Climate and environmental crisis: Sorcerer's apprentices at the World Bank and the IMF

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In December 2020, on the occasion of the fifth anniversary of the signature of the Paris Agreement on Climate, the UN General Secretary sounded the alarm because the situation has fundamentally worsened. In this article we analyze what the World Bank and the IMF have done in connection with the environmental crisis and climate change.

Contents

At the end of October 2006 Nicholas Stern, Adviser to the Government on the economics of climate change and development, handed Prime Minister Tony Blair a 500 page report on the consequences of the current climate change and measures to counteract this trend. In his report Nicholas Stern writes: "Climate change will affect the basic elements of life for people around the world - access to water, food production, health, and the environment. Hundreds of millions of people could suffer hunger, water shortages and coastal flooding as the world warms." [1] Implicitly the diagnosis suggested in the report is a condemnation of policies implemented by the IMF and the WB, where Nicholas Stern was Chief Economist. [2]

The present article compares the Stern Report with the positions of major figures in the WB, the IMF and the Washington government since 1990. It also offers comments on the report on natural catastrophes the World Bank issued in 2006. The World Bank's analysis contradicted what it had claimed so far. Its current discourse is an attempt to minimize the credibility crisis it suffers from, but this does not change its basic adherence to a market-oriented and productivist model that destroys both people and the environment. While the Stern report includes interesting views it does not open to any alternative to the productivist model and the obsession with growth. While the World Bank had announced that it would stop supporting fossil energies from the end of 2019, it is now clear that it has further financed the construction and exploitation of coal fuelled plants, the exploitation of oil and natural gas. In 2020, several analysts and NGOs exposed its responsibility in the tragic continuation of climate change and the environmental crisis.

World Bank and IMF leaders' former assertions

While several voices had warned about the dangers of a search for limitless growth resulting in exhausted natural resources from the early 1970s, World Bank and IMF leaders claimed for a long time that such alarm was unfounded.

Lawrence Summers, economist and vice-president of the World Bank from 1991 to 1996, later Treasury Secretary of State under William Clinton, claimed in 1991: *"There are no limits on the planet's capacity for absorption likely to hold us back in the foreseeable future. The danger of an apocalypse due to global warming or anything else is non-existent. The idea that the world is heading into the abyss is profoundly wrong. The idea that we should place limits on growth because of natural limitations is a serious error; indeed, the social cost of such an error would be enormous if ever it were to be acted upon…"*. [3]

The idea that we should place limits on growth because of natural limitations is a serious error; indeed, the social cost of such an error would be enormous if ever it were to be acted upon - Lawrence Summers, chief economist and vice-president of the World Bank from 1991 to 1996

In a letter to the British weekly *The Economist*, published on 30 May 1992, he wrote that even in the worst possible scenario he saw it as sheer demagoguery to claim that a failure to attend to global environmental problems would result in terrible problems for our grandchildren, adding that it was dumb to argue that moral obligations to future generations meant that we had to pay special attention to environmental investments. [4]

Summers' claims had roused much protest at the time, and five years later, in 1997, Nicholas Stern (future chief economist at the Bank) wrote in the book that was to cover the Bank's first fifty years: *"The Bank's commitment to environmental issues was questioned by some as a result of a leak to the Economist magazine, in late 1991, of extracts from an internal memorandum of Lawrence Summers, then chief economist. The memorandum suggested the possibility that environmental issues were being overemphasized in relation to developing countries, and that those countries might actually have lower marginal costs in dealing with or tolerating pollutants."* [5]

In full contradiction with Summers' above mentioned reassuring claim that global warming would reduce growth by less than 0.1% a year over the next two centuries, Nicholas Stern states in 2006: *"The Review estimates that if we don't act, the overall costs and risks of climate change will be equivalent to losing at least 5% of global GDP each year, now and forever. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20% of GDP or more."* This is a scathing though late rebuttal of Lawrence Summers' claims.

It is dumb to argue that moral obligations to future generations means that we have to pay special attention to environmental investments - Lawrence Summers, World Bank

Claims such as those put forward by Lawrence Summers are not isolated: they are part and parcel of the US government's position when the World Bank and the IMF had to make decisions. This view which denies that severe environmental damage was caused by the productivist model and that climate change was occurring was expressed by Washington until not very long ago.

The many speeches delivered by Anne Krueger, chief economist at the World Bank under Ronald Reagan and First Deputy Managing Director at the IMF from 2000 to 2006, testify to this. In one of them, given on 18 June 2003 at the 7th International Economic Forum at Saint-Petersburg, Anne Krueger said: *"Take the perennial concern that rapid growth depletes our fuel resources and once that happens, growth will come to a complete dead stop. World oil reserves today are higher today in 1950. Then the world's known reserves of oil were expected to be enough for only 20 more years of consumption. We were expected to run out by 1970. It did not happen. Today, our known reserves are enough to keep us going for another 40 years at our present rate of consumption. There is no doubt that by the time 2040 rolls around research and development will have delivered new breakthroughs in energy production and use."*

Anne Krueger further said: *"Nor have we done irreparable harm to the environment. The evidence shows quite convincingly that economic growth brings an initial phase of deterioration in some aspects: but that this is followed by a subsequent phase of improvement. The turning point at which people begin choosing to invest in cleaning up and preventing pollution occurs at a per capita GDP of about $5,000."*

When she made this claim Anne Krueger wanted to convey the following message: growth in the early stages of economic take-off in developing countries leads to environmental degradation, but when they exceed a threshold of US$5,000 per capita Gross Domestic Product (GDP), people will, to use her words, start investing in pollution prevention and the clean-up of polluted areas. So public authorities do not have to impose restrictive measures to force companies to comply with string environmental standards, self-restraint will automatically apply as soon as the magic threshold of $5,000 per capita GDP is reached. This is just smoke and mirrors. It does not rely on any empirical data, and is only meant to promote laisser-faire.

We have not caused irreparable environmental damage - Anne Krueger, IMF First Deputy Manager 2000-2006

The quotation by Anne Krueger includes two blatant errors (if not lies). First, facts show that irreparable environmental damage has occurred. Second, it is not true that after "an initial phase of deterioration" economic growth brings "a subsequent phase of improvement." The more industrialized countries have long overreached the per capita GDP $5,000 mark, [6] and yet most of them still implement policies that entail an increase in pollution.

We had to wait for the consequences of the Katrina hurricane in August 2005 for the White House to reluctantly start acknowledging the obvious.

Along with other movements the CADTM did not wait for a catastrophe of the scale of what affected New Orleans to expose the World Bank's and IMF's policies that favoured climate change and weakened developing countries' ability to face natural catastrophes. It notably exposed as resulting in environmental disasters policies promoted by the World Bank and the IMF such as deforestation and huge power plants. [7] Similarly it asked the World Bank to forsake its support to projects that destroy natural coast protection such as mangroves, which can absorb part of the impact of tsunamis. [8] The CADTM also demanded that the World Bank stopped lending money to the extractive industry. It denounces the World Bank's support to the agro industry, to export monocultures, to land grabbing, and to large seed companies, which are responsible for the reduction of biodiversity, the emission of very high levels of greenhouse gases and the impoverishment of those who till the land. Finally the CADTM questioned the decision made at the

Rio conference in 1992 to entrust the World Bank with the management of a global funds to protect environment. This amounts to asking a fox to look after the chicken pen...

A shift in the World Bank's policies

The CADTM denounces the World Bank and the IMF as institutions that favour deforestation and megaprojects for power plants that destroy the environment

In April 2006, without any attempt at apology, the World Bank published a report on natural disasters. Its author, Ronald Parker, wrote: *"There has been an increase in incidents of disaster clearly tied to environmental degradation around the world."* [9] While the number of earthquakes has hardly changed, the number and magnitude of natural disasters related to climate have dramatically increased: from an average of 100 in 1975 to over 400 in 2005. The Bank acknowledges that global warming, deforestation, and soil erosion have made extensive areas more vulnerable. It estimates that developing countries suffer damages for at least $30 billion a year. As Lester Brown, President of the Earth Policy Institute, said, "This report underlines that although we continue to call these natural disasters, they are sometimes clearly of human origin." [10]

The Stern Report on global warming

Nicholas Stern is crystal clear: the less industrialized countries though less to blame for global warming, are also those that will bear the brunt: *"All countries will be affected. The most vulnerable - the poorest countries and populations - will suffer earliest and most, even though they have contributed least to the causes of climate change."* He adds, in this completely contradicting the proponents of neoliberal globalization, *"Climate change is the greatest market failure the world has ever seen, and it interacts with other market imperfections."* This being said, Nicholas Stern does not propose any alternative to the productivist model and to the capitalist market. Quite the opposite: his report is meant to ring the bell so that sufficient money be found for expenses of industrial conversion and environment protection so that this mad race to growth can go on. He claims that mankind can be both "green and growth".

He explains that the environment protection market will represent a new opening for the private sector to make profits. And to crown it all, he suggests that since developing countries pollute less than industrialized countries while suffering more of the consequences of global warming, they could sell polluting rights to the rich countries. With the revenues they would thus bring in, they could then finance the cost of repairing the harm done to their people.

The most vulnerable - the poorest countries and populations - will suffer earliest and most, even though they have contributed least to the causes of climate change

In 2013 Nicholas Stern participated in the creation of the Global Commission on the Economy and Climate, which is both a think tank and a lobbying group dedicated to promote a green capitalism. Stern, who is chair of the Commission, sits next to leaders of big private companies that are notorious sources of pollution such as the cement manufacturer *HolcimLafarge*, or the oil company *Shell* (whose CEO is a member of the commission). Other participants on the board of this private commission are the IMF's managing director, an executive officer of *HSBC*, a former governor of the World Bank, a former Mexican president, a former board member of the Development Bank of China, an executive officer of the Asian Development Bank. [11]

_The World Bank congratulates itself for the action it claims to achieve in the fight against climate change

On several pages of the WB website we come across bold claims about its remarkable efforts in the struggle against climate change and in support of populations.

"Just after the world came together for the landmark Paris Agreement on climate change, the Bank Group unveiled an ambitious Climate Change Action Plan to ramp up financial and technical support to developing countries to step up climate action. The World Bank Group committed to increasing climate finance from 20% of lending in 2016 to 28% by 2020. This target was exceeded each year for the last three consecutive years."

"As a result of the Action Plan, all new Bank projects are screened for climate risk."

"[T]he Bank's support has branched out beyond sectors traditionally identified with climate action, such as energy, agriculture and environment, expanding the range of climate-smart development to projects that include enhancing digital development and climate resilience..."

"There is no option but to take climate into account in terms of a recovery from COVID."

"There is no doubt that the disruption caused by COVID-19 reinforces the importance of guarding against the environmental risks that have severe and systematic impacts across the economy."

"Through the Action Plan, the World Bank Group has helped countries reduce the disaster risk through a combination of measures to build resilience in people, infrastructures, and economies."

"The World Bank Group prioritized investments in renewable energy and energy efficiency as key to helping clients reduce emissions."

"[O]ur next Climate Change Action Plan (2020-2025), already underway, aims to boost support for countries to take ambitious climate action by increasing financing for adaptation and supporting increased systemic climate action at the country level." [12]

_There is a huge gap between the WB discourse and actual facts

There is a huge gap between what the WB claims and what it actually does: as it promotes fossil and/or polluting energies, the WB flouts UN commitments. This is brought out in an investigation carried out by the international consortium which includes three German media, namely *NorddeutscheRundfunk*, *Süddeutsche Zeitung* and *Deutsche Welle*. [13] In 2021, the biggest oil refinery in the world should open Nigeria. It has been financed by Aliko Dangote, the wealthiest man in Africa. [14] In spite of its global commitments on climate, the WB supports Aliko Dangote's project as it finances at least five of the banks that granted loans to the business man. And Aliko Dangote received a further credit line of over $150 million from the WB.

As it promotes fossil and/or polluting energies, the WB flouts UN commitments

In the context of the International Consortium's investigation, journalist Sandrine Blanchard stated that the WB accounted for this loan by claiming that it was meant to help Nigeria improve its activities in the field of natural resources, particularly the production of fertilizers. But Blanchard notes that it is impossible to separate the plant producing fertilizers from the rest of the oil project. [15]

According to the International Consortium of Investigative Journalists, this is but one among many other WB investments in fossil energies. Sometimes it even directly invests in coal mining or oil or natural gas extraction. This is the case in Kenya, Mozambique and Guyane. All in all, the WB grants more financial support to fossil energies than to renewable energies, which is a source of concern for Uwe Kekeritz, a member of the German parliament (Bundestag) who is in charge of the development policies within the German Green party; he notes that the WB influence is huge and that its sustained investments in fossil energies have a disastrous impact on climate, which is unacceptable for this bank is supposed to support development and should thus have global development as its primary focus.

The German NGO Urgewald also noticed that the WB had granted over $12 billion loans for projects relying on fossil fuel between 2015, the year of the Paris Agreement, and 2020.

The WB influence is huge and its sustained investments in fossil energies have a disastrous impact on climate

How can the WB claim that it stopped financing fossil energies in 2019? The answer is simple enough: officially its loans are meant for technical assistance to the governments of countries that wish to develop the exploitation of fossil fuel. It claims that it does not directly finance the exploration and exploitation of those fuels but actually through those loans for technical assistance it plays a key part to make it possible for those countries to exploit the fossil fuel present in their soils.

If we check the WB website, we can see that in 2020, it has granted loans to projects that are directly connected to projects in the coal industry, in non-renewable energies, as well as in the exploitation of gas and oil, though making sure to mention so-called 'environmental' investments along with extractivist investments; this is mere greenwashing for excessive exploitation of Nature.

Here are a number of illustrations that show the negative part played by the WB 'technical assistance' loans.

Mozambique: The liquefied natural gas mega-project co-financed by the World Bank [16]

In July 2020, "the French oil major Total and partners signed financing agreements worth $14.9 billion for the massive Area 1 Liquefied Natural Gas (LNG) project in Mozambique. The deal is being hailed as the largest project financing ever in Africa. It involves 19 commercial banks and public finance from 8 export credit agencies (ECA), the African Development Bank", and the World Bank.

The WB contribution consists of a loan of $87 million to finance technical assistance "with the stated aim of improving governance in order to increase gas and mining investments to bring about broad-based growth". As exposed by Heike Mainhardt, from Urgewald, much of the Bank's assistance has focused on supporting Areas 1 and 4, which turn Mozambique into one of the world's largest LNG exporters. "The giant LNG development is at the center of growing concerns over displacements, loss of fishing livelihoods", and an increase in the environmental and climate crisis. As stated by Mainhardt, there are lots of reasons why it is important to understand the role of the World Bank.

The giant LNG development will result in displacements, loss of fishing livelihoods, and an increase in the environmental and climate crisis

"In practice, the World Bank's technical assistance funds consultants to advise the government on such things as tax and regulatory policies and the facilitation of large complex financial agreements.

Bank-funded consultants have been supporting the government for years to lay the legal groundwork and negotiate the agreements to secure the $14.9 billion finance package. During the World Bank-sponsored advisory, a new law covering LNG Areas 1 and 4 activities was published in December 2014. According to the law firm Shearman and Sterling, among many concessions, this law includes that no preference needs to be given to Mozambican suppliers for procurement of goods and services. This concession greatly increased opportunities for companies from the countries with participating ECAs at the expense of Mozambican firms." The Export Import Bank of the United States (US Exim) announced its $5 billion loan to Area 1 LNG involves 68 American suppliers and will support an estimated 16,400 jobs in the US. It is obvious that this financing agreement structured with the help of World Bank-paid consultants will not help job creation in Mozambique.

Still according to Heike Mainhardt, "since 2012, the World Bank has funded over $14 million in contracts to at least 12 consulting firms to assist the government on the financial package negotiations involved in LNG Areas 1 and 4. Many of these firms have ties to oil companies and at least two raise substantial conflict of interests. In addition to advising the government of Mozambique, the law firm SNR Denton also advised multiple oil companies involved in Mozambique's LNG Area 1, including Total, ONGC Videsh Limited (OVL), and Bharat PetroResources."

"Furthermore, in 2016 ExxonMobil acquired a 25% interest in Mozambique's LNG Area 4. In 2018, the World Bank funded a $2.4 million contract for LNG transaction assistance involving a group of consultants, including ExxonMobil's favored law firm Hunton Andrews Kurth. During this same period, ExxonMobil paid the law firm $500,000 in lobbying fees in the US. It is obvious that instead of promoting governance that would shield the government from the oil industry's influence, the World Bank's assistance is facilitating it."

In addition to favoring oil companies and financiers over the interests of Mozambique, the World Bank's public assistance undermines its commitment to the goals of the Paris Climate Agreement, which include limiting global warming to 1.5C.

"In November 2019, researchers from several expert organizations, including the UN Environment Program, alerted international public opinion as they determined that the world was on track to produce 120% more fossil fuels in 2030 than would be compatible with a 1.5C pathway. Simply put, there is already far too much investment going into fossil fuel production."

The world is on track to produce 120% more fossil fuels in 2030 than would be compatible with a 1.5C pathway - UN Environment Program

As stated above, the World Bank pretended to acknowledge the issue and "announced in 2017 that it would end direct finance of upstream oil and gas (exploration and production) by the end of 2019. However, this pledge excludes the Bank's technical assistance and development policy loans." The WB's loans and advice actually support oil and gas and thus undermine climate goals.

"One particularly important area the Bank's assistance continues to support is tax incentives for fossil fuel investments. In Mozambique, to attract new investments beyond Areas 1 and 4, the World Bank's $110 million development policy loan in 2014 required the government to approve a new petroleum tax law. The new tax law includes several investment incentives, such as accelerated rates of depreciation for oil and gas exploration. Accelerated depreciation of new capital investments allows oil companies to quickly write down capital investments that would otherwise depreciate more gradually. In other words, larger tax reductions are taken at the start of the operation, thus making new projects more profitable and increasing cash flows that can be put towards more drilling."

Suriname (South America) [17]

The WB Group "approved a $23 million technical assistance operation for Suriname in July 2019, aimed at developing the extractive industries, which could include oil and gas." The WB thus granted the Suriname government the financial means needed to "pave the way for big oil companies to exploit the Guyana-Suriname basin's resources at the cost of its people and the environment." "The Bank's warning that the region will be severely impacted by the climate crisis and resulting sea-level rise is beyond cynical", as noted by Jacey Bingler, from Urgewald, in a report published in December 2020, on the eve of the Paris Climate Agreement's fifth anniversary.

One last illustration: in 2019 the WB granted Brazil a $38 million for technical assistance contracts to develop oil exploitation.

Debts claimed by the World Bank and the IMF are odious and must be cancelled

The World Bank and the IMF claim repayment of debts from many developing countries while the loans resulted in incalculable damage to the populations and Nature of these territories and beyond, to the entire planet. Those debts are odious, because they were contracted against the interest of the populations. Indeed, to be defined as odious debt must have been contracted against the interests of the populations in the indebted countries, which is the case. A further condition must be met for the debt to be odious: the creditors knew or cannot provide evidence that they did not know that their loans were against the interest of the populations. [18] Now, as shown in this article and several other studies, including some produced by the WB and the IMF, the leaders of those institutions knew that in actual fact their loans are used to support policies that go against the interest of the people and of the environment. Citizens are entitled to demand their cancellation. The same applies to debts claimed by private investors or by creditor governments.

Conclusion

The World Bank and the IMF knew that in actual fact their loans are used to support policies that go against the interest of the people and of the environment

The promoters of the dominant productivist model and of the capitalist system first denied the existence of a major issue, namely the environmental damage and climate change, and they still actively support policies that worsen the situation. Next, when their position became impossible to uphold, they made the headlines in international media by publishing a report on the issue, thus attempting to give credence to the idea that international institutions and the governments of the most industrialized countries have taken the measure of this serious problem, while in fact it had been deliberately concealed for decades. At the end of the day, those who defend the current system imply that it can solve a problem it is largely responsible for, thus permitting its own perpetuation. It is urgent to understand that the only fair and sustainable solution involves a radical questioning of this productivist capitalist system, which cannot but generate environmental damage and careering inequalities.

P.S.

• CADTM. Published 23 December 2020:
https://www.cadtm.org/Climate-and-environmental-crisis-Sorcerer-s-apprentices-at-the-World-Bank-and

• Translated by Christine Pagnoulle.

Footnotes

[1] Nicholas STERN, *STERN REVIEW: The Economics of Climate Change*, October 2006. All quotations from the Stern Review in the present article are to be found in the conclusions. The full text of the Report can be accessed on the British government website.
www.hm-treasury.gov.uk/independent_reviews/
stern_review_economics_climate_change/sternreview_index.cfm

[2] Nicholas Stern was Chief economist and vice president of the World Bank from 2000 to 2003.

[3] Lawrence Summers, at the World Bank and IMF annual assembly in Bangkok 1991, interviewed by Kirsten Garrett,"Background Briefing", Australian Broadcasting Company, second programme.

[4] "Summers on Sustainable Growth", Lawrence Summers' letter to *The Economist*, 30 May 1992.

[5] Nicholas Stern and Francisco Ferreira in KAPUR, Devesh, LEWIS, John P., WEBB, Richard. 1997. *The World Bank, Its First Half Century, Volume 2: Perspectives*, p.566.

[6] The per capita GDP is now over $20,000 in North America, Western Europe, Japan, Australia, and New Zealand. China's per capita GDP has been over $5,000 since 2010, South Africa's since 2005 and Brazil's since 2006. Yet companies in all those countries are still massively involved in activities that are bad for the environment.

[7] See for instance Eric Toussaint, *Your Money or Your Life*, Pluto Press, 2006, chapter 9.

[8] Damien Millet and Éric Toussaint, *Tsunami Aid Or Debt Cancellation*, Vak, Mumbai, 2006.

[9] Quoted in the *Financial Times*, 22-23 April 2006.

[10] Quoted in the *Financial Times*, 22-23 April 2006.

[11] See their website: Members of the Global Commission | New Climate Economy | Commission on the Economy and Climate, http://newclimateeconomy.net/about/members-global-commission accessed on 14 December 2020.
Read Daniel Tanuro's critical approach, *Trop tard pour être pessimistes ! Ecosocialisme ou effondrement*, Textuel, Paris 2020, pp 113-115.

[12] All these quotations are from the World Bank official website: "5 Years of Climate Leadership: The World Bank Group's First Climate Action Plan"
https://www.worldbank.org/en/news/immersive-story/2020/09/08/5-years-of-climate-leadership-th

e-world-bank-groups-first-climate-action-plan

[13] The International Consortium of Investigative Journalists (ICIJ), "The World Bank is Still Hooked on Fossil Fuels Despite Climate Pledge" published 10 April 2019, https://www.icij.org/investigations/world-bank/the-world-bank-is-still-hooked-on-fossil-fuels-despite-climate-pledge/ accessed on 13 December 2020.

[14] Aliko Dangote, born at Kano, North of Nigeria on 10 April 1957, is a Nigerian businessman who is estimated to be the wealthiest man in Africa. In 2018, when Emmanuel Macron went to Lagos, the French president met this Nigerian billionaire. Aliko Dangote is fully in favour of the African Continental Free Trade Area. In January 2020 and again in November 2020, Aliko Dangote announced that he wanted to buy the British football club Arsenal.

[15] Sandrine Blanchard, with Fanny Fascar, Astrid Rasch and Elisabeth Weydt. "La Banque mondiale investit dans des énergies fossiles, nuisibles au climat", Deutsche Welle, 11 April 2019 https://www.dw.com/fr/la-banque-mondiale-investit-dans-des-les-%C3%A9nergies-fossiles-nuisibles-au-climat/a-48291776 (in French).

[16] This section relies on a paper by Heike Mainhardt, from Urgewald, "World Bank policy advice boosts oil and gas, undermining climate goals" 21 July 2020 https://www.climatechangenews.com/2020/07/21/world-bank-policy-advice-boosts-oil-gas-industry-undermining-climate-goals/ accessed on 13 December 2020.

[17] This section relies on Jacey Bingler's paper, "Five Years Lost How Finance is Blowing the Paris Carbon Budget", published 10 December 2020, https://urgewald.org/sites/default/files/media-files/FiveYearsLostReport.pdf, p. 20, accessed 13 December 2020.

[18] A definition of odious debt can be found in Éric Toussaint, "A country is entitled to refuse to pay a debt", published 18 November 2020, https://www.cadtm.org/A-country-is-entitled-to-refuse-to-repay-a-debt, and in Éric Toussaint, "The Doctrine of Odious Debt, from Alexandre Sack to CADTM", published 18 November 2016, https://www.cadtm.org/The-Doctrine-of-Odious-Debt-from