

Green Coal: IDB and the Climate Debate

Will the IDB Continue to Support Fossil Fuels?

Roberto Vellutini, the new Director of the IDB's Infrastructure and Environment Department, stunned a conference of environmental experts last November by announcing that the Bank will soon help Colombia produce "green coal." What Vellutini meant was an agreement by the IDB to provide technical assistance through its new Sustainable Energy and Climate Change Initiative (SECCI) to provide wind power and bio-diesel for the fleet of trucks servicing Cerrejon Coal, the world's largest open pit coal mine. Was this the Bank's new "green seal"?

IDB's Climate Initiative

Laboring in the shadow of the World Bank's rush to capture rich country funds to broker future climate talks, the IDB has launched its own green initiative to promote clean energy and address climate change. In 2006, the IDB announced significant new funding to promote renewable energy, energy efficiency, carbon financing, biofuels and climate adaptation. The SECCI program has involved a \$500 million for promotion of biofuels, energy audits, a \$300 million green energy program, and a growing list of environmental technical assistance and loan components.

In addition to non-reimbursable cooperation which is badly needed for climate-related investments, IDB environmental policy loans now being piloted in Peru, Mexico and Colombia offer the most promise for potential change if meaningful loan conditions can shift the incentives toward sustainable development. Biofuels and much of the carbon financing, on the other hand, have been roundly criticized for their dubious green credentials. Ultimately, the test will be whether the IDB will spend the earmarked funds on clients addicted to dirty energy.

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Agrofuels and the IDB

False Solutions for Climate Change and Rural Poverty

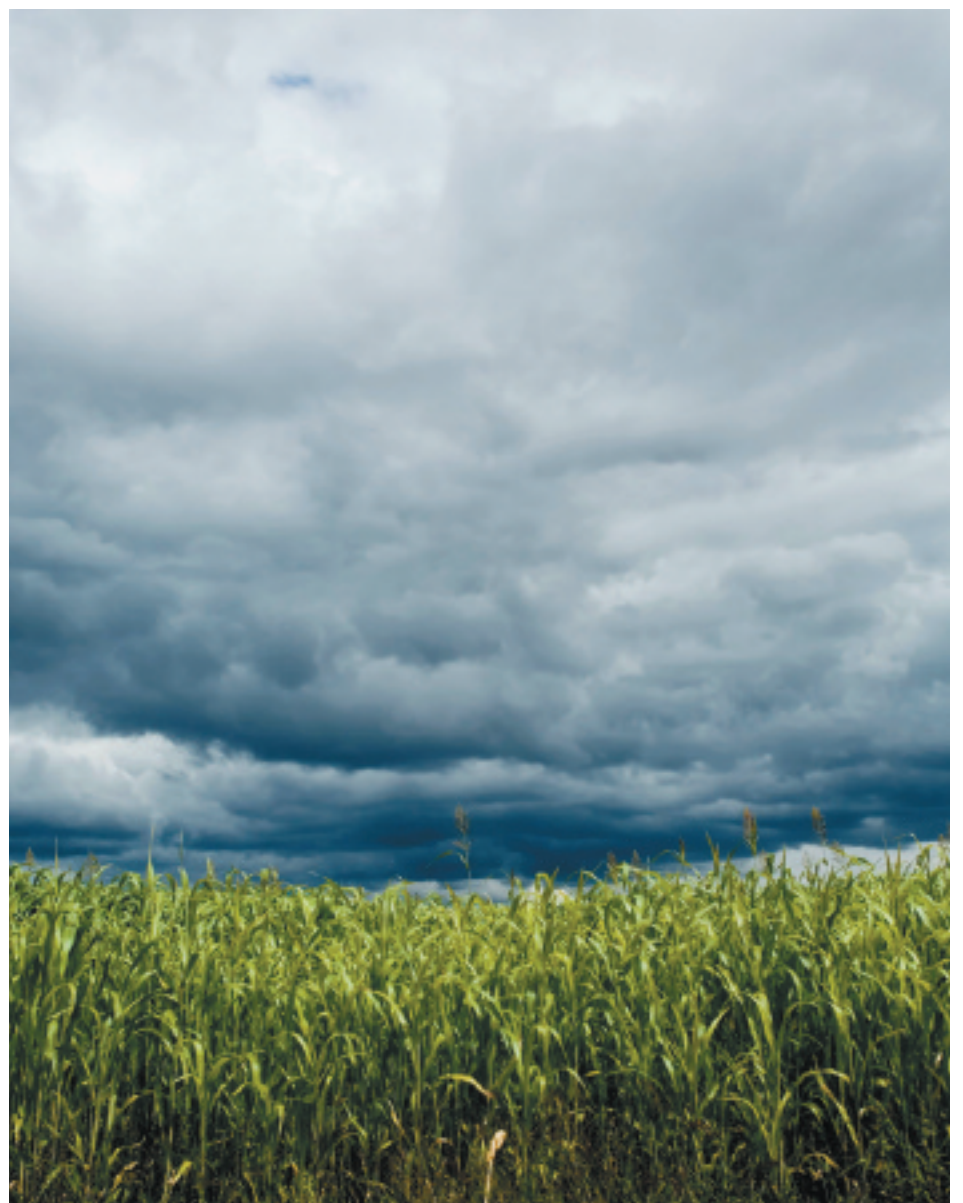
Agrofuels have been touted as a solution to climate change and a potential development opportunity for the global South. However recent research shows that they are not a climate solution, and that the additional environmental and social impacts of large-scale agrofuels production are substantial. Furthermore, any development benefits to the rural poor are lost when agrofuels are promoted as large scale, monoculture plantations.

The agrofuels industry has grown phenomenally in recent years due, in large part, to government mandates in both the United States and Europe. Large investments in research and capital continue to flow into the agrofuels sector and after twenty-five years of near absence, the Inter-American Development Bank (IDB) has fervently resumed lending within the field. To date, the Bank has approved USD 45 million in loans and technical cooperation funds with close to USD 3 billion in private sector loan projects currently being prepared. By far the largest investments are to support export-oriented infrastructure and ethanol facilities, which do nothing to support local livelihoods or sustain rural environments.

In an April 2007 press release, IDB President, Luis Alberto Moreno, called biofuels a "transformative opportunity" that could further the IDB's core mission "to bring economic opportunity and a better quality of life to the region's low-income majority."¹ Despite repeated calls from civil society, scientists and government officials for, at the very least, temperance in the agrofuels sector, current project proposals make clear that the IDB is willing to ignore its own cautions against "unrealistic expectations regarding biofuels" and submit Latin American countries to the voracious appetite of the Northern transportation sector.²

In December 2007, the United States Congress passed, and President Bush signed into law, a mandatory Renewable Fuel Standard (RFS), requiring fuel providers to use at least thirty-six billion gallons of agrofuel by 2022, nearly a five-fold increase of then current levels. This massive

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Camisea Fuels Oil Boom in Peru

Oil Concessions Cover 70 Percent of the Peruvian Amazon

Over the last four years the Inter-American Development Bank (IDB) has come under intense scrutiny for financing Peru's largest and most controversial energy initiative – the Camisea Gas Project, located in southeastern Peruvian Amazon. The project has put in jeopardy the lives, health and livelihoods of local indigenous peoples, some of whom live in isolation from national society. It has also led to irreversible impacts on tropical forests and biodiversity of the Lower Urubamba Valley. In terms of its climate footprint, the IDB's own calculations shows that the Peru LNG project will generate nearly 1.1 million tonnes of carbon dioxide per year. Camisea is far from a model for sustainable and equitable development.

The most troubling consequence of Camisea however, may be the unprecedented and out-of-control boom in oil exploration and production it has ignited in the Peruvian Amazon, one of the largest surviving areas of primary tropical rainforest anywhere in the world. The IDB clearly failed to foresee or address the long-term impacts of this project and its long-awaited Strategic Environmental Assessment came “too little, too late” to make a difference.

Back in 2003, Peru's State oil-licensing agency, Perupetro, had merely a dozen active contracts for hydrocarbon concessions covering less than 15 percent of the Peruvian Amazon. As of February 2008, there are fifty oil and gas blocks under contract in Peru's rainforest, and at least thirteen more contracts anticipated in the coming months. Together 63 hydrocarbon blocks cover almost *two hundred thousand square miles*, over 50 million hectares of rainforest, nearly 73 percent of the Peruvian Amazon. Given these statistics the region has recently been dubbed by some ‘Saudi Amazonia’.

The majority of these oil and gas blocks overlap State-demarcated conservation areas (Natural Protected Areas), Territorial Reserves for Indigenous Peoples in Voluntary Isolation, indigenous community titled lands and a host of other preexisting legal entitlements. Indigenous peoples are seldom consulted about potential activities on their lands either at the time the concession is offered or after a contract is signed. If they are consulted, the mode of consultation is rarely culturally and linguistically appropriate, and is often incongruous with the principles of Free, Prior and Informed Consent. Consent itself is often manipulated, distorted or exorted.

Public confidence in the Government has been further eroded by declarations made by the head of Perupetro questioning the existence of isolated indigenous peoples: “It is absurd to say there are uncontacted peoples when no one has seen them.” Another Perupetro official compared the likely existence of isolated people with the myth of the Loch Ness monster. Meanwhile, the Peruvian

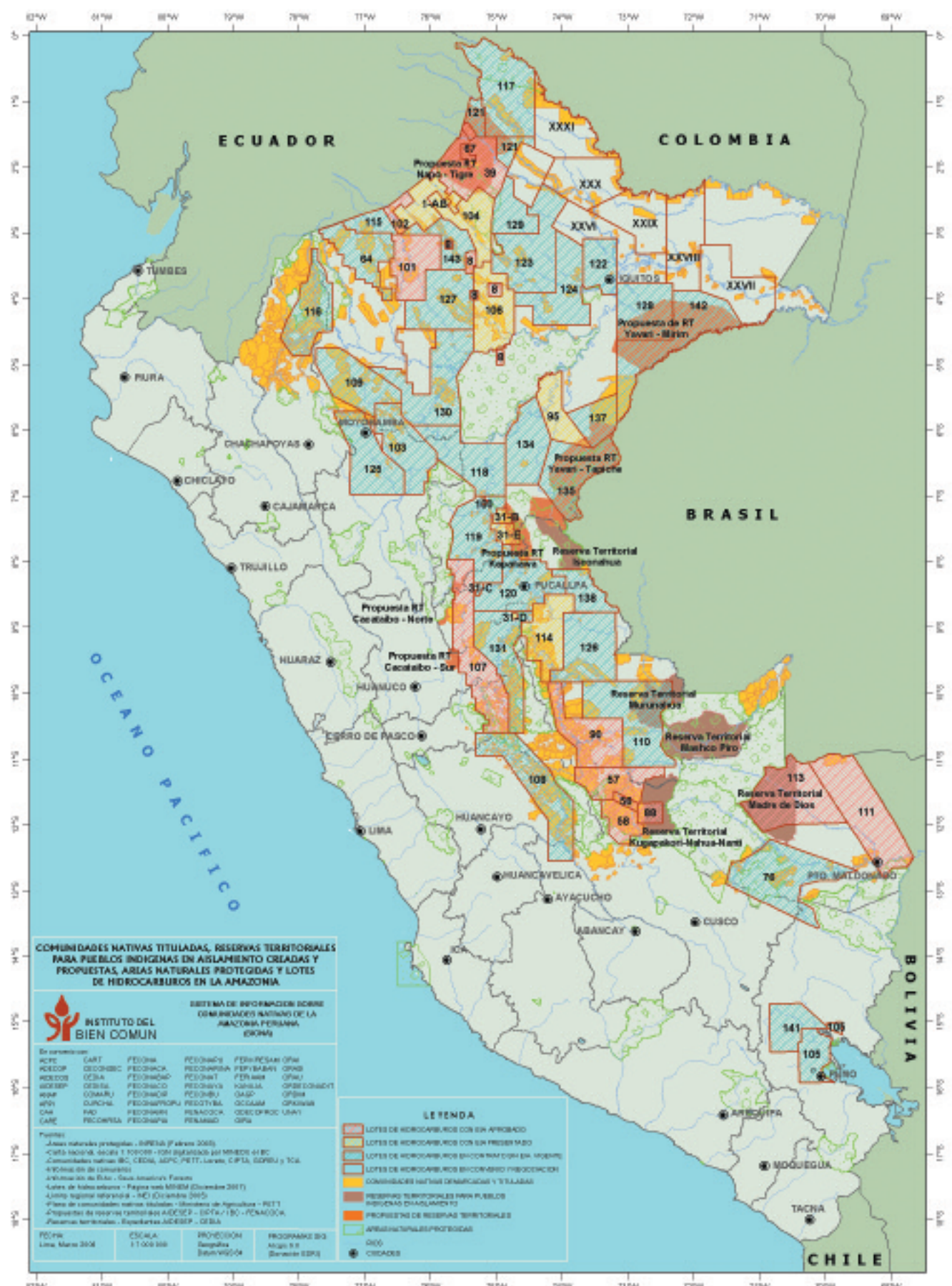
President's now infamous *Perro del Hortelano* editorial blatantly blamed the country's underdevelopment to the “figure of the ‘uncontacted’ wild native”.

Indigenous rights violations are occurring under a governance rubric that is at odds with itself and in which social and environmental protections are being systematically eroded. Despite several technical assistance loans to the Peruvian Government, the IDB has failed to bring value added when it comes to shoring up Peru's regulatory capacity to deal with oil boom as indicated by some recent examples.

- Changes in environmental management legislation now stipulate that administrative agencies could be held liable for negative consequences of applying the Precautionary Principle;
- An entire class of protected areas was eliminated from the national register;

• New legislation has been passed undermining communal and forest land rights to promote privatization and pave the way for large scale agro-fuels.

With the price of oil at over \$100 per barrel and consumption still increasing there is growing impetus to tap more remote and difficult-to-access sources of hydrocarbons. Yet if we've learned anything from the past, it is that development based on natural resource extraction does not necessarily bring positive change for the local populace, economy, or political systems – much less when the climate crisis is factored into the equation. Peru's development agenda is failing to see the true value of its Amazon forests and the true cost of its oil development path. Perhaps both the IDB and the Peruvian government should take a cue from neighboring Ecuador, and begin the necessary transition to an equitable and sustainable post-petroleum economy. ♦



Ecuador's Oil Change

Addressing Climate Change and Deforestation

Quito, Ecuador —On a clear day from this high Andean capital the nearby volcanoes glisten in the equatorial sun. The most startling of these is Cotopaxi, whose glacier has shrunk 30 percent over the last few years.

The first visible impacts of climate change in Ecuador, of which this is but one, are among the multitude of reasons why Ecuador is now proposing to leave its largest oil reserve unexploited.

Oil has been a mainstay of the Ecuadorian economy for more than three decades, accounting for one third of the state's revenues between 1972 and 2006 and, by 2006, half of its national budget. Ecuador is currently South America's second largest oil exporter to the United States.

In June 2007 President Rafael Correa announced that the country would be willing to forgo the development of its largest oil reserve, the Ishpingo Tambococha Tiputini (ITT) field, and forfeit estimated revenues of \$9.2 billion if the international community would match its financial sacrifice through economic mechanisms including debt cancellation, bilateral aid and direct financial commitments. At least \$350 million is sought in commitments. A national trust fund has been created and the government is setting up an international trust fund to receive contributions. In September 2008 progress will be assessed to gauge whether there is enough international support to make the proposal viable.

Leaving Yasuní's oil underground is one of the most significant measures yet proposed by any nation to tackle climate change.

Addressing Deforestation and Climate Change

The ITT oil block is located beneath one of the Amazon basin's most biodiverse areas, the Yasuní National Park. Dubbed the "cradle of the Amazon", the Park is a United Nations Biosphere Reserve and is also home to indigenous peoples living in voluntary isolation, whose cultural survival depends upon protecting the Park. Yasuní contains over 2.4 million acres of primary tropical rainforest boasting 4,000 plant species, 173 mammal species and 610 bird species. There are almost as many tree species in 2.5 acres of Yasuní as in the whole of North America. It is also one of the few places on the planet distinguished as a Pleistocene Refuge Area: during the last ice-age, Yasuní was a hotspot of biodiversity and animal migration, and greatly contributed to the propagation of the Amazon Basin.

Keeping the oil underground in Yasuni simultaneously addresses two causes of global climate change: tropical deforestation and oil consumption. Given that between one fifth and one quarter of all carbon emissions come from deforestation, the Yasuní-ITT proposal is very significant. The oil reserves are equivalent to an estimated 436 million tons of carbon emissions: equal to taking more than 46 million cars off the road. The initiative establishes a vital global precedent recognizing tropical rainforests' role to naturally sequester vast quantities of carbon and regulate regional and global weather-patterns.

Toward a Green Ecuador

The other major goal of the Yasuní proposal is to create a new vision for development, and establish a path towards a post-petroleum economy in Ecuador. By matching compensation funds from the international community Ecuador's Government aims to establish the Yasuní-ITT Environmental Trust Fund, to finance environmental initiatives within its National Development Program. These include: the development of alternatives to oil extraction; energy efficiency; promotion of green technologies such as solar, wind and geothermal power; a broad social program to include construction of green homes and schools; energy efficient public transportation; investment in, and development of, ecotourism; a comprehensive environmental remediation program to address existing contamination.

"We want to demonstrate that a small country with a marginal contribution to the climate change problem, can avoid releasing greenhouse gases and at the same time lay the foundation for a more just and equal economy," explains Lucia Gallardo, deputy environmental advisor in Ecuador's Ministry of Foreign Relations.

Debt and Destruction

Like many other oil-dependent countries, Ecuador has not reaped the much-promised benefits of oil 'development'. Although oil revenues were significant in facilitating national growth between 1972 and 1982, the panorama has changed in the last 25 years. Today Ecuador produces more



Photo: Lou Dematteis

than twice as much crude it did during the 1970s boom. However, the average annual per capita income increase between 1981 and 2006 was a mere 0.6 percent and poverty levels between 1995 and 2006 remained constant. Over the last quarter century, national indicators of poverty rose and health indicators declined. When the country's oil boom started foreign debt hovered around \$213 million. Today it is roughly \$10.6 billion. At the same time the forty-plus years of oil extraction in the Ecuadorian Amazon have wrought environmental and social havoc.

Ecological Debt

Whilst climate change has no national borders and represents a common threat to humanity, it reflects a grave asymmetry in responsibility and burden. The Yasuní proposal is based on the concept of ecological debt and the principle of shared responsibility, as laid out in the 1994 United Nations Framework Convention on Climate Change. Responsibility for reduction of greenhouse gases is shared, but it is also disproportionate: industrialized countries, such as the United States, are responsible for the majority of greenhouse gases emitted historically but unfortunately developing countries will suffer the greatest future impacts. The concept of ecological debt suggests an obligation by industrialized countries to compensate developing countries both for efforts to stem climate change and to adapt to its effects. Ecuador is asking to be compensated in this way for the loss of its expected annual revenue from the ITT oil fields.

Speaking at the UN Dialogue on Climate Change this September, President Correa said, "The measures of adaptation to climate change represent a heavy burden on the budgets of developing countries that could ascend to \$40 billion, according to the studies of the World Bank. We do not need loans to adapt. That would increase the burden of our external debt. What we need is compensation for the damages caused by the out-of-proportion amount of historical and current emissions of greenhouse gases by industrialized countries.

"Nevertheless," he added, "Ecuador is prepared to make enormous sacrifices to fight global warming".

From Kyoto to Quito

To date, the Yasuní-ITT has generated significant interest from governments, international organizations and individuals. Financial commitments from the Spanish, Norwegian and Belgian governments, as well as the United Nations Development Program (UNDP) have helped jump-start the initiative. The proposal was selected for recognition in September 2007 by the Clinton Global Initiative, started by President Bill Clinton to implement innovative solutions to the world's most pressing challenges.

With carbon emissions, global temperatures and oil prices all at record highs, proponents say there has never been a more crucial time for a proposal like Yasuní-ITT. Ecuador is seeking commitments from industrialized nations for measures valuing avoided deforestation and avoided carbon emissions, whilst recognizing ecological debt.

"You can't try to fit this proposal into the limited parameters of Kyoto," says Lucia Gallardo. "The Yasuní initiative breaks the mold and Ecuador is ready to lead a movement beyond Kyoto based on justice and innovation."

Anyone watching the shrinking glacier atop the Cotopaxi volcano cannot help but conclude: It better. And fast. ♦

Bank of the South Is Inaugurated

Competing Visions

Venezuela, Bolivia, Ecuador, Argentina, Brazil, Paraguay and Uruguay inaugurated the Bank of the South in early December 2007. Technical staff have since labored over the founding statutes. Agreement over capital requirements, member voting structure and institutional functions hinges on the reconciliation of the different visions for the Bank held by Brazil and Venezuela. The difficulties building unity behind this ambitious and unprecedented initiative underscore the significance and complexity of launching the Bank.

The Bank of the South is presented as the cornerstone of a more general overhaul of the regional financial architecture, which has long been dependent upon Northern banks. A regional monetary fund, a common regional currency, a regional network of state development banks, regional stock and commodities exchanges, a regional Parliament and a regional social fund were only some of the new institutions suggested by the current South American Presidents during the last Inter-American Development Bank (IDB) Annual Meeting in Guatemala.

Membership Structure and Capital

Commitments: A target of \$7 billion in starting capital has been frequently cited. However, a persistent bottleneck in the negotiations on Bank statutes has been over the criteria for capital quotas and the relationship between these quotas and voting rights. An early proposal for capital contributions was for each member to put in 10 percent of its respective international reserves. More recently Ecuador has proposed that members' contributions equal their respective contributions to the International Monetary Fund (IMF), World Bank or IDB. Venezuela on the other hand has argued that capital contributions be proportional to the countries' relative share of the regional economy or regional population; that the contribution be voluntary; and that it be no less than that pledged to the International Financial Institutions (IFIs).

Bank of the South proponents also demand that there be equal voting power among members: one country = one vote. This contrasts with current voting structures in the IMF, World Bank and IDB that strongly favor the U.S. and European non-borrowing members. For example the U.S. controls 30 percent of the IDB Board vote share and about 17 percent of World Bank and IMF vote shares.

Brazil, the region's largest economy, has reportedly resisted the linkage of equal voting rights with unequal capital contributions, instead proposing equal capital contributions be tied to equal voting rights. Brazil would allocate well over half of all initial contributions under each proposal and its share would be 4 to 20 times higher than most other members. It is probable that member quotas will be set using multiple factors so as to limit Brazil's exposure.



Seven Presidents inaugurate Bank of the South on Dec. 9, 2007

No Monetary Function: The Bank of the South has been associated with a mechanism for pooling South America's reserves and providing support in crisis situations, such as the East Asian meltdown. The fund would diminish the onerous conditions imposed by the IMF in order to access international credit. The Bank comes into being at a time when most South American economies have lowered their exposure to IMF influence, there being only two new Stand-By agreements in 2007 (Peru and Paraguay). In 2005, 80 percent of the IMF's \$81 billion loan portfolio was to Latin America, today this has dropped to percent. The total outstanding debt to the IMF in Latin America has also fallen dramatically to about \$700 million.

No Conditionality: Some members of the Bank of the South have insisted that it distinguish itself from the IMF, World Bank and IDB by not conditioning its loans, or other forms of cooperation, on neoliberal policy reforms. Former Venezuelan Finance Minister Rodrigo Cabezas frequently cited the "humiliating penalties" associated with IMF clauses during the 1980s and 1990s and President Correa similarly declared that Ecuador's "long neoliberal night" of dependency on the IFIs had ended.

High commodity prices and voracious demand from China and India may have helped loosen the IMF's grip on South American economies, but relative prosperity may also have diminished the urgency to create an alternative. Brazil has insisted that the new Bank will not bail-out unwise borrowers, but it is unclear whether any conditions will be placed on the Bank's loans. The premise of "No Conditionality" suggests that the Bank has, or will, determine the capacity of its members to borrow and will not place any restrictions on repayment beyond those established in the loan terms. This raises questions about the cost structure of the Bank's loans.

With a projected \$7 billion in initial operating capital and no members with investment grade credit credentials, the Bank of the South will not be able to inexpensively or independently access international credit markets, driving up the real cost of loans which the Bank may then choose to subsidize. Aside from policy reforms, a variety of other lower order conditions have yet to be clarified including the scaled cost

of loans, the maximum a particular country can borrow, procurement rules and accounting, reporting requirements etc.

Lending Priorities: The Bank of the South will be guided by three broad lending priorities:

1. Regional Integration
2. Reducing the asymmetries between and within South American countries
3. Provide financing for development

Regional integration is intended to differ from the export-obsessed, foreign investment friendly orientation of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Free Trade Area of the Americas

(FTAA). The suggested alternative makes national and regional production and South-South investment higher priorities than the rapid liberalization and insertion of South American economies into the global market.

Infrastructure projects, both productive (transport and energy) and social (sanitation and education), are often mentioned as examples of projects worthy of Bank financing. For large integration projects the possibility of joint financing from the Bank of the South and member state banks, such as BNDES in Brazil and BANDES in Venezuela, was not ruled out. The Bank of the South would likely favor lending to state owned companies in partnership with South American state banks. In the social sectors, there are also expectations that the Bank will compensate for the lack of responsiveness of northern IFIs.

Questions Remain: Many good questions remain regarding how the Bank's first loans will be distinct from the CAF, BNDES, or even the more common investment loans of the IDB and World Bank:

- Will the Bank of the South lend to non-sovereign entities, such as sub-national governments or private sector entities?
- What model of integration (IIRSA?) will guide its projects?
- How can civil society participate in the decision-making processes behind the selection, design, implementation and evaluation of projects in a way that distinguishes the Bank from other IFIs?
- How would Bank of the South projects move beyond social investment and cash transfers to tackle the social and economic asymmetries within and between South American countries?
- How will the Bank uphold the highest, if not higher, social and environment standards than those established by some IFIs?

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For the complete analysis from which the article was excerpted, see

<http://www.bicusa.org/en/Article.3587.aspx>

Madeira Dam Project Threatens the Largest Tributary of the Amazon

The Madeira River is located in the Brazilian state of Rondônia. It is the largest tributary of the Amazon and its basin covers about one-quarter of the Brazilian Amazon forest. The Madeira River Project involves two huge hydroelectric dams: Santo Antonio (3,150 MW) and Jirau (3,300 MW)—with a total cost of approximately US\$14 billion. The project could provide up to 8% of Sao Paulo's industrial energy demand but this energy may not become available until 2016.

The construction of the Madeira hydroelectric complex—plus two additional dams upstream—would open a 4,200 km industrial waterway to barge passage, permitting the transport of soybeans, timber, and minerals to Atlantic and Pacific ports. The cost of the entire complex could exceed \$30 billion.

The project is the cornerstone of the Brazil-Bolivia-Peru hub of the *Initiative for the Integration of South American Infrastructure*, (IIRSA)—a blueprint for 335 large-scale infrastructure projects proposed by South American governments, supported by the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF) and Brazil's National Bank for Economic and Social Development (BNDES). The project was also included in Brazil's massive Program for Accelerated Growth (PAC).

Companies involved

On December 10th 2007 a consortium of Brazilian companies won the auction to build and operate the 3,150 megawatt (MW) Santo Antonio dam. Consorcio Madeira Energetica, led by construction giant Odebrecht (18.6% equity stake), beat two other European-led competitors. The winning group includes the state-owned electricity company Furnas Centrais Elétricas SA (39%), engineering company Andrade Gutierrez Participações SA (12.4%), Cemig Geração e Transmissão SA power utility (10%) and a financial fund made up of Santander and Banif banks (20%).

BNDES, a federal state-owned development bank, has already announced its interest in financing the Madeira River Project through equity (up to 20%) and debt (up to 75%) instruments. The IDB has already provided partial credit guarantees to Odebrecht and Furnas and has reportedly offered to finance the second dam, Jirau. Other Brazilian banks (Banco do Brasil, Itaú, Bradesco and Unibanco) in addition to the country's 2nd and 3rd pension funds (Petros and Funcef) are currently analyzing the project.

A River Under Threat

The region is a treasure of biodiversity. It is estimated that the Madeira River supports 750 fish species, 800 bird species and other endan-



Teotonio Rapids would be drowned by Santo Antonio Dam on the Madeira River. Photo: Wilson Dias

gered wildlife. It is also home to rubber tappers, Brazil nut gatherers and fishermen. The Madeira River Project will add to the fragmentation of Rondônia's ecosystems and the clearing of vast areas of the remaining forests. After the preliminary license for the dams was granted in July 2007 a 600% increase in deforestation rates was reported in the area.

Construction of the dams will block the migratory routes of some catfish that travel 4,500km each year to reproduce in the upper Madeira and will affect other aquatic species in addition to the thirty-three endangered mammal species found in the area.

According to the project's Environmental Impact Assessment (EIA), 3,000 people will be forced to move from their homes (although this number is likely to be an underestimate), the decline in fisheries will seriously affect commercial and subsistence fishermen and thousands of people living downstream will face declining crop yields due to the loss of the annual deposits of fertile silt on the flood plains.

Indigenous groups will be affected by the arrival of an estimated 100,000 migrants in search of work, public health impacts are likely to be substantial as it is an area where malaria and other tropical diseases are already endemic, and protected areas will be flooded.

Many suspect that the project sponsors have greater ambitions: to open the upper Madeira to navigation by fitting the dams with locks. Lower transportation costs would encourage farmers to plant more soya and grains at the expense of the remaining forest. More than thirty other dams are planned in Brazil, many in the vicinity of Madeira.

Human Rights Violated and IBAMA dissenters fired

In December 2007, the Coordination of Indigenous Peoples from the Brazilian Amazon (COIAB) demanded the environmental license and auction of the Santo Antonio dam be cancelled. COIAB is now considering a lawsuit, claiming that indigenous peoples were not granted free, prior and informed consent to the project, a fundamental safeguard of the IFC's

Performance Standard 7.

Brazil's environmental licensing authority, IBAMA, ruled in March 2007 that the environmental studies for the project were inadequate and that complementary studies were required. IBAMA's licensing director disagreed and technical staff who continued to criticize the issuing of a preliminary license were fired.

Among IBAMA's conclusions, published in a 221-page report, were that, due to sediment accumulation the flooded area could cover more than twice the 529 square kilometers indicated in the EIA, affecting protected areas and a forest reserve in neighboring Bolivia. It also suggested

that impacts on migratory fish species may lead to their extinction. The Bolivian government officially protested against the Madeira Dam Project and has refused to endorse it. The Bolivian Forum for the Environment and Development (Fobomade), together with Brazil's Movement of those Affected by Dams (MAB) has filed a complaint at the Inter-American Court for Human Rights alleging violation of the right to information, due to the Brazilian government's refusal to consult Bolivia and to assess potential trans-boundary impacts.

The preliminary license was granted with 33 conditions. These must be met in order to start construction but environmental compensation has been reduced to the legal minimum and Odebrecht is working on the, already weak, conditions. If the consortium meets these conditions then the final license should be granted around April 2008, with construction to begin by September.

The auction date for Jirau, the second dam, has been set for May 9th 2008. The same basic bidding consortia are expected to participate.

The Brazilian government has tried to present the Madeira hydroelectric complex as indispensable for national energy security, seen as a higher priority than protecting Amazonian ecosystems. Cheaper and more efficient alternatives that could meet Brazilian energy needs, including smaller hydroelectric and biomass projects, have been largely ignored.

Campaigns are underway to block investments from BNDES, the IDB, private banks and Petros and Funcef pension funds in the Madeira River Project¹. A major book on the negative impacts of the dams, "Muddy Waters: Impacts of Damming the Amazon's Principal Tributary," by International Rivers and the Bank Information Center's BICECA program will be launched in early May and will complement a series of conferences and press events in coming months². ♦

1. See <http://www.banktrack.org/?show=aletter&va=89> and www.amazonia.org.br/cyberaction3

2. See <http://www.biceca.org/es/Project.Overview.138.aspx>

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Carbon Footprint of IDB's Fossil Fuel Lending

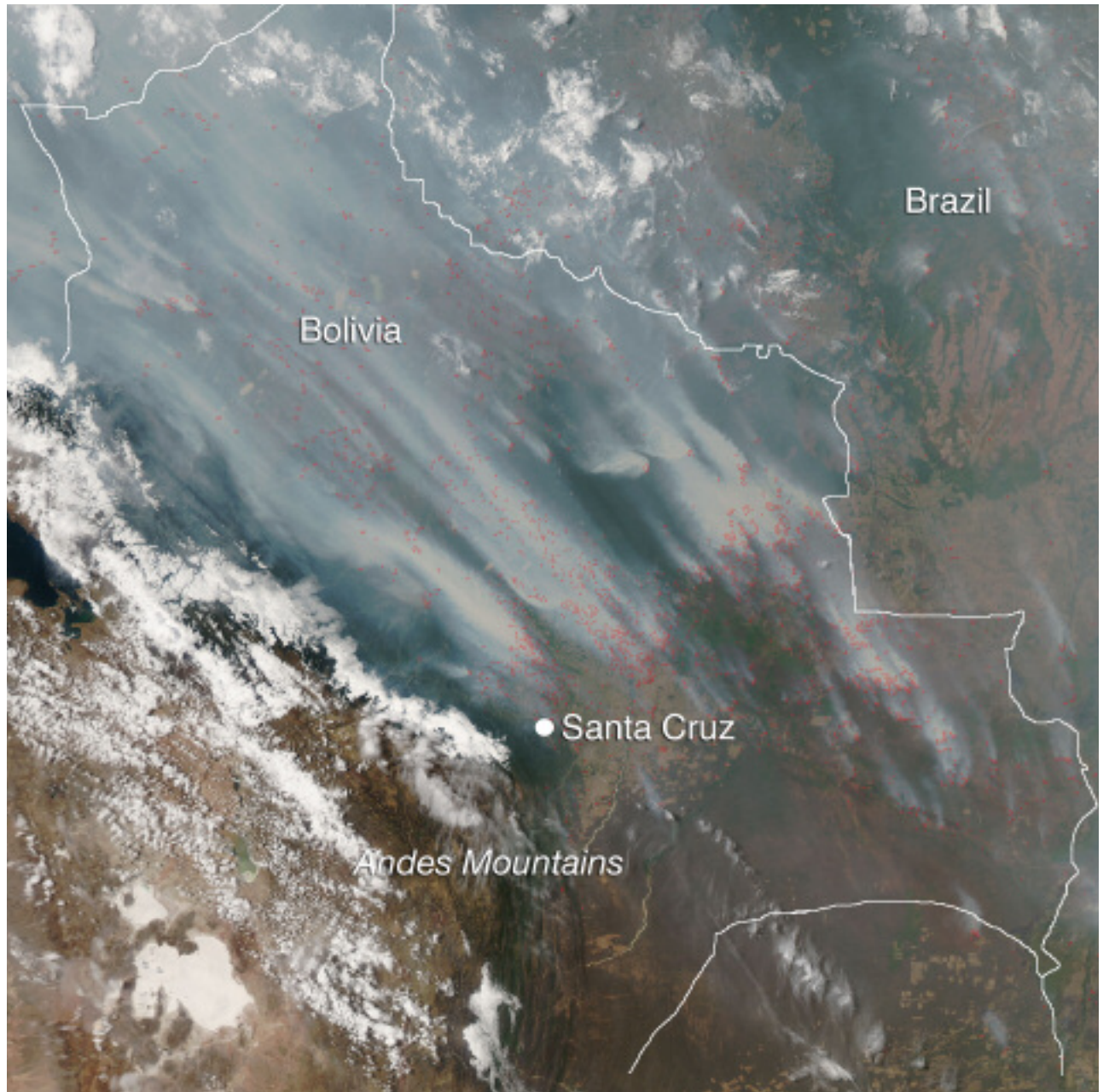
Past IDB energy lending reflects a long preference for fossil fuels that will not be easily undone. The IDB made its first loan in the energy sector in 1961. Since then, it has provided nearly \$17 billion in energy sector loans. Eighty-nine percent have been concentrated on electricity. Until the last decade, IDB activities in clean energy amounted to only a small fraction of overall energy expenditures. From 1975 to 1998, some 50 small- and medium-sized renewable energy (RE) projects received financing totaling \$600 million. Most of the projects in this category focused on geothermal power generation and small-scale hydropower plants.

A recent analysis of IDB energy lending found that the Bank supported 49 fossil fuel pipeline, power, and sectoral reform projects with \$6.27 billion in financing from the time of the Earth Summit of 1992 through March 2004. These IDB-backed projects were estimated to generate over three billion tons of carbon dioxide emissions, more than twice the amount of such man-made emissions for all of South America, Central America, and Mexico in the year 2000. Fifty percent of the top 15 corporate beneficiaries of IDB fossil fuel energy projects were based in the United States – with the major exception being Petrobras of Brazil. The now repudiated Enron ranked fourth among transnational corporate beneficiaries, and was supported by over \$880 million of IDB finance in Argentina, Bolivia, Brazil, and Mexico.

While the Bank lacks a system to effectively track new green investments, much less account for net greenhouse gas emissions of their portfolio, a survey of current operations raises doubts about how much SECCI can alter preferences for fossil fuels. With the recent approval of \$400 million for Peru LNG, \$400 million for a coke generation plant in Brazil and other major fossil fuel-based operations including a \$400 million to capitalize PetroEcuador, a \$1 billion coal-fired thermal plant in Maranhão, Brazil and unspecified support for Colombia's coalmine nearing approval, one wonders how much the IDB will have to spend to restore net carbon neutrality to its current portfolio? No doubt the redefinition of large hydroelectric dams financed by the IDB such as Campos Novos in Brazil and Porce III in Colombia, will loosen the conceptual restrictions to doing so.

GAP Between Rhetoric and Action

The future of SECCI is threatened by a paramount concern in the IDB realignment that centers on the perceived gap between the rhetoric and the actions of the Bank in transforming its capacity to provide intellectual and moral leadership—operationally or intellectually—with regards to the hemisphere's environmental and sustainability challenges. An outside panel of experts convened by the Bank to advise it on environmental issues recently called upon the Bank to put considerably more resources behind its sustainability commitments, particularly in acquiring skilled professionals and leading managers to building a system capable of delivering results.



Thousands of forest fires burning in Bolivia and Brazil (shown in red) as captured by NASA satellite on September 25, 2007. Photo: MODIS Rapid Response Team, Goddard Space Flight Center

Within the realignment, formal administrative authority over SECCI was placed in the newly-created Infrastructure and Environment Division, within the Vice Presidency of Sectors and Knowledge. Juan Pablo Bonilla was tapped to lead SECCI, although Vellutini exercises managerial authority. Vellutini, formerly an infrastructure specialist in the IDB's prior Private Sector Department (PRI), takes the helm of the department with arguably the most far-reaching operational importance in the new Bank structure. He will be the senior manager initially responsible for all environmental safeguard issues, but will also provide the operational support behind all Bank infrastructure projects. As the former private sector project lead on the notorious Cana Brava dam project in Brazil (that was ruled upon recently by the IDB's accountability mechanism), some in civil society are concerned that Vellutini lacks the confidence of environmental Bank staff working below him and the broader environmental community to effectively implement the Bank's safeguard policies.

The Cana Brava project casts a worrisome shadow for things to come under Vellutini's management of infrastructure sustainability. On Cana Brava, the IDB has shown an incredible lack of accountability in its management of the project. In May 2002, the IDB's Independent Investigation Mechanism found the IDB used 'poor judgment' on Cana Brava, underestimating impact to the displaced, avoiding essential social and environmental analysis and failing to implement necessary recommendations. A year earlier, after several occupations of the dam site by displaced Brazilian families, the Bank granted its

"Best Project Team" award for "outstanding work with civil society" to Vellutini and the Cana Brava team.

Considering recent IDB tradeoffs, some question whether SECCI will be different? Listed as an environmental efficiency loan, the IDB cites a \$415 million credit to Brazil state-owned electricity company Furnas Centrais Elétricas SA to rehabilitate equipment in medium hydroelectric turbines. Contrast this positive efficiency gain with Furnas' 40 percent stake in the environmentally disastrous 3,150 MW San Antonio dam on the Madeira River. Similarly, a \$75 million environmental policy loan in Peru falls far short of the damage likely to be caused by the \$4 billion Camisea hydrocarbon export project. How many trailer tanks of bio-diesel or MW of wind-generated electricity are needed to offset the production of 30 million tons of coal exported annually from the Colombian Cerrejón mine.

A growing call for transparency is targeting the IFI climate fund strategy for mirroring many of the same deficiencies as IFI lending in general. Skeptics have cited inadequate governance, impropriety of reliance on Northern-funded loan mechanisms to resolve Northern-caused climate problems and the competition between IFI funds and the UNFCCC Adaptation Fund agreed in Bali. Given many of the concerns raised about the SECCI program, the IDB has an uphill struggle to prove that it is not just another tool for rich countries to avoid committing to deep emissions reductions. ♦

Agrofuels and the IDB, *continued from page 1*

target established the United States as one of the single largest markets for agrofuels. In 2006, the IDB President co-founded the Inter-American Ethanol Commission (IEC), along with former Florida Governor Jeb Bush and Roberto Rodrigues, President of the Superior Council of Agribusiness of the Sao Paulo State Federation of Industries, to disseminate information about ethanol and promote the creation of a hemispheric market and private investment in agrofuels. The IDB's lending strategy appears to build on this alliance and create a regional trade in the agrofuel sector, effectively creating a new international energy commodity market.

Over the past five years, global production of agrofuels has more than doubled, and is now in

excess of 10 billion gallons. The United States significantly ramped up domestic production to 5 billion gallons of ethanol in 2006, and is expected to top 10 billion gallons of ethanol by 2009 and despite a 54 cent per gallon tariff, the United States has continued to import large quantities of ethanol from Caribbean countries with preferential trade access to US markets.

The IDB's Sustainable Energy and Climate Change Initiative (SECCI) fund, which originally had USD 20 million to invest in assistance for renewable energy, energy efficiency, adaptation to climate change and development of carbon markets, has been used mainly to promote the expansion of ethanol production for export. Although investigations originally suggested that

moving from fossil fuels to agrofuels would decrease greenhouse gas emissions, new studies indicate that in most, if not all scenarios, crop-based agrofuels will increase emissions significantly due to deforestation and the destruction of other natural ecosystems to make way for their production.

There is already significant greenhouse gas pollution resulting from the conversion of high carbon stock for agrofuels production. According to an agricultural outlook study increased agrofuels production will cause more land to be planted in cereals, either due to relocating land from other crops, taking land out of agricultural reserves, or cultivating new land in developing countries³.

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Community Forum

**Miami Dade College
Wolfson/Downtown Campus
Batten Room, Building Two, Room 2106
300 N.E. 2nd Avenue
Saturday, April 5th, at 6:00 pm**

The Inter-American Development Bank (IDB) will hold its 48th annual meeting in Miami from April 4th – 8th. As a major actor and financier of development projects in the Americas, the IDB plays a crucial role in the development of communities across the hemisphere.

At this public forum, civil society leaders from across the hemisphere will discuss key projects of the IDB and how they impact development, inequality, community displacement and climate change. The Inter-American Development Bank has been harshly criticized for an emphasis on export-driven market development and a lack of transparency. The panel will discuss trends in global economic policy and their dramatic impact on the quality of life and life outcomes in communities around the world.

Please join us for this important and timely discussion on emerging approaches to finance and development that promote accountability, community benefit and sustainable growth.

INVITED PANELISTS INCLUDE:

- Marleine Bastien**, Fanm Ayisyen Nan Miyami/Haitian Women of Miami
- Oscar Chacón**, National Alliance of Latin American and Caribbean Communities
- Vince McElhinny**, Bank Information Center
- Lucia Ortiz**, Friends of the Earth
- Gihan Perera**, Miami Workers Center
- Tanya Dawkins**, Global-Local Links Project (*moderator*)



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Agrofuels and the IDB, continued from page 7



While agrofuels are applauded for diversifying regional agricultural profiles and attracting private foreign investment, the cumulative impacts of the agribusiness sector are already partly responsible for recent alarming rates of deforestation

and damage to rural livelihoods across Latin America. Brazil, home to the world's most developed ethanol sector, receives an overwhelming majority of Bank funding for agrofuels. Loans are dispensed in regions that already concentrate land

ownership and big investments target large scale sugarcane monocultures and mills with an extremely poor record of compliance with local labor and environmental laws. The expansion of export led agribusiness from the sugarcane regions of central/southern Brazil has transformed ecosystems, devastated once diverse rural economies and degraded local food security. Agrofuels must not be considered a solution to either climate change or rural development. ♦

For a copy of Friends of the Earth's briefing on Agrofuels, contact Kate Horner, Friends of the Earth – U.S. email KHorner@foe.org.

1. Inter-American Development Bank "IDB Targets \$3 billion in Private Sector Biofuels Projects." Press Release, April, 2, 2007.
2. as above
3. The Organization for Economic Cooperation and Development and the Food and Agricultural Organization of the United Nations. "OECD-FAO Agricultural Outlook 2007-2016" <http://www.oecd.org/dataoecd/6/10/38893266.pdf>

Civil Society Calendar and Contacts

A delegation of civil society organizations from around the hemisphere will be attending the Annual Meeting of the IDB in Miami to engage bank officials on a range of concerns. Key among these are lack of transparency; erosion of environmental and social safeguards; bank's support of agricultural fuels, large dams, and climate destabilizing fossil fuels in the Amazon among others.

Delegation to the IDB meeting includes: ActionAid (Brazil and U.S.), Amazon Watch (U.S.), Bank Information Center (U.S and Bolivia), BankTrack (Netherlands), CEDHA (Argentina), Center for International Environmental Law (U.S.), Derechos, Ambiente y Recursos Naturales (Peru), Environmental Defense (U.S.), Florida Immigrant Coalition (U.S.), Friends of the Earth (Brazil, Peru, Paraguay, and U.S.), Global Local Links Project (U.S.), Instituto de Servicios Legales Alternativos-ILSA (Colombia), M'Biguá (Argentina), National Alliance of Latin American and Caribbean Communities (U.S.), Rainforest Action Network (U.S.)

IDB Watch is a publication of non-governmental organizations working to reform the Inter-American Development Bank. Many of the above organizations contributed to the articles published herein. Electronic versions of IDB Watch plus news releases can be found on www.amazonwatch.org or www.bicusa.org.

To Find Our Delegation in Miami:

Visit Room C-123/C-124 in the Convention Center. Tel 305-721-2537.

General Inquiries: Maria Lya Ramos, Amazon Watch, 202-257-8061 or Vince McElhinny, Bank Information Center 240-486-4224.

Media Contact: Simeon Tegel, 510-962-0195, simeon@amazonwatch.org

Calendar of Events

Bio-fuels Press Conference

Friends of the Earth briefing on the impacts of bio-fuels expansion in Brazil.

Saturday, April 5, 10 AM
Civil Society Room C-124
Convention Center

Contact: Kate Horner,
Friends of the Earth 360-319-9444

Public Rally Against Agro-fuels and Dirty Energy

A demonstration opposing IDB's financing of climate destabilizing energy projects (dams, biofuels, fossil fuels)

Saturday, April 5, 11:30 AM
In front of the Convention Center
Contact: Jodie Van Horn, Rainforest
Action Network 415-215-2210

Community Forum: "Finding Common Ground—How Climate Change, Community Displacement, and Inequality Compromise the Future of Our Hemisphere"

Saturday, April 5, 6 PM
Miami Dade College
Batten Room, Building Two,
Room 2106

Wolfson Downtown Campus
300 N.E. 2nd Ave.

Contact: Tanya Dawkins, Global Local
Links Project, (305) 461-8226, ext. 9