The World Bank's carbon deals

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The Bank's foray into the carbon market paves the way for business-as-usual, while short-changing clean, renewable energy, the poor, and ultimately the climate.

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It was the first day in a long week of the consultations, PowerPoint presentations and high-level cocktail parties that accompany the World Bank's Spring Meetings in Washington, D.C. Already tensions were running high in a tightly-packed conference room downtown. Bank staff huddled on one side and non-profit groups on the other. The topic that drew so much attention first thing Monday morning: Climate change and the Bank's plans for plunging its fingers deeper into the expanding multi-billion-dollar carbon-trading pie.

At issue was a slate of new Bank-managed climate funds aimed at transitioning to a "low carbon" economy. Two of the proposed funds would "scale up" the carbon offset ventures that already make up a more than $2 billion carbon finance portfolio at the Bank.

Also under scrutiny: The World Bank's dealing from both ends of the climate change deck. Between 2005 and 2007 the Bank financed greenhouse gas-emitting fossil fuel projects (coal, oil and gas) to the tune of $1.5 billion. At the same time the Bank acts as trustee to 10 greenhouse gas-reducing trust funds, pocketing an average 13% "overhead" in the process. That puts the Bank's slice of the pie at just about $260 million – half of the money expected to accrue by 2012 in the under-resourced United Nations Adaptation Fund, outlined during the recent international climate talks in Bali, to help developing countries cope with the unavoidable impacts of global climate shifts.

A close look at the Bank's current carbon trading deals, which "outsource" the work of reducing greenhouse gas emissions from industrialized countries to the global South where labor and technology are cheaper, reveals cause for concern. As I explain in *World Bank: Climate Profiteer*, a report released today by the Sustainable Energy and Economy Network at the Institute for Policy Studies, the Bank is supporting some of the most polluting industries in Southern countries, while advancing little toward its goal of "reach[ing] and benefit[ing] the poorest communities of the developing world," in its carbon market work. And, it's doing even less to promote clean, renewable alternatives in the energy industry.

Toxic Bricks

Take the FaL-G Brick and Blocks project in India. Through its Community Development Carbon Fund (CDCF) the Bank contracted to buy emissions reductions generated when 200 small brick-makers switch from coal-fired bricks to self-hardening fly ash bricks. Sounds great for Indian entrepreneurs and for the climate, right?

But wait – fly ash bricks are made from the waste of some of the dirtiest industries in India. Besides fly ash, which is a radioactive byproduct of coal-fired power plants laden with heavy metals, the bricks' ingredients include lime, a waste product of acetylene production, and gypsum, a byproduct that fertilizer companies in India are under increasing pressure to dispose of safely. Under the Bank's carbon-trading program these companies' pollution, which was once a liability, suddenly becomes an asset. New revenue streams opened up by World Bank carbon finance create perverse incentives, benefiting fossil fuel dependent power plants and factories.

What about the poor? Staff managing the CDCF implored citizen groups to understand that projects like fly ash bricks help the poor by bringing jobs to rural India, and, by applying social safeguards, help keep kids out of the workforce. When asked about the health risks posed to workers who will handle toxic chemicals, one Bank senior environmental specialist claimed not to have heard these concerns before. Is that an oversight or malign neglect?

Ultimately, the climate loses, too. Besides downplaying the serious health problems that fly ash can cause, the Bank also disregards the fact that the inputs for these bricks come from greenhouse gas emitting sources. The UN body that regulates North-South carbon trading requested the Bank include these emissions in the projects' carbon footprint, but the Bank declined to do so, responding that this was "outside the boundaries" of the project's scope.

Meager Emissions Cuts

Indeed, the World Bank's carbon-offset deals have produced meager results for greenhouse emissions cuts, a fact that has trust fund contributors scrambling for carbon credits before the first Kyoto Protocol commitment period expires in 2012. Donors that are worried about keeping their promises to reduce emissions have, with the help of the World Bank, shifted a portion of their money to "low hanging fruit" – projects that yield cheap, easy and abundant emissions. But the bumper crop of cut-rate emissions reductions is undercutting the competitiveness of renewable energy and small-scale projects, which are already more expensive and pose higher investment risks.

The World Bank's plan to use its existing carbon-offset portfolio as the model from which to scale up to a "low carbon" economy should sound alarms for anyone seriously concerned about avoiding climate chaos. The Bank's foray into the carbon market paves the way for business-as-usual, while short-changing clean, renewable energy, the poor, and ultimately the climate. The Bank, on the other hand, stands to gain enormously.

Back in the windowless conference room in downtown D.C., one non-government organization staffer muttered under his breathe that the Bank's idea of "low carbon" alternatives – "clean" coal, large hydropower plants, landfill gas recovery – is unacceptable. The Bank representative wrapping up his PowerPoint presentation responded, "It's not your money."

But it's not the Bank's money, either. The money used for carbon deals, which the Bank is squandering on false solutions to climate change, is at least in part the money of Italian, Dutch, Spanish, and Danish tax payers. And the land and labor of people in the global South, who are struggling for control over clean energy production and consumption, are being held by the Bank as collateral.

Reform or Redirect?

For those with a stake in real solutions to climate change (i.e. everyone), the question becomes: what are the alternatives to the current situation? Can the World Bank's climate policies, if not the institution itself, be reformed enough to trust the Bank to lead the way to a renewable energy future?

A first step would have to include pulling out of financing fossil fuels completely (as recommended by the Bank's own Extractive Industries Review in 2004). As a second step, the World Bank would need to calculate the greenhouse gas footprint of all its public finance, and private investments that run through the public institution, and weigh the costs of climate change in deciding which projects to fund. And finally, donors should have the amount of greenhouse gases produced from projects they support "debited" against any emissions they hope to claim through offsetting.

For many, it's clear that banking on the World Bank to solve the climate crisis is an exercise in self-destruction. Ultimately, the World Bank needs to halt its climate altering investments and get out of the carbon dealing business. The UN Framework Convention on Climate Change provides the best hope for transferring the resources needed for Southern countries to cope with the impending consequences of climate change, and encourage local control of energy production and consumption – not the market. This is the institution that Northern and Southern governments must support in generating the political will and political space to transition to a truly low carbon, climate resilient future.

P.S.

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