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Earth calling the IFIs – Take us to your added value

It is generally recognised that mass state investment and broader expenditure is a central piece of recovery from any recession as significant as the current one. The past few months have seen considerable debate on the type of fiscal stimulus that would be most effective in fomenting economic recovery.

An important concept in this regard is the so-called “fiscal multiplier”, which measures the impact of state spending on overall economic activity. Notably, not all state expenditures yield the same impact on economic activity because different recipients of state funds have different consumption and savings behaviour.

In a general recession it is broadly recognised that businesses and well-off households are much less likely to spend additional money they may receive than poor households. Recent contributions by IMF economists, the

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Countdown to Copenhagen finds the EU stuck in limbo

There are 250 days or so now remaining until the Copenhagen conference, where the most complicated and most crucial agreement in history will hopefully, in spite of much expected kicking and screaming to come, see the light of day. But what to make of the EU’s contributions thus far?

The EU’s footprint in the negotiations last year was far from satisfactory. At December’s Poznan conference we saw the EU fighting to some extent at the Brussels front for at least some – if not ambitious – adoption of the climate-energy package that is formally supposed to underpin the EU’s position towards Copenhagen. It’s worth bearing in mind that, half a year before, the European Council tasked the Commission to come up with a “comprehensive strategy for scaling up finance and investment flows for both mitigation and adaptation in response to the Bali Action Plan, including mechanisms for research

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EARTH CALLING THE IFIS – TAKE US TO YOUR ADDED VALUE

US Congressional Budget Office, and Moody's have broadly emphasised that injections through tax cuts for corporations or individuals have very low stimulus impacts, while direct state consumption, transfers to the poor and unemployed, and infrastructure projects (once they are up and running) all have high economic stimulus effects.

The IMF economists in particular point out that "incentives for private sector investment are likely to have minimal multipliers in the current environment of low business confidence and corporate stress".

The public-private partnership (PPP) structures currently favoured by the European Commission, European Investment Bank and the European Bank for Reconstruction and Development diminish the fiscal impact of public spending by putting (much of the) money into the pockets of firms unlikely to invest it further. The higher the private profits, the lower the public economic benefit in the current setting.

State-led green infrastructure investments into existing low-emissions mass transit projects, coordinated energy research, shovel-ready renewable energy generation, and building insulation and energy efficiency can be motivated very effectively on the basis of their short- and long-term economic stimulus effects.

Not only do they deliver high multiplier effects, but they address areas of investment hitherto under-served by the private sector. Even virulently pro-market policy makers may have to concede that since states have to intervene in unprecedented scales into the economy during the current crisis, they may as well do so in areas where they are uniquely positioned to catalyse quantum leaps in energy technology and infrastructure.

The case for the IFIs and the keepers of the EU funds to "go fiscal – and multiply" couldn't be clearer right now – especially when it comes to projects replete with environmental and social added value.

COUNTDOWN TO COPENHAGEN FINDS THE EU STUCK IN LIMBO

and development in, and the dissemination and transfer of, safe and sustainable low-carbon technology".

At the end of January, the Commission finally delivered – yet the 14 pages offered up just one general paragraph on mechanisms, virtually no figures or commitments, no clear information on how to refill funds for adaptation, and the transfer of technologies issue boiled down to – or perhaps merely side-stepped – a demand on developing countries to come up with their low-carbon development plans. After seven months of waiting, more was expected, even if the official Communication was underpinned by hundred-page studies.

Subsequently the ball was passed to officials, working groups and committees in the complicated, closed structure of the Councilof Ministers out of which, at the beginning of March, Environment and Ecofin Council formations adopted contributions to the European Council.

Europe's environmental ministers outlined their positions towards Copenhagen in 40 points: one paragraph rehashed existing proposals for financing mechanisms as have been laid down by Norway and Mexico, there was a strong push for carbon markets over-riding any notion of public finance, some reference to figures but definitely no EU commitments, and a clear nod to an unreformed "continuing role of the Clean Development Mechanism" (read this as a source of cheap credits to fulfill the EU's mitigation targets). Not a very satisfactory conclusion from those ministers most acquainted with the urgency and scale of the climate challenge.

The finance ministers, struggling with a number of points related to the economic crisis, adopted their conclusions on three pages. Notably, in some points such as the additionality point in the CDM paragraph and with more encouragement for the use of ETS revenues for the support of developing countries, they showed themselves to be more up to speed than their environment counterparts.

However, the preference shown to existing mechanisms and the private sector, as well as the blatant silence on figures and mechanisms – either those proposed by other parties or any "new and innovative" ones – provide little hope that our national purseholders have given the necessary support and mandate needed by environment officials for the international climate battle ahead.

Fearful of taking a bold step forward, the environment ministers invited the European Council "to consider the options for generating financial support". In comparison to earlier versions, Europe's leaders slightly improved their conclusions on climate by adding special attention to the most vulnerable countries, and by providing a clear definition of further tasks for June's meeting of the European Council.

However, one added extra highlighting the role for the carbon market gives a clear signal – especially in the context of the over-arching conclusions which primarily focus on the economic crisis – that the EU's plan for developing countries is all about finding new trading opportunities for European companies in emerging markets. Moreover, bearing in mind that climate was only a lunch item at this month's Spring summit, it's looking like a tall order to "further discuss" climate change financing at the June meeting and come up with an EU position "well in advance of the Copenhagen conference".

Financing is the key to the Copenhagen deal, where not only the EU will have a say, and it will therefore require sufficient time for discussion at international negotiations. A further question requiring engagement from Europe's heads of states – especially with there being so much preoccupation with the economic crisis – is how to ensure that the highly regarded carbon markets don't degenerate into yet another unregulated casino, prone to unmanageable speculations and risky business tendencies?

While derivatives markets have reached USD 600 trillion in recent years, the climate financing that is on offer now is a little over one-tenth of the minimum estimated requirements for climate financing coming from the UNFCCC. Upcoming international climate talks look set to see a great shift to the US side, while the EU dithers and squanders still available, though fast running out, time.

For more on climate financing implications, see: http://bankwatch.org/newsroom/release.shtml?x=2145202

Wind frozen and trees cut in Latvian crisis measures

Last month the Latvian government took the step of freezing support from EU funds allocations for wind energy development. This decision means that the programme is "postponed for unlimited time until additional assessment is made".

The allocation for wind projects under the EU funds for the 2007-2013 period was already fairly small, consisting of roughly EUR 10 million, of which approximately EUR 2.7 million was to be spent in 2009. There has been no new build of wind turbines in Latvia since 2000. Environmental NGOs, the wind energy association and project promoters who had planned to submit applications to co-finance start-up investments reacted with dismay to the announced freezing of EU money.

Several weeks before, Latvia's cabinet of ministers also provoked criticism with the adoption of a regulation that increases the quota for annual logging by 19 percent. This curious stimulus measure shocked nature protection organisations no consultations took place whatsoever, in breach of standard official procedures. Neither did the decision consider any assessments on the likely impacts on biodiversity, nor were any criteria set out on where the logging should be restricted on the grounds of biodiversity protection.

The stimulus motivation behind this promotion of tree-cutting has raised eyebrows. While about 50 percent of forests in Latvia are owned by a state company, the remainder are private. Nature protection organisations are concerned that in privately-owned forests the forests as nature resources have been depleted due to over-cutting in previous years. In fact a large share of these privately-owned forests are owned and controlled by Scandinavian companies – some of the profits from increased logging will already be flowing out of Latvia.

Across the border, shoddy EU funds oversight hits taxpayers

Estonia has been requested by the European Commission to return EEK 1.9 million EEK (EUR 122 000) of EU funds because of a poor quality feasibility study for the Saaremaa bridge project carried out by Danish consulting company Ramboll, Sund&Belt Partner and Deloitte. Due to potential project costs in excess of EUR 300 million, the project's construction is only feasible with funding from EU Structural Funds.

Opposed by environmental groups because of the wealth of the biodiversity that could be affected in what is a large Natura 2000 area, the bridge project developers have undoubtedly suffered a setback. The European Commission deemed that the study failed to fulfil its main objective: to indicate the most reasonable location for the route from the mainland to Saaremaa island. The study, that in fact indicates two possible routings for bridge, one of which is also regaded as suitable for tunnel construction, was completed in 2005 and cleared in the same year by the Estonian national authorites.

Saaremaa Island in the Baltic Sea has 40,000 inhabitants and is accessible via regular ferry line for both passengers and cargo across a seven kilometre strait. The Estonian government has been studying options for constructing either a bridge or a tunnel to the island since the late 1990s. Either bridge option is probably excessively expensive for Estonia, while the cost of tunnel is undoubtedly out of reach. Environmental NGOs have been opposing the projects and at the same time proposing more frequent ferry connections as the less harmful and cheaper option.

Questions are being asked about the diligence of the responsibleEstonian governmental body – the Ministry of Economics and Communication – in its interpretation of

the Instrument for Structural Policies for Pre-Accession (ISPA) contract when announcing the necessary criteria in the public procurement. The upshot is that 40.5 percent of the ISPA grant provided needs to be paid back.

Never a good outcome, but the economic crisis calls now more than ever for smart use of the EU funds, and for much more responsible oversight from national officials.

More background information on the potential use of EU billions on controversial projects such as the Saaremaa bridge is available at our online map: www.bankwatch.org/billions/

The penny starts to drop on PPPs

There is something in the air with public private partnerships, and the controversial investment vehicle's promoters don't seem to be overly concerned these days about disguising one of its notorious characteristics – very bad value for money. A Europe-wide initative to push PPPs is now up and running under the delicious name of C.R.E.A.M. Europe, on whose site you can find a link to a PPP "competence centre" accessible at www.conject.com/en In Czech Republic, a light railway link connecting the Prague airport with the city center is being proposed for the PPP treatment – and it goes by the name of AirCon.

The following extracts from a January 2009 paper from the Public Services International Research Unit describe how, in these times of economic hardship, public spending authorities are waking up to the PPP conceit.

The reflationary packages of governments to counter the recession typically involve increasing public spending and borrowing. Some of these packages include investment in infrastructure – roads, bridges, railways, hospitals, schools, and the like.

Traditionally, governments themselves have borrowed money to pay for the building of infrastructure, and this is still the main way in which it is financed in most countries.

In recent years, there has been an increasing tendency for governments to use public private partnerships (PPPs). These involve a private company raising the money for the investment, and then recouping that investment by operating the asset over a long period, and either charging users – a concession-style PPP – or receiving payments from government – a PFI-style PPP.

The key attraction to governments of PPPs is that the finance can be counted as 'private' borrowing by the companies, and so does not appear as extra government borrowing; the key attraction for companies is a stream of payments guaranteed by governments for periods of 20 years or more

It might be expected that responding to the recession would increase the demand for PPPs from governments, because they are a way of building infrastructure while limiting the apparent effect on the official government deficit. The recession also provides private companies with even greater incentives to sign PPP contracts, in order to get long-term business from the government at a time when demand from the private sector is falling.

However, the credit crisis means that banks and investors are much more reluctant to lend to private companies at all. As a result, companies are practically unable to borrow money to finance PPPs.

There is now clear evidence that very few new PPPs will be signed for the foreseeable future; and that existing PPPs are being affected by an inability to refinance their original debt, and lower revenues because of falling demand. This financing problem reinforces other concerns about the impact of PPPs.

Evidence from countries – finance for PPPs 'dries up'

A global review in December 2008 by PriceWaterhouseCoopers (PWC) estimated that interest rates for lending to infrastructure projects have risen to about 1.5 percent or 2 percent above the lowest rates which governments can obtain, and even more in developing countries.

In effect, according to PWC: "The debt markets have all but dried up...The outlook for the near term remains grim. Few [PPP] deals will close. Many have already been put on ice.... Bank debt is simply insufficient, and inefficient, as a source of long term finance....It is a naïve notion to expect the markets to revert to the low pricing obtained in the first half of 2007. Such conditions are unlikely to be seen again".

The recession and the credit crisis also create problems for existing PPPs, for two reasons. First, the recession reduces income on concession-type PPPs, such as toll roads, so that earnings will be lower than forecast, so it may be difficult to repay interest and loans. Second, many PPPs raised short-term debts to launch the project, expecting to refinance it with debt at lower interest rates once the project was operational, but will now find it very difficult to get new loans without increasing the cost of interest payments.

As a result: "They may face the double hit of worse than forecast debt terms and revenues, or even be unable to refinance at all". (PWC)

In countries of central and eastern Europe, there is evidence that PPPs are being cancelled because of the credit crisis.

Slovakia's programme of road PPPs is in doubt, with the prime minister Robert Fico saying that: "I am concerned the banks will not want to take part at all". The government is now preparing an alternative, according to the Slovak Spectator: "The Transport Ministry has prepared an alternative plan for highway construction in Slovakia, financed directly from state coffers, in case of a failure of three public-private partnership (PPP) projects which are currently being tendered".

In Russia, the government response to the recession may itself have a negative effect on PPPs, because public spending is being constrained rather than increased. According to Andrey Zverev, head of the Russian government's analytical centre, the recession is leading to a fall in tax revenues, and there is a serious risk of regional authorities defaulting (S&P in December rated the Moscow regional oblast as 'selective default'): to avoid this, cutbacks in state spending will be required, and this includes cutbacks in PPPs.

According to a pre-Christmas report on the BBC: "the [Russian] state is most likely to cut its investment in Public Private Partnership (PPP) projects."

A review of the prospects for the construction industry in Russia gives a similar pessimistic assessment. A Russia Infrastructure Report from BMI for the first quarter of 2009 says that the recession and credit crisis will: "lead to investors tightening their belts, leaving less money to go towards funding infrastructure related projects, especially those in the real estate sphere. This could see a serious decline in the number of companies available to participate in Private Public Partnership (PPP) projects, which will lead to delays and in some case cancellations of proposed infrastructure schemes."

World Bank and IFC prognosis on PPPs

PPPs have been widely promoted in developing countries for many years by the World Bank and other donors and development banks, although it is now generally acknowledged – including in Bank studies – that they have failed to deliver investments.

The IFC, the private sector financing arm of the World Bank, believes that the credit squeeze will make it even harder to finance PPPs. It estimates that USD 110 billion worth of proposed PPPs may be delayed or cancelled, and that USD 70 billion of existing PPPs are at risk because of increased costs of financing these projects for the private sector.

The IFC also states – in a recent IFC Infrastructure Crisis Facility Fact Sheet – that private investors are less interested in infrastructure in developing countries: "Hedge funds are rapidly scaling back their investments and private equity funds are hoarding capital; Asian and Middle Eastern sovereign wealth funds may divert more of their portfolios to their regions; investors are demanding higher returns for a given level of risk; poorer developing countries are being crowded out as private investors are focusing on the largest emerging markets."

The IFC itself has created a global "equity fund" and a "loan financing trust" to support PPPs or purely private infrastructure projects. The IFC is contributing USD 300 billion of public sector money to this equity fund, and expects 'others' to contribute between USD 1.2 billion and ISD 10 billion. These 'others' are probably intended to be donor countries or agencies, contributing more public sector aid and finance, to sustain private sector infrastructure projects. Locking up aid in this way would prevent it being used to finance other services.

Back to basics

The simple alternative is the traditional method of financing public infrastructure – through government borrowing to raise finance, issuing construction contracts, and then operating the facility, whether through direct labour or contractors.

This remains perfectly feasible. Governments are still able to borrow the necessary money: their credit is not affected in the same way as private companies. Traditional procurement is also simpler and quicker than PPPs: attempts to maintain PPPs as a core method of funding risk delaying infrastructure projects. The desired level of infrastructure investment can thus be achieved without any use of PPPs at all.

A recent PSIRU paper contains a detailed discussion of the choice between traditional procurement and PPPs, see:

Public-Private Partnerships (PPPs) in the EU – a critical appraisal, PSIRU November 2008

Available at: http://www.psiru.org/reports/2008-11-PPPs-crit.doc

Bankwatch's recent study Never mind the balance sheet – the dangers posed by public-private partnerships in central and eastern Europe is available in nine languages at:

http://bankwatch.org/publications/

Oil, gas and the IFIs: Sketching some lines on the horizon

The sun has still not set on taxpayer support for oil and gas projects via the international public banks. A November 2007 resolution in the European Parliament calling for the "discontinuation of public support, via export credit agencies and public investment banks, for fossil fuel projects" has been shepherded into the long grass thanks to the mass outbreak among the political classes of the mantra of "energy security". IFI investments into oil and gas, thus, are showing no sign of letting up.

Jérôme Guillet, an energy banker and the editor of European Tribune, and Steve Kretzmann, Executive director of Oil Change International, get together to debate what the IFIs have brought to the sector in recent times, and where any future involvement fits in with the need to massively ramp up global investment in clean energy initiatives.

Jérôme Guillet
Many NGOs have campaigned for International Financial Institutions (IFIs) like the World Bank to stop funding the extractive industries, arguing that such funding supports activities that are inherently damaging to the environment and/or to the political freedoms in the countries where they take place.

Such a call has taken place despite the tightened environmental, social and political standards that the World Bank group has put in place as conditions to its loans to the sector, and which are meant to ensure that best industrial practices (as set out, for instance, in richer OECD countries) are applied in countries that do not have the appropriate legal and regulatory framework – or which are unable or unwilling to enforce it when it exists. The World Bank rules have become the de facto standards for other IFIs, and have also been adopted by a significant proportion of commercial banks on a voluntary basis through the Equator Principles initiative.

There are two strong arguments towards continued intervention of multilaterals in the oil and gas sector (and other extractive industries). The first is that investment will happen anyway, and IFI participation is a way to ensure that such investment follows minimal social and environmental guidelines. The second is that the exit of IFIs from the sector would weaken the ability of commercial banks to impose the same standards on the projects they participate in, leading to yet more projects taking place under little or no supervision.

And it is actually important that NGOs be willing to acknowledge the positive role of IFIs in such transactions, to encourage the investors to go on the "higher standards" route, and be rewarded for it. In the absence of recognition of efforts to protect the environment and improve the conditions for local populations, companies may simply give up on such efforts, or abandon projects to less scrupulous competitors.

Depending on when investment decisions are made (and what the economic environment looks like at the time), IFI involvement can range from indispensable to irrelevant. In the extractive industries, western investors typically involve IFIs not because they need the funds, but in order to share some of the political risks, and as a way to improve their negotiation position with the local authorities. If working with the World Bank brings no recognition that a real effort is made to comply with higher standards, and there is continued protest against the investment by NGOs, the argument will be made that trying to comply with World Bank standards is a costly and useless hassle.

The case of the two big Sakhalin projects comes to mind. There have been significantly more visible public protests against Shell (which leads the Sakhalin-2 project) than against Exxon (leading on Sakhalin-1) despite the fact that Shell has embarked on a comprehensive effort to follow higher social and environmental standards – it could be argued that Shell was on the receiving end of such protests precisely because it agreed to be subject to outside scrutiny, and that it turned out to be a waste of time and money for them, compared to the route chosen by Exxon, given that most banks (and all IFIs) have been scared away from financing the project by sustained NGO campaigns over the years.

With the increased presence in the oil and commodity world of investors from China and other emerging countries that do not see environmental or social standards as a priority, there is a real risk that IFIs leaving the sector will simply lead to projects being carried out under increasingly worse standards.

Steve Kretzmann
Research by many academics has confirmed that oil export dependent states tend to suffer from unusually high rates of corruption, poverty, authoritarian government, government ineffectiveness, military spending, and civil war. This is called the "resource curse".

At the World Bank Annual Meetings in Prague in 2000, President James Wolfensohn responded to rising NGO concerns about public finance for the extractive industries by pledging to evaluate the impact of lending for oil, gas, and mining on poverty alleviation. The Extractive Industries Review (EIR) was born.

The stated mission of the World Bank Group (WBG) is a "world without poverty". And yet, over the course of two years of global consultations and examination, the WBG's EIR was unable to provide an example of a single instance where an oil project alleviated poverty. Many examples were provided of oil projects that exacerbated poverty. Academic studies were submitted to the EIR that establish a clear correlation between a country's reliance on oil exports and its levels of poverty, child mortality, child malnutrition, civil war, corruption, and totalitarianism.

Although the EIR made important recommendations in the areas of governance, revenue management, and human rights that should be considered as preconditions to lending for the extractive industries, it recommended a phase-out for oil and coal lending both because consumption of oil and coal will inevitably be significantly reduced due to climate change, and because the track record was so abysmal.

The question the EIR forces us to ask is this: Given that we already know that oil projects are not pro-poor development, that they tend to exacerbate a host of other social and environmental problems, and that they will have to be significantly reduced anyway sometime soon (climate) – at what point does one decide that this is a poor use of public money? Why are we spending billions of taxpayer dollars to fix a system with so many problems? Why not redirect that finance to spur the clean energy transition that we all know is coming?

For those areas with minimal commercial and political risk, corporations do not necessarily desire or need public support from the WBG. These are, after all, some of the most mature and profitable industries on the planet. Where WBG support is sought, it is in those areas where governance is poor, and human rights abuses or other forms of political risk are a very real possibility. In other words, the phase-out means phasing out public financial support for corrupt governments and human rights abusers.

Oil and coal companies have both the desire and the means to invest in developing countries with good governance structures in place; where they need and want the backing of the World Bank is in areas where governance is weakest. Arguably, if one made improving these governance structures a precondition of lending, some good might be done. But the Bank and other IFIs won't make it a precondition, and that ignores the climate anyway.

Since the EIR, far from phasing out, WBG lending is actually going in dramatically the wrong direction. Coal lending last year was up an incredible 256 percent. Fossil fuel lending overall was up 94 percent. Clean energy lending is also up, but only marginally, thus increasing an already huge gap in relative absolute levels of finance.

Phasing out the fraction of funding for the fossil fuel industry that public money provides would indeed have very little impact on the global markets – at first. It would, however, be a critical market signal that renewables are indeed ready, and that public money from the world's largest development institutions will no longer be used to subsidise the fossil fuel industries, but instead to benefit the poor, to advance clean, emerging technologies and to combat what Sir Nicholas Stern has called "the greatest market failure" – climate change.

Jérôme Guillet
Steve raises two points: one, that lending to the fossil fuels sector does very little to alleviate poverty, which is the World Bank's core mission; and two, that lending to that sector, which has already plenty of access to capital, encourages the wrong kind of investments and is detrimental to the funding of more needed alternative energies.

The first point is entirely correct, but does not negate the fact that oil projects will be less detrimental to local populations if done with World Bank involvement. As Steve notes, money will always be found for fossil fuel projects, given the frequently high profitability of extracting resources from the ground. That such investments follow

Landmark legal victory compels Ex-Im Bank and OPIC to get real on their fossil fuel lending

US environment groups and several American cities scored an important legal victory last month when they successfully forced Export-Import Bank of the United States (Ex-Im) and the Overseas Private Investment Corporation (OPIC) to address the global warming implications of their overseas financing activities.

In bringing the case as far back as 2002, the groups alleged that Ex-Im and OPIC illegally provided more than USD 32 billion in financing and insurance to fossil fuel projects over 10 years without assessing whether the projects contributed to global warming or impacted the U.S. environment, as they were required to do under the National Environmental Policy Act (NEPA).

Fossil fuel projects financed by the two agencies from 1990 to 2003 produced cumulative emissions that were equivalent to nearly eight percent of the world's annual carbon dioxide emissions, or nearly one third of annual U.S. emissions in 2003.

Under the terms of the legal settlement, Ex-Im, the US export credit agency, will begin taking CO2 emissions into account in evaluating fossil fuel projects and create an organisation-wide carbon policy. OPIC will establish a goal of reducing greenhouse gas emissions associated with projects by 20 percent over the next ten years. Both agencies also committed to increasing financing for renewable energy.

The two organisations provided over USD 300 million in political risk insurance in 2004 for the Baku-Tbilisi-Ceyhan pipeline project, joining other key funders to the project like the EBRD and the IFC.

Transparency fever gripping the World Bank?

The World Bank has recently announced a new Disclosure Policy Review and Global Consultations, with (on paper at least) the promise of seismic shifts in its transparency regime. In a recent mail-out, it states: "The guiding principles and the key elements of the proposed policy are discussed in the approach paper, Toward Greater Transparency: Rethinking the World Bank."

In a slight retreat from these intimations of revolution, it continues: "The Bank proposes to shift its approach to disclosure – from today's policy, which spells out what information the Bank discloses (a "positive list"), to one under which the Bank would disclose any information in its possession that is not on a list of exceptions."

Confused by this hall of transparent mirrors? The Bank is soliciting comments (until May 8) on the proposed policy changes, with stakeholders encouraged to send an email to: Disclosure_Consultations@worldbank.org.

In addition to web-based consultations, the Bank plans to hold live public consultations in about 30 member countries. The schedule and locations are to be posted soon.

More information on the policy review is available on the World Bank website: http://tinyurl.com/dmdvrs

minimum environmental or social standards or not will depend to a large extent on whether someone was able to shame investors into doing so, and that someone can only be institutions with political clout, such as the IFIs, and in particular the World Bank. Commercial banks will follow World Bank standards, but will be hard pressed to impose them in the absence of multilateral institutions leading the way, and setting "neutral" standards that all market players can refer to.

The second point is debatable, in two different ways. First, is World Bank lending to the oil and gas sector making this activity develop more than it would otherwise? Evidence suggests not, as oil companies are cash rich and desperate for investment opportunities: the blocking factor is not money, but access to reserves, and the World Bank is not helping to pry open markets that would otherwise be closed (think of Venezuela or Saudi Arabia). Second, are the low levels of lending to alternative energies caused by lending to oil andgas? I think not.

I have argued previously (see Bankwatch Mail 38) that IFIs can and should do more for alternative energies – and indeed are in a position to do so. But this is unrelated to what they are doing in the oil and gas sector. The core problem is that IFIs simply do not know or understand the renewable energy sector well enough, and have no deep relationship with the companies involved in that sector, which for the most part are not active in emerging economies.

In fact, in this sector, rather than lending, what would be required would be advice to help local governments create the right kind of framework (and in particular provide the long term stability that is indispensable for renewable energy projects to pay off the heavy initial investments required) and then a friendly presence on the deal to ensure that local politicians do not renege on the promises made to investors.

While this is an urgent task for IFIs, it is almost completely unrelated to what they do in the extractive industries sector. It could be argued that oil and gas projects are a good training for renewables, with their focus on regulatory issues and long term political risk, so it might be even better for IFIs not to get rid of what little competence they have on the topic, and rather re-allocate (or hire) people, more than funds.

Steve Kretzmann
Jérôme asserts that it's a "fact that oil projects will be less detrimental to local populations if done with World Bank involvement". This is not a fact, it is merely the thin justification that IFIs, export credit agencies and, for that matter, most western corporations operating in areas of poverty and conflict offer up to legitimise business as usual. The record of IFI involvement negates this argument completely.

Take the case of the Chad-Cameroon oil project, which was in fact touted as the model for all IFI involvement in the oil sector, until it failed miserably. The local population is, by all measures, worse off than they were before the project – even the World Bank finally gave up. But the sad fact is that initial support from the World Bank and the European Investment Bank was critical to reassure private investors – Exxon included – who hoped that the Bank's involvement would ensure a successful project. Only oil company balance sheets and Chad's dictatorship view this project as a success.

This is exactly the kind of disastrous project where private investors are most clear that they want the Bank – in order to increase leverage on a corrupt government. It is also the most likely type of project to fail, and the Bank has been unable to stop that. Would the Chadian dictator have imported even more arms with oil money if the Bank wasn't around? Did the Bank's involvement ensure that marginally fewer children died, and marginally less pollution was released? Is this the best that our public money can do – making bad things slightly less bad?

Wow, that's inspirational.

Perhaps the Bank's mission should be changed to: "Our dream, a world with slightly less poverty than might otherwise have occurred even if the absolute level is increasing, for which we are sorry".

The question of what to do with public money is actually critical, and Jérôme seems to have forgotten that there is not an infinite supply of the stuff – less and less every day, in fact. We agree that IFIs should drastically increase their funding for clean energy, but the question that gets asked is where does that money come from? If the nations of the world are committed to combating climate change and transitioning to clean energy, shouldn't our money be where our mouths are?

Jérôme and I also agree that working with local governments to change their investment frameworks would be a very productive use of resources. The IFIs could start by undoing the changes that were wrought by the World Bank's PEPPs (Petroleum Exploration Promotion Projects) and other forms of petroleum sector legal reform and technical assistance in the 1980s and 90s. These efforts had the consistent objective of acting as a catalyst to mobilise the inflow of foreign direct investment into the developing petroleum sectors of many of the Bank's borrowing members, in order to diversify oil sources away from OPEC for Europe and America. Unfortunately those countries that received this form of structural adjustment have debt ratios that are 19 percent higher than those that didn't.

Perhaps if the investment laws were rewritten with the intent of alleviating poverty, fighting climate change and providing clean energy to the poor instead of maximising western investment and sources of oil, things would be different.

On March 3 this year, US Treasury Secretary Timothy Geithner told the Senate Finance Committee that "We don't believe it makes sense to significantly subsidize the production and use of sources of energy (like oil and gas) that are dramatically going to add to our climate change (problem). We don't think that's good economic policy and we think changing those incentives is good for the country".

More so than AIG or General Motors, the developing world and our shared climate are truly too big to fail. We should not be funding projects that undermine both – and oil and gas projects do exactly that.

Jérôme Guillet
To the question: "Is this the best that our public money can do – making bad things slightly less bad?", the response has to be, maybe depressingly, yes. The oil industry is structurally, inherently hard to manage democratically, as it generates massive cash flows that depend exclusively upon the decisions of a very small number of people who authorise production or not, and who set out the applicable tax rates). In other words, by its very nature, it provides highly concentrated power in a few hands.

Very few countries have managed the irruption of that power source in their domestic politics well. And even in western countries, the macro-economic effects are complex and often damaging (see the "Dutch Disease" or the prickly relationships between oil producing states or provinces and the federal government in the US or Canada). Bringing in external stakeholders like the IFIs is one way to limit the damage from the distortions created by oil revenues. If there is any overall solution to the resource curse, it lies in managing the overall demand side and, in the meantime, trying to reduce the inevitable consequences of oil production. Things are worse when IFIs are not involved.

As to the development of renewable energy, the bottleneck is not so much availability of money but, again, political factors – the regulatory framework in each country – and ideological blinders: the fact that renewables are still seen by "Serious People" as mostly useless, ie as PR tools rather than energy policy tools. Remarkably, renewables are still seen as too unreliable, too expensive and too small to make a difference, and thus not something that requires their full attention.

This is a political battle that needs to be waged first in the developed world, to ensure that renewable energy (together with energy efficiency and demand reduction) becomes the fundamental tool of energy policy rather than a sideshow. Once this is done, it will become a lot easier to bring the same focus to renewables in the emerging world.

Steve Kretzmann
I think that this has been a tremendously useful discussion and I want to thank Bankwatch for facilitating it and Jérôme for his participation.

I think we agree on two very important points. Clearly, we both recognise the urgent need for – and opportunity of – increased support of renewables via public funding. That should be a "no-brainer" for the public banks. However, it still is not, and Jérôme and I also agree on why its not – what he perceptively calls "ideological blinders".

So the question then is how to change those old, entrenched, attitudes.

I think accepting that the best we can do is only slightly less bad does nothing but reinforce the attitudes that also continue to subvert a clean energy transition. And that, therefore, a clear repudiation of that attitude – in the form of a ban on public funding of fossil fuels – is now needed in order to remove the ideological blinders and to reinforce a perspective of "yes we can". In truth, we must.

European Tribune: www.eurotrib.com
Oil Change International: http://priceofoil.org

Beyond the crisis: Renewing Finance, Demanding Economic Justice
The Eurodad International Conference 2009, 15th - 17th June 2009, Barcelona
For further information about attending this event, contact: conference2009@eurodad.org

EIB proceeds to go with new statement, environment and affected communities still not out of jail

In February 2009, after a review process lasting several months, the European Investment Bank (EIB) approved its new Statement of Environmental and Social Principles and Standards. The EIB announced it will now focus on its implementation, strongly taking into account its carbon emissions footprint.

CEE Bankwatch Network welcomed the new Statement as a major step forward in the harmonisation of the EIB's standards and principles with EU legislation and policy – however, further improvements are still going to be necessary.

The EIB organised an extensive review process in 2008, with two rounds and consultation meetings in Brussels and Warsaw. An interesting range of stakeholders participated in the review of the policy, including the European Commission, NGOs, the International Finance Corporation, academics and independent consultants. The process designed for the review enabled civil society to comment on the two drafts and therefore to follow the changes that were made in the course of the consultation. The final draft of the Statement was made available before the approval of the bank's board of directors last month.

The EIB Statement is much more comprehensive and clear about what kind of standards and principles the bank should refer to. Apart from the environmental standards, the EIB's Statement includes a chapter on the social standards it expects from its borrowers to follow in their investments. The EIB at least now refers to ILO Core Labour Standards, international human rights and the FPIC principle (free, prior and informed consent) in the case of compulsory resettlements.

Nevertheless, further improvements in the policy are needed in the future. The visible developments in the Statement do not change the fact that the document adopted still remains only a statement of EIB wishes. What it is not is a set of binding, operational safeguard procedures, similar to those of other international financial institutions like the World Bank and the European Bank for Reconstruction and Development.

It is important to realise that the difference between the EIB and its sister institutions lays in the "ownership" of the projects. The EIB merely finances projects and demands some standards from borrowers while the others develop projects with the borrowers and bear responsibility for the project quality.

In turn, the EIB project appraisal process is much less detailed than in other institutions, as is reflected in its appraisal documents. The EIB responsibility is limited to proper administration of the project cycle and, more importantly, the EIB is not responsible for the compliance of the projects it finances with the principles and standards it has adopted in the Statement.

The EIB's obligation is limited to such management that ensures that these standards are in place. And this is where it gets interesting, if a little bewildering.

The EIB's responsibility is limited to "maladministration", which can mean an office clerk in Zagreb putting a stamp in the wrong place. It is then up to the European Ombudsman to decide in each case, if a complaint is brought. So it is very possible that the project is not in line with the standards but the EIB does not commit maladministration, because it remains beyond the purview of the Ombudsman to investigate the content of the project.

While the EIB should not be able to wriggle free of its procedural liability (proper administration) being subject to the Ombudsman, it remains reluctant to submit itself to real commitments ensuring the environmental and social integrity of the projects it funds. In blunt, unequivocal terms, this new Statement on Environmental and Social Principles and Standards has not made fundamental changes to the EIB's approach to environmental and social issues – and this is not what affected people and the environment need.

Indeed, the EIB remains content to limit itself to rather finite appraisal procedures which are conducted on the basis of the information provided by the borrower. However, the bank should have a real role to play to ensure the integrity of the projects it finances: that is, to ensure it fulfills its mission given in the Treaty of Rome, which in the EU is supporting the balanced development of the Community as well as projects of common interest, while outside the EU this ought to necessitate the delivery of economic and social development as well as the campaign against poverty. The appraisal and monitoring mechanisms should guarantee that these goals are met in all EIB projects.

Therefore, the EIB should not rely exclusively on information passed on from the promoter but instead carry out its own detailed appraisal and monitoring, including monitoring the quality of the data provided by the borrowers. Unfortunately the new Statement, instead of being more detailed, refers to an Environmental and Social Practices Handbook which is neither binding nor subject to consultation.

It is also unclear how and to what extent the EIB's financial intermediaries (private banks) are bound by the Statement when they distribute EIB money to the final recipients – small- and medium-sized enterprises. As long as a large (and growing) portion of EIB finances are being channelled through financial intermediaries, they should also be requested to follow the standards and principles of the bank. Currently these dedicated finances are not being sufficiently supervised and remain very much non-transparent.

When financing outside the EU, the EIB's obligations continue to be astonishingly vague. Not only does the EIB apply different environmental standards – subject to local conditions, or it uses EU standards as a "benchmark" – but it also hangs on to the right not to apply them at all in some cases. The derogation from the EIB's standards should only be allowed in exceptional cases and in a transparent way. Any justification for such steps should became an integral part of the project documentation that is made publicly available.

The EIB's new Statement of Environmental and Social Principles and Standards is available at: http://www.eib.org/about/publications/environmental-and-social-principles-and-standards.htm?lang=-en

Some caustic remarks from the IFC's contribution to the policy review are available at the Counter Balance blog: http://www.counterbalance-eib.org/blog/2008/10/ifc-interjects-on-eibs-environmental-and-social-review/

World Bank needs to act on Kazakh power project shocker

In Kazakhstan the 300 megawatt Moynak hydropower plant (HPP) on the River Charyn 250 kilometres south of Almaty is currently under construction. The project is being financed by the Bank of Development of Kazakhstan and China Development Bank.

The decision on the construction was made in spite of deep ecological problems related to this project. The feasibility study for the Moynak HPP indicated that the enforced regulation of the river's stream will destroy the natural hydrological regime of the river and affect the National Natural Park "Charynsky" and the unique "Charyn Ash Wood" State Natural Monument of national importance.

The decision to move forward with the Moynak construction was decided by the Kazakh government before an environmental impact assessment was conducted and in spite of the fact that in 2005 the Kazakh Forestry and Game Husbandry Committee expressed serious concerns in its expertise on the project.

In 2005, the World Bank declined an application for financial support of the Moynak HPP project. However, in 2008 the Bank examined an application to extend financial support to the Moynak Electricity Transmission Project. The project will involve the construction of 220 KV high-voltage power transmission lines between Moynak, Sary and Ozyk, and Shelek. According to the design documents, the overhead transmission lines will cross the territory of two of Kazakhstan's national parks: "Charynsky" and "Altyn-Emel".

This would be in direct violation of the Law of the Republic of Kazakhstan "on Natural Protected Areas", where it is stated that "*...it is prohibited any type of activities on the natural areas of preferential protection which does not correspond to their designated purpose*" (Article 23).

The main objective in creating these parks was the preservation of the unique natural complex and exotic species of flora and fauna. Many exotic and threatened species of animals listed in the Red Book of Kazakhstan are present in these natural parks, including a host of fish, amphibia, mammals and birds. The project was not submitted for agreement to the Kazakh Forestry and Game Husbandry Committee.

Construction of the high-voltage power transmission lines will adversely affect the national parks, their inhabitants and will change the landscape of the parks. Habitats and migration habitats of the animals may be included in the right-of-way. The power transmission lines will be a source of intense electromagnetic field exposure, which has an adverse affect on the physiological processes of the animals and other things besides. Nor has there been an assessment made of how the power transmission lines will interact with the numerous historical monuments located in the parks.

The World Bank has to abandon the idea to finance this project, which is not in conformity with the national legislation of Kazakhstan, or insist on a revision of the project documents that would divert the routing of the power lines around the territory of the national parks.

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Staff over-stretch requires strong intervention on the EIB's shopfloor

Back in 2004, following the commotion inspired by a critical European Parliament report from the Spanish MEP Monica Ridruejo on the European Investment Bank, the bank's president, Philippe Maystadt, let it be known to Euromoney magazine that: "Outside the EU ... we are being asked more and more to play the broader role of a development bank. This demands new people with different expertise and a different culture. I want to be quite clear with my governors. I have to tell them we need more staff."

The EIB's external lending mandate duly arrived, along with a sizable pot of billions – in 2008, the bank disbursed EUR 6.2 billion in loans outside the EU. Yet given the string of alarming projects featuring EIB involvement that are now being pursued by the Counter Balance campaign, serious doubts remain about whether anything like sufficient new staff arrived, let alone whether they diversified the EU house bank's hard-nosed culture.

Now, as the economic crisis worsens – pundits are suggesting that we're currently merely fumbling around in the dark for the front door key after a huge night on the town, and that the hangover and associated misery still lies some time down the line – and every Tom, Dick and Jose comes knocking on the bank's door, Maystadt has been making more noises about staffing levels.

At the bank's recent annual press conference he acknowledged that the EIB teams are currently "over-stretched", and that "because of our financial strength, we are being asked to do more, to do it faster and to take more risk ... but we do not want to compromise the quality of the projects because of the rush."

That strength was highlighted by the latest EIB results for 2008 which show provisional record profits of EUR 1.651 billion, much of which will be ploughed back into a capital increase required to fund the EIB's expanded "crisis remit". But what about those staffing levels?

The jobs section on the bank's website shows nine vacancies in risk management and five in banking. Will any of these new recruits have oversight on the EIB's lending to SMEs – a vital component in its crisis response – where there are alarming signals that some private banks compelled to act as intermediaries to credit-starved European SMEs are hoarding the EIB's proceeds?

And what of the EIB's embattled environment department? There is nothing screaming "environmental due diligence" on the jobs page for now – which is odd when you consider the scrutiny that is going to be required on the new Clean Transport Facility, the kilometres of new road and runway build that are also likely to be in the pipeline, not to mention the prospect of the Nabucco pipeline, where EU-level shrieking about "energy security" may well possibly bounce the EIB into a project that it knows is financially precarious, at best.

One glimmer of light appears in the recruitment drive for an unspecified number of energy specialists. Energy efficiency projects are said to be flooding in and the EIB must now start doing a lot more in the eastern states where energy intensity levels are still scandalously high.

When you're in demand, you need to take steps and live with the times. Back in 1967, when Celtic Football Club became the first British team to win the European Cup, the eleven players all hailed from within a ten mile radius of the club's home in Glasgow. Romantic notions aside, the thought of any of Europe's current top football clubs that challenge for trophies on several fronts reverting to a limited number of purely home-grown talent is inconceivable.

For the sake of high quality, environmentally sustainable projects the EIB urgently needs to stand up and be counted – and for its environment department, that means counted on more than one hand.

Counter Balance Challenging the European Investment Bank

invites participants of the World in Crisis conference to:
A public discussion on the EIB, on March 31, 10.30 to 12.00 in Michnův palác
A party with film screenings and food, on March 31, from 20.00 at Všehrdova 17
(just 100 metres from the main conference venue)

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