

Climate Financing and the World Bank – The IMF and the World Bank to the Rescue?

By Barbara Unmüßig

Independently from one another, the Intergovernmental Panel of Climate Change (IPCC) and the International Monetary Fund (IMF) have each come to a similar conclusion: The poorest countries and the poorest population groups will be the hardest hit by both climate change and the global economic and financial crisis. The World Bank, which wants to join in their rescue, intends to increase lending by about US\$100 billion over the next three years, and has initiated special programs to finance banking and trade operations.

The World Bank also wants to take a leading role in climate financing, however. Just in time for the annual World Bank / IMF conference in Istanbul, Turkey, the Bank released its new World Development Report on “Development and Climate Change.”* The report presents drastic scenarios to make the case that industrialized countries should provide significant levels of new financing to halt climate change in the southern hemisphere, implement clean energy technology, and adapt to climate change. According to the report, these countries will need hundreds of billions of dollars annually just for adaptation to climate change. The World Bank intends to steer as much of this money as possible into its own “pockets”.

Unmet financial need

It is not clear whether or how much of the financial resources for adaptation will materialize. And despite the high price tag on adaptation, only \$10 billion[†] has been raised for developing countries. As far as need goes, this is a mere “drop in the bucket.” What’s more, most of this money – for instance, what the World Bank is channeling through the Climate Investment Funds (CIFs) – is in the form of loans to be repaid.

Developing countries have done little or nothing to contribute to climate change, but they are suffering the brunt of its effects. Therefore, it is unacceptable that these countries are being forced to take on debt in order to mitigate these effects. This undercuts all efforts to promote equality for the world’s present population and sustainability for future generations. A policy change is imperative in order to provide resources in the form of grants rather than loans.

* World Bank, *World Development Report 2010: Development and Climate Change* (The World Bank: Washington, DC, 2009). See <http://www.worldbank.org/wdr2010>

[†] See <http://www.climatefundsupdate.org>

In the run-up to the climate summit in Copenhagen, the European Union has promised only €15 billion per year to combat climate change in the southern hemisphere. Other industrialized countries have not yet committed to concrete numbers. This reality stymies the negotiations because the great majority of developing and emerging countries will not agree to reduce their own CO₂ emissions without the promise of massive financial transfers. In the classic struggle between industrialized and developing countries, the issue of financial transfers has become a very tough topic of negotiation.

Can the World Bank protect the climate?

The other important subject relates to the problem with World Bank financing. Namely, how can developing countries find a way out of the global economic and climate crises if the World Bank imposes the same terms and conditions on its climate financing arrangements that it has imposed historically. These terms and conditions, which require that governments privatize and liberalize their economies in the context of strict budget discipline, have often failed to generate sustainable development. There are many reasons for these failures, but one is particularly important – that is, policies seldom succeed if they are imposed by external actors rather than through internal democratic processes. For this reason, it is legitimate to question whether the World Bank is the right organization to be protecting the global climate. In addition, the Bank continues to invest billions of dollars annually in fossil fuel-based energy operations in developing countries. Until now, the institution has been a part of the problem rather than the solution:

- A report from the World Wildlife Fund in the United Kingdom reveals that the World Bank financed 26 gigatons of carbon dioxide emissions from 1997 to 2007 – about 45 times the annual emissions of the United Kingdom.
- The World Bank Group [in addition to the World Bank, the Group includes private sector affiliates: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Association (MIGA), the investment guarantee agency]. The World Bank Group is one of the top three multilateral financiers of coal-fired power plants built since 1994. Together with the Asian Development Bank (ADB) and the European Investment Bank (EIB), the World Bank has collectively invested more than \$11.7 billion in 58 fossil-fueled projects throughout the developing world.
- Last year, the World Bank and its partner, the ADB, approved \$850 million in loans to finance a coal-fired plant in Gujarat, western India (the Tata Mundra project). As the first of nine planned plants in India, it would

be one of the biggest new sources of greenhouse gases on Earth, emitting 26.7 million tons of CO₂ a year for the next 50 years.

- The Clean Technology Fund (CTF), one of the World Bank's CIFs to mitigate the effects of climate change, has also allowed the funding of coal-fired power plants to continue, even for those plants where the technology applied yields only marginal decreases in emissions. This sends the wrong signal for the use of scarce public funds.

The World Bank is financed with public resources, after all, and should do a better job at using the CTF to promote zero-emission technologies and investments.

Completely inconsistent

While the World Bank Group proudly points to its best-ever year for financing renewable energy and energy efficiency – \$3.3 billion in the last fiscal year, or 40 percent of its energy portfolio – these numbers do not tell the whole story, since the Bank puts large hydro dams and marginally cleaner fossil fuel technologies into this category as well. The calculation also includes carbon offsets or the emission reductions by developing and emerging countries that offset higher emissions by industrialized countries. This calculation is totally misleading because it includes the emissions reductions by developing countries and not the increased emissions on the part of industrialized countries. As a result of these problems, the World Bank statistics on renewable energy and energy efficiency are not credible.

Rather than whitewashing its global role in renewable energies and energy efficiency, the World Bank should concentrate on helping developing countries transition from fossil fuels to clean technologies. However, the World Bank's policy in this area is inconsistent. On the one hand, the Bank is demanding new resources to mitigate the effects of climate change; on the other, it is pressing ahead with "business as usual" – even though, as a public financier, the World Bank ought to be in the vanguard.

Governments of emerging and developing countries and environmental and development organizations alike are arguing that the United Nations should be the body vested with responsibility for new financing for climate protection, under the terms of the Framework Convention on Climate Change (UNFCCC). The Convention should be the ultimate supervisory framework for administration of existing and future monies and should determine the criteria for climate financing.

New climate finance architecture

The new post-Kyoto agreement must launch a new climate finance architecture within the framework of the UNFCCC. The World Bank is not a credible institution in this area and will not be until there is a sea change in the attitudes of its major shareholding countries. Since these major shareholders control the World Bank, but not UN bodies, it is unsurprising that at international environmental conferences the World Bank is vested with greater and greater responsibility to manage resources for climate finance. As a result, the World Bank now hosts a hodge-podge of different, poorly coordinated funds earmarked for the climate and the environment.

Sooner or later, public funds to combat climate change will become available in unprecedented amounts. No matter which body ends up supervising these – the UNFCCC, the World Bank, other multilateral development banks, or bilateral donors – they must meet the following minimum criteria:

- The resources must be provided as additional funds and may not be counted toward development aid commitments.
- The financing should be provided in the form of non-repayable grants. Loans that add to a developing country's indebtedness should not be issued.
- Financing should correspond to the priorities of fighting poverty and preserving world ecosystems.
- Financial transfers should take into account social criteria (including gender).

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