Recommendations for DFID

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

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

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

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

Recommendations for DFID in multilateral development banks

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

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

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

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

Recommendations for Parliament

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

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

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

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

Pumping Poverty was researched and written by Lorne Stockman and Greg Muttitt, with contributions from Kirsty Hamilton.

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PLATFORM RESEARCH

Friends of the Earth
England, Wales and Northern Ireland

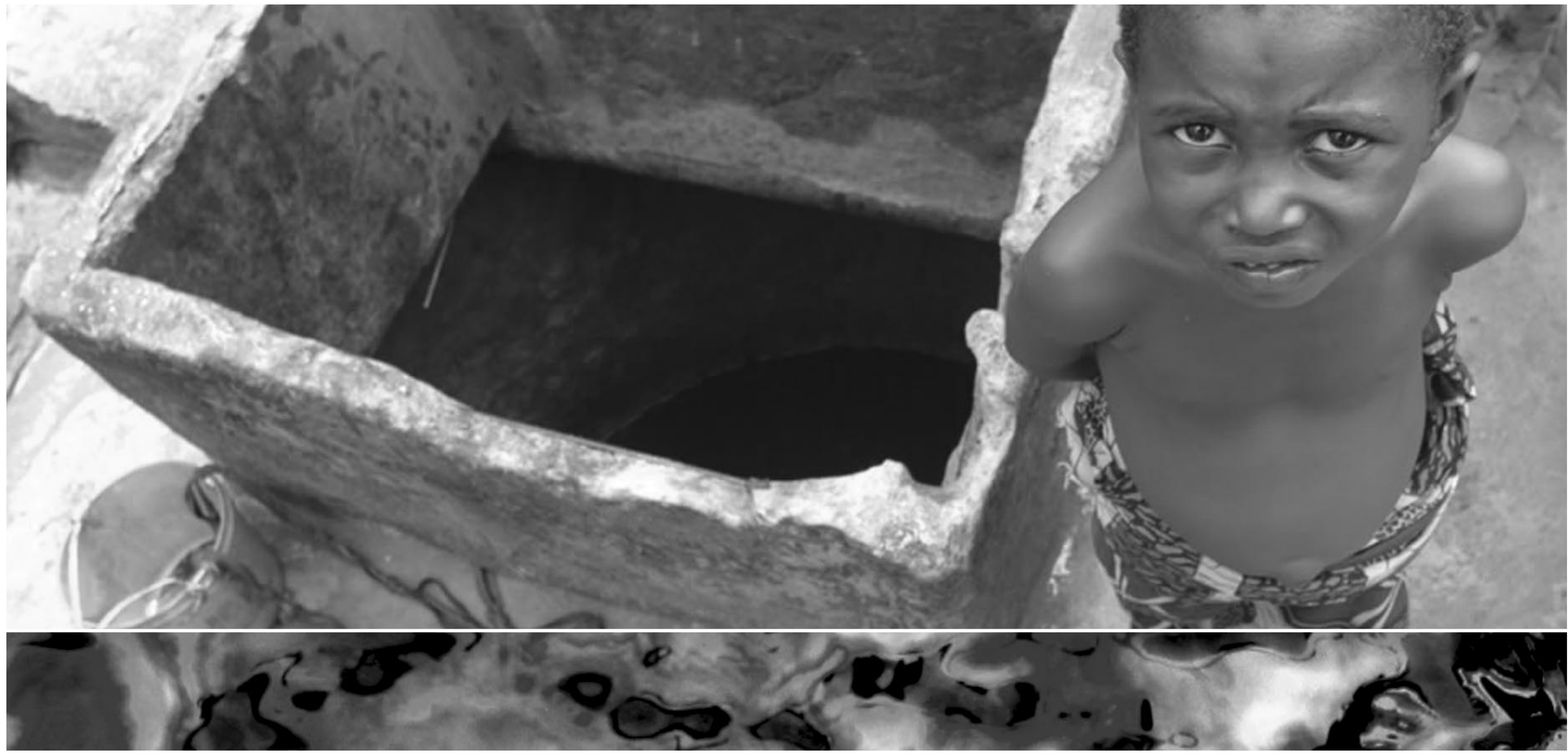
Plan B

For further information, or to order a copy of the report, contact Jo Hamilton Tel: 01865 241097 Email jo@planb.org
PDF versions are available on: www.carbonweb.org and www.planb.org

Pumping Poverty is endorsed by: Amigos de la Tierra (Argentina) ● Amis de la Terre (France) ● Baku Ceyhan Campaign (UK) ● CEE Bankwatch Network (Central & Eastern Europe) ● Centre Pour l'Environnement et le Developpement (Cameroon) ● Centre for Civic Initiatives (Azerbaijan) ● The Corner House (UK) ● Sobrevivencia (Paraguay) ● Environmental Rights Action (Nigeria) ● Friends of the Earth Japan ● Friends of the Earth Scotland ● Friends of the Earth International ● Green Alternative (Georgia) ● Indigenous Peoples Links (UK) ● nef (new economics foundation) ● Kurdish Human Rights Project (UK) ● Milieudefensie (Netherlands) ● Sakhalin Environment Watch (Russia) ● World Information Service on Energy (Netherlands) ● Pacific Environment (US)

Pumping Poverty

Britain's Department for International Development and the oil industry



Executive summary of *Pumping Poverty* a new report published by Platform Research, Friends of the Earth and Plan B

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

DFID's mandate – poverty alleviation

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

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

The oil curse

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

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

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

- At a regional level, oil is frequently associated with greater militarization and conflict –through disputes over the control and ownership of resources, through the use of revenues to purchase arms, and through the targeting of oil infrastructure by terrorists and other armed groups.
- At a global level, fossil fuels are the primary cause of climate change, which threatens catastrophic damages including massive sea-level rise, rising incidences of flood, drought and other extreme events, major water and food supply reductions, and the spread of disease.

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

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

Favouring oil companies over the poor

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

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

Spending taxpayers' money – no records kept

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

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

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

Public risk insures private profit

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

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

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

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

Rules broken and safeguards ignored

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

- DFID strongly supported a loan to BP's BTC Caspian oil pipeline in October 2003, just three weeks after Azerbaijan's dynastic transfer of power from Heydar Aliyev to his son Ilham, in an election characterised by fraud and intimidation. Independent analysis by civil society groups had previously found the BTC project to be in breach of 173 World Bank and other mandatory international standards. Yet DFID did not respond to the analysis, and its consultant relied entirely on materials from BP in assessing the project.
- In 2000, DFID also supported the World Bank loan to the ExxonMobil-led Chad-Cameroon oilfield and pipeline project. Chadian organisations have reported an increase in food insecurity and social tensions as well as increases in prostitution and associated HIV-AIDS. In Cameroon, pipeline construction has damaged fisheries and farmland. Once again DFID has not assessed these complaints and continues to present the project as a model of good practice.

DFID opposes pro-poor reforms

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

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

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

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

Conclusion: Favouring the powerful over the poor

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

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