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Issue Brief

The World Bank, Climate Change and Energy[1]

The World Bank and Climate Change

The World Bank is one of the most powerful financial institutions in the world. Created in 1944, the Bank has now become the world's largest public "development" agency, influencing the policies of the majority of the world's developing and emerging economies. In recent years, noting the significant impact that climate change is already having on developing countries and the gap in financing mechanisms available for addressing these impacts, the World Bank has increasingly staked a claim for itself as a key player on the issue – with widespread criticism from developing country governments and civil society around the world.

Climate Change and Development - the new nexus

An overwhelming majority of scientists from around the world now agree that the global climate is warming, and will continue to warm for the foreseeable future. This warming is due largely to human activities such as burning fossil fuels and deforestation.[2]

Climate change has become a critical issue in international development with developing countries expected to be disproportionately affected by its impacts. Rising temperatures and changing rainfall patterns will have a dramatic impact on agricultural productivity and local and regional food security. Many areas will see a decrease in the availability of water. Rising sea levels threaten to displace tens of millions of people living in communities in low-lying areas. Extreme weather events (such as floods, droughts, hurricanes, or tornados) may wipe out homes, lives and livelihoods. Warmer, wetter conditions may lead to increased prevalence of vector and water-borne diseases, such as malaria, cholera and typhoid. And the ability of countries to reach the Millennium Development Goals will likely be compromised.

Addressing the global challenge of climate change requires countries to reduce their greenhouse gas (GHG) emissions by reducing reliance on fossil fuels, investing in greener energy alternatives such as wind, solar, biomass and mini-hydro, and actively promoting energy conservation and efficiency. Countries in the North have higher levels of GHG emissions and will therefore need to make much more drastic reductions than countries in the South. Countries will also need to implement measures to *mitigate* or reduce the magnitude of the economic, social and environmental impacts of climate change and to *adapt* to significant changes in the climate to reduce damages that are unavoidable. This will require developing countries to dedicate already limited resources to addressing the challenges of climate change. Financing for adaptation may require an additional US$50 billion per year.[3]

[1] This brief was prepared for the Halifax Initiative by Clare Levin, with comments from Lucy Baker, formerly of the Bretton Woods Project, Elena Gerebizza, CRBM and Janet Redman, Institute for Policy Studies.
[2] Lenny Bernstein et al. *Climate Change 2007: Synthesis Report*. Intergovernmental Panel on Climate Change, November 2007. Available at http://www.ipcc.ch/pdf/assessment-report/ar4/syr/ar4_syr_spm.pdf.
[3] Oxfam International, Adapting to Climate Change – What's needed in poor countries, and who should pay, Oxfam Briefing Paper 104, May 2007.

Key international developments related to climate change and the World Bank

1988 - The United Nations (UN) establishes the Intergovernmental Panel on Climate Change (IPCC) to provide an objective source for information on climate change. It is the leading provider of scientific evidence and analysis on this issue.

1994 – The UN Framework Convention on Climate Change (UNFCCC) comes into force with near universal membership. The UNFCCC is intended as a global response to begin addressing climate change issues.

1995 – The Kyoto Protocol comes into effect. The Kyoto Protocol is a legally binding agreement to reduce greenhouse gas (GHG) emissions, the major cause of climate change.

2005 – The G8 asks the World Bank (WB) to develop a plan for investing in clean energy.

2006 – The G8's Development Committee asks the WB to review existing financial instruments related to climate change and to explore potential new instruments to accelerate investment in clean energy.

2008 – The WB Climate Investment Funds are officially launched by the G8 in Hokkaido, Japan. The WB releases its *Strategic Framework on Development and Climate Change for the World Bank Group* for discussion.

The World Bank responds: the Clean Energy Investment Framework

At the Group of Eight (G8) Summit in Gleneagles, Scotland in 2005, the G8 asked the World Bank to elaborate a plan for investing in and financing clean energy and development. In response, in 2006 the Bank developed the Clean Energy Investment Framework (CEIF) intended to help scale up investments in clean energy and integrate climate change into development work. The CEIF complemented already existing World Bank climate-related activities in energy sector reform and carbon market development and trading and focused on three strategic areas: 1) energy for development and access for the poor; 2) energy for a low-carbon economy; and, 3) climate change adaptation.

In spring 2008, the Bank launched a discussion of a successor to the CEIF, the *Strategic Framework on Development and Climate Change for the World Bank Group* (SFCCD), which spells out a much broader role for the Bank in climate change issues. The SFCCD envisions the Bank playing a role leveraging further concessional and private finance, supporting country led initiatives related to adaptation and mitigation, accelerating technology transfer and deepening the Bank's policy research, capacity and knowledge on the issue. Under the CEIF and now the SFCCD, the Bank continues to argue that existing financing mechanisms to support the transition to a low-carbon economy and to address adaptation are insufficient, and that additional funds are required.[4]

The Climate Investment Funds

The Climate Investment Funds (CIFs), which fall under the SFCCD, are the most recent financing mechanisms approved by the Bank's Board to support its increased engagement in climate change. In September 2008, donors from ten countries[5] pledged $6.1 billion for the CIFs, with the majority coming from the US ($2 billion), the UK ($1.5 billion) and Japan (up to $1.2 billion). The final design for the CIFs, completed in May 2008 and approved by the Bank's Board in July 2008, includes two funds, the Clean Technology Fund and the Strategic Climate Fund.

The Clean Technology Fund (CTF) provides finance for low carbon energy projects or energy

4 For a separate critique of the SFCCD, see Janet Redman, Dirty is the New Clean: A critique of the World Bank's Strategic Framework for Development and Climate Change, October 2008
5 These are the United States, the United Kingdom, Japan, Australia, France, Germany, the Netherlands, Norway, Sweden and Switzerland.

technologies that reduce emissions.[6] It is intended to be "technology neutral". This means it will not limit the types of technologies eligible for financing to new renewables (like solar, wind, low-impact dams) where public financing is desperately needed, but instead keeps the door open to support for "clean coal" and large hydroelectric dams.[7] According to the Bank "clean coal" represents "highly cost effective opportunities for significant GHG emissions reductions and/or there is potential for developing readiness for carbon capture and storage."[8] This highlights the second problem with the CTF: it supports technologies that reduce the carbon intensity of development, but not necessarily overall GHG emissions. In other words, while GHG emissions per unit of output may decline when output increases, overall GHG emissions may still increase. While investing in more efficient coal-fired power generation is a small step forward, public money should be invested in renewables as a strategy to reduce emissions. Otherwise, critics argue, the CTF supports a "business-as-usual" approach, rather than a real transition, to energy development.

The Strategic Climate Fund (SCF) will be broader and more flexible and will support a variety of programs that tackle climate change. The primary program of the SCF is the Pilot Program for Climate Resilience (PPCR – which replaces the previously proposed Adaptation Pilot Fund). The PPCR is intended to provide national level support to 5-10 pilot countries to help make their development planning more climate-resilient. The SCF will also include a Forest Investment Program (now in the design stages with an expected launch by the end of 2008) focused on reducing deforestation and improving sustainable forestry management. There are also plans to add a third program focused on increasing access to "green" energy in low-income countries.

Financing from the CIFs is expected to be a mix of grants and concessionary loans. Each fund is governed by a Trust Fund Committee made up of an equal number of donor and recipient countries that will approve new programming and projects[9]. UN agencies and other "relevant" organizations will be given observer status. Civil society and indigenous peoples organizations will not be represented in the trust fund committees, even as observers. Discussions on further details related to the Funds will be done at annual Partnership Forums, the first of which was in mid-October 2008. The first CIF-funded projects are expected to be approved in early 2009.

The World Bank's Climate Investment Funds – early challenges

There are several key challenges to the Bank's approach to financing climate change:

1. Process

- **There has been a lack of transparency and democratic process in the development and operation of the funds.** The CIF proposal was developed relatively quickly, with little space for input from developing countries and civil society, and is proceeding rapidly despite strong external criticisms.[10] While the Bank has responded to early criticisms with a

[6] World Bank. *Q & A: Climate Investment Funds*. World Bank, July 2008. On-line: http://siteresources.worldbank.org/INTCC/Resources/Q&A_CIF_July_1_08.pdf.
[7] Breton Wood s Project. *Donor cartel undercuts finance for renewables: Bank's climate funds finalized despite concerns*. Update 61, June 17, 2008. On-line: http://www.brettonwoodsproject.org/art-561826.
[8] World Bank. Q & A: Climate Investment Funds.
9 Initial members of the CTF Committee are (donors) Australia, France, Germany, Japan, Sweden, the UK, and the US and (recipients) Brazil, China, Egypt, India, Mexico, South Africa, and Turkey. Australia, Germany, Japan, Netherlands, Norway, Switzerland, and the UK (donors) and Algeria, Bangladesh, Costa Rica, Indonesia, Kenya, Thailand, and Yemen (recipients) will site on the SCF Committee. In addition, Australia, Bolivia, Germany, Japan, Maldives, Samoa, Senegal, the UK, and Yemen will sit on an SCF Sub-Committee to oversee the PPCR.
10 For example, the Bank only provided one week for interested parties to review and comment on the CIF proposal documents leading up to the final design meeting in May 2008.

few superficial changes to the CIFs (like adding a sunset clause, referencing the UNFCCC process and including recipient countries on the committees to oversee the funds), those changes do not go far enough. For example, while the Trust Fund Committees will now be composed of both donor and recipient countries, no decision-making framework has yet been determined. This leaves no guarantee that developing countries will actually have any decision-making power within the committees.[11] In contrast, the UNFCCC provides a democratic negotiating framework for global action on climate change.

- **The World Bank's Climate Investment Funds are external to the UNFCCC process.** Ironically, while the Bank was originally asked to act as a "global mediator on climate change" and bridge the differences between developed and emerging economies,[12] it is now actively undermining discussions. Having a sizeable investment fund operating outside of the UNFCCC undermines ongoing UN negotiations on financing mechanisms. It also draws financial support away from already established funding mechanisms within the UNFCCC, like the Adaptation Fund set up in Bali in December 2007. Developing countries under the G77 (the largest intergovernmental organization of developing countries in the UN) and China have criticized the Bank for superseding this democratic process, and insisted that financing channelled outside the UN process would not count toward existing industrial country obligations to provide new and additional support for mitigation and adaptation.[13]

2. The World Bank's record on climate change

- **The World Bank continues to finance resource extraction.** A report by the Bank Information Centre shows that Bank lending for fossil fuels saw almost a three-fold increase (282 per cent) from FY05 to FY08 to over US$4 billion.[14] Although the Bank states that 40% of its FY07 financing for energy projects is for low-carbon projects, these include larger hydro projects (that have demonstrated negative social and environmental effects and contribute to GHG emissions[15]) and high-efficiency coal plants.[16] The Bank's ongoing funding of oil and coal also runs counter to the Extractive Industries Review (EIR). In 2004, the World Bank-commissioned EIR recommended immediately phasing out Bank lending for the coal sector and for the oil sector by 2008.[17]
- **The Bank's support for carbon trading is in its own self-interest.** The Bank supports carbon trading as a way of tackling climate change. The Bank currently manages 12 carbon trading funds through its Carbon Finance Unit (CFU), worth approximately $2 billion in contributions. However, a recent report from the Institute of Policy Studies showed that under the scheme the Bank collects, on average, a 13% "overhead" on financing projects to reduce GHG emissions.[18] So beyond investing in projects that increase GHG emissions,

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11 Celine Tan. World Bank's Climate Funds will Undermine Global Climate Action. Third World Network, April 10, 2008. On-line: http://www.twnside.org.sg/title2/finance/docs/Climate.Funds-Commentary.Revised.doc.
12 Bretton Woods Project. Climate Change and the World Bank: dubious green credentials. Update 47, September 2005.
13 Third World Network, *G77 & China affirm that climate funds should be within UNFCCC*, 13 June 2008. On-line: http://www.twnside.org.sg/title2/climate/info.service/climate.change.20080603.htm
14 Heike Mainhardt, World Bank Group Financing for Extractive Industries and Fossil Fuel-based Development FY05-FY08. Bank Information Center. On-line: http://www.bicusa.org/proxy/Document.11277.aspx. Includes combined approved spending by both the World Bank and the IFC.
15 International Rivers. Greenhouse Gas Emissions from Dams FAQ. May 2007. On-line: http://www.internationalrivers.org/en/climate-change/greenhouse-gas-emissions-dams-faq.
16 World Bank. Clean Energy For Development Investment Framework: Progress Report Of The World Bank Group Action Plan. October 21, 2007. On-line: http://siteresources.worldbank.org/DEVCOMMINT/Documentation/21510693/DC2007-0018(E)CleanEnergy.pdf
17 World Bank, "Striking a Better Balance: The Extractive Industries Review", January 2004. On-line: http://go.worldbank.org/PIW55278X0
18 Janet Redman. *World Bank: climate profiteer*. Institute for Policy Studies, April 2008. On-line: http://www.ips-dc.org/reports/#292.

the Bank also earns an income from other projects meant to minimize GHG increases through carbon trading. Furthermore, there is no evidence that carbon trading is even an effective means for reducing GHG emissions.

3. Operation of the funds

- **Definitions of energy-related terms in the CIFs remain unclear or weak.** Terms used by the Bank in describing the goals of the CTF such as "transformational" and "low carbon" remain undefined, resulting in a lack of clarity about the true goals of the CIFs. As noted above, the Bank's definition of "clean technology" could mean business as usual.
- **Funding for adaptation through the Bank's CIFs will come as loans rather than grants.** The UNFCCC is based on the principle of common but differentiated responsibilities, meaning that developed countries, as the primary historical contributors to climate change, are expected to take the lead in reducing their own emissions and to support developing countries in reducing theirs. Asking already indebted countries to borrow money to address a problem created by the North violates UNFCCC principles.
- **The Bank's increased role in climate change financing may increase conditionality.** The Bank has stated that funds dispersed through the CIFs will be contingent on recipient countries meeting the conditions set out by the Trust Fund Committees. Eligible countries will be required to submit country investment strategies for review and approval by the Committees prior to receiving CIF funding. Financing "will follow the Bank's operational policies and procedures for investment lending regardless of whether there is IBRD or IDA co-financing".[19] This may lead to more conditions being imposed on developing countries through the CIF, without considering the impacts on development or poverty reduction.

Canada's position on the CIFs

Canada has made no formal statement on the CIFs. As a signatory to the G8 Finance Ministers' June 2008 statement, [20] Canada likely supports the CIFs and the Bank's greater involvement in the issue of climate change, seeing it as one of a handful of means of moving climate change forward. However, unlike most of the other G8 countries, Canada has yet to formally commit money to the CIFs, making no announcement at the G8 meeting in Hokkaido nor at the World Bank CIFs pledging conference in September. While the government announced $100 million for climate change adaptation at the October 2008 Francophonie summit, it is not yet know whether this money will be for the CIFs. Canada can take truly cutting edge climate action by committing that money to the Adaptation Fund at the UNFCCC instead, which is open to government contributions. Alternatively, the Canadian government could deposit the $100 million in the under-funded Least Developed Countries Fund or Special Climate Change Fund at the Global Environment Facility, both of which are accountable to the UN.

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[19] Celine Tan. *World Bank's Climate Funds will Undermine Global Climate Action*. Third World Network, April 10, 2008. On-line at http://www.twnside.org.sg/title2/finance/docs/Climate.Funds-Commentary.Revised.doc.
[20] *Statement of the G-8 Finance Ministers Meeting*. Osaka, Japan. June 14th, 2008. On-line: http://www.fin.gc.ca/activty/G7/g8140608_1e.html.