
# world bank: catalysing catastrophic climate change

## the world bank's role in dirty energy investment and carbon markets

june 2011 | issue 122

40 years
Friends of the Earth International


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# contents

# world bank: catalysing catastrophic climate change

## the world bank's role in dirty energy investment and carbon markets

june 2011 | issue 122

# contents

## boxes



## figures



## tables




*A staged die-in by environmentalists, peasant farmers and Indigenous Peoples' Organisations, as part of a protest against the World Bank and its launch of the Forest Carbon Partnership Facility (FCPF) at the UN climate talks in Bali in December 2007.*

# summary

## summary

**Over recent years, the World Bank[1] has steadily broadened its remit by launching new initiatives that purportedly assist developing countries to reduce their emissions and adapt to climate change, arguably the greatest threat to human survival.[2] Yet, as the case studies in this report show, the Bank plays a forceful, catalysing role in channeling major public and private investment flows into high-carbon infrastructure, and promoting false solutions to climate change, such as carbon trading, mega-dams, agrofuels and industrial monoculture tree plantations.**

This report explores the Bank's increasing investment in fossil fuels, in particular coal, and its continued support for dams, even though they lead to the displacement of entire communities, generate greenhouse gas emissions and have other negative environmental impacts. Despite the need to urgently slash global emissions through a just transition away from fossil fuel use, the Bank's energy investment portfolio is locking developing countries, including South Africa and India, into a high-carbon future. Its US$3.75 billion loan to finance Eskom's controversial 4,800 megawatt Medupi coal-fired plant in South Africa exemplifies this trend. Similarly, controversy over the Bank's support for large hydropower did not stop it funding the Nam Theun 2 dam in Laos, which has displaced 6,200 Indigenous Peoples and negatively affected more than 110,000 people downstream, damaging the river ecosystem.

The Bank's use of loans, rather than grants, is set to worsen the debt burden faced by poor countries and undermines the polluter-pays principle. This has led to recent protests in Nepal and Bangladesh.

*Forest destruction caused by the Plantar project in Brazil, which receives funding under the Clean Development Mechanism.*

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The Bank is also driving the expansion of carbon markets, which are allowing rich countries to continue their unsustainably high levels of carbon emissions, ultimately threatening human survival. The Bank has played a key role in driving the establishment of these markets, and is providing direct support for carbon offset projects in the global South, even though they are harming local communities and the environment.

Furthermore, the Bank is playing a leading role in promoting new schemes that essentially privatise developing country forests in the process of generating carbon offsets. These schemes are characterised by the exclusion of affected communities and critical voices from relevant planning processes, and a failure to ensure the protection of community rights. There is considerable doubt as to whether these projects will even reduce deforestation.[3]

Yet despite these negative trends, the World Bank is trying to expand its role within the UN climate negotiations. The Bank has been facing strong opposition from many developing countries, social movements, environmental and social justice organisations, and affected communities, but managed to gain the position of interim trustee of the new Green Climate Fund established at the UN climate talks in Cancun in December 2010, and it is additionally seeking to have a very influential role in designing the Fund. There are major concerns because of its undemocratic nature, its poor track record on the environment, social justice, and development, its increasing support for fossil fuel projects, and the fact that its existing funds and facilities are pre-empting the outcome of UN climate change negotiations in favour of carbon markets even though no decision on this has yet been taken.

1 The World Bank Group encompasses five closely associated institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). The World Bank Group will be referred to in shorthand as the Bank throughout this report.

2 The latest science shows that in order to remain within a two degree temperature rise threshold (which is still highly dangerous), the USA has to reduce its emissions by 95% by 2030 and the EU by 80% (from 1990 levels), as part of a global carbon budget. Emissions from countries like China would need to peak within the next five years and then fall. For further details see: *Reckless Gamblers*, Friends of the Earth (England, Wales and Northern Ireland), November 2010, http://www.foe.co.uk/resource/reports/reckless_gamblers.pdf

3 For more information see FoEI publications *REDD Myths: a critical review of proposed mechanisms to reduce emissions from deforestation and degradation in developing countries* (http://www.foei.org/en/resources/publications/pdfs/2008/redd-myths) and *REDD: the realities in black and white* (http://www.foei.org/en/resources/publications/pdfs/2010/redd-the-realities-in-black-and-white)

# one dirty energy investment

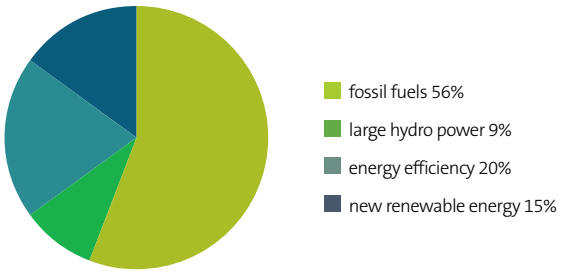
## dirty energy investment

**In 2010 the Bank hit a new record in terms of its fossil fuel funding, totaling US$6.6 billion, a 116% increase over 2009. US$4.4 billion of this total was invested in coal, also a record high, and a 356% increase over the previous year. From 2007 until November 2010, the World Bank provided US$6.5 billion for coal-based energy development, primarily in middle-income countries, locking them into coal use for the next 40 to 50 years and making their eventual shift to low carbon economies much more difficult and expensive. From 2008 to 2010, fossil fuels represented a 56% share of the Bank's funding for fuel sources, with coal alone making up 28% (BIC, 2010b). However, according to an independent review, none of the 26 fossil fuel projects financed by the Bank in fiscal years 2009 and 2010 ensured energy access for the poor (Mainhardt-Gibbs, 2010).**

Furthermore, a recent study by Bretton Woods Project, CRBM and Urgewald, *Fuelling Contradictions,* reviewed projects financed by the World Bank between July 2008 and December 2009, which revealed over US$1.5 billion[4] linked to fossil fuel-related infrastructure and policy lending in excess of what the Bank has reported (BWP *et al*, 2010).

The World Bank is thus a major contributor to increased greenhouse gas emissions. The lifetime emissions from lending projects financed by the Bank and its private lending arm, the International Finance Corporation (IFC), in 2008[5] alone is estimated to have made up approximately 7% of the world's total annual $CO_2$ emissions from the energy sector. This is almost double the whole of Africa's annual energy sector emissions (BIC, 2009).

FIGURE 1 WORLD BANK GROUP ENERGY FUNDING BY FUEL SOURCE THREE-YEAR AVERAGE (FY08-FY10)




***Source:*** *BIC: World Bank Group Energy Funding by Fuel Source Three-year Average (FY08-FY10): http://www.bicusa.org/en/Article.12244.aspx*

### 1.1 funding coal-fired power plants

Coal is the most polluting of all conventional fossil fuels[6] and coal-fired power plants are the largest source of human-induced $CO_2$ emissions.[7] Leading NASA climate expert, James Hansen, has stated publicly that, "Coal-fired power plants are factories of death" (Hansen, 2007 & 2009). Yet the World Bank continues to finance coal-fired power plants around the world.

### 1.2 pushing a coal-based future onto india

In April 2008 the World Bank's private lending arm, the IFC, approved investment of US$450 million for the Tata Mundra 4,000-megawatt coal-fired power plant in Gujarat, India. The Bank claimed to be balancing "energy needs with concerns about climate change" (IFC, 2008). Yet the plant is expected to emit an estimated 25.7 million tons of $CO_2$ annually for at least 25 years (BIC, 2010). But emissions are likely to be considerably higher still. It appears that the IFC's calculations are only based on the amount of coal used. This serious oversight omits consideration of significant emissions on the supply end, at the source during mining, transport to the port from Indonesia (where most of the coal for the Tata Mundra project is sourced), and port-to-port transport. Furthermore, transmission losses must be taken into account in calculating the efficiency of the project, particularly since this project, situated on the western coast, is going to supply power throughout the country. 52% of India's electricity is generated by coal and this is expected to rise to 59% by 2032 (World Bank, 2010b). The Tata Mundra power plant will contribute to that increase.

The Bank's justification for financing Tata Mundra is that it will provide India with a model example of so-called super-critical coal combustion technology,[8] which is more efficient and emits less carbon dioxide per unit of energy produced. Yet when the funding was given to Tata Mundra, this technology was already being applied to other plants under construction or planned in India. The project also neglects, and effectively directs resources away from, solar power technologies that could be feasibly harnessed in the region (Wheeler, 2008).

4 The figure specifically does not include projects with a stated aim to improve access for households, to support low-carbon projects, or small-scale energy infrastructure for the rural poor. See BWP *et al*, 2010.
5 The Bank's 'Financial Year 2008'.
6 Unconventional fossil fuels such as tar sands and liquid coal are more harmful to the environment than conventional fossil fuels. See http://www.foe.org/energy/dirty-fuels
7 Burning coal accounts for one-third of these global $CO_2$ emissions.
8 Supercritical (SC) and ultra-supercritical (USC) power plants operate at temperatures and pressures above the critical point of water, i.e. above the temperature and pressure at which the liquid and gas phases of water coexist in equilibrium, at which point there is no difference between water gas and liquid water. This results in higher efficiencies. http://www.greenfacts.org/glossary/pqrs/supercritical-ultra-supercritical-technology.htm

While the IFC claims that the project will provide electricity to five states and will help India to meet its energy demands, it does not specify the segment of consumers who will be given access to the electricity. Approximately 40% of the population does not have electricity access in India and are not connected to the grid, and hence will not be served in any way by the Tata Mundra project (Greenpeace, 2009). Further, despite hosting three giant mines that require substantial amounts of energy for coal exploitation, the area in Indonesia from which the coal is sourced is facing an energy crisis and has the lowest rate of access to energy in Indonesia (Both Ends, 2011). Coal mining areas in Indonesia are among the poorest in the country (see case study by LIFE in FoE US *et al*, 2011).

### 1.3 world bank loans us$3.75bn for eskom coal power plant

In April 2010, the World Bank approved a massive US$3.75 billion loan, the overwhelming majority[9] of which will finance the 4,800 megawatt Medupi coal-fired power plant being built by Eskom, South Africa's state-owned power utility. Medupi will emit an estimated 25 million tons of $CO_2$ per year (Davidson *et al*, 2010; Groundwork, 2009). As the world's fourth-largest coal-fired plant, Medupi will be a significant source of greenhouse gases at the global level and will aggravate local environmental degradation.

The Medupi power plant is also expected to trigger significant energy price hikes for poor South Africans. The World Bank's rationale for supporting the loan is that without increasing its energy supply, South Africa will face economic losses and hardship for the poor (World Bank, 2010d). But Medupi is mainly intended to supply big industrial users, not those impoverished people already suffering frequent power disruptions (Groundwork, 2009).

#### 1.3.1 no energy access for poor

Poor South Africans currently consume less than 5% of the electricity grid, in contrast to the 38 largest corporations, which consume 40% of the total (Groundwork, 2009).

Furthermore, the electricity supplied to South Africa's biggest industrial consumers is the cheapest in the world (Eskom, 2009). At the same time, more than 20% of South Africans are not even on the electricity grid, and 10 million people have been cut off because they cannot afford to buy electricity (Peek, 2010). These concerns will not be addressed by the loan to Eskom.

The World Bank argues that the loan will alleviate 'energy poverty' in South Africa, because Eskom is reportedly increasing its 'free basic electricity' (FBE) allowance to 70 kWh per month. However, this is a trivial amount considering that the existing FBE is already set at 50 kWh and that basic consumption requirements are around 350 kWh per month.[10] In addition, when poor consumers have used up their FBE quota, they pay more per unit of electricity than the residents of rich areas, and four times more than industry (Groundwork, 2009).

It also seems to be difficult to acquire approval for FBE: the bottom 60% of South African households earn less than 15% of the average household income, yet less than 3% of the population were approved for FBE in 2010.[11] To make matters even more difficult, the National Energy Regulator of South Africa (NERSA) approved Eskom's request for a price increase of 25% every year for three years to help raise funds for its expansion program (Pienaar & Nakhooda, 2010; Mail & Guardian, 2010). This will double household bills and is unaffordable for most South Africans. By any calculation, the World Bank's loan will not alleviate 'energy poverty' in South Africa: it will aggravate poverty and worsen on-going inequities with respect to access to electricity.

#### 1.3.2 environmental impacts

The Bank emphasises the benefits of the Eskom project in terms of 'poverty alleviation', 'energy security' and 'economic growth', but fails to address the environmental and other social costs associated with coal-fired power plants and coalmines (World Bank, 2010c). The loan will, for example, open up 40 new coalmines to feed the Medupi plant and related projects (Groundwork, 2009).

South Africa's aquifers, rivers and air are already being polluted by the coal industry, posing a grave threat to communities and environment (Groundwork, 2009). The Medupi power plant means that low-income, predominantly black South Africans will have their health, land, air and water quality further compromised, as well as making it more difficult for them to access electricity.

The Bank and its Expert Panel did not take these concerns into account, nor did they consider the impacts on people living in the vicinity of power plants, or the plight of South Africans exposed to the now serious problem of mercury residues in the air, water and land as a direct result of coal-fired electricity generation.[12] Eskom has not installed available and effective technology to reduce the impact of mercury pollution from their existing plants (Peek, 2010).

**9** Around 7% of the loan will go towards renewables.

**10** Eskom's website currently says: "Government aims to bring relief to low-income households through the national electricity basic services support tariff, thereby ensuring optimal socioeconomic benefits from the national electrification programme. Qualifying customers are eligible for 50kWh of free electricity per month." (Accessed 1 May 2011)

**11** The population of South Africa is listed as 49, 991, 300 for 2010 (http://www.statssa.gov.za/publications/P0302/P03022010.pdf), and the number of people approved to receive FBE in 2010 was 1,308,357 (http://www.eskom.co.za/annreport10/cnb_free_elec.htm) - 2.6% of the population.

**12** See Dabrowski (2010) for more information about the impacts of mercury from South African coal plants.

# one dirty energy investment

continued

### 1.3.3 more emissions

South Africa is currently responsible for 40% of all of Africa's greenhouse gas emissions. Its emissions are higher than those of many European countries, and 10 times those of most other African countries (FoE EWNI, 2009). This World Bank-approved loan will add to these disproportionately high emissions.

The Bank partially justified the loan by claiming that the more efficient 'supercritical'[13] technology would be used to reduce emissions, and that Medupi would be carbon capture and storage (CCS) ready[14] (World Bank, 2010d). Yet regarding the availability of CCS, Eskom's top technical manager has testified that, '... to be quite frank, no-one knows what that is at the moment' (Groundwork, 2011). Furthermore, CCS technology is not expected to be commercially available before 2030 (which is too late to save the climate, as global emissions need to peak by 2015). The reality is that the technology remains unproven, storing carbon underground entails major risks in terms of leakage, and CCS is likely to be prohibitively costly (Greenpeace, 2008).

### 1.3.4 health impacts

The Bank has failed to properly assess the potential health impacts and associated costs that will occur as a result of the Medupi plant's emissions. A recent report by Environmental Defense Fund (EDF) analysed the health impacts of 88 coal plants. It estimated that they would result in between 6,000 and 10,700 additional deaths per year from cardiopulmonary diseases and cancer alone (EDF, 2010). A Dutch research institute, CE Delft, has estimated the costs of the world's coal-fired power plants on human health and the environment to be roughly US$355 billion in 2007 (Greenpeace, 2008b).

### 1.3.5 no alternatives considered

The Bank did not give serious consideration to alternatives to coal, even though South Africa has significant renewable energy potential. The World Bank is allocating less than 7% of the loan to renewable energy[15] despite the fact that NERSA calculates that wind energy will be cheaper than coal by 2025, and concentrated solar power will be on a par with coal by 2030 (Groundwork, 2009). Furthermore, renewable energy technologies create more jobs than coal-fired plants: wind, for example, creates 12.6 jobs per gigawatt hour (gwh) of power as opposed to coal's 0.7 jobs (Groundwork, 2009).

## 1.4 bankrolling dams, increasing emissions and driving displacement

The World Bank has been increasing investment in large hydropower since 2003, following a lull in such investment in the 1990s, and wrongly sees large hydropower as a solution to providing large-scale electricity in a climate-constrained world. The Bank's portfolio on large hydropower and fossil fuels constitutes around two-thirds of its energy portfolio, far outweighing its investment in truly renewable energy and energy efficiency (see Figure 1).

As a source of energy, hydropower is far from being as clean as the Bank claims: it causes devastating social and environmental impacts around the world, and has already displaced 40–80 million people, impoverishing most of them in the process (World Commission on Dams, 2000; Bosshard, 2003; World Bank, 2011). According to John Briscoe, the World Bank's former senior water advisor, "Big dams account for 10 percent of our portfolio but 95 percent of our headaches." (Bosshard, 2003)

Dams are also a source of greenhouse gases, especially in the tropics. Scientific studies have shown that decomposing organic matter in reservoirs caused by dams has resulted in significant emissions of the greenhouse gases methane, nitrous oxide and carbon dioxide (International Rivers, 2008). Methane emissions from dams currently account for at least 4% of the total global warming impact of human activities, and constitute the largest single source of anthropogenic methane (Lima, 2007; International Rivers, 2008).

Dams that have been considered and/or approved as offset projects under the Clean Development Mechanism (CDM) have had negative health, social and environmental impacts. They have often incurred the violent repression of local protests, and resulted in respiratory and eye problems from dust produced during their construction, and the pollution of water resources, which has in turn led to the loss of livelihoods and the depletion of local fish stocks (International Rivers, 2007 & 2008b).

**13** Supercritical (SC) and ultra-supercritical (USC) power plants operate at temperatures and pressures above the critical point of water, i.e. above the temperature and pressure at which the liquid and gas phases of water coexist in equilibrium, at which point there is no difference between water gas and liquid water. This results in higher efficiencies. http://www.greenfacts.org/glossary/pqrs/supercritical-ultra-supercritical-technology.htm

**14** Carbon capture and storage (CCS) aims to reduce the climate impact of burning fossil fuels by capturing carbon dioxide ($CO_2$) from power station smokestacks and disposing of it underground.

**15** Wind and solar power will provide just 200MW of energy, compared with 4,800MW from the coal-fired component of the project.

The Bank has ensured that dams secure carbon offset credits, even if they were being built anyway[16] (International Rivers, 2007 & 2010b). More than a third of the hydropower approved by the Clean Development Mechanism's Executive Board was already completed at the time of registration and almost all were already under construction (International Rivers, 2007:3).

China, which builds more dams than any other country in the world and is responsible for two-thirds of hydropower projects under the CDM, had begun the construction of these dams before it applied for offsets. This undermines claims that these projects were 'additional'[17] i.e. would not have been built without the support of offsets (International Rivers, 2007 & 2010b).

A recent review by the Bank's Independent Evaluation Group (IEG) found that only one out of six of the World Bank-sponsored large hydropower CDM projects met expectations. The IEG recommended that the Bank end its carbon finance for hydropower (IEG, 2010).

### box 1: climate investment funds

The World Bank houses the Climate Investment Funds (CIFs), which were launched in 2008 at the behest of the US, UK, and Japan. Since the Bank is a donor-controlled institution where one dollar equals one vote, rich industrialised countries have far more control than developing country recipients. The funds are channelled through the World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development and Inter-American Development Bank.

The CIFs consist of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). Donors have pledged $4.5 billion to the CTF and $1.9 billion to the SCF, which together are targeting 45 developing countries (CIF, 2011).

The CTF's stated aim is to help developing countries adopt cleaner, more efficient technologies that cut carbon emissions in middle-income countries. The SCF is an umbrella fund comprised of three funds: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP), and the Program for Scaling Up Renewable Energy in Low Income Countries (SREP).

**strategic climate funds** The PPCR focuses on adaptation and is intended to address integrating climate risk and resilience into development. The FIP mobilises increased finance for REDD reforms by providing funds for national forest investment strategies in eight selected pilot countries,[18] which will be developed further through other REDD processes such as the World Bank's Forest Carbon partnership Facility (FCPF) or UN-REDD (FERN, 2011). The SREP, launched in Copenhagen in December 2009, aims to increase energy access in poorer countries through renewable energy, in part by focusing on the private sector.

**increasing debt burdens** The CIFs are being subjected to longstanding concerns from civil society over the extent of community participation and consultation, and the lack of attention dedicated to gender issues. Furthermore, the partial use of loans, rather than grants, risks increasing the debt burden of poor countries and undermines the polluter-pays principle (BWP, 2010). The PPCR is a particularly contested fund as it allows for loans for adaptation, unlike UNFCCC funds and the Adaptation Fund. This has recently led to protests in Nepal and Bangladesh (WDM, 2011).

There are also ongoing concerns related to exorbitant fees charged by the World Bank and other multilateral development banks for their assistance in piloting climate resilience programs in target countries. For instance, the World Bank has requested US$480,000 in fees for the preparation and implementation of the Niger Community Action Project for Climate Resilience (PACCR) (BWP, 2011). Moreover, due to a lack of transparency and accountability over the distribution of funds and subsequent monitoring, the ability to ascertain the effectiveness of the CIFs is severely undermined.

**potential investment in fossil fuels** The CTF has also proven to be particularly controversial because its investment criteria allow it to fund fossil fuel-based technologies, including coal, although financing for such technologies has not yet been approved. The South African Eskom coal loan (which was financed through the Bank's main energy portfolio) brought forward new criticisms of the CTF. The loan put in motion a disturbing precedent of using CTF projects to top off other dirty Bank projects (FoE US, 2011).

The FIP has been criticised for not consulting adequately with Indigenous Peoples and local communities. Furthermore, there are concerns over the distribution of funds taking place prematurely, before capacity has been developed to deal with such forest programs (FoEI, 2011).

**16** "We would expect that if CER [certified emissions reduction] generation were necessary for a project to go forward, that the project developer would register the project under the CDM before beginning project construction. As of November 2007, 35% of all large hydro projects already registered under the CDM were completed before project registration. 89% were expected to be completed within a year following registration and 96% within two years. This means that almost all, if not all, of the developers of these projects decided to pursue CDM registration well after project construction began." (International Rivers, 2007).

**17** The concept of additionality refers to the added benefit the project brings in terms of emissions reduction as compared with a business-as-usual scenario. It is an inherently unreliable concept because it is based on a hypothetical future amount of emissions; and the project manager is supposed to demonstrate that planned emissions reductions could not be implemented in the absence of CDM funding (see FERN, 2010). Dam projects also have to prove that they would be additional under the CDM i.e. that they would not have been built without financial support from carbon offsets (see International Rivers, 2010). In practice, however, this requirement has been easily manipulated.

**18** Burkina Faso, Ghana, Indonesia, Laos and Peru with additional proposed FIP pilots in Brazil, Mexico, and the Democratic Republic Congo.

# one dirty energy investment

continued

### 1.4.1 nam theun 2

The World Bank, along with the Asian Development Bank (ADB) and other public and private funders, has financed the Nam Theun 2 dam in central Laos, which was inaugurated in December 2010 after more than a decade of controversy.

In 2005, the World Bank and the Asian Development Bank (ADB) funded Nam Theun 2 with loans and guarantees totalling US$270 million and US$107 million respectively (FoE US *et al*, 2011). However, both the Bank and the ADB refuse to release project information including "monitoring reports, up-to-date project management plans, and critical data on fisheries, water quality and hydrology" (International Rivers, 2010).

The project has displaced 6,200 Indigenous Peoples on the Nakai Plateau and negatively affected more than 110,000 people downstream, who depend on the Xe Bang Fai and Nam Theun rivers for their livelihoods (International Rivers, 2010). Villagers continue to suffer from the damaged river ecosystem as their fish catch and water quality have declined.

The Bank has violated its own safeguard policy on resettlement by failing to ensure alternative sources of domestic water, and not providing compensation for the loss of agricultural land. Furthermore, the Nam Theun 2's reservoir has opened up access to the Nakai-Nam Theun National Protected Area, exacerbating logging and poaching and threatening biodiversity (International Rivers, 2010).

**box 2: bioenergy and carbon markets**

For many years, agrofuels (biofuels produced through large-scale monocultures) and other forms of bioenergy were enthusiastically promoted as a sound and climate-friendly alternative to fossil fuels. However, there is a rapidly increasing awareness amongst research institutions and policy-makers that dramatically expanding the use of agricultural produce and other biomass for energy production will have negative environmental and social impacts.

**the role of the world bank** Large-scale monoculture tree plantations for wood-based bio-energy production, like the Plantar SA plantation in Brazil that received support from the World Bank's Prototype Carbon Fund, have triggered often violent conflicts over land, rural depopulation and the destruction of biodiversity and water resources.

The World Bank has become increasingly hesitant to provide direct funding for bioenergy. Their draft energy sector strategy admits that renewable energy projects do not necessarily lower greenhouse gas emissions, and that biofuel needs to be examined carefully so that energy security does not overshadow food security. However despite this clear recognition that agrofuels might cause hunger, the Bank still suggests that Africa, the continent with the highest percentage of hungry people in the world, can benefit from producing and possibly exporting biofuels to Europe (Eenews, 2011; World Bank, 2011b).

Moreover, by aggressively supporting the expansion of carbon markets not only for forests but also for agriculture and all other forms of land use, the World Bank is actively involved in creating a new set of financial incentives for bioenergy expansion (Cabello, 2011). The expansion of carbon markets for all forms of land use constitutes a major threat for biodiversity and climate change.

Furthermore, in April 2011, the World Bank launched a new strategy for engagement in the palm oil sector in spite of unresolved concerns from civil society organisations. These concerns include weak provisions for the rights of Indigenous Peoples and local communities, the clearance of peat lands and forests, and the absence of reparations for previous damage cause by palm oil plantations (BWP, 2011b). In September 2009, the World Bank's private sector lending arm, International Finance Corporation (IFC), suspended its investment in palm oil, which is used as biodiesel as well as in the food and cosmetics industry. This moratorium was a welcomed step away from this highly controversial sector but it is now being repealed.

**impacts** By increasing the demand for arable land to grow food crops, agrofuels have played a significant role in the sharp increase of food prices and related hunger, malnutrition and political unrest the past two years. They also trigger the expansion of the agricultural frontier, causing the large-scale devastation of forests and other ecosystems, land grabbing and the expulsion of local communities from their lands.

Many negative impacts are indirect, as they do not necessarily result from one specific project but from the increasing overall demand for agricultural produce and land triggered by bioenergy expansion and they cannot be addressed by sustainability standards or certification schemes.

Due to negative direct and indirect impacts on forests and other ecosystems, many agrofuels and other forms of bioenergy contribute to higher carbon emissions than conventional fossil fuels, especially in the short term, when most action on climate change mitigation is needed (CEO *et al*, 2007).

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# two the world bank and carbon markets

## the world bank and carbon markets

### box 3: what is carbon trading and carbon offsetting?

Carbon trading is the buying and selling of the right to emit greenhouse gas pollution. This consists of an emissions trading scheme, which is established by setting a limit or 'cap' on emissions from part of the economy, such as the power sector, and offset provisions, which allow the purchase of pollution rights from industries outside the 'cap'.

The Kyoto Protocol mandates emission reduction targets for rich industrialised countries such as those in the European Union, which in turn has set up the EU Emissions Trading Scheme (EU ETS). These reduction targets are then passed onto companies through schemes such as the EU ETS: companies are either given or purchase a certain number of permits to pollute (FERN, 2010b). The scheme sets reduction targets for high-emitting industries such as energy utilities, and steel and cement manufacturing. This is a flexible system that allows companies to trade the permits between themselves: some companies find it easier to cut their emissions, meaning that they can sell their remaining permits to others who find it more expensive or less efficient to reduce their levels of pollution (FoE EWNI, 2009b; FERN, 2010b). A significant and growing proportion of carbon trading concerns purely financial transactions and speculation, and has nothing to do with complying with Kyoto Protocol targets.[19]

Further, very little carbon finance is even delivered to developing countries through carbon markets, unlike the profits reaped by corporations and the finance sector. Although global carbon markets have been valued at over $100 billion in the last few years, only 0.5% percent of the money in the EU ETS and CDM market has actually gone to offset projects in developing countries, with rest going to carbon traders, brokers, verifiers, project developers and so on (FoE EWNI, 2011).

Offsetting exists in all carbon trading schemes, and this loophole allows rich countries to continue polluting by funding projects that supposedly reduce equivalent emissions elsewhere, in particular in developing countries. They can also purchase credits from outside the sectors covered by the targets. This allows them to meet their commitments at a lower cost. Offsetting provides an incentive for companies to simply buy their way out of cutting pollution instead of making real cuts. It effectively provides a smokescreen for rich country government inaction on emission reduction (FoE, 2009).

As Lex de Jonge, former Chair of the CDM Executive Board, put it in December 2009, "[T]he CDM, at its best, is a zero sum game, because its credits are used to offset reduction obligations of Annex 1 [rich industrialised] countries." (Jonge, 2009)

The Clean Development Mechanism (CDM) operates under the Kyoto Protocol. It is the world's largest regulated offsetting mechanism and has 3,034[20] registered projects in developing countries (FoE EWNI, 2009). Its smaller accompanying offset mechanism, Joint Implementation (JI), covers projects in economies in transition (i.e. Russia, Central and Eastern Europe). These are mechanisms for rich industrialised countries to meet their emission reduction targets.

CDM and JI offsets are the only offset credits traded in the European Union Emissions Trading Scheme (EU ETS), which is the world's largest carbon-trading scheme, accounting for around three-quarters of the value of traded carbon in 2008.[21] (For a summary of other types of offsetting see FoE EWNI (2009:12).)

**19** "The market, which used to be dominated by banks and utilities, witnessed a growing presence of funds, energy-trading firms, and increasingly sophisticated utilities and industrials that used the options market for hedging (both volumes and prices) and profit-making transactions. The bulk of activity now comes from volatility and other relative value trades rather than asset-backed trades (i.e., financial and technical trades now account for a greater portion of market activity than do trades for compliance purposes)." (World Bank, 2010:16)

**20** http://cdmpipeline.org/overview.htm

**21** However, countries in the EU do set national limits on the degree to which polluters can meet their reductions commitments externally. http://www.co2offsetresearch.org/policy/EUETS.html

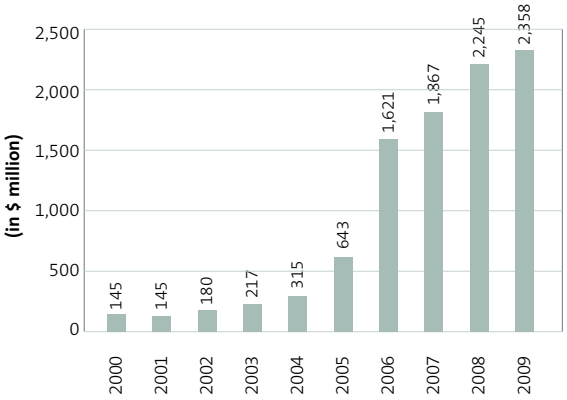
### 2.1 hosting carbon funds and facilities

Carbon finance constitutes a core element of the World Bank's overall global lending program (Carr & Rosembuj, 2007; World Bank, 2010b). Its Carbon Finance Unit (CFU) manages 12 Carbon Funds and Facilities,[22] totalling more than US$2.5 billion, which primarily serve the needs of rich industrialised countries aiming to meet their emission reduction targets under the Kyoto Protocol's first commitment period (2008-2012) through the use of offsets.

Through these funds and facilities the Bank, supported by donor countries, is aggressively promoting its vision of a post-2012 global carbon market[23] at a time when there is great uncertainty surrounding the Kyoto Protocol (World Bank, 2010b, 2011b; Carr & Rosembuj, 2007). This includes providing multi-million dollar funding for so-called emerging economies to develop their own carbon trading schemes (World Bank, 2010c).

Since the Kyoto Protocol entered into force in 2005, carbon markets – spearheaded by the World Bank's carbon funds – have experienced huge growth. By 2020 the carbon market could be worth up to US$2-3 trillion per year (Lazarowicz, 2009). This growth has taken place despite the fact that carbon markets have failed to reduce emissions, are inefficient, volatile and susceptible to fraud (FoE, 2009b; Reyes, 2010). Indeed, factors such as these are fuelling the rate of growth because of an increased volume of speculative trading, and take up by those intent on engaging in value-added tax (VAT) fraud in the EU Emissions Trading Scheme, as well as the sale of surplus pollution permits cashed in by EU companies during the economic recession (Reyes, 2010). Of the US$144 billion carbon market, only US$3,370 million goes to project developers (and only a fraction of that will go to communities who host projects) (FERN, 2010).

**FIGURE 2** GROWTH OF CARBON FUNDS AND FACILITIES AT THE WORLD BANK




***Source:*** *World Bank (2009).*[24]

**TABLE 1** THE WORLD BANK'S CARBON FUNDS AND FACILITIES

| GLOBAL | COUNTRY/ REGION SPECIFIC |
|---|---|
| Prototype Carbon Fund: pioneering Kyoto Protocol mechanisms since 2000. Fund capital US$219.8m | Netherlands Clean Development Mechanism Facility |
| Community Development Carbon Fund: focused on small projects aimed at poor communities. Fund capital US$128.6m | Netherlands European Carbon Facility |
| BioCarbon Fund: focused on land-use, land-use change and forestry projects. Fund capital US$53.8m | Spanish Carbon Fund |
| Umbrella Carbon Facility – Tranche 1: focused on two China HFC 23 Projects. Fund capital US$799.1m | Italian Carbon Fund |
| Forest Carbon Partnership Facility (FCPF): focused on reduced emissions from deforestation and degradation (REDD), post-2012. Fund capital US$168.5m | Danish Carbon Fund |
| Carbon Partnership Facility, focused on long-term investment programs and technologies for transition to a low-carbon economy, post-2012. | Carbon Fund for Europe (jointly managed by the World Bank and the European Investment Bank) |

***Source:*** *World Bank.*[25]

The Bank operates as a trustee of funds from both public and private sources, as well as providing technical expertise for offset projects. Yet the Bank's accounts are highly lacking in transparency with regard to carbon offset credits, at least a third of which lie beyond public scrutiny in practice (Redman, 2008).[26]

22 Information about all the World Bank's funds and facilities can be found here: http://wbcarbonfinance.org/Router.cfm?Page=Funds&ItemID=24670

23 However, with carbon trading schemes being shelved in the US, Japan and Australia, uncertainty surrounding so-called emerging economies that are developing carbon trading mechanisms, and with disagreements characterising the UN climate negotiations in general, the prospects for a global carbon market post-2012 remain unclear.

24 World Bank (2011), Carbon Funds & Facilities at the World Bank, http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCARBONFINANCE/0,contentMDK:21842339~menuPK:5213558~pagePK:64168445~piPK:64168309~theSitePK:4125853,00.html

25 http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/Carbon_Fund_12-1-09_web.pdf
http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/10_Years_of_Experience_in_CF_August_2010.pdf

26 "While Bank staff claim that all projects 'should be (potentially) eligible under the CDM,' only a third of the Bank's carbon finance projects have been registered with the UN, with publicly available monitoring reports. Another third are under deliberation for acceptance under the CDM. The remainder are not in the CDM database at all. This means one-third – and up to two-thirds – of carbon finance administered by the World Bank lies totally beyond public scrutiny." (Redman, 2008)

# two the world bank and carbon markets

continued

### 2.2 clean development mechanism and prototype carbon fund

The Kyoto Protocol's Clean Development Mechanism (CDM) is the world's largest offset mechanism, accounting for more than four in every five tonnes of carbon offsets traded (FoE EWNI, 2009). While the UN governs the Kyoto Protocol mechanism, it has relied on the World Bank to provide financial sponsorship and technical support on, for example, the preparation of emission reduction submissions.

In 2000, the World Bank's first carbon fund, the Prototype Carbon Fund (PCF), became operational and played a pioneering role in the development of a global carbon market, well before the Kyoto Protocol came into operation in 2005. The PCF has held funds from private and public entities, including governments, to facilitate carbon offset projects and pilot carbon finance transactions (Carr & Rosembuj, 2007). This 'learning-by-doing approach' has been aimed at catalysing the engagement of countries and economic sectors in the carbon market (World Bank, 2011c).

The Bank claims that carbon markets tackle climate change, help poor developing countries to access financial resources and promote sustainable development. However, CDM projects have failed to reduce emissions and have had well-documented negative social and environment impacts on local communities. The beneficiaries have been rich countries who have counted offsets towards their emission reduction targets, and the developers of destructive dams, and chemical and fossil fuel corporations (International Rivers, 2008; Gilbertson & Reyes, 2009; Wara &Victor, 2008; FoE EWNI, 2009).


*Huts in front of coal power stations in South Africa.*

#### box 4: plantar: repressing communities, destroying the environment

One of the first beneficiaries of World Bank's Prototype Carbon Fund (PCF) was Plantar SA, a pig-iron and plantation company whose CDM project is based in the state of Minas Gerais, Brazil. In 2004 the value of the CDM offset credits generated by this project was estimated to be approximately US$25 million (Gilbertson & Reyes, 2009).

The project involves the planting of non-native eucalyptus trees, which are cultivated in industrial-scale plantations to make charcoal for the company's pig iron smelting operations. This has led to the extensive destruction of *cerrado*[27] and pastures.

The original project was rejected by the CDM Executive Board as it had presented its plantations as forests, and CDM rules do not currently allow offsets for avoided deforestation. Plantar SA reapplied using a new justification: that the project would generate carbon offsets by ensuring that the pig iron operations were fuelled with eucalyptus charcoal rather than more carbon-intensive fuels such as coal.

The World Bank supported Plantar's application for carbon finance largely based on the case that in the absence of CDM offset credits, the company would switch to coal. However, local groups have challenged this claim as being spurious because Plantar have managed these damaging eucalyptus plantations for decades, well before they had any prospect of claiming offset credits (Lohmann, 2006).

The project was subsequently reframed and resubmitted to the CDM in component parts which included the reduction of methane in the tree-burning process (accepted in 2007), a revised reforestation project and a further project linked to the reforestation project, which claims to introduce a new iron ore reduction system in pig-iron processing[28] (Gilbertson & Reyes, 2009).

The World Bank and Plantar have lauded this project by claiming that local people have benefitted from tree planting, employment and educational opportunities. Yet in reality this bio-energy project has displaced communities, destroyed livelihoods, repressed workers, and polluted agricultural land and water supplies (Lohmann, 2006; Gilbertson & Reyes, 2009). This project continues to face stark opposition (Gilbertson, 2010).

**27** The *cerrado* is a vast, biologically rich, tropical savanna in Brazil.

**28** In 2007, Plantar first gained access to the CDM for its methane reduction project. In July 2009, the methodology for the 'Use of Charcoal from Planted Renewable Biomass in the Iron Ore Reduction Process through the Establishment of a New Iron Ore Reduction System' was accepted by the UN Methodology Panel.

**box 5: gas-destroying cdm offset scam**

In 2006 the World Bank's Umbrella Carbon Facility invested in two of the largest HFC-23 incineration projects in China, and was contracted to pay offset credits (known as Certified Emission Reductions or CERs) worth €1.76 billion (EIA, 2010).

HFC-23, a powerful greenhouse gas, is a byproduct of manufacturing HFC-22 which is used in refrigeration. However, HFC-23 can be destroyed relatively easily and cheaply. This means that it offers an opportunity to earn huge amounts of offset credits, especially because HFC-23's 'global warming potential' (GWP) is 11,700 times higher than that of $CO_2$ (EIA, 2008). It is therefore a favoured method of earning CERs under the CDM.

In August 2010, the Environmental Investigation Agency (EIA) exposed the fact that these projects have been earning as much or more for destroying HFC-23 than they do for producing HFC-22 (EIA, 2010).

The carbon offsets for HFC-23 destruction accounted for 51% of the almost 430 million CDM offset credits issued by August 2010, even though technology is readily available and affordable to destroy this gas (EIA, 2010 & 2010b; Wara, 2007).

This loophole has been criticised for years, yet remains in place, partly because of pressure from the World Bank as well as India and China, where most of the HFC-22 factories are located, and partly because purchasing countries want to maintain a supply of relatively cheap CERs.[29] These offset credits have been used extensively in carbon markets by the EU, Japan and other countries that have ratified the Kyoto Protocol (CDM Watch & EIA, 2010).

In an attempt to protect its investments in the face of evidence of these projects' lack of environmental integrity, the World Bank started a campaign that defended the inclusion of HFC-23 in the CDM (CDM Watch & EIA, 2010). Nonetheless, the non-additionality of such projects forced the CDM Executive Board (EB) to put the methodology for these types of projects on hold. In January 2011 the EU announced a complete ban of both HFC-23 and N2O adipic acid credits in the EU ETS from May 2013 (FoE US *et al*, 2011). However, EU member states, which are also purchasers of industrial gas credits, have yet to announce a similar ban in the so-called "effort sharing" (or non-traded) sectors, which represent around half of the EU's total GHG emissions.[30]

### 2.3 community development carbon fund

The Community Development Carbon Fund (CDCF) was launched in 2003 and is a relatively small carbon fund, worth US$98 million, aimed at small-scale projects (World Bank, 2009).[31] The CDCF is intended to promote community development projects that reduce emissions (although this is also supposed to be the purpose of previously launched carbon funds, so it is not clear why an additional fund is necessary). The CDCF draws communities and small businesses into the complex and risky world of carbon markets, even though it is openly acknowledged that this is so complex that they will require assistance from external consultants (IIED, 2009).

### 2.4 biocarbon fund

In 2004 the launch of the BioCarbon Fund signalled the Bank's move into forestry and agriculture projects. The BioCarbon Fund aims to purchase carbon offsets from a variety of land use and forestry projects including Reducing Emissions from Deforestation and Degradation (REDD) projects. It is also "exploring innovative approaches to agricultural carbon" (World Bank, 2011). This fund is pioneering methodologies related to land use change both within UN carbon offset mechanisms and outside of it in the voluntary, self-regulated carbon markets.

The BioCarbon Fund's Ibi Bakete CDM project intends to convert "natural grassy savanna" to fast-growing forest plantations, mostly eucalyptus and acacia (Reyes, 2011b). On-the-ground research has exposed the fact that these plantations have excluded Indigenous communities from their territories (International Alliance, 2006).

### 2.5 forest carbon partnership facility

The World Bank's Forest Carbon Partnership Facility (FCPF) was unveiled at the UN climate talks in Bali, December 2007, to a chorus of protest from environmentalists, peasant farmers and Indigenous Peoples' Organisations, because of the Bank's track record in social and environmental abuses worldwide, its marginalisation of communities from consultative processes, and the new threats it poses through forest carbon trading. The World Bank stated that, "The facility's ultimate goal is to jump-start a forest carbon market." (World Bank, 2007)

Despite the fact that the REDD negotiations were at an embryonic stage at the time (and are still undecided now, especially with respect to the controversial question of long-term financing for REDD), the FCPF has been pre-empting the outcome of negotiations in the UNFCCC, assuming that it will be based on funding from carbon markets rather than public sources.

**29** http://www.rsc.org/chemistryworld/Issues/2007/April/CleaningUpCarbonMarket.asp
**30** For more information see CDM Watch HFC-23 and N20 Project", available at http://www.cdm-watch.org/?page_id=451).
**31** http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/11804Final_LR.pdf

# two the world bank and carbon markets

continued

**box 6: what is redd?**

Reducing Emissions from Deforestation and Degradation (REDD) was formally proposed by pro-carbon market tropical rainforest countries Papua New Guinea and Costa Rica at the UN climate talks in Montreal in 2005 (see FoEI 2008 for further information).

A global REDD financing mechanism is yet to be agreed. However, many governments are supporting proposals for funding through forest carbon trading. This could lead to the effective privatisation of swaths of developing country forests, in order to deliver carbon offsets for rich industrialised countries' emission reduction targets.

There is also a major risk that REDD will reward those engaging in deforestation activities, such as dirty energy and logging companies, at the expense of those who are not involved in such activities and have already made efforts to care for their environment. Worse still, there is already evidence that companies are continuing their damaging activities elsewhere, using their engagement in REDD to greenwash their corporate image (FoEI, 2010).

There is also a major risk that REDD will be used to finance monoculture tree plantations. Yet plantations are not the same as forests: they store less than 20% of the amount of carbon and only a fraction of the biodiversity of old growth forests (Palin *et al*, 1999, for CGIAR). The inclusion of plantations therefore raises the alarming prospect that REDD funds could be used for projects that increase emissions: old growth forests could be cut down and sold for profit, and then replaced with plantations funded through REDD. REDD-financed plantations might also be planted on fertile agricultural land, with serious repercussions for food availability.

REDD projects are already being established across the global South in preparation for a UN Framework Convention on Climate Change (UNFCCC) agreement on REDD. They are also springing up outside UN processes, through bilateral agreements between countries, voluntary carbon markets, sub-national carbon trading schemes and interim agreements (see FoEI 2010 for more information).

The World Bank's Forest Carbon Partnership Facility (FCPF) is designed to support countries' preparations for REDD, including through the development of pilot REDD projects (see FCPF section). The Bank also has a parallel and complementary fund, the Forest Investment Program (FIP),[32] which has pledged funds of US$560 million as part of its Climate Investment Funds (FoEI, 2010).

In December 2010, the World Bank's Special Envoy for Climate Change, Andrew Steer, wrote that one of the outcomes of Cancun was that "Forests [are] firmly established as a key for addressing climate change, and to be included in a future carbon trading system." (Steer, 2010).

The FCPF consists of a Readiness Fund, which finances the preparation of developing country strategies and systems for REDD, and a Carbon Fund that is a public-private partnership, due to become operational in 2011. Total funding available or pledged under the FCPF for the Readiness Fund is US$205.7 million, while US$146.8 million has been committed or pledged to the Carbon Fund (FERN, 2011). Thirty-seven countries have submitted and been accepted to the FCPF, but, as shown in this report, the FCPF processes have been marred by controversy, and only a tiny amount of funding has actually been dispersed by the Bank so far.[33]

### 2.6 carbon partnership facility

The Carbon Partnership Facility (CPF) was launched at the climate talks in Copenhagen in December 2009. It aims to go beyond projects, by targeting entire sectors such as the power sector, gas flaring, energy efficiency, waste management and urban development.

As with the FCPF, this fund is focused post-2012 and on long-term approaches towards carbon offsetting.

Contributions have been pledged to the Carbon Fund including by The Nature Conservancy and European governments, even though a decision on long-term finance for REDD that would include carbon offsets has not yet been taken in UNFCCC negotiations.

### 2.7 umbrella carbon facility

The Umbrella Carbon Facility (UCF) has far more capital than the other global carbon funds and facilities, with a total of US$799m. The first tranche of the UCF is comprised of two HFC-23 (trifluoromethane) destruction transactions in the Jiangsu Province of China.

HFC-23, a by-product of the manufacturing process of HCFC-22 (which is used as a refrigerant in several different applications), has an estimated global warming potential (GWP) 11,700 times higher than carbon dioxide. As shown in this report, the destruction of HFC gases as part of the CDM has been heavily criticised by civil society organisations and academics, because it has generated huge profits for chemical corporations that have devised means of generating this gas and then destroying it, in order to reap the reward of carbon offset credits. Overwhelming

**32** FIP has received funds from Australia, Denmark, Japan, Norway, the UK and the US and focuses on the implementation of REDD in eight countries: Brazil, Burkina Faso, Democratic Republic of Congo, Ghana, Indonesia, Lao People's Democratic Republic, Mexico and Peru (REDD+ Synthesis Report, 2010).

**33** http://www.climatefundsupdate.org/listing/forest-carbon-partnership-facility

evidence exists that manufacturers have been gaming the CDM system by producing more potent GHGs just so they can get paid to destroy them (CDM Watch, 2010). Analysis of monitoring data from all registered HFC-23 destruction projects revealed that CDM HCFC-22 plants are intentionally operated in a manner to maximise the production of offset credits. Due to the extra CDM revenue, more HCFC-22 is produced and far more HFC-23 generated than would occur without the CDM. Since HFC-23 destruction is relatively cheap, the profits made from these carbon credits are enormous (CDM Watch, 2010).

In January 2011, a second tranche of funding from the UCF was announced, which will support carbon offsetting after 2012. However, since the outcome of UN climate negotiations is unknown and there are major uncertainties that a global agreement can be reached on a second commitment period of the Kyoto Protocol starting in 2013, the operation of carbon markets could be affected.

### 2.8 new 'partnership for market readiness'

In addition to these carbon funds the Bank's new Partnership for Market Readiness (PMR) was announced at the UN climate summit in Cancun, in December 2010. The World Bank is offering to provide secretariat and technical support to donor and middle-income countries, with a view to providing carbon offsets through new mechanisms, such as a reformed CDM, sectoral crediting or "new instruments not yet envisioned" (Chassard, 2010).

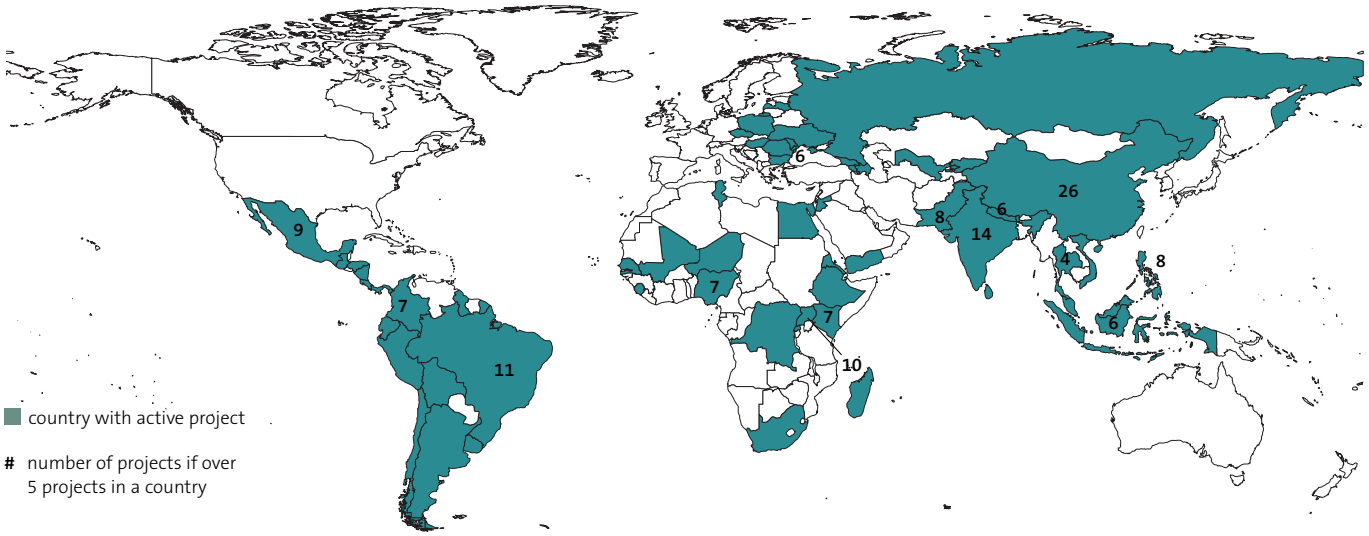
Sectoral crediting would be much more extensive in its scope than the CDM's current project-by-project approach: it would involve the generation of carbon offsets from entire parts of the economy such as power, steel, cement, and pulp and paper (FoE, 2009b). This approach has been marred by controversy in the UN climate talks, with developing countries expressing concern about impacts on competitiveness and that they might find themselves forced into accepting binding emission reduction commitments on a sector-by-sector basis (Ecofys, 2010).

By promoting more carbon offset mechanisms, the Bank is yet again pre-empting the outcome of international climate negotiations in favour of carbon markets and expanding a mechanism that is fundamentally flawed in its approach to both climate change mitigation and promotion of sustainable development (Reyes, 2011).

### 2.9 country specific carbon funds

The Bank's country specific carbon funds, which are worth US$5.2 billion, come from rich industrialised countries and are primarily used to secure carbon offset credits, enabling these countries to meet their legal commitments to reduce emissions under the Kyoto Protocol (IEG, 2010; Bretton Woods Project, 2011).

FIGURE 3 **WORLD BANK'S CARBON FINANCE PORTFOLIO BY COUNTRY (211 PROJECTS TOTAL)**




***Source:*** *World Bank (2010b).*

# two the world bank and carbon markets

continued

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# three forest carbon offset case studies

## forest carbon offset case studies

### 3.1 forest carbon partnership facility – market-based redd without rights

Since its launch in December 2007, the World Bank's Forest Carbon Partnership Facility (FCPF) – a new mechanism designed to pave the way for the inclusion of forests in a global carbon market – has promoted public and private investment in Reducing Emissions from Deforestation and Degradation (REDD).[34] The Bank has initiated national REDD Readiness Preparation Proposals (R-PPs)[35] with 37 tropical forest countries[36] (although only 15 of these had been submitted as of February 2011). However, this process to facilitate developing countries' entry into forest carbon trading schemes has been heavily criticised for failing to take measures to protect community rights and even to reduce deforestation (FERN & FPP, 2011).

An analysis of a range of R-PPs uncovered the fact that they neglect national legal frameworks with regard to customary rights, the right to Free and Prior Informed Consent (FPIC), and land titling (FERN & FPP, 2011). They may pay lip service to forest peoples' rights and benefit sharing but they do not address land conflicts; they prioritise state ownership and carbon monitoring over livelihoods, biodiversity and cultural values. They also tend to be reliant on analysis that unjustifiably blames local communities for forest loss and damage. National consultations with Indigenous Peoples and other forest dependent communities on these R-PPs have been "either non-existent or inadequate" (FERN & FPP, 2011).

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*Climate justice protest at the UN climate talks Bangkok, October 2009.*

### 3.2 marginalising indigenous peoples in peru

In May 2010, AIDESEP, the largest Indigenous Peoples' organisation in Peru, denounced the entire World Bank planning process for REDD in Peru, which has been characterised by a lack of any genuine participation for Indigenous Peoples, and insufficient recognition of Indigenous Peoples' and community rights including the right to Free, Prior and Informed Consent (FPIC) (AIDESEP, 2010; AIDESEP, 2010b; FERN & FPP 2011).

Peru's second draft R-PP, submitted in September 2010,[37] failed to address or respect FPIC and has been condemned by Indigenous Peoples' Organisations and NGOs for its continued lack of participatory planning and consultation, flawed analysis of land tenure in forest areas, and failure to address land conflicts and claims (FERN & FPP, 2011; REDD Monitor, 2010; AIDESEP, 2010d).

In October 2010, AIDESEP reiterated its opposition to the World Bank and Peruvian government-led process, and demanded an "indigenous REDD outside of carbon market negotiations" (AIDESEP, 2010c). This alternative approach to forestry policies would include the absolute rejection of carbon markets and monoculture tree plantations, and the enforcement of community rights.

However, even though these major concerns have in no way been remedied, REDD projects and programs are underway in Peru. REDD is being used to justify and mitigate the effects of mass infrastructural developments, such as the Southern Inter-Oceanic Highway, which are set to have severe negative impacts on local communities and forests and biodiversity in the Amazon. The government's approach to dealing with the destruction caused by large infrastructure projects could result in flawed, exclusionary forest protection practices based on carbon offsets that threaten Indigenous Peoples and their territories.

**34** The term 'REDD' is also used to refer to Reducing Emissions from Deforestation and Degradation, including within Decision 2/CP.13 (UNFCCC, 2007). The Decision itself, however, is entitled Reducing Emissions from Deforestation in Developing countries.

**35** In the UN climate talks in Cancun in December 2010, there was confirmation that REDD would consist of three phased approaches (although countries can use their discretion in terms of sequencing and pace): readiness planning, REDD implementation and pilot initiatives, and finally 'rules-based actions'. For more detailed information on R-PPs and the FCPF process see Fern & FPP (2011).

**36** **Latin America:** Argentina, Bolivia, Colombia, Costa Rica, Chile, Guyana, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, El Salvador, Honduras, Suriname.
**Africa:** Central African Republic, Ghana, Gabon, Liberia, Kenya, Madagascar, Cameroon, Democratic Republic of Congo (DRC), Republic of Congo (RoC), Ethiopia, Equatorial Guinea, Mozambique, Tanzania, Uganda.
**Asia and Pacific:** Cambodia, Lao PDR, Nepal, Papua New Guinea, Vanuatu, Vietnam, Indonesia, Thailand.

**37** Peru Draft Report R-PP which can be found at http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Sep2010/Segunda_Borrador_RPP_16_sep_10.pdf

**38** See Cabello (2010) and http://www.bicusa.org/en/Project.10312.aspx for more information about the impact of large infrastructure projects in Peru, including the Southern Inter-Oceanic South Highway.

# three forest carbon offset case studies

continued

### 3.3 world bank plans halted in paraguay

In Paraguay in August 2008, President Fernando Lugo, a bishop from a deprived diocese, was sworn in. This brought to an end the 60-year dictatorship of General Alfredo Stroessner's Colorado party, which had amassed power and wealth in the hands of a few. Now there is a much more promising future, particularly for the country's indigenous population, as the new government takes into account the grievances of civil society, social movements and local communities. In this context, Paraguay's application to the World Bank's FCPF is on hold (FoEI, 2010).

The former government supported market mechanisms for environmental issues that, in combination with state-backed land grabbing, displaced and impoverished Indigenous Peoples and peasant farmers. A Payment for Environmental Services (PES) scheme, which created a market for environmental services as a means of compensating landowners for protecting their lands, was introduced without adequate consultation of local communities and social movements. The offsets generated by these projects could be sold to businesses obliged to compensate for their negative environmental impacts elsewhere in the country, meaning that even those illegally clearing forests could buy their way out of trouble (GFC & Altervida, 2008).

Paraguay's approach towards PES thus laid the ground for REDD, and the former government began discussions with the FCPF (and later the UN-REDD program). Yet again, Indigenous Peoples and local communities were not consulted by the conservative government, which chose to collaborate and consult with a small group of large, partly foreign conservation organisations instead, as they drafted 'readiness' documents to submit to the World Bank in July 2008.

International Indigenous Peoples observers and Friends of the Earth Paraguay alerted the main Indigenous Peoples' coalition, CAPI, who subsequently wrote to the World Bank in protest at this exclusion. This resulted in the FCPF application being suspended.

### 3.4 ignoring dissent in costa rica

As in Paraguay, Costa Rica's Payment for Environmental Services (PES) scheme has formed the basis for its engagement in REDD and the FCPF. The PES has been falsely lauded by the private sector as a success. In fact 90% of the funding for the PES came from a fuel tax, not the sale of environmental services or other market-based schemes. The reduction in deforestation was not due to the PES but to large cattle ranches being abandoned, as the value of beef fell on the international market, and a new Forest Act, which was implemented in 1996 and banned land use change in forested areas.

The REDD consultation related to the FCPF in Costa Rica has been skewed towards those who support a REDD mechanism funded by the carbon market. While there was some initial recognition of concerns in government documents, Friends of the Earth Costa Rica's rejection of carbon market mechanisms and proposals for alternative approaches, have been ignored. In the wake of the Cochabamba World People's Summit on Climate Change, certain Indigenous Peoples organisations in Costa Rica have also registered their opposition to their territories being included in the carbon market. So far, however, the government is continuing with the FCPF, sidelining critical voices (Source: FoE Costa Rica).

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# four world bank and un climate talks

## world bank and un climate talks

### 4.1 cancun outcome

The World Bank is attempting to expand its remit on climate finance within the United Nations Framework Convention on Climate Change (UNFCCC) negotiations. The outcome of UNFCCC climate talks in December 2010 in Cancun[39] saw the language of the undemocratic Copenhagen Accord[40] reiterated. This included a commitment to "mobilizing jointly" US$100 billion, from both public and private sources (which could include carbon markets). But $100 billion is an arbitrary, political figure that is based neither on need nor on equity. Magnitudes more have been spent to bail out Wall Street and to pay for wars.

Furthermore, this commitment is contingent upon emissions reduction and transparency on the part of developing countries and it is unclear if it would be in the form of grants or loans (Khor, 2010). The latter would unfairly shifts the burden of responsibility onto poorer countries even though it is already formally agreed under the UNFCCC that industrialised countries are responsible for climate change and for bearing the bulk of the cost of actions to mitigate and adapt to it (Raman, 2010).[41]

### 4.2 green climate fund

The UN climate talks in Cancun led to the creation of the Green Climate Fund, with the World Bank named as the initial trustee of the fund despite environmentalists, social movements, NGOs, peasant farmers, Indigenous Peoples' Organisations, and many developing countries objecting to the World Bank having a role in climate finance. Martin Khor, Director of the South Centre, described the involvement the Bank as "a key demand of the United States, which many developing countries had been opposing, as they wanted competitive bidding rather than appointing the Bank upfront". This came against a backdrop of unfair, exclusionary 'WTO-type methods'[42] employed to reach the final outcome of the talks (Khor, 2010).

The Green Climate Fund is accountable to and under the guidance of the Conference of Parties (COP), and will be served by an independent secretariat. However, what is meant by "independent" is unclear, and civil society organisations are demanding that it is independent of existing international financial institutions such as the World Bank.

A Transitional Committee has been established, and this is where key issues will be fought over such as direct access for developing countries, and the application of social and environmental safeguards. This Committee is composed of 25 members from developing countries and 15 from developed countries, but the board of the fund itself will only have equal numbers of developed and developing country parties. Many of the details of this committee are still to be worked out.

Beyond its role as interim trustee, the World Bank appears to be taking the lead of technical support for the Transitional Committee in the design of the fund. Friends of the Earth International and over 90 other environmental, human rights and anti-debt organisations have demanded that the UNFCCC ensures that the Committee remains entirely independent of the World Bank (IPS, 2011). Tensions are already arising. During a meeting in 28-29 April 2011 in Mexico City, developing countries on the Transitional Committee raised concerns that there could be a conflict of interest if World Bank personnel are seconded to the Technical Support Unit to help in the design of the Fund (TWN, 2011).

The Green Climate Fund was created because existing climate funds, such as the World Bank's Climate Investment Funds (CIFs), have failed to meet the needs of communities in developing countries to help address the climate crisis (see box on CIFs).

The integrity and potential of a truly just and effective climate fund has already been compromised by the Cancun decisions to involve the World Bank as interim trustee and to invite the multilateral development banks to second staff to support the work of the Transitional Committee.

Civil society organisations and social movements strongly oppose such decisions and involvement based on past experience of the devastating social and environmental impacts of these institutions' activities and policies, and their ongoing role in financing climate destruction.[43]

**39** For more detail read the full Cancun Agreements: http://unfccc.int/meetings/cop_16/items/5571.php

**40** Links to the Copenhagen Accord in multiple languages can be found here: http://unfccc.int/documentation/documents/advanced_search/items/3594.php?rec=j&priref=600005735#beg
The Copenhagen Accord was negotiated behind closed doors with a hand-picked selection of countries in the climate talks in Copenhagen in December 2009. It is in line with a disastrous 3.9 degree temperature rise, due to low rich country pledges. See http://www.twnside.org.sg/title2/resurgence/2010/234/eco3.htm

**41** For more detail read the Climate Change Convention, signed in 1992: http://unfccc.int/resource/docs/convkp/conveng.pdf (See Article 4(3) in particular)

**42** The WTO is infamous for its untransparent and exclusionary negotiating tactics. You can find an account of these in Kwa (2003): https://www.publiccitizen.org/documents/powerpoliticsKWA.pdf

**43** For more information on civil society demands regarding the Transitional Committee, go to: http://www.ips-dc.org/articles/global_civil_society_wary_of_world_bank_role_in_new_funds

# four world bank and un climate talks

continued

### 4.3 world bank & redd

Alongside the Green Climate Fund, the World Bank is positioning itself to secure a key role in any outcome on REDD, which is currently being negotiated at the UNFCCC. The negotiating text from Cancun also paves the way for the possible inclusion of REDD in carbon markets, and for climate finance to flow through multilateral and bilateral channels, including the World Bank. The World Bank's Forest Carbon Partnership Facility (FCPF) is already designing forest carbon trading systems that are clearly "based on the assumption that carbon offsets will eventually deliver funding for REDD" on a global scale (FERN, 2011). 2011 is thus a crucial year in terms of ensuring that policy development shifts in the opposite direction, in order to keep forests out of carbon markets and the World Bank out of climate change negotiations.

### 4.4 world vs bank

As seen throughout this report, the World Bank – with its troubling record on the environment, human rights, climate impacts, and development – needs to be exposed and held to account for its role as a major climate polluter with an appalling sustainable development track record.

The harmful solutions that are promoted by the World Bank, including carbon market-based mechanisms such as REDD, industrial monoculture tree plantations, agrofuels, so-called "cleaner" fossil fuels and large dams aim to increase the profits of investors by further privatising and commodifying nature.

Climate finance should not be subject to the whims of markets and investors. Rich industrialised countries that have accrued a climate debt to the global South should ensure that appropriate and sufficient funding comes from public sources in the form of grants, not loans.

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*Coal train at coal depot in South Africa.*

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*The Katse Dam, part of the Lesotho Highlands Water project partly financed by the World Bank.*

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*Marlin gold mine in San Marcos Guatemala. The mine is located in a remote poverty-stricken area on lands which have been traditionally occupied by Mayans. The mine was partly funded by a loan from the International Finance Corporation.*

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