams.org)

<sup>46</sup> See, for example, Flavin, “Energy For The 21<sup>st</sup> Century”, presented at the 1999 World Bank Energy Week Conference; “The Electric Revolution” (Leader) and “The Dawn of Micropower”, *The Economist*, August 5, 2000.

<sup>47</sup> One key procedural point is for the IFIs (and bilateral agencies) to support developing country governments in establishing participatory processes built on informed consultations with citizens and stakeholders, in order to identify project priorities in the areas listed above.

<sup>48</sup> For example, suppose the World Bank (IBRD/IDA) had used the US\$ 3.7 billion it loaned for fossil fuel and mining projects over the period 1995-1999 on

solar electrification? A typical rural solar electrification program costs about US\$ 250,000 for 500 homes. That means the World Bank could have provided about 7,363,000 rural poor households with solar home systems (US\$3.7 billion divided by 250,000 X500) – quite a missed opportunity.

<sup>49</sup> In this context, it is worth noting that in 1988 Howard Geller, former Executive Director of the American Council for an Energy-Efficient Economy, and José Goldemberg, former Secretary of Science and Industry in Brazil, published a major report on how Brazil could save tens of billions of dollars by such investments, thereby avoiding the need to build scores of new dams and thermal power plants. This report was presented to the World Bank and other lenders for consideration, and played a role in stopping some financing for a series of dam schemes in the Amazon Basin. It also contained a series of recommendations for a sector-based strategic investment program in efficiency and conservation that have been largely ignored. If such a strategic tool existed for every developing country, that would provide a good basis for the kinds of investments recommended in this position paper. See “Efficient Electricity Use: A Development Strategy for Brazil”, American Council for an Energy-Efficiency Economy, Washington DC.

<sup>50</sup> This is especially important for ECAs, which are competing with each other. OECD currently hosts a working party on Export Credit Agencies, which has been discussing harmonized environmental guidelines, on environmental assessment and public information policies.

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