International financial institutions and climate: the great hypocrisy

How the World Bank and European Investment Bank are financing climate change

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Les Amis
de la Terre

Les Amis de la Terre is an association for the protection of Man and the environment. Created in 1970, the organization participated in the environmental movement in France, and in the formation of the largest global environmental network, Friends of the Earth International, with more than two million members in 77 countries. Les Amis de Terre engages in advocacy with economic and political policy makers and policy and raises public awareness of environmental issues. It relies on a network of 30 local groups.

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Disused coal factory in Cape Town, South Africa. Its dismantling is intended to make way for new modes of energy. Credit : DanielVDM

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"You can't tell the General Assembly of the UN that we have to have clean development, and then continue to finance development that is not clean."

Nicolas Sarkozy, Climate Change Conference, United Nations, 24 September 2007

Fighting climate change is one of the greatest challenges humanity has ever faced. But world leaders have been very inconsistent on this vital topic. Despite announcing their determination to fight climate change, the industrialized countries are the main shareholders of International Financial Institutions (IFIs), including the World Bank and the European Investment Bank (EIB). They provide massive financing for fossil fuels (coal), as well as to industries and means of transport that emit high levels of greenhouse gases (airplanes, automobiles).

The World Bank allocates a mere 16% of its energy portfolio to renewable energy.[1] It doubled its funding of fossil fuels in 2008, exceeding 3 billion dollars for the first time (including one billion for coal, the most polluting of the fossil fuels). Between 1996 and 2005, the EIB provided more than half of its 112 billion euros of investment in European transport to the air and roadway sectors. Over the past five years, it has invested four times more money in fossil fuels than in solar, wind and wood-biomass combined.

This funding is proof that the two major IFIs are addicted to fossil fuels. To date, they remain incapable of developing energy models without heavy reliance on fossil fuels, blocking the transition to energy moderation and renewable energy. "Development" can mean much more than just increasing the use of fossil fuels. A report by the World Watch Institute has shown that developing countries are in a good position to avoid fossil-fuel based development and move directly to renewable energy. Can the World Bank and the EIB re-think their out-dated development models? Or will the rich countries (which have the majority of voting rights) block the path, using the IFIs to ensure their energy security, in defiance of their development mandate?

France is a central player in the IFIs. At the World Bank, it ranks fourth in terms of voting rights, with about 5% of the shares. France plays an even larger role at the EIB, because it is one of four principal shareholders at this European institution – where the United States does not have veto power.

In December 2009, an international conference on climate change will be held in Copenhagen. The World Bank and the EIB should take advantage of this opportunity to radically revise their strategies to finance the reduction, and not the increase, of emissions of greenhouse gases (GHGs).

France needs to align its participation in the IFIs with its policy in fighting climate change. As a major shareholder, it must take an active and explicit position with regard to the World Bank and the EIB and request that they:

- Calculate the emissions caused by their funding and investments;
- Develop goals for reducing GHG emissions they produce;
- Invest in energy efficiency and renewable energy and end public funding of fossil fuels;
- Invest in the railway sector rather than the air transport sector.

[1] Controversy over large dams

1. Background information

“You can’t tell the General Assembly of the UN that we have to have clean development, and then continue to finance development that is not clean.”

**Nicolas Sarkozy, Climate Change Conference,
United Nations, 24 September 2007**

Fighting climate change is one of the greatest challenges humanity has ever faced. Effectiveness and credibility on the subject mean that public policy as a whole must be consistent and integrate its objectives in the fight against climate change.

Does France have a consistent policy in fighting climate change? Les Amis de la Terre considers this issue in this report on the policies and energy and climate funding of the International Financial Institutions (IFIs), of which France is a major shareholder. This document summarizes many international reports on the policies of the two largest IFIs, the World Bank and the European Investment Bank (EIB), and makes recommendations on the position of France within the IFIs.

The climate cannot wait: don't negotiate with the climate, act!

Climate change directly threatens the livelihoods and safety of people everywhere. In order to avoid the most dangerous impacts of climate change, average global temperatures should not rise more than 2° C above pre-industrial levels. To stay within this limit, the IPCC [2] considers it imperative that global emissions of greenhouse gases (GHG) be reduced by 50% to 85% by 2050 compared to their 1990 levels. In the industrialized countries, which historically have been primarily responsible, according to the IPCC emissions should be reduced by 80% to 95% by 2050 and 25% to 40% by 2020 compared to their 1990 levels.

Global warming is primarily caused by the combustion of fossil fuels linked to human activities The first thing to do to fight effectively against climate change is to drastically reduce the extraction of fossil fuels and their use in electricity generation, transport and industry. This requires the implementation of pro-active policies to thoroughly overhaul our production and consumption models in order to direct them towards moderation, energy efficiency and renewable energy. All the actors must engage in the transition towards very low carbon economies.

The role of the IFIs in addressing climate change

The IFIs, as public financial institutions whose capital is provided by or guaranteed by their member States, are financially very sound: they generally have a AAA credit rating. They can also find inexpensive capital on the financial markets. They generate large volumes of long-term loans at preferential interest rates. The involvement of an IFI in a project has a considerable knock-on effect on the private sector: on average, one dollar of public investment brings two to three dollars of private investment.[3]

Although their financial support is not necessarily referred to as a subsidy, technically speaking, IFI involvement reduces the cost of a project for two reasons:
- The IFIs lend at preferential interest rates;
- They draw many private investors.

IFI lending therefore undeniably constitutes a subsidy.

[2] Intergovernmental Panel on Climate Change, UN
[3] Environmental Defense Fund, Foreclosing the Future: Coal, Climate and International Public Finance, April 2009, page 6

The *Stern Review* calculates that the cost of action is now 2% of world GDP:[4] massive funding is necessary to meet this challenge. But inaction will be even more costly: 5% to 20% of current and future world GDP.

France has stated its willingness to base its decisions on the IPCC's scientific data. It should take into account the reduction targets formulated by the IPCC, including with regard to the positions of the IFIs.

In addition, from the OECD[5] to the European Parliament,[6] and from the United Nations Environment Programme (UNEP) to the International Labor Organization (ILO),[7] official reports and public statements are increasingly calling for an end to public funding for fossil fuels, and a redirection of these funds into sustainable alternatives.

The IFIs can play a crucial role in the fight against climate change by providing public funding to projects and environmentally innovative sectors that are not yet mature, and by catalyzing private investments by donors. Their involvement in the transition towards low-carbon companies is essential.

But what is actually happening? A recent study done by the Environmental Defense Fund shows that the IFIs and export credit agencies have financed 88 new coal plants, totalling 37 billion dollars, between 1994 (the year of entry into force of the Framework Convention on Climate Change) and January 2009. These plants emit or will emit 791 million tonnes of CO_2 annually, which is 1.5 times total French emissions. They will cause an additional 6,000 to 10,700 deaths every year due to cardio-pulmonary effects and cancer.[8] Within the same period, the Global Environment Facility of the UN has only raised 6.36 billion dollars to reduce GHG emissions, which is 17% of the of the total amount financed by the IFIs and public export credit agencies to build new coal plants.

The World Bank and the European Investment Bank: a hazard to the climate?

The World Bank,[fn] along with the International Monetary Fund, is the institution with the greatest influence on the policies of developing countries, but also on the choices of other public and private financial institutions.

The European Investment Bank (EIB), with an investment portfolio of over 50 billion euros per year, is the largest public financial institution in the world in terms of loan volume.

The EIB and especially the World Bank have developed many policies for confronting climate change, but none of them admits the need to reduce funding for fossil fuels, the main cause of global climate change. **Between them, they were responsible for more than three-quarters of IFI funding for extractive industries in 2006-2007. Their funding for fossil fuels is increasing.**

[4] *The Stern Review on the Economics of Climate Change*, October 2006, http://www.hm treasury.gov.uk/stern_review_final_report.htm

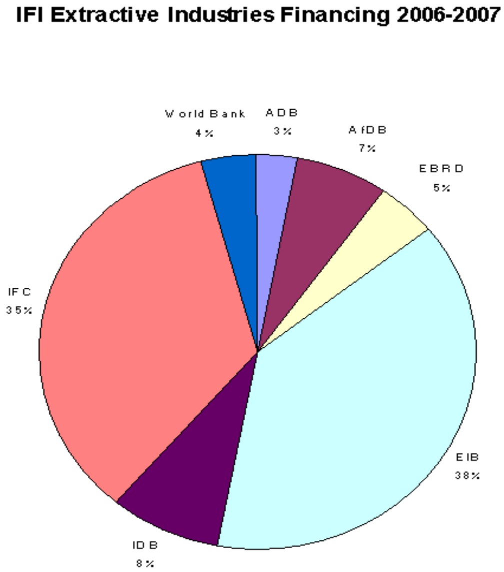
[5] OECD, Council Meeting at Ministerial level, 24-25 June 2009, Declaration on Green Growth: "We, the Ministers representing the governments of [all OECD member countries], […] encourage domestic policy reform, with the aim of avoiding or removing environmentally harmful policies that might thwart green growth, such as subsidies: to fossil fuel consumption or production that increase greenhouse gas emissions; that promote the unsustainable use of other scarce natural resources; or which contribute to negative environmental outcomes."

[6] European Parliament resolution on trade and climate change, 29 November 2007, paragraphs 29 and 30 asking for the end of funding for fossil energy by the EIB. See http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=2&procnum=INI/2007/2003

[7] UNEP and ILO, Green jobs: Towards decent work in a sustainable, low-carbon world: "Conventional fossil fuels are also subsidized. Significantly, the annual investment in clean energy technologies is, according to the Stern Review, "dwarfed by the existing subsidies for fossil fuels worldwide that are estimated at $150 billion to $250 billion each year." Phasing out subsidies for fossil fuels, taxing "windfall" oil profits, and adopting carbon taxes are among possible sources of revenue for the employment-creating transition to a sustainable and low-carbon economy," http://www.unep.org/labour_environment/features/greenjobs.asp

[8] Environmental Defense Fund, *Estimating impacts of coal-fired power plants receiving public international financing*, http://www.edf.org/documents/9553_coal-plants-health-impacts.pdf

Source : Bank Information Center (BICUSA)



Recently, the World Bank and the EIB have been designated as key instruments for recovery from the financial crisis, and its Member States significantly increased their financial capacity in 2009. Now stronger, and with private financing in difficulty, the two IFIs are at the forefront in determining the course of future investment.

Dozens of new pipelines are now being planned in Central and Eastern Europe and Central Asia;[9] in Africa, a giant pipeline across the Sahara is in the process of development. Around the world, the major oil companies are exploring oil shale. Many of these projects are aimed at supplying Europe, which ensures its energy security at the expense of the environment and peace in the mining areas and in contravention of its climate obligations: the EU has no chance to use 20% renewable energy by 2020[10] if it continues to burn as much fossil fuel as it does today. **These potential fossil projects run the risk of being supported with public money through the IFIs. If built today, they block tomorrow's emissions at unsustainable levels: their life span is 30 to 50 years. It is therefore urgent to act now so that the IFIs do not participate in them.**

World Bank and EIB: France's major role

The World Bank and the EIB are multilateral public institutions, whose shareholders are the Member States: **it is the States that decide their strategies**. They are each headed by a Governing Council, traditionally composed of the finance ministers of the Member States, and by a Board of Directors whose members are appointed by the States, and who have voting rights (shares) based on the financial contribution their country makes to the capital of the Bank.

France is a central player in these organizations. At the World Bank, it ranks fourth in terms of voting rights, with about 5% of the shares. In addition, it is one of eight States that each has a director, while the other 177 States are collectively represented by 16 directors.

France plays an even larger role at the EIB, because it is one of four principal shareholders, along with Germany, Great Britain and Italy, at this European institution – where the United States does not have veto power. It has a major influence in the Board of Directors.

At the national level, the Ministry of Finance is virtually alone in its power to establish French policy at the IFIs. The Minister of Finance sits on the Governing Council of the World Bank and the EIB, and the two directors come from within the Treasury Department of the Ministry of Finance (DGTPE - Treasury and Economic Policy General Directorate). Other ministries, including the Ministry of the Environment, are virtually excluded from the management of these institutions, despite the heavy impact of their activities on the environment, development and climate.

Since 1998, French parliamentarians have received an annual report on the activities of the IMF and the World Bank. This report does not include the activities of the EIB. It is essentially a technical document, published very late, and on which there is no debate or vote in Parliament. MEPs do not participate in defining the policies of the EIB. As a result, there is currently very little parliamentary control over the IFIs. Nevertheless, they are responsible for the disposition of billions of euros of public money each year.

[9] http://www.fxstreet.com/news/forex-news/article.aspx?StoryId=a2a848e6-bf44-4a90-9df7-9a09a5392356
[10] Obligation established by the Energy-climate package for Europe 2020, adopted by the 27 member states of the EU on 12 December 2008

2. World Bank: a climatic fossil

An archaic energy policy

Over the past ten years, the World Bank has developed a sophisticated communications policy to demonstrate its efforts on energy and climate. It has commissioned several high quality studies acknowledging the need to stop funding fossil fuels and to switch to renewables and energy efficiency. But the World Bank has ignored these findings.

And so, in 1997, a *Carbon backcasting study* commissioned by the Bank showed that renewable energy becomes the most attractive energy investment if a cost of USD 20 per tonne of CO_2 is applied, while coal is no longer profitable at that level. This resulted in no change in Bank policies.[11]

Published in December 2003 after three years of multidisciplinary consultations,[12] the report by the *Extractive Industries Review* (EIR) analyzes major support by the Bank for the controversial area of extractive industries, and recommends to the Bank:

- 20% annual increase in funding for renewables, accepted by the Bank;
- The immediate end to funding for coal and an end to funding for oil in 2008, key recommendations rejected by the World Bank,[fn] despite a massive mobilization of civil society (more than 300 NGOs from 80 countries), the appeal of eight Nobel Peace Prize winners and a European Parliament resolution supporting all of the recommendations of the EIR.[13]

In 2006, following a request from the G8 in Gleneagles (United Kingdom), the World Bank published "An Investment Framework for Clean Energy and Development". While the document simply takes a business as usual approach, Paul Wolfowitz, then President of the Bank, intervened personally to expunge the term "climate change" from the policy.[14]

In 2008, a report by the World Resources Institute found that nearly 50% of the loans made by the World Bank in the energy sector do not take into account climate change.[15]

The World Bank has so far been unable to calculate the GHG emissions of its portfolio, whereas banks and private investors [16] as well as bilateral development assistance agencies already do.[17] When they talk about their greenhouse gas methodology, they still are not promising any disclosure.[18] More troubling still, representatives of the Bank say that data on GHG emissions should not affect investments.[19]
Massive investments in fossil fuels

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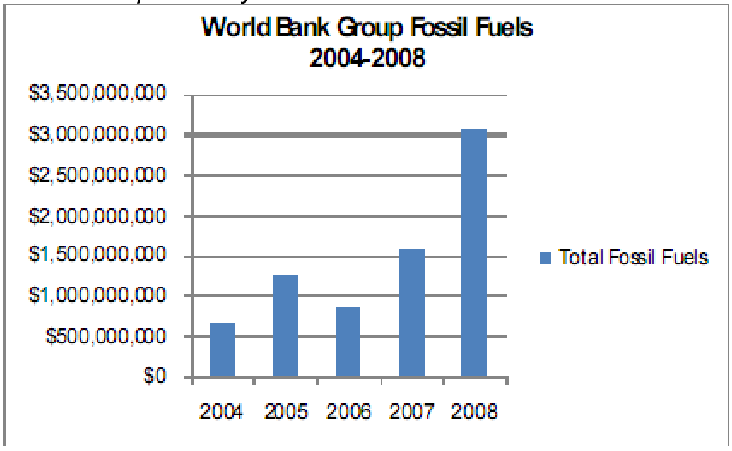
[11] How the World Bank's Energy Framework sells the climate and poor people short, September 2006
[12] Extractives Industries Review: Striking a better balance, December 2003
[13] European Parliament resolution on trade and climate change, 29 November 2007, paragraphs 29 and 30, http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=2&procnum=INI/2007/2003
[14] See file:///C:/Documents%20and%20Settings/asophie/Bureau/6%20pages%20sur%20Banque%20mondiale%20et%20climat/Article.3468.aspx.htm
[15] World Resources Institute, Correcting the World's greatest market failure: climate change and the multilateral development banks, June 2008
[16] See http://www.trucost.com/henderson.html
[17] In 2007, the French Development Agency set up a tool to measure GHG emissions of projects it funds: see http://www.afd.fr/jahia/webdav/site/afd/users/administrateur/public/plaquettes/AFD-Changement_climat_FR.pdf
[18] See Mainhardt-Gibbs, Bank Information Center: "The World Bank is supposed to be more forthcoming to the public with their development projects. When they talk about their greenhouse gas methodology, they still are not promising any disclosure." http://www.worldwatch.org/node/6209?emc=el&m=277083&l=4&v=97362000ee
[19] World Bank Initiates Carbon Footprint Analysis, 28 July 2009: "Eduardo Paes Saboia, a senior adviser to the Bank's executive director for Brazil, Colombia, and the Dominican Republic, said at the July World Bank meeting that he supports the use of emissions data for general decision making, but that these decisions should not affect investments." See http://www.worldwatch.org/node/6209?emc=el&m=277083&l=4&v=97362000ee

An examination of the investment portfolio of the World Bank in the energy sector reveals that they are truly addicted to fossil fuels.[20] **Thus, a recent report by WWF-UK[21] calculates that between 1997 and 2007,[22] the World Bank financed fossil fuel projects that will emit 26 billion tons of CO_2 during their lifetime, or 47 times the annual emissions of France.**

From 2006 to 2008, Bank support for fossil fuels steadily increased.[23] After the publication of four damning scientific reports on climate change by the UN (IPCC) [24] in 2007, what does the World Bank do? It nearly doubles its funding for fossil fuels in 2008 (+94%), exceeding the 3 billion dollar mark for the first time.[25] That is 48% more than in 2000, the Bank's previous peak.

Source: Report "Dirty is the new clean".



In 2008, the International Finance Corporation (IFC, a World Bank institution for the private sector), provided 300 million dollars in support for the Calaca power project in the Philippines, 550 million dollars for the oil and gas project in Argentina, 300 millions dollars for Peru's oil and gas project and 250 million dollars for the Caim India II oil project in India.

Not only has World Bank increased its funding for fossil fuels, but they have also made huge investments in coal, the most polluting fuel: between 2007 and 2008, coal loans increased by 256%. In 2008, the Bank invested approximately one billion dollars in coal projects.

And there is no end in sight. In February 2009 the IFC has approved an agreement in principle on the payment of 5 billion to Eskom over 5 years to assist its development; the company is owned by the State of South Africa and provides 95% of the country's electricity… of which 90% comes from coal. In May 2009, the World Bank granted a new loan of 80 million dollars to China for the operation and use of coalbed methane. This highly explosive product comes from deep layers of coal and is 21 times as warming as CO_2.

Breakdown of IFC Energy Sector

IFC Current Energy Sector Generation Commitments

	million $	% share
Coal	1,173	29%
Oil	427	11%
Gas	879	22%
Hydro	738	19%
Wind	58	1%
Geothermal	65	2%
Other renewable	45	1%

Source: Concentrating Solar Power (CSP) Financing and the Clean Technology Fund
Presentation by Dana R. Younger, World Bank Infrastructure Department
Climate Investment Funds CTF Trust Fund Committee

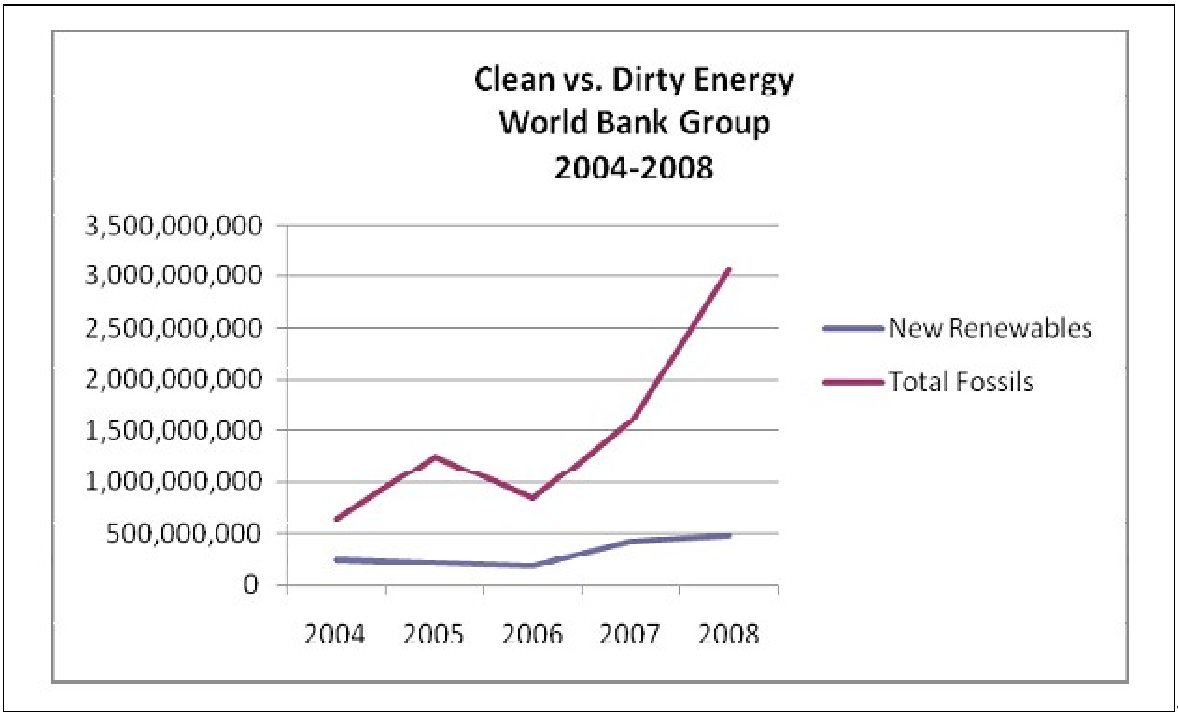
[20] Here we are only discussing the activities of the World Bank in the energy sector, which excludes other areas that also impact the climate, such as transport, industry and forestry, where the Bank's activities are also controversial. For example, in 2007, Robert Goodland, environmental consultant to the World Bank for 23 years, told the Guardian: "A quarter of the Amazon rainforest has already disappeared, with the help and encouragement of the World Bank." (The Guardian, 23 October 2007)
[21] WWF-UK, The World Bank and its carbon footprint: Why the World Bank is still far from being an environment bank, June 2008
[22] The years indicated correspond to financial years
[23] Bank Information Center, WB energy sector lending: Encouraging the World's addiction to Fossil Fuels, February 2009
[24] See http://www.ipcc.ch/
[25] Institute for Policy Studies, Campagna per la Riforma della Banca Mondiale, Oil Change International and Friends of the Earth US, *Dirty is the new clean: World Bank Climate Initiatives Come Under Fire*, October 2008

Although the Bank talks endlessly about supporting renewable energy,[26] none of its policies actually address its ongoing (and growing) support for fossil fuels. The World Bank has never agreed to discuss reducing its financial support for fossil fuels.

Renewables[27] lagging

In 2004, following the conclusions of the *Extractive Industries Review*, the World Bank committed to increase its funding for renewables by 20% per year. But since 2005, a report by the Friends of the Earth - United States[28] calculates that Bank funding for renewables increased by just 7% in 2005.

Fortunately, in 2007, loans from the World Bank for renewables and energy efficiency increased to 476 million dollars, but they only reach levels of 1993, 1996 and 2000 after having fallen significantly from 2001 to 2006. **This amount represents only 16% of loans made for fossil fuels.[29] The energy portfolio of the World Bank, a public development institution, is hardly exemplary when compared to the record of many private lenders.** Many private banks do better: in 2006, 40% of the energy portfolio of Dexia was devoted to renewables; for the Caisses d'Epargne the total was 26% (2005).[30]



Source: Report "Dirty is the new clean".

The majority of the "clean "projects presented by the World Bank are major dams. Unlike solar, wind, geothermal and small-scale hydro, large dams are under heavy criticism for their major environmental and social impacts, particularly the forced displacement of populations, the submergence of farmland and the destruction of biodiversity. The World Commission on Dams (WCD),[31] the reference body on the subject, has also highlighted an exaggeration of the benefits of large dams and a chronic underestimation of their negative impacts.[32] Les Amis de la Terre does not consider large dams to be

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[26] See, for example, the World Bank website: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTENERGY2/0,,menuPK:4114636%7EpagePK:149018%7EpiPK:149093%7EtheSitePK:4114200,00.html

[27] The following are considered to be renewable energies: wind, solar, geothermal and small-scale hydro as defined by the World Commission on Dams. The World Bank also includes large dams, which are very controversial, in its statistics. The figures presented here do not include large dams.

[28] Friends of the Earth US, Power Failure: How the World Bank is failing to adequately finance Renewable Energy for Development, December 2005

[29] Bank Information Center, WB energy sector lending: Encouraging the World's addiction to Fossil Fuels, February 2009

[30] Les Amis de la Terre, French banks, fossil banks?, March 2007

[31] See http://www.dams.org/

[32] The WCD has undertaken the largest global study on the impact of large dams: see http://www.dams.org/news_events/press353.htm

sustainable energy unless they comply with the recommendations of the WCD, which the World Bank has refused to incorporate into its policies.

For the World Bank, coal is a "clean" energy

How does the World Bank defend a portfolio that is this disastrous? It states bluntly, speaking through its chief economist, that "*Without our support, it is the cheaper, dirtier type of coal plants that will proliferate.*"[33]. It classifies certain proposed coal plants as "low emitters of CO_2" (low-carbon).

This argument is triply flawed:

- Even if the super-critical plants can reduce emissions by 15%, coal still emits on average two times more CO_2 than natural gas per unit of energy produced;
- The Bank uses this argument primarily to finance new power plants, not to improve existing stations. This increases global greenhouse gas emissions, while the peak of global emissions, according to the IPCC, will most likely take place between 2015 and 2020 and global emissions must then be reduced from 50% to 85% by 2050. The Bank is silent on this scientific recommendation by the IPCC, which France supports.
- **Above all, the argument that financial support from the World Bank helps to build a cleaner plant is false. A study by the Bank itself and another by MIT acknowledge that modern, more efficient plants are more profitable than old ones. Bank support for less expensive plants is economically useless.**[34]

Sophisticated but biased communications

Despite this disastrous record, the World Bank has a policy of active communication portraying itself as a player in financing the fight against climate change, notably through the creation of new "Climate Investment Funds" that compete directly with the UN mechanisms.[35]

These initiatives have been sharply criticized by developing countries and civil society, both because of the conditions of governance under which they are implemented, how they might circumvent the multilateral process of the UN,[36] and the more typically schizophrenic attitude of the World Bank, which suddenly claims to be at the forefront of the fight against the very climate change for which it provides billions of dollars in financing. The Bank has included coal plants in the list of projects eligible for its new "Clean Technologies Fund".[37]

In parallel, the World Bank has frequently reiterated that it cannot reduce its financing of fossil fuels because it would be unpopular in developing countries. Certain aspects of the problem are worth noting here:

- Not all developing countries are producers of fossil fuels, far from it. The importing countries in the developing world have more to gain from World Bank support for renewables on their territory (industry and local employment, energy security) than from imports of fossil fuels (negative balance of trade, dependence on world markets);
- As for the fossil-fuel producing countries, of 98 producing countries in the world, 65% have already exceeded their maximum production limit.[38] Is it better to use the Bank's public money to exhaust the last reserves of some countries in the short term, without preparing for the post-oil future of those countries that will soon run dry (collapse of investment, enduring pollution, unemployment, etc.) or would it be better to finance energy efficiency and renewables in these countries too?
- In the scientific opinion of the IPCC, developing countries will be disproportionately affected by climate change. Climate change has already destroyed the development opportunities of many countries, and will do so even more tomorrow. The World Bank, with its development mandate,

[33] Justin, Lin, World Bank Chief Economist and Senior Vice President, http://blogs.worldbank.org/climatechange/why-coal

[34] Environmental Defense Fund, *Foreclosing the Future*, p. 17: "Indeed, the World Bank itself published a study in 2007 that concluded that super-critical plants have lower delivered electricity costs than sub-critical plants, a conclusion also reached by the 2007 MIT study, "*The Future of Coal*.""

[35] See in particular the analysis by the Oxford Institute for Energy Studies, "One Step Forward, Two Steps Back? The Governance of the World Bank Climate Investment Funds", February 2008

[36] *Le Monde*, 27 March 2008: "South Africa, echoing many developing countries, has denounced what is perceived as an attempt to circumvent the UN apparatus."

[37] See the World Bank website, http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCC/0,,contentMDK:22106164~menuPK:5927542~pagePK:210058~piPK:210062~theSitePK:407864,00.html

[38] See http://www.agrocarb.fr/surconsommation-la-responsabilite-des-pays-riches.php

should not base its reasoning exclusively on an economically short-term approach: it must take greater account of the climate impacts of fossil fuels, including the medium-term economic impacts, which will be much higher than the short-term profits derived from the exploitation of fossil fuels.

"Development" can mean much more than just increasing the use of fossil fuels. A report by the World Watch Institute has shown that developing countries are in a good position to avoid fossil-fuel based development and move directly to renewable energy.[39] The British development NGO Christian Aid has also calculated that for 50 billion dollars it would be possible to make photovoltaic electricity available to 500 million people without power in sub-Saharan Africa: this sum is lower than the African states themselves will have to pay for imported fossil fuels in the next decade to achieve the same result.[40]

This requires an innovative approach and strong political will. To date, the World Bank remains incapable of developing energy models without heavy reliance on fossil fuels, blocking the transition to energy moderation and renewable energy. What will happen tomorrow?

Within the World Bank, France must demand a radical reorientation of lending policies in the energy sector. At stake are the coherence and effectiveness of the climate change policy.

[39] Worldwatch Institute, Low-Carbon Energy: A Roadmap, 2008
[40] Christian Aid, The Climate of poverty: facts, fears and hopes, May 2006

Boosting fossil fuels with IFIs' money: an economic and social aberration

IFI support for fossil fuels increases overconsumption in rich countries

Developing countries massively export their fossil fuel resources to rich countries, denying a large majority of their own citizens access to basic energy. According to a study by the research organization SEEN,[41] 82% of the oil projects supported by the World Bank between 1992 and 2002 are exclusively for export to rich countries.

Public funding by the Bank in these projects constitutes a direct subsidy for oil consumption in developed countries. IFI support for these export projects lowers prices by facilitating financing; this price reduction encourages overconsumption in rich countries, the very countries that have an obligation to reduce GHG emissions.

In addition, these export projects neglect local people living in fuel poverty: they don't get a drop of it. This is a massively inconsistent approach. Will the rich countries (which have the majority of voting rights) use the IFIs to ensure their energy security, in defiance of their development mandate?

IFI support for fossil fuels benefits Western multinationals

The fossil fuel projects supported by the IFIs have systematically benefitted companies that are among the most powerful and lucrative in the world: Shell, ExxonMobil, Chevron, ENI, etc. One can legitimately question the need for public institutions to finance the development activities of the major oil companies, which generate more than $100 billion in profits annually.

In addition, fossil fuels are a sector that is extremely mature, very structured and attractive to the private financial sector. It is unnecessary and thus economically irrational to support it with public money. In contrast, the renewable energy sector in developing countries is still young, loosely structured, low profile and highly fragmented, consisting primarily of SMEs. Public support is extremely useful for accelerating the development and structuring of these ecological networks, the source of tomorrow's innovative business models. This is where World Bank funding could add value.

More importantly, IFI lending for fossil fuels increases the competitiveness of this sector compared with renewables, which do not receive as much public support. The IFIs retard the development of renewables and energy efficiency.

The exploitation of fossil fuels frequently aggravates inequality in developing countries

Conflicts, strengthening of authoritarian regimes, human rights violations, forced displacement of populations, corruption, deteriorating health, the destabilization of social structures, resource depletion, deforestation, water and air pollution, destruction of biodiversity, climate change, Dutch disease, etc. The cohort of negative impacts of the extractive industries in developing countries has now been very well documented. They are very rarely taken properly into account in project impact studies, and provide only inadequate compensation for victims.

Capital intensive, the fossil fuels sector creates very few jobs per million dollars invested, and, highly profitable and attractive, it often dries up investment in other sectors. The wealth produced goes to a very concentrated economic sector that is dominated by foreign investors: profits from the exploitation of underground resources are largely monopolized by industrial and financial multinationals, which repatriate them to their country of origin. They also often benefit a small political elite and exacerbate income inequality.

The World Bank itself assesses that between 1960 and 2000, developing countries rich in natural resources have developed two to three times slower than other countries. Nigeria, Chad, Sudan and Angola are all victims of this "resource curse" that very few countries are capable of escaping.

[41] SEEN - Sustainable Energy and Economy Network, *Transnational corporate beneficiaries of World Bank Group fossil fuel projects*, 1992-August 2002, September 2002

Controversial projects funded by the IFIs

India: coal rather than solar [42]

In April 2008, the World Bank invested 450 million dollars in the construction of the Tata Ultra Mega power plant in west India. Once constructed, this 4,000MW ultra mega coal plant will emit 26 million tonnes of CO_2 annually, and will be one of the 50 largest emitters of CO_2 in the world. Funding by the World Bank has no value added according to an analysis by the Center for Global Development.[43] It shows that supercritical technology used by the plant is already widespread in India because operating costs and fuel are less costly.

Former World Bank economist David Wheeler adds that the region of Mundra, where the plant will be built, has an enormous potential for the development of solar energy: in the state of Gujarat, more than 7,000 MW of renewable energies (especially solar and wind) are projected to come online in the next four years – without the assistance of the IFIs.[44] Projects are plentiful, but the World Bank has to know which ones to choose.

Africa: disastrous Chad–Cameroon pipeline[45]

The Chad-Cameroon pipeline project is the largest investment ever made in Central Africa (4 billion dollars). It includes the development of oil fields in Chad and the construction of a 1,070 km pipeline to transport oil to Cameroon for export to the United States. Led by ExxonMobil (United States), this operation could produce a total of 137 million tonnes of oil, which will emit 427 million tonnes of CO_2 – that is 80% of the total emissions of France in 2005.

Co-financed by the World Bank and the European Investment Bank and promoted as a model development project, this project has had disastrous results: oil spills, loss of local communities, strengthening of Idriss Deby's petrodictatorship and increased conflicts in Chad and Darfur through weapon purchases with oil dollars. These shocking events resulted in the Chad government forcing the World Bank out of the project on16 September 2008. It is impossible to ignore the nature of the Chad regime: Ten years before the IFIs began financing this project, Idriss Deby came to power in a bloody coup.

Since 1997, international civil society has strongly warned investors of the risks involved with this project. However, the World Bank and the EIB didn't heed the warning.

Italy: public funding for the Val d'Agri oil project [46]

From 1996 and 2000, the EIB provided loans totalling 607 million euros for the development of two large onshore oil deposits located in the Apennine mountains and the construction of a new 150 km pipeline to carry oil to Taranto. At the end of September 2008, the collective output of the product was estimated at 220 million barrels of oil and 5 billion cubic metres of associated gas.

This project is located in an ecologically sensitive region, including part of the Val d'Agri national park. It has contributed to the degradation of the fauna and flora, the depletion of groundwater, air pollution, and several devastating accidental oil spills have already taken place. It has created few jobs and has slowed down agricultural development and tourism. Today the region is economically devastated: the population has decreased by 25% in the past fifteen years, and unemployment continues to be a problem. The oil sector has created exceedingly few jobs in relation to the huge sums of money invested.

[42] See http://blogs.cgdev.org/globaldevelopment/2008/03/tata-ultra-mega-mistake-the-if.php

[43] See http://ideas.repec.org/p/cgd/wpaper/140.html

[44] See http://in.rediff.com/money/2009/jan/09gujarat-pushes-green-energy.htm

[45] See http://www.amisdelaterre.org/-Oleoduc-Tchad-Cameroun-.html

[46] See www.fossilfreeeib.org

3. The European Investment Bank contributes to climate change

Established in 1958 by the Treaty of Rome, the European Investment Bank (EIB) is an institution of the European Union whose initial mission was to invest in the poorest regions of Europe and to finance the integration of the European economies. However, its actions rapidly extended beyond the borders of the EU, and today the Bank is active around the globe. Each year, this little-known institution lends twice as much money as the World Bank.

The European MPs Pierre Jonkheer (Belgium), Alain Lipietz (France) and Claude Turmès (Luxembourg) have pointed out the crucial role that the EIB could play in the environmental and economic transition: "The projects are there, the plans are there – what's missing is the financing, financing that the EIB could provide […]. *Of the many projects that are only awaiting funding, the most urgent ones are the myriad home insulation projects and hundreds of thousands of decentralized investments in renewable energies."*[47]

The EIB itself has announced that it "has made the long-term financing of investment aimed at combating climate change one of its priorities."[48] However, the Bank has not done nearly enough in terms of climate change.

The sectors financed

According to information provided by the EIB, the four principal sectors of lending activity in the 5-year period from 2004-2008 are transport, intermediary banks (credit lines), energy and industry. An analysis of the loans in these sectors provides an alarming insight into the EIB's climate priorities.

Transport: an unsettling preference for road and air transport

In 2004, the transport sector was responsible for 29.8% of the emissions in EU countries, of which 21.3% was generated by road transport alone.[49] This is the sector whose emissions have increased the most since 1990. Road and air are the means of transport with the highest emissions of greenhouse gases, and they continue to increase in the EU today.

A public institution like the EIB should focus its funding on railroad transport and the development of urban public transport, which are much more sustainable from a climatic point of view. But a report by the CEE Bankwatch Network[50] reveals that most EIB lending goes to road and air transport.

Between 1996 and 2005, the EIB invested 112 billion euros in transport:

- **More than half of that amount went to air and road transport (in Central and Eastern Europe this share rises to 68%);**
- 37 billion euros (33%) was used in the construction of roads (of which 26.5 billion euros went to highways);
- 16 billion euros went to the aviation industry for airport expansions and the construction or purchase of aircraft;
- About 9 billion euros have gone to the automobile and tyre industries.

If their new capacities are fully utilized, the airport expansion projects financed by the EIB, such as Terminal 5 at Heathrow in London, the 5th runway at Schiphol in Amsterdam and Terminal 4 at Barajas in Madrid, will emit a total of 45.5 million tonnes of additional CO_2 each year, which is more than the annual emissions of Ireland.

[47] La Tribune, Point de vue, 16 April 2009
[48] EIB website: http://www.eib.org/projects/events/klimaschutz-finanzieren.htm?lang=-en
[49] European Environment Agency, *Annual European Community greenhouse gas inventory 1990 - 2004 and inventory report 2006*
[50] Central & Eastern Europe Bankwatch Network, *Lost in transportation*, March 2007

Table 1: Selected airport expansion projects and estimated additional CO_2 emissions per year				
Airport project	**Capacity before expansion**	**Extra capacity (passengers per year)**	**Additional CO_2 if capacity used[82]**	**Percentage increase in airport's CO_2 emissions**
Schiphol 5th Runway	45 million	13 million[83]	2 869 750 tonnes per year	32.5%
Warsaw Airport new passenger terminal	3.5 million	6.5 million[84]	1 690 000 tonnes per year	185.7%
Prague Airport new passenger terminal	6.5 million	3.5 million[85]	910 000 tonnes per year	53.8%
Cork Airport new passenger terminal	2.18 million	3 million[86]	780 000 tonnes per year	137.6%
Beijing International Airport 3rd runway and new terminal	35 million	'almost double' [87] (additional 30 million assumed)	7 800 000 tonnes per year	85.7%
Heathrow 5th Terminal	60 million	30 million[88]	9 000 000 tonnes per year	50%
Paris Roissy-Charles de Gaulle 3rd runway	30 million	25 million[89]	6 500 000 tonnes per year	83.3%
Munich Terminal 2	20 million	25 million[90]	6 500 000 tonnes per year	125%
Madrid Barajas Terminal 4	42 million[91]	35 million[92]	9 100 000 tonnes per year	83.3%

[81] Sausen et al, 2005, Aviation Radiative Forcing in 2000: An Update of IPCC (1999), Sausen, R., Isaksen, I., Grewe, V., Lee, D.S., Myhre, G., Schumann, U., Stordal, F. and Zerefos, C., June 2005
[82] Please note that these are theoretical estimates because they have been calculated by taking the average figures for the UK and Netherlands shown in the text on page 30. The mean average of these two figures has been used as an estimate for other countries for which the average figures are not known.
[83] See text box below for references
[84] EIB Press Release: Poland: EIB Finances Warsaw Airport Expansion, 23/12/2002, http://www.eib.org/news/press/press.asp?press=2590
[85] EIB Press Release: Czech Republic: EIB Lends CZK 9 billion for Extension of Prague Airport, 10/04/2003, http://www.eib.org/news/press/press.asp?press=2827
[86] EIB Press Release: Ireland: Aer Rianta signs EUR 115 million loan facility with European Investment Bank to underpin development at Cork Airport, 14/11/03, http://www.eib.org/news/press/press.asp?press=2711. In this case 2.18 million refers to actual passenger numbers in 2003 rather than the capacity.
[87] EIB Press Release: EUR 500 million for the expansion of the Beijing International Airport (China), 08/09/2005, http://www.eib.org/news/press/press.asp?press=2979
[88] Heathrow Airport: www.heathrowairport.com: T5: Fascinating Facts, viewed 8th October 2006
[89] EIB Press Release: "France: FRF 500 million loan from the EIB for Roissy-Charles de Gaulle airport in Paris", 30/06/98, http://www.eib.eu.int/news/press/press.asp?press=1574&style=printable
[90] Munich Airport International Website: General Information http://www.munich-airport.de/EN/Areas/Company/Daten/Allgemein/index.html, viewed 23rd October 2006
[91] Passenger numbers in 2005 rather than theoretical capacity
[92] Richard Rogers Partnership (Architects) website: http://www.richardrogers.co.uk/render.aspx?siteID=1&navIDs=1,4,24,298,1035, viewed 13th December 2006

Source: Report "Lost in transportation"

To date in 2009, the EIB has already granted 7.22 billion euros (44% of the total) to transport[51], including more than 3.2 billion euros for roads (including many highways). In addition, 330 million euros has been loaned to the aviation sector. Note that for some of the loans not included in these figures, it is impossible to determine the nature of the projects funded since the EIB does not disclose any information on this subject, and indicates that these 2009 figures do not include the many loans granted to the automobile industry that were classified under the industry sector.

This funding is not compatible with the EIB's statements on climate: air and road are the most polluting forms of transport, and it has been proven that the construction of new roads inexorably leads to an increase in total traffic, and therefore to an increase in emissions of CO_2.[52]

[51] www.eib.org. Figures from 1 January 2009 to 16 July 2009
[52] SACTRA (Standing Advisory Committee on Trunk Road Assessment), *Trunk Roads and generation of traffic*, HMSO, 1994

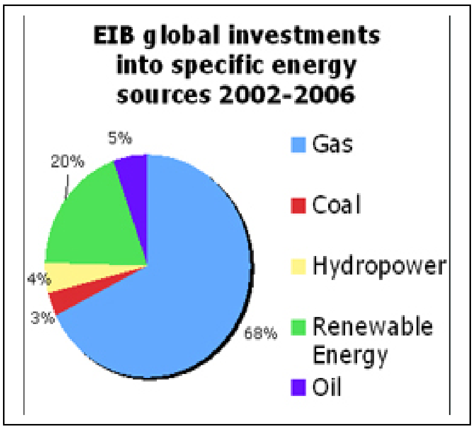
Energy and industry: the addiction to carbon

Since the adoption of the Kyoto Protocol in December 1997, the EIB has invested 17 billion euros in fossil fuels in Europe and around the world.[53]

In 2004, the EIB announced the decision to allocate 50% of its loans for power generation to projects based on renewable energies. This is an interesting initiative that shows the possibility of altering the strategy of the EIB, which has actually increased its lending in the renewable energy sectors.

But these efforts have been overshadowed by the continuing emphasis placed on funding for fossil fuels.

According to Bankwatch Network[54], between 2002 and 2006, of the 23.7 billion euros allocated to energy projects, 11.3 billion euros (47%) went to projects relating to the production and distribution of fossil fuels. Excluding loans for electricity distribution, 76% of the energy funding went to fossil fuels.



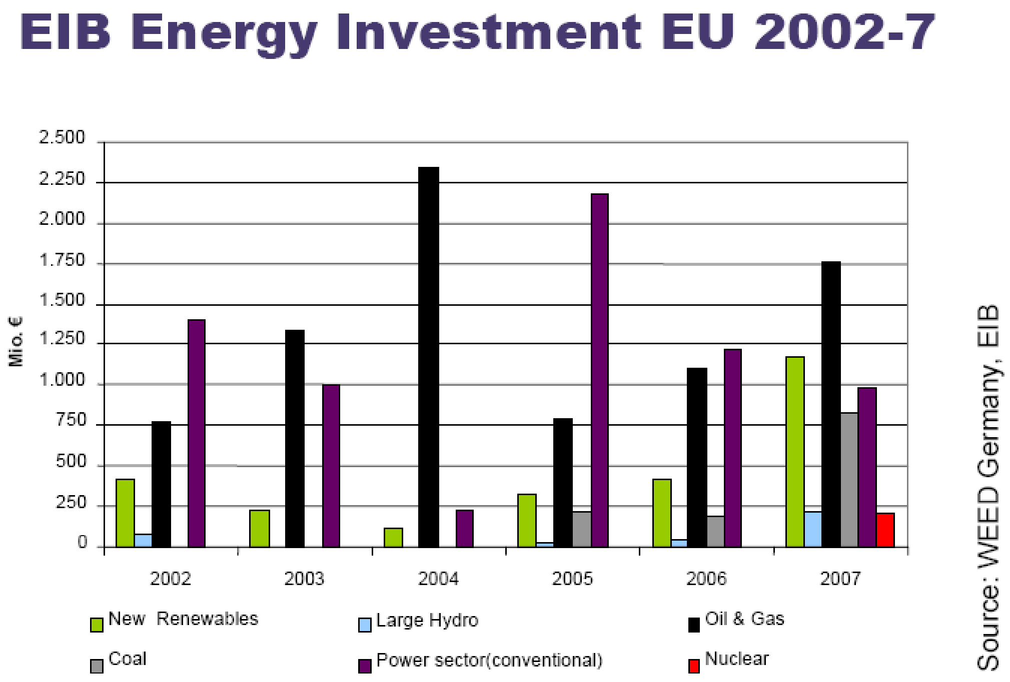
Source: Bankwatch

Over the past five years, the EIB has invested four times more money in fossil fuels than in solar, wind and wood-biomass combined.

In Europe, after declining between 2004 and 2005, lending to oil and gas has increased steadily from 2005 to 2007. And in 2007, while loans to renewables increased, that was also the case of loans to coal, the most polluting fossil fuel. In 2007 alone, the EIB invested 3 billion euros in fossil fuels: their record is as bad as the World Bank's.

[53] See www.fossilfreeeib.org

[54] BankWatch Network's analysis of the EIB's energy investments from 2002 to 2006 is available at: http://bankwatch.org/newsroom/documents.shtml?x=20



In November 2007, the European Parliament passed, by a large majority, a resolution calling for "the discontinuation of public support, via export credit agencies and public investment banks, for fossil fuel projects."[55] The resolution also instructs the European Commission and Member States to adopt legislative instruments in order that the Bank take account of the climate implications of the projects funded and impose an interim moratorium on funding. To date, this resolution has had no effect whatsoever.

The EIB announced it was working to implement a system for calculating the carbon footprint of projects it finances, but no methodology and no results have been published to date.

Strangely, oil projects are not accounted for in the energy sector on the EIB website. It is in the industry sector that we find, for example, that in the first half of 2009, the EIB granted 800 million euros to oil refineries, including the Italian company ENI. The remainder of the EIB's loan portfolio to industry, increasing this year, makes us question the sincerity of the Bank's climate concerns:

- 3.2 billion euros (56% of total loans for industry) have been allocated to the automotive industry (cars and trucks);
- 300 million euros went to aircraft construction.

National governments wanted the loans to the automotive sector to protect employment in this sector, which is experiencing a full-blown economic crisis. But many studies show that "greener" activities are just as effective at creating jobs:[56] it would probably be more effective in terms of employment, the environment and industrial competitiveness to provide funding for a conversion to the industries of the future instead of supporting a polluting industry that overproduces and terminally ill.

The EIB is involved in controversial oil and gas projects, such as the Chad-Cameroon oil pipeline (from which the World Bank, noting its failure, was forced to retire in 2008), the West African gas pipeline (Nigeria, Benin, Togo, Ghana), and oil exploration at Basilicata in Italy.

Today, it is pursuing pipeline projects in the Balkans, including the Nabucco gas pipeline and the Burgas-Alexandroupolis oil pipeline. Future EIB lending in the energy and industry sectors is therefore likely to continue to exacerbate the climate crisis. The blindness with which the Bank addresses the argument of energy security risk to maintain European overconsumption of fossil fuels at

[55] European Parliament resolution on trade and climate change, 29 November 2007, paragraphs 29 and 30. See http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=2&procnum=INI/2007/2003

[56] See in particular the UNEP and ILO Report, *Green jobs: Towards decent work in a sustainable, low-carbon world*, September 2008: http://www.unep.org/PDF/UNEPGreenJo...

unsustainable levels, while the EU has committed itself to reducing its GHG emissions by 20% by 2020, or 30% under a demanding international agreement at Copenhagen. Instead, the EIB should be making a contribution to a radical reduction of EU emissions by prioritizing funding for moderation, energy efficiency and renewable energies.

Global lending: the great unknown

Approximately one quarter of investment portfolio of the Bank goes to global lending, which is credit lines granted to financial intermediaries, which in turn makes loans to companies or public authorities for projects costing less than 25 million euros.

It is impossible to assess the climate impact of these loans because no information is published on the final beneficiaries of these loans. Over the past five years, the EIB has invested 66 billion euros of public money... without anyone knowing what purposes the financing ultimately served.

At a conference on renewable energies in Bonn in June 2004, the EIB stated that between 1999 and 2003, 300 million euros in global lending had financed projects in renewable energies. To verify this statement, CEE Bankwatch Network asked 386 financial intermediaries receiving funds from the EIB for the period specified to provide a list of projects funded in renewable energies. Of the 73 banks that responded, none provided any indication of a specific project, and some even responded that no project in renewables had or was going to be funded, even though the EIB had identified them as having supported such projects.[57] Transparency and credibility are still sorely lacking at the EIB.

[57] CEE Bankwatch Network and the Amis de la Terre International, *Positives undermined: the EIB's lending for renewable energies*, 2005

4. Recommendations by Les Amis de la Terre France

Despite announcing their determination to fight climate change, industrialized countries are the main shareholders of International Financial Institutions (IFIs), including the World Bank and the European Investment Bank (EIB). They provide massive financing for fossil fuels (coal), as well as to industries and means of transport that emit high levels of GHGs (airplanes, automobiles). In December 2009, an international conference on climate change will be held in Copenhagen.[58] This will be an unprecedented event: It will outline the climate future for mankind. At that time, along with the other actors, the World Bank and the EIB should commit to a radical revision of their strategies to finance the reduction - and not the growth - of GHG emissions.

France needs to align its participation in the IFIs with its policy in fighting climate change. As a major shareholder, it must take an active and explicit position with regard to the World Bank and the EIB and request that they:

1. Calculate the emissions caused by their funding and investments

- The EIB and the World Bank should annually publish the GHG emissions emitted by their projects - starting in 2010 for the most carbon-intensive sectors (energy, transportation, extractive industries, forestry and agriculture) and for projects in categories A and B (the most GHG-intensive). Methodologies exist, including that of the French Development Agency,[59] to calculate the emissions generated by a project, and that of the ADEME (French Environment and Energy Management Agency), Centre Info and Utopies to calculate the emissions generated by an investment portfolio.[60]
- The EIB should publish the list of projects funded by financial intermediaries who are beneficiaries of global loans; they should also publish the GHG emissions generated by these projects, from 2010 in the case of the most GHG-intensive projects in categories A and B.

2. Develop goals for reducing GHG emissions they produce

- Based on the emissions generated by their funding and investments, the World Bank and the EIB should set targets for reducing emissions in line with the scientific recommendations of the UN. The IPCC considers it necessary to reduce GHG emissions in the industrialized countries by 25% to 40% by 2020 and 80% to 95% by 2050 (that is, an average annual reduction of 5%) and to reduce global GHG emissions by 50% to 85% by 2050 (an annual reduction of 3%) compared to 1990.

3. Stop public financing of fossil fuels

- By 2012, the World Bank and the EIB should stop financing fossil fuels, which are principally responsible for climate change. The Copenhagen Conference should take action on this decision.
- Simultaneously, the World Bank and the EIB should increase their investments in efficient energy (including existing fossil fuel projects) and renewable energy: wind, solar, geothermal and small-scale hydro (as defined by the World Commission on Dams).
- Starting in 2010, the World Bank and the EIB should stop financing:
  - The most polluting fossil fuel projects: coal, heavy grades of oil (tar sands), projects that involve gas flaring;
  - Fossil fuel projects located in the most valuable or threatened areas on the planet: areas declared World Heritage Sites by UNESCO, protected by UN tools, areas protected by the Ramsar Convention on Wetlands, category I-V protected areas designated by the International Union for Conservation of Nature and important global cultural sites;
  - Fossil fuel projects located in areas of conflict or elevated risk of conflict;
  - Projects located in territories with indigenous peoples who have not given their free, prior and informed consent.

4. Stop public financing of aviation

- The EIB should end financing to the aviation sector, the most polluting means of transport in the world;
- The funding of transportation by the EIB and the World Bank should be completely overhauled with the emphasis on rail and urban public transport; by 2012 this should make up the majority of their investments in the transportation sector.

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[58] United Nations 15th Conference of Parties (COP) on Climate Change Conference and 4th session COP on the Kyoto Protocol, 7 to 8 December 2009, Copenhagen

[59] see http://www.afd.fr/jahia/webdav/site/afd/users/administrateur/public/plaquettes/AFD-Changement_climat_FR.pdf

[60] See http://actu.beneficesfutur.fr/. Programme launched by the Caisse d'Epargne