Don’t bank on it!

CHALLENGING THE WORLD BANK’S ROLE IN FUTURE CLIMATE FINANCE

Despite a superficial ‘climate makeover’, UK civil society organisations conclude that the World Bank is still a long way from operating in transparent, participatory and accountable ways, or lending upon a truly green portfolio, and therefore should not be trusted with the world’s climate funds. Furthermore, the form and functions of a climate finance institution should first be defined and criteria should be established for United Nations Framework Convention on Climate Change (UNFCCC) parties to make decisions against and choose or create an appropriate institution.

Banking on the climate

In the coming decades, billions of dollars a year will be needed to support a transition to a low-carbon economy and to cope with climate impacts of an already warming world. Estimates of public funding for developing country actions suggest at least US$195 billion per year.[1] Success in generating and delivering finance depends on forging a *new global partnership*, and on whether the institutions entrusted with holding, managing and disbursing the climate funds are perceived as legitimate and trustworthy by all parties involved.

The World Bank (the Bank) is increasingly seeking to position itself to become the main institution to manage climate finance. Recently it has amplified its profile on a range of climate change issues including through targeted climate research, the development of specific Climate Investment Funds (CIFs) and by setting out its Strategic Framework on Development and Climate Change. The World Bank’s CIFs, established in 2008 with the support of multi-billion dollar pledges from various rich countries, form a central foundation for this grand ambition.[2] However, the Bank is not fit for climate finance due to its inequitable governance structure, its large investments in fossil fuels, its lack of truly participatory approaches, its history of imposing economic policy conditionality and its lack of sufficient human rights and environmental safeguards.

Fading sunset clauses

Appalled by the World Bank and a handful of developed nations establishing new financial mechanisms that run parallel to the official climate negotiations, some parties to the Conference of Parties (COP), civil society and developing countries alike forced the Bank to accept a ‘sunset clause’. This ensures that the CIFs “will take necessary steps to conclude their operations once a new financial architecture is effective”.[3] Furthermore, the UK government, which has promoted and helped establish the CIFs with a commitment of £800 million, also confirmed at the time of the launch that the CIFs “*are not trying to create a post-2012 financial architecture now, but are about demonstrating and piloting new ways of providing climate finance*”.[4]

However, some parties and civil society organisations now believe that these commitments to cease the operation of the CIFs and support the UNFCCC are on the verge of being reneged on, in the face of increasingly proactive lobbying and positioning by the World Bank as well as explicit support by several developed countries who want the Bank to become the main climate finance institution. Whilst officially the Bank says it will await the outcome of Copenhagen to decide what role it should play, a senior Bank official has been reported as asserting “*that the institution is best placed to manage climate finance because of its ability to leverage funding and its strong fiduciary, procurement and safeguard policies*”.[5] On the basis of the CIFs, the Bank is increasingly being lined up as the de facto climate finance institution. Developed countries such as the United Kingdom and their finance and development ministries, are vocally supportive of the Bank and maintain that there is no other institutional choice. However, a range of developing country parties and civil society organisations (CSOs) firmly believe that the World Bank should have no role in climate finance.

Uneasy relationship with the COP

The CIFs housed at the Bank establish no relationship with the UNFCCC COP, despite the fact that they have had to emphasise the primacy of the UNFCCC process and the COP in response to pressure from civil society and developing countries.[6] The term ‘under the authority of the COP’ is a central ask of the G77/China and civil society organisations, stemming from the legacy of problems regarding the Global Environmental Facility’s (GEF)[7] inability to follow COP decisions.

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To regain the trust eroded over years of inadequate climate financing through the GEF, an agreement on financial architecture should be based upon agreeing the key functions of any future financial operating entity.[8] It should be built on the Convention and be appointed by and under the authority of the COP, ensuring the COP is able to hold the institution and executive board to account. It is highly doubtful that already existing entities outside of the UNFCCC would be willing or able to submit to such a regime.[9]

Concerns have been expressed as to the extent that the Bank could or would be accountable to, or under the authority of, the COP. In order to be under the authority of the COP, the climate investment funds or any other funds, would need to have their governing bodies appointed by the COP. The COP would also need to have the authority to approve the operational rules and procedures proposed by the governing body. It is unlikely that the Bank would be willing to follow rules and guidelines other than its own, and it is therefore unlikely that it could fulfil the expectations of civil society and developing countries for a financial mechanism.[10]

Furthermore, the World Bank's attempts to pre-empt climate finance decisions are a warning sign that similar problems to those with the GEF may resurface again if the Bank were to manage climate funds.

Compromising the UNFCCC

Climate finance for developing countries must be framed within the 'polluter pays' principle and therefore be seen as 'restitution' or the act of restoring or giving back something to its owner. Climate finance is not aid, but must recognise and create actual entitlements for developing countries.

With this in mind, the World Bank, which is a financial lending institution, has no business being involved in international climate finance agreements. For the UNFCCC negotiations to succeed, it is essential that the institution that manages climate finance is perceived as legitimate by both developed and developing countries. Any institution is more likely to be perceived as legitimate when it operates in a transparent, participatory, and accountable manner, and when it sets and abides by clearly articulated rules.[11]

The ongoing lobbying by the World Bank and key developed country proponents led by the US, to make the COP agree to the Bank as the manager of climate funds, pre-empts decisions by parties and compromises the UNFCCC negotiations.

The World Bank's troubled record

Despite a superficial 'climate makeover', the Bank is still a very long way from operating in transparent, participatory and accountable ways, or lending upon a truly green portfolio, and therefore should not be trusted with the world's climate finance.

Inequitable governance and representation

According to a recent high-level report, commissioned by World Bank President Robert Zoellick, the Bank "*has not kept up with historical change and today is not adequate to deal with global problems that require forward-looking, flexible, inclusive, and legitimate multilateral institutions*".
On governance, it is damning: "*the decision-making process is widely seen as too exclusive, offering many member countries too little voice and too few opportunities for participation… Insufficient institutional accountability for results weakens the World Bank's effectiveness and legitimacy*".[12,13]
World Bank governance reform is moving at a pace that will take years to accomplish meaningful change, assuming there was political will and consensus for reaching a genuine governance overhaul.

The Bank has postponed genuine 'parity' between borrowers and lenders to an unknown point in the future. As an absolute minimum, developing countries should be equally represented in the relevant decision-making bodies. Advocates for the World Bank contend that, unlike the Bank, the separate governing trust committees of the CIFs have equal division of membership and decision-making power between contributors and recipients. However, the CIFs continue to be housed within the Bank's infrastructure and rely on its dual roles as a trustee and administrator, creating a potential conflict of interest.

For example, at World Bank annual meetings in Istanbul in 2009, Bank senior staff highlighted the problem with the institution setting standards for accessing climate finance and at the same time being the distributor of such funding. They highlighted this as one of the key lessons from the CIFs and emphasised that the Bank itself should not develop such criteria. This reinforces civil society organisations' critiques that the Bank should not be shaping the form or function that climate finance takes, or who should be able to access it. Furthermore, as governance arrangements within the World Bank itself remain unchanged, they will continue to influence relationships between the climate funds, management and recipients.[14]

Bank's economic policy conditionality undermines developing countries

The Bank has a long history of attaching controversial economic policy conditions to its loans, such as requiring countries to liberalise trade and privatise basic services such as energy and water. A 2007 study of all Bank policy conditions[15] found that 71% of the Bank's loans to low-income countries had sensitive economic policy conditions attached, the majority of these related to privatisation.

These policies are the foundation for great distrust of the Bank by developing countries and have often negatively impacted poverty and social equity in developing countries and can continue to do so for generations to come. This not only reinforces mistrust of the Bank, but has raised serious concerns about placing climate finance at an institution which is known worldwide for imposing such conditions, creating fear that they could be used as a barrier for accessing climate finance. This could potentially open opportunities for a whole new generation of policy conditionality placed on developing countries.

Furthermore, as a form of payment for harm caused by polluters, many argue that climate finance should be given as grants and not as loans. The possibility of policy conditionality being attached reinforces the inappropriateness of loans for addressing climate change in the developing world.

Bank's continued fossil fuel investments threatens climate change solutions

Historically the World Bank has made investments in carbon-intensive projects. Despite trying to rebrand itself as the "green bank" for climate finance, the World Bank continues to invest in fossil fuels, including coal power. A multi-billion dollar deal is underway in South Africa with the Eskom power utility to be financed by the Bank's public sector lending. $3 billion of this would go to a new coal plant.[16] Previously the Bank's largest coal plant loan was for the Tata Mega Ultra plant in India. Its cost was estimated at $4.1 billion with $450 million coming from the Bank itself through the International Finance Corporation (IFC) and the remainder leveraged by the institution from other lenders.[17]

The Bank boasts that it has started making substantially larger investments in energy efficiency and renewable energy than before (US$ 3.3 billion, or 40% of total energy sector commitments in FY09). A three-year analysis (2007-2009) however shows that the Bank's annual average lending was $2.2 billion for fossil fuel projects, including $470 million for coal, compared with $780 million for renewables.[18] Furthermore, much of the renewables investment is in controversial large-scale hydropower, which may have negative socio-economic and environmental impacts, a very large carbon footprint and is increasingly risky due to constrained water resources.

Over the past decade, the Bank has had incoherent energy lending with policy focussed on privatisation, large infrastructure projects, and heavy reliance on fossil fuels and only sporadic release of papers or guidance notes on the environment. In October 2009, the World Bank finally embarked on an energy strategy review, which will conclude in April 2011.[19] However, initial Bank documents show a 'business-as-usual' approach with coal and hydropower factoring in heavily. Because of the World Bank's track record on fossil fuel financing, its selective reporting on energy investments, and its decades-long intransigence on the needed shift to low-carbon energy solutions, it would be foolish to accept the World Bank's clean energy claims at face value.

Bank projects delivered through top-down approaches and lacking participation

Effective financing for climate change mitigation and adaptation, requires that international finance and funds are moved efficiently to address local impacts. Essential ingredients for effective adaptation are participatory and democratic processes, functioning institutions, and transparency.[20]

The Bank, on the contrary, is institutionally designed to deliver large, top-down programmes that often bypass the interests of vulnerable communities.[21] A report of the Operations Evaluation Department of the Bank (now the Independent Evaluation Group) found that in 2003, 75% of World Bank projects did not involve any participation with affected communities.[22] Especially with regards to the urgent and immediate needs of the world's poorest for adaptation support, the Bank as an institution is not geared up to deliver the kind of quality funding, delivery or governance required.

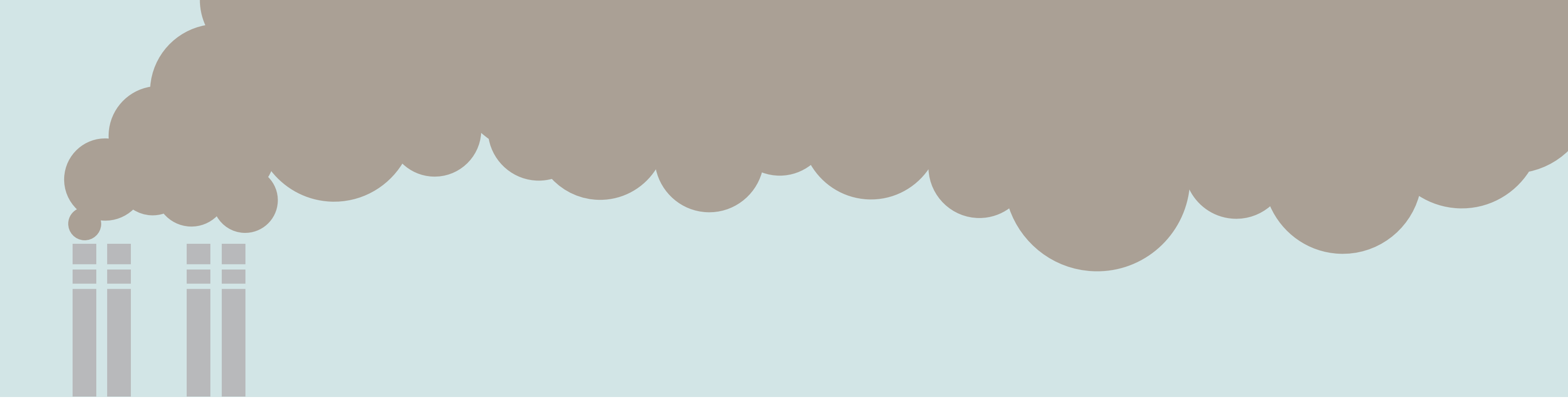
The CIFs themselves have been developed in a non-participatory fashion. They were originally created and designed by officials from developed country governments and the World Bank. Whilst a Partnership Forum for civil society participation in the CIFs was set up at a later stage, initial experiences with the first Forum have been disappointing in achieving a genuine discussion and influence on the CIFs progress.[23]

Though the CIFs are now being rolled out in target countries, there is as yet little sign that civil society is being engaged. For example, from recent experience it does not appear that the planning and national adaptation strategy development processes that are starting under the Pilot Program for Climate Resilience will include civil society consultation, despite the growing body of risk reduction and adaptation experience and expertise that local and international CSOs can bring to this process.

Poor track record on human rights and environment and insufficient safeguards

Future streams of climate finance should not only aim to support resilience and avert dangerous climate change, but must also support a more sustainable and fair world by promoting human rights and environmental sustainability. However, the World Bank's record on both is controversial at best. There are still currently no mechanisms in the Bank to ensure that human rights are upheld within the projects it funds.[24] As a result, human rights violations continue to take place in some Bank-funded activities. For example the IFC, the Bank's private sector lending arm, has promoted land leasing to foreign investors in Pakistan, which could result in an estimated displacement of 25,000 villages.[25]. A large group of international NGOs found that the IFC's performance standards in particular fail to explicitly reference human rights, lack an adequate framework for human rights due diligence and provide insufficient mechanisms to raise grievances.[26]

Similarly, on environmental sustainability, the Bank's Independent Evaluation Group (IEG) found that "*the Bank's record in implementing the 2001 environment strategy and advancing the results agenda is quite mixed." Mainstreaming of environmental work across sectors is still "weak", while "internal staff and management incentives favour large projects, such as infrastructure or power, which disadvantages the typically smaller environmental projects.*"[27]



A way forward

Jumping to the conclusion that the World Bank is best placed to be the new climate finance institution or that it is the option we are left with by default, undermines the trust and the nature of the ongoing climate negotiations. More importantly the political manoeuvring by the Bank and some developed nations undermines the negotiations and the dire need to establish a global system which can genuinely address the complexities of generating, governing and distributing effective climate finance.

Given the controversial past of Bank policy and the lasting impacts of its projects, some civil society organisations and developing countries feel there should not be a role for the Bank in climate finance due to its:

- inequitable governance;
- ongoing and increasing fossil fuel investment;
- history of imposing economic policy conditionality with impacts that will last for generations;
- poor record in delivering results on development projects and involving communities themselves;
- favouring of large scale development models, many of which are not consistent with a shift toward low-carbon development or issues of equity;
- lack of sufficient environmental and social standards and implementation and enforcement mechanisms;
- lack of sufficient institutional evaluation and commitment to real reform.

The World Bank and developed country governments should stop lobbying to be the international climate finance institution of choice. In particular, they should revisit the rhetoric on 'existing', versus 'new' institutions, and support the Kyoto Protocol (KP) Adaptation Fund as a priority. The KP Adaptation Fund is an existing institution and a number of the principles agreed for the Adaptation Fund and its board provide a model to follow for the delivery and governance of future climate finance. These principles include: the majority representation of developing countries on the board, direct access to funding for developing countries, and high levels of transparency and accountability.

To rebuild trust between developing and developed countries, donors such as the UK government, must publicly reaffirm their support for the UNFCCC and that they will ensure that the sunset clauses are upheld, that no new funding is dedicated to the CIFs and that their operation is ceased upon agreement of a new mechanism.

There has been talk by donor governments and finance ministries of the World Bank playing a role as a trustee for climate finance under the UNFCCC, assuming that this may be a necessary and less controversial role. However, as civil society organizations, we believe that the forms and functions of the necessary institutional roles should first be identified, and criteria should be established for measuring the compatibility of institutions for such roles. Furthermore, the agreement for any such institution must be based on a decision by the UNFCCC parties.

1 *Fair, Ambitious and Binding: Essentials for a successful climate deal.* Climate Action Network (2009) http://www.climatenetwork.org/climate-change-basics/CAN_FAB_Essentials.pdf.

2 The Climate Investment Funds (CIFs) housed at the World Bank have both mitigation and adaptation programmes. They include the Clean Technology Fund, which is the largest of the CIFs, as well as a clustering of funds under the Strategic Climate Fund. The SCF is the umbrella for three smaller funds: the Forest Investment Program (FIP), the Pilot Program for Climate Resilience (PPCR) and the Scaling Up Renewable Energy in Low Income Countries (SREP). http://go.worldbank.org/58VAGT860

3 Paragraph 56 of Clean Technology Fund charter and Paragraphs 57 and 58 of the Strategic Climate Fund charter.

4 'The Environmental Transformation Fund and the Strategic Climate Fund'. DFID press release (11 April 2008). http://www.dfid.gov.uk/Media-Room/News-Stories/2008/Climate-Change-Financing-the-challenge/

5 'Bank wrestling for control of climate finance'. Bretton Woods Project (20 November 2009). http://www.brettonwoodsproject.org/art-565602

6 The Pilot Program for Climate Resilience, one of the climate investment funds housed at the Bank, has members of the UN Adaptation Fund Board on it. However this is the only example of overlap with COP governance.

7 As the financial mechanism of the UNFCCC, the GEF allocates and disburses about $250 million dollars per year to projects in energy efficiency, renewable energies, and sustainable transportation. It also manages two special funds for adaptation under the UNFCCC — the Least Developed Countries Fund and the Special Climate Change Fund. The World Bank serves as the Trustee of the GEF Trust Fund and provides administrative services.

8 Mueller, B. (2009) 'Under the authority of the COP?' Oxford Institute for Energy Studies. http://www.oxfordenergy.org/pdfs/comment_02_10_09.pdf

9 *Ibid.*

10 *Ibid.*

11 Ballesteros, A. et al. (2009) 'Power, Responsibility and Accountability: Re-Thinking the Legitimacy of Institutions for Climate Finance.' World Resources Institute. http://www.wri.org/publication/power-responsibility-accountability

12 Zedillo, E. et al. (2009) Repowering the World Bank for the 21st Century: Report of the High Level Commission on Modernization of World Bank Group Governance, p. ix.

13 For a summary of the recommendations of the report, see Bretton Woods Project: http://www.brettonwoodsproject.org/art-565630.

14 Ballesteros et al. (2009).

15 Untying the knots – How the World Bank is failing to deliver real change on conditionality. European Network on Debt and Development (Eurodad) (2007) http://www.eurodad.org/whatsnew/reports.aspx?id=1804

16 The World Bank and South African Treasury are issuing conflicting figures, with South African figures overall totalling $5billion in power utility loans and the Bank stating $3.75 billion overall. http://tiny.cc/WBEskom

17 'Tata Ultra Mega: summary of proposed investment.' International Finance Corporation (2007) http://tiny.cc/IFCTatacoal

18 *World Bank Group Energy Sector Lending Trends – FY2009 Fact Sheet*. Bank Information Center.(2009) http://www.bicusa.org/en/Article.11675.aspx

19 Johnson, O. (2009) 'The World Bank's New Energy Strategy: An overdue rethink.' Bretton Woods Project: http://www.brettonwoodsproject.org/art-565665

20 Closing the Gaps. Commission on Climate Change and Development (2009).

21 Annual Review of Development Effectiveness. Independent Evaluation Group (2009).

22 'The Effectiveness of World Bank Support for Community-Based-and-Driven Development, 2005, An OED evaluation.' http://siteresources.worldbank.org/EXTEFFWBSUPCOMDRIDEV/Resources/cbdcdd_complete_report.pdf

23 Are we Nearly There? Bridging UK supported funds and a post 2012 Climate Architecture. BOND and Bretton Woods Project (2009).

24 Salomon, M. (2007) 'International Economic Governance and Human Rights Accountability.' In: M. Salomon et al. (eds.) Casting the net wider: human rights, development and new duty-bearers. Intersentia, pp. 153-184.

25 Daniel, S. and Mittal, A. (2009) The Great Land Grab: Rush for World's Farmland Threatens Food Security for the Poor. Oakland Institute.

26 Submission to the U.N. Special Representative from the Center for International Environmental Law, Bank Information Center, BankTrack, Oxfam Australia, and the World Resources Institute. (2008) 'The International Finance Corporation's Performance Standards and the Equator Principles: Respecting Human Rights and Remedying Violations?'

27 Annual Review of Development Effectiveness. Independent Evaluation Group (2009).