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## EquityBd Campaign Brief

Equity and Justice Working Group

### World Bank: Poverty Business to Carbon Business a monster step of Bank's CIFs to the climate risk countries

#### Background

In a preparatory meeting for the 34th Summit of the G8 Heads of State and Government in Hokkaido the Finance Ministers of the G8 countries met in Osaka, Japan from 13-14 June 2008, while they agreed to the 'G8 Action Plan for Climate Change to Enhance the Engagement of Private and Public Financial Institutions'. In their final statement, Ministers supported the launch of new Climate Investment Funds (CIFs) by the World Bank, which will be complementing existing bilateral and multilateral efforts, until a post-2012 framework under the UNFCCC is implemented. (IISD Climate-L.Org Bulletin, June 2008)

In this backdrop, a press release issued by the World Bank stated that 'representatives of 40 developing and industrialized countries have reached an agreement to create two international investment funds that will provide innovative financing for developing countries to pursue cleaner development paths and protect themselves from the impacts of climate change. As quoted in the press release, Katherine Sierra, World Bank Vice President for Sustainable Development expressed high optimism on this agreement saying that "We have worked closely with client countries and donor partners, the Global Environment Facility, and other UN and multilateral financing agencies to develop an innovative source of financing to help developing countries in their strategies to fight climate change between now and 2012; today's result is a giant step forward." This press release also marked that the World Bank, along with the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank, will help their client countries to access the funds. Following the UNFCCC's Bali climate conference, the World Bank, together with other Regional Development Banks (RDBs), has begun the process of consultations and started lobbying to establish a portfolio of 'Strategic Climate Investment Fund', which is going to be institutionalized with the approval of G8 leaders as it already has secured financial pledges from the G8 finance ministers' meeting in Tokyo.

#### WB's adaptation fund: forcing countries to adapt it

The Bank proposed climate investment funds include; i) the Clean Technology Fund, ii) the Forest Investment Fund iii) the Adaptation/ Climate Resilience Pilot Fund and iv) a Strategic Climate Fund to deliver donor financing for climate change mitigation and adaptation projects. (Box 1)

In fact the targeted climate investment funds, roughly between US\$7-12 billion, would be coming from the countries, the UK, the US and Japan, and will be building upon the UK's earlier initiative for an Environmental Transformation Fund (ETF), the US's proposed Clean Technology Fund and Japan's Cool Earth-50 and will be mobilized through donor contributions to the respective trust funds, which will be implementing in collaboration with the regional development banks (RDBs).

Thus, the initiative of accumulating 'new and additional financial resources' would help developing countries to fight climate change which has reflected in the spirit of article 4.7 of the Convention and also reflected in the Bali Road Map that stated '*combining measurable, reportable, and verifiable mitigation actions by developing countries with measurable, reportable and verifiable financing and technology transfer from developed ones*' (Muller 2008). This 'new and additional financial resources' can not refer to the diversion of any existing or likely resources, including net foreign inflows, available for economic and social development and poverty alleviation. Nor can they refer to resources outside of the current or future provisions of the Convention. But, paradoxically, the substantial parts of the Bank generated 'new and additional climate investment funds' will be counted as official development assistance (ODA) by donor countries, especially of the G8 countries, which means that there will be no additionality in overall development financing to the developing countries. This goes against existing multilateral commitments under the UNFCCC which states that developed countries should provide new and additional financial resources to meet the agreed full costs incurred by the developing countries

in meeting their climate change commitments. (Celine Tan, March 2008)

Furthermore, establishment of Bank's climate investment funds certainly will lead to a parallel structure for the mobilization and disbursement of climate-related financing and will bypass existing multilateral negotiations of establishing adaptation fund under the auspicious of the UNFCCC. Many international NGOs, civil society groups are raising concern about the potential conflict between the Bank proposed Adaptation/Climate Resilience Pilot Fund and the UNFCCC's Adaptation Fund agreed at the climate change talks in Bali, Indonesia in December 2007. The latter has a balanced Board in terms of regional representation that was elected at Bali that has already held its first meeting, and is moving forward while the Bank's one is donor driven and based on the principle of conditionality. Therefore, the proposed architecture of Bank's adaptation fund will force or make the 'eligible countries' bound to adapt to the Bank fund not really supporting country's adaptation to climate change.

Again, the CIFs will be providing as loans as well as grants; this means that the recipient countries will have to pay for dealing with a problem that has been caused by developed countries while at the same time facing other development challenges. Here the pertinent question is; why should LDCs and developing countries seek Bank's Adaptation/Climate Resilience Pilot Fund as concessional loans as today's climate crisis and sufferings of the poor countries are largely created by rich countries in the first place.

### **Corporate financing in climate: a paradoxical mechanism**

The Kyoto is a technocratic pact and the financing mechanism proposed by the UNFCCC is paradoxical (Box 2). It tends to solve climate crisis through balancing emission of green house gases (GhG) as this pact underlines global warming causes mainly in physical term, the production of excessive amounts of GhGs, not really looking to address institutions and power imbalances which have resulted in both the overuse and the unequal use of the atmosphere (The Corner House, October 2001). It avoided historical analysis of colonialism and resource exploitation, politics of industrialization, explosion of trade-related transport, subsidies for fossil fuel exploitation and the creation of consumer demand.

### **Box 1: The World Bank's initial portfolio of Climate Investment Funds**

**The Clean Technology Fund (CTF)** will aim to provide new financing and will complement existing financing for the purposes of transformation to low carbon economies and mitigation of green house gas (GhG) emission and to promote international cooperation on climate change to support progress towards a post 2012 framework (World Bank, 2008a: Annex A). Its target size is US\$5-10 billion, largest of the three proposed fund.

**The Forest Investment Fund** is aimed at providing investment financing for forestry sector reforms to reduce deforestation and stabilize existing forests through 'sustainable forest management and conservation' with a strong emphasis on achieving co-benefits for environmental eco-system services, adaptation and mitigation framework (World Bank, 2008a: Annex B). Its target size is US\$ 300-500 million.

**The Adaptation Pilot Fund /Climate Resilience Pilot Program** is aimed at providing technical assistance and financing for capacity building in mainstreaming climate risk and resilience into development planning and budgeting in five to ten pilot countries. This fund will test how eligible countries; a) review or revise their Poverty Reduction Strategy and Five Year Development Plan to take into account climate impacts and b) review and revise sectoral development strategies and plans for short and long-term climatic impacts and sustainability. (World Bank, 2008a: Annex C). This fund also seeks to raise US\$ 300-500 million.

Furthermore, the Kyoto Protocol allowed the industrialized countries unwilling to cut targeted emission to 'compensate' through market based 'flexible mechanisms' like emission trading, clean development mechanism, and joint implementation. All these mechanisms allowed corporate initiatives to help the well-off countries to continue exploitation of global resources by putting money into forest and soil conservation, or by investing in 'cleaner' energy technology in the poor countries abroad. The 'loopholes' of the Kyoto Protocol, especially its financing framework, encouraged companies to buy and emit more GhG using cash which they accumulated through a history of overexploitation and plundering of resources from the countries in the South.

Again, the World Bank climate investment funds appear to prioritize market based solutions to deal with the problems of climate change in the developing countries. The Bank outlines the rationale of the Clean Technology Fund as 'the innovative financing mechanisms designed to promote market based solution for trigger private investment in low carbon development' (World Bank, 2008a:)

Slamming the involvement of market mechanism in climate change Nicholas Stern, former chief economist at the World Bank stated in an editorial of New Scientist, 19 April 2008; 'climate change is the greatest market failure the world has ever seen'. As long as the market exacts no penalties from companies or industries that emit the gases that are beginning to transform the planet's climate, it can do nothing to keep pollution in check as economies grow. So there should have some way to fix the market so that it punishes polluters and encourages greener growth. In the same issue of New Scientist another article 'carbon trading: dirty sexy money' stated that the world just embarked on an audacious experiment, it is called carbon trading or carbon capitalism if you prefer. ..If you cannot trust financiers with something as apparently straight forward as the housing market, why should we imagine that they can triumph at controlling global pollution. As events continuously remind us, capitalism is an unpredictable beast. (Fred Pearce, April 2008).

### **Road to Copenhagen: mismatch with Bali**

*"...a deal in Copenhagen, on time, and in full, is my priority and that of all the funds, programmes and agencies of the United Nations family. It is also our collective obligation. I look forward to working with all of you on this journey."* (Ban Ki-moon, UN Secretary-General, February 2008)

Although, the UN Secretary General, Ban Ki-moon, sees high hopes dealing climate crisis under UNFCCC process which is a multilateral hub of climate policy negotiations, but the recent 'technocratic pact' of G 8 countries indicates that this intergovernmental sphere also will be vehemently disregarded by the rich countries.

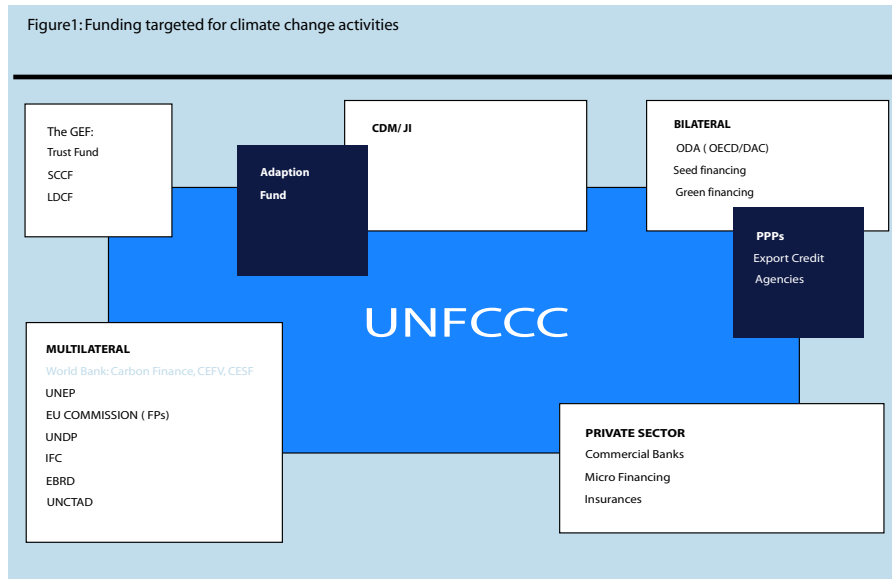
Under the Bali Action Plan, parties to the UNFCCC agreed that the climate 'process' should be informed by, inter alia, outputs from other relevant intergovernmental processes and insights from the business and research communities and civil

society. Speaking at the recently concluded Subsidiary Bodies meeting held in Bonn, UNFCCC Executive Secretary Yvo de Boer reiterated this commitment, stressing that cooperation among international organizations, UN bodies, multilateral environmental agreements and the scientific community is critical for the success of the international response to climate change.

But the management and governance mechanisms of the intergovernmental processes are not equally represented by country parties; often being overridden by the powerful countries. In Bali, management and governance setting on the adaptation fund also was a big concern of many developing countries. Developed countries have wanted the GEF to manage the adaptation fund, but the developing countries wanted a different institution because they found the GEF funding model difficult to access. The battle over the management and governance setting on the adaptation fund surprisingly solved with the consensus of establishing an independent Adaptation Fund Board (AFB) with members selected by and under the direct authority of the Member of the Parties (MOP). This board will be entitled to all the financial mechanisms of the adaptation fund, independent of the previously only operating entity: the GEF that now only will be providing secretariat services. The organization set-up of the adaptation fund also different from that of other UN funds; the most vulnerable countries will get direct access to that fund without having involvement of 'implementing agencies' like the World Bank, UNDP, or UNEP. (Md. Shamsuddoha and Rezaul Karim Chowdhury, January 2008).

Indeed to avoid any possible confusion with other operating entity of the UN

Figure 1: Funding targeted for climate change activities



financial mechanisms for climate change, it was also decided that AFB is to meet at the seat of the UNFCCC Secretariat in Bonn, Germany; surprisingly this news does not seem to have reached 1818 H Street in Washington, the headquarters of both the World Bank and GEF (Muller, 2008), even not been considered by the G8 leaders. Thus, the denial of multilateral decision and undermining their efforts in the UNFCCC would question the roadmap to Poland in December 2008 or to Denmark in 2009.

Meanwhile, at the plenary sessions of the UNFCCC's ad hoc working group on long-term cooperation (AWG-LAC) held in Bonn in June 2008, the G77 and China criticized the WB's initiative and individual developing countries raised grave concerns that the Bank initiative would delay the roadmap beyond Kyoto. At this workshop the presentation of Indian delegate clearly marked that any funding structured through these IFIs will remain outside the UNFCCC.

In any event, the primary mandate of these institutions remains economic and social development and eradication of poverty and the global community must ensure that both the capacity and the resources of the IFIs are not diverted to addressing climate change objectives.

### World Bank: Abetting poverty or adding poverty

Although, the objectives of the World Bank prioritizes poverty alleviation but its project lending strategies and loan conditionalities are rather perpetuating poverty in many poor countries. For example; as we see in Bangladesh, since a few decades of development financing of the IFIs the pace of poverty alleviation is frustrating; 41 percent of country's population lives on less than one dollar a day, and a staggering 84 percent live on less than two dollars a day. In fact, the World Bank finance policies in no way addresses human poverty, even impose conditionalities on the government for not financing the sectors like education, health etc which could reduce human poverty and economic disparity.

Hence, it is ironic that the World Bank is establishing itself as a lead player in the global fight against climate change, which is a monstrous step from poverty business to carbon business.

The prime investment sector of the World Bank and other multilateral banks is energy; exploration of fossil fuel and exporting to the countries in the North. From 1992 Earth Summit through late 2004, the World Bank Group approved USD 11 billion for 128 fossil fuel extraction projects in 45 countries- all of which contributed over 43 billion tons of carbon emissions. Nearly half of these Bank-supported oil, gas and coal

### Box 2: Market-based 'flexible mechanisms' of the Kyoto Protocol to help Northern countries avoid or delay reducing their greenhouse gas emission:

- Emission Trading: Northern countries failing to meet their emission targets can buy reductions from other Northern countries who lower emissions beyond their targets
- The Clean Development Mechanism (CDM): Northern countries can finance projects in the South aiming to mitigate climate change in return for credits which are banked and ultimately used to license continued pollution at home
- Joint Implementation: Northern countries can finance projects aiming to mitigate climate change in other Northern (often Eastern Europe) countries receiving credits accordingly.

Source: The Corner House, Briefing 24: Democracy or Carbocracy? Page 3, Oct 2001

### Box 3: World Bank financed caused social and environmental destructions in Bangladesh; a case study

During the final decade of the nineteenth century the theory of classical economic liberalism emerged that defined 'the market' as the proper guiding instrument of economic development. This policy calls for reducing the roles of government in providing social welfare, in managing economic activity at the aggregate and scrotal level, and in regulating international commerce. This proposition is applied to all nations engaged in world commerce, whether they are rich or poor, agricultural or industrial, creditors or debtors. In fact it was a trickery of developed countries to market their product globally.

However to ease the multilateral trading and to deregulate market the same policies have been carried out throughout the South and East under the guise of structural adjustment, which is merely another name for neo-liberalism. The international financial institutions e.g. the World Bank, IMF etc. have been imposing neo-liberals to the LDCs as the conditions of giving loans. Such loan conditionalities have concentrated all their efforts only on the point that countries, in any way, must earn foreign currency for stabilizing 'balance of payment'.

Therefore to facilitate Bangladesh in export earning World Bank supported the country for shrimp farming extension culture under a project called Shrimp Culture Project (World Bank Credit no 1651 BD), at it has potential export market

This project resulted total destruction of the 'Chokoria Sundarban' once the pristine forest and the second largest mangrove forest of Bangladesh, which completely destroyed for shrimp culture. Total disappearance of Chakoria mangroves in Cox,bazaar is 21020.45 acre. According to official sources as of 1996 a total of 67500 acre has been brought under shrimp cultivation in Cox's Bazar of which 30346 are govt. land (12182 acres khas land, 17026 acres forest and 1138 acres other govt. land).

projects (and over 80 percent of oil projects alone) are designed for export to the global marketplace-mainly Northern countries (Citizens United for Renewable Energy and Sustainability, 2007). In the same time period, the World Bank Group financed an estimated USD 28 billion in fossil fuel projects, including extraction, power plants and sector reforms- averaging about USD 2 billion each year. The estimated lifetime carbon emissions resulting from these projects is 43.4 billion tons, almost half of which have been or will be produced as a result of extracting industry projects aimed at exploring oil to the global marketplace (Jim Vallette et al 2004)

Meanwhile, civil society groups have highlighted the inconsistencies between the Bank's rhetoric on climate change and its operational policies and practice. In particular, they have argued that the Bank's core energy portfolio continues to be focused on supporting conventional fossil fuel production over renewable energy. They also raised concern on social and environmental impact of the World Bank financed projects in the developing countries.

Aside from social and environmental dislocations caused by large projects for energy extraction and production, such as oil pipelines and

hydropower dams, the Bank's support for privatisation and deregulation of energy sectors in developing countries have also resulted in energy insecurity, especially for the poor.

### Conclusion

The new and additional financial resources remain central to the commitment of the parties under Article 4 of the Convention. This resource is to cover 'agreed incremental coasts', including costs of technology transfer on the developing country parties. Therefore the architecture of the climate investment funds of the World Bank is vastly "top-down", which disregards adequate participation of developing countries, need of accountability mechanisms, and promotion of environmental and development benefits. As mitigation of climate crisis is a global concern so it is vital that all these proposals are opened up to wider ownership and engagement from civil society and developing countries at this critical proposal stage and to get their views as to the desirability and design of such initiatives. Otherwise, this initiative would erode the trust of the developing countries.

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