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Research and policy brief

Tenth Session of the Conference of Parties, Climate Change Convention  
Buenos Aires, Argentina, December 2004

A large, dark moon is visible in the upper right portion of a blue sky filled with soft, white clouds. The overall scene is a clear, bright day.

# **A WRONG TURN FROM RIO**

**THE WORLD BANK'S  
ROAD TO CLIMATE  
CATASTROPHE**

by Jim Vallette, Daphne Wysham, and Nadia Martínez

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Since the mid-1990s, SEEN has produced numerous briefs and studies about the intersections between public finance, global fossil fuel proliferation, and climate change, including:

[The Energy Tug-of-War: Winners and Losers in World Bank Fossil Fuel Finance](#) (Vallette and Steve Kretzmann, April 2004)

[Pillars of Power: How the Free Trade Agenda Promotes Dirty Energy](#) (Martínez, November 2003)

[Climate Change Policy Coherence in Global Trade and Financial Flows](#) (Wysham, March 2003)

[Destabilizing Investment in the Americas: Public Funding for Fossil Fuels After Rio](#) (Martínez and Vallette, August 2002)

[Enron's Pawns: How Public Institutions Bankrolled Enron's Globalization Game](#) (Vallette and Wysham, March 2002)

["Banking on Climate Change: How Public Finance for Fossil Fuel Projects Is Short Changing Clean Development"](#) (Kate Hampton, November 2000)

["The World Bank and the G-7: Still Changing the Earth's Climate for Business 1997-98"](#) (Wysham and Vallette, December 1998)

["The World Bank and the G-7: Changing the Earth's Climate for Business"](#) (Wysham and Vallette, June 1997)

These publications are available on our web page. This site also includes statistical companions to this report, along with a database of World Bank, regional development bank, and export credit agency projects.

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“If there was one resounding theme that emerged from the 12 days of frantic negotiations and ringing rhetoric, it was the profound importance of ‘the road from Rio’ — the future actions, by both governments and ordinary citizens, that will determine in years to come whether the commitments made here are fulfilled.”

—Elliot Diringer, “‘The Road From Rio’ Looks More Promising,”  
*San Francisco Chronicle*, June 15, 1992

The failure of the United States and others to take international leadership in correcting this trend [of a growing atmospheric greenhouse gas burden] is inexcusable, but this failure in no way justifies the action of the World Bank in leading the world into even greater reliance on fossil fuels.

If the bank requires justification in international action, it has it in the Framework Convention on Climate Change, a treaty that has been ratified by all the nations, including the United States, and provides for “stabilizing” the heat trapping gas content of the atmosphere at levels that will protect human interests and nature. It is time for the public to hold the World Bank and other international development agencies to a far higher set of environmental standards than has been set by most of the governments that delegates to the governing board represent.

Failure to do so assures the ultimate and final failure of the central mission of government at all levels, but most conspicuously in the international realm that the international development banks serve.

—George M. Woodwell and Kilaparti Ramakrishna, Woods Hole Research Center,  
letter to editor, *Boston Globe*, August 11, 2004.

“Aid channeled through the World Bank can shape development patterns. This includes not only the bank’s new Global Environmental Facility, but also its low-interest International Development Association and conventional project lending. Major contributors like the U.S. need to pressure the bank to make environmental impact a decisive lending test. The road from Rio will undoubtedly prove to be as contentious and frustrating as the conference. But now, after the Earth Summit, there’s a road.”

—“The Road from Rio,” *New York Times* editorial, June 15, 1992

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## About the cover

“From a vantage point about 360 km (225 miles) over the Earth, Space Station crewmembers photographed the crescent moon through the upper layers of Earth’s atmosphere. At the bottom of the image, a closed deck of clouds is probably at about 6 km (3 miles). The shades of blue grading to black are caused by the scatter of light as it strikes gas molecules of the very low density upper atmosphere.

“Models predict that emissions of carbon dioxide are causing the upper atmosphere to cool and contract, and therefore reduce the density of gases in the layer spanning from 90 to 649 km (60 to 400 miles) above the surface—known as the thermosphere. According to a study by the Naval Research Laboratory, the density of the thermosphere has decreased about 10 percent over the last 35 years... Most importantly, the study validates models of the ‘greenhouse effect’ of increased carbon dioxide release on the dynamics of the atmosphere.”

—*Earth Sciences and Image Analysis, NASA-Johnson Space Center. 15 Nov. 2004. “Astronaut Photography of Earth—Display Record.”*  
<<http://eol.jsc.nasa.gov/scripts/sseop/photo.pl?mission=ISS008&roll=E&frame=8951>> (16 Nov. 2004)

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## KEY FACTS

Primary institution that emerged from 1992 Rio Earth Summit to catalyze sustainable energy in developing countries: The World Bank

Amount of World Bank Group financing for fossil fuel projects, including extraction, power plants, and sector reforms, since Rio: \$28 billion

Frequency of approval of World Bank fossil fuel projects since Rio: Once every 14 days

World carbon dioxide emissions from energy consumption, 2002: 24.5 billion tons

Lifetime carbon dioxide emissions (CO<sub>2</sub>) from World Bank fossil fuel projects financed since Rio: 43.4 billion tons

Percent of emissions associated with World Bank projects to export oil to the global marketplace: 49

Area of plantation forest required to sequester 43.4 billion tons of carbon dioxide in one year: 8.7 million square kilometers

Area of the country of Brazil: 8.5 million square kilometers

Percent of World Bank executive directors who are economists or bankers: 50

Percent who have development backgrounds: 8

Country that holds sole veto power over the World Bank: U.S.A.

Percentage of total World Bank oil projects for export to the North: 82

Percentage of global oil consumed in the United States, 2001: 25 percent

Projected percentage in 2025: 24 percent

Projected rise in U.S. oil imports, 2001 to 2025: 8.6 million barrels per day

World Bank executive director who said “relative economic weights in the world economy” [not population] should determine voting powers in the institution: U.S. Executive Director Carole Brookins

Number of countries represented by parliamentarians who are demanding their own veto powers over World Bank programs: Over 70

Percent commission that the World Bank proposed to charge for carbon trading in 1997: 5

Profit World Bank projected it would make from this commission by 2005: \$100 million

Percent of private financial institutions whose standards for investment are linked to the World Bank: Over 75

Ratio of World Bank fossil fuel to renewable energy and energy efficiency financing: 17 to 1

### ABOUT THE WORLD BANK GROUP

The World Bank Group is the planet's most powerful international financial institution, supported with U.S. taxpayer money. Within the Group are distinct agencies: the International Bank for Reconstruction and Development (IBRD), the International Development Agency (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). In the bureaucratic terminology of the Group, the

“World Bank” refers only to the IBRD and IDA. The “World Bank Group” includes all five of these institutions. In this report, we use both terms interchangeably. The Global Environmental Facility (GEF) is an independent agency in which the World Bank has a significant presence. The GEF Secretariat is housed at World Bank headquarters. World Bank Group agencies implement certain GEF projects, as do the United Nations Environment Programme and the United Nations Development Programme.

## INTRODUCTION

The 1992 Rio Earth Summit, progenitor of the Kyoto Protocol, placed much of the financial control over sustainable development aid within the confines of the World Bank.<sup>2</sup> Since then, the Sustainable Energy & Economy Network (SEEN) has been tracking how well the Bank has held up its end of the bargain. Among other problems, we have witnessed unprecedented levels of Bank financing for fossil fuel projects, especially those that export oil to Northern markets, and only threadbare support for renewable energy and energy efficiency projects.

Somewhere between Rio and Kyoto, the World Bank Group has made a wrong turn on the road to sustainable development.

Over the past decade, many have tried to convince the Bank to change from within, to redirect its energy portfolio from the status quo to one more in line with the goals of the Rio Earth Summit. Many voices—from the world's most disenfranchised peoples to Nobel laureates—have raised their voices, urging change.

These efforts converged around a number of exercises including, in 2004, the Extractive Industries Review. Remarkably, this exhaustive Bank-commissioned study, chaired by former Indonesian environment minister Emil Salim, called upon the Bank to divest its portfolio of the most egregious climate-changing projects, particularly oil and coal extraction.

The Bank's management and executive board disregarded the fundamental critique of the review—namely, that these extractive projects did nothing to forward the Bank's stated mission of alleviating global poverty. They feigned agreement on many of the review's other critiques, but the "action plan" they adopted in September 2004 represented more business as usual.

This inertia in response to external and even internal critiques is commonplace. It is enforced through the institu-

tion's anti-democratic power structure, over which the United States government wields an exclusive right to veto.

As we have documented in previous reports<sup>3</sup>, Northern corporations, particularly those based in the United States, are the primary direct beneficiaries of the fossil fuel projects that the Bank board has approved since Rio. They benefit either through direct loans or through the privatization process enforced by Bank loans. Halliburton and Enron, to name two such primary beneficiaries, enjoyed global expansion in the 1990s hand-in-glove with World Bank Group project financiers.

More significantly, the main beneficiaries of the Bank's extractive industry portfolio—particularly its oil investments—are industrialized countries. For decades, expanding access to worldwide oil and gas supplies has been a centerpiece of U.S. foreign policy. This quest intensifies each year: In 2002, the U.S. imported 53 percent of its oil; this is projected to rise to 70 percent by 2025. The World Bank is a critical lever for opening up new areas of oil and gas exploration for U.S. markets.

Although the 1992 Rio Earth Summit positioned the World Bank to be a conduit for the transfer of resources from the wealthy North to the poorer South, the lender instead flooded new fossil fuel fields and mines with public finance. Such

**...Halliburton and Enron enjoyed global expansion in the 1990s hand-in-glove with World Bank Group project financiers...**



projects actually transfer resources—both natural and financial—from South to North. (Ironically, many of the Bank-financed oil- and gas-extraction projects are export-oriented in order to repay in hard currency the debt developing countries owe the World Bank.)

From the 1992 Rio Earth Summit through late 2004, the World Bank Group has approved \$11 billion in finance for 128 fossil fuel extraction projects in 45 countries. Of these, 52 projects extract and export oil, coal, and gas for the global marketplace—mainly, the Northern (Annex B<sup>38</sup>) countries.

In the oil sector, over 82 percent of the World Bank's approved finance goes to projects that export to the North.

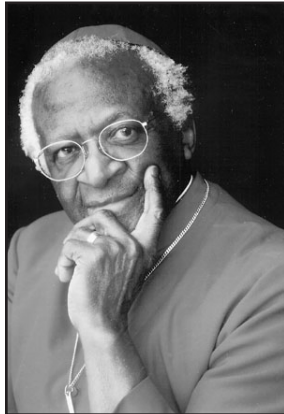
In fact, much of the carbon dioxide generated by World Bank projects will be released in the global North. Energy projects approved for financing by the Bank since Rio will lead to over 43 billion tons of carbon dioxide emissions, of which over half (23.8 billion) are export-oriented projects.<sup>4</sup>

While catalyzing new fossil fuel developments globally, the World Bank Group is also facilitating the trade in carbon under the Kyoto Protocol.

The irony of this dual role—carbon trader and fossil fuel financier—is apparently lost on the Bank. Their carbon trading website reads:

*“The World Bank’s carbon finance initiatives are part of the larger global effort to combat climate change, and go hand in hand with the Bank’s mission to reduce poverty and improve living standards in the developing world. The threat climate change poses to long-term development and the ability of the poor to escape from poverty is of particular concern to the World Bank.”*<sup>5</sup>

The Bank also lives in a state of denial regarding its clean energy financing, burnishing its image by touting lukewarm efforts to spark renewable energy and energy efficiency, using fuzzy math to exaggerate their scope, and low-balling its future commitments, as we detail later in this report. It further fogs its contributions to climate change through a dishonest methodology that allows it to deny the full climate impact of its investments.



War, poverty, climate change, greed, corruption, and ongoing violations of human rights—all of these scourges are all too often linked to the oil and mining industries. Your efforts to create a world without poverty need not exacerbate these problems. The [Extractive Industries] Review provides you an extraordinary opportunity to direct the resources of the World Bank Group in a way that is truly oriented towards a better future for all.

—Nobel Peace Prize Laureates Desmond Tutu (1984, pictured), Sir Joseph Rotblat (1995), Jody Williams (1997) and Betty Williams and Mairead Maguire (1976), letter to World Bank President James Wolfensohn, February 9, 2004.

**...Those who embrace the Bank as an impartial and honest carbon broker ought to be aware that this institution’s investments are driven in large part by the thirstiest oil-consuming nation in the world, the U.S....**

Those who embrace the Bank as an impartial and honest carbon broker ought to be aware that this institution’s investments are driven in large part by the thirstiest oil-consuming nation in the world, the U.S., and other oil-hungry nations. Until the Bank’s power structure is rewired, it will remain an institution beholden to the world’s most powerful polluters.

The Bank’s impact reaches far beyond the specific projects it finances. It sets a standard for all other fossil fuel financiers: regional development banks, export credit agencies, and private banks. So getting the World Bank to take meaningful action on climate change is not a mere academic exercise: It potentially affects over 75 percent of all private banks—those so-called Equator Principle<sup>39</sup> banks that base their standards upon those of the World Bank—and all of the public banks who also look to the World Bank for guidance on their investments and guidelines.

For over a dozen years now, the World Bank Group has had the opportunity to prove that it could fulfill the promise of Rio by leading the global energy sector into a more sustainable, renewable, and equitable future. Instead, it has become an enforcer of the status quo, on behalf of the world’s most powerful countries and corporations. Its energy programs have utterly failed to curb climate change and alleviate poverty.

Unchecked, the World Bank Group will continue changing the earth’s climate while amassing more wealth for itself via carbon trading schemes. Because of the insurmountable veto power the U.S. wields over the World Bank, the Bank must be challenged from without to return to its original mandate—poverty alleviation and sustainable development—or be viewed as an impediment to this mandate and be abolished. As Dr. Emil Salim, who led the Extractive Industries Review, said, “It is not the World Bank that must determine whether this is to be done. It is up to us.”<sup>6</sup>

## PROBLEMS AND SOLUTIONS

By solving the following problems, parties to the Kyoto Protocol can prevent the World Bank Group from exacerbating climate change:

### #1

**Problem:** The World Bank uses development finance to catalyze fossil fuel projects that mainly benefit corporations and markets in the global North.

**Key Facts:** From the 1992 Earth Summit through late 2004, the World Bank Group has approved \$11 billion in finance for 128 fossil fuel extraction projects in 45 countries. Of these, fifty-two projects extract and export oil, coal, and gas for the global marketplace—mainly, the industrialized (Annex B) countries of the North. In the oil sector, over 82 percent of the World Bank's approved finance goes to projects that export to the industrial North.

**Solution:** Prohibit UN-affiliated institutions, including the World Bank, from spending development finance on projects that export fossil fuels to Annex B countries. Such projects do not alleviate poverty. They do fuel rising carbon dioxide emissions in Annex B countries.

### #2

**Problem:** The World Bank claims that it is a global leader in acting against climate change, through its carbon trading projects and renewable energy portfolio. Those who embrace the Bank as an impartial and honest carbon broker ought to be aware that the thirstiest oil-consuming nation in the world, the U.S., is the most powerful shareholder on the Bank's board.

**Key Facts:** The Bank's Prototype Carbon Fund—and carbon trading schemes in general—are shaping up to be disasters for the world's poorest. Early projects provide low quality emissions reductions, such as methane capture from toxic waste dumps and carbon sequestration in genetically engineered tree plantations. The World Bank hopes to profit from the carbon trading market through commissions. Also, the Bank greatly inflates the value of its renewable energy portfolio by counting projects that do not meet its own renewable energy criteria. The United States has resisted developing countries' attempts to gain authority over World Bank project finance and clean energy programs.

**Solutions:** 1) Prohibit World Bank Group institutions and its employees from supervision or management of all Kyoto Protocol / United Nations Framework Convention on

Climate Change emissions trading schemes. These include the Clean Development Mechanism (CDM) and Joint Implementation. The temptation to use carbon trading as a mechanism for institutional profiteering is simply too great, and veers too far afield from the Bank's sustainable development mandate.

2) Create a renewable energy fund, similar to that called for by the Brazilians and others in Kyoto in 1997 (which then morphed into the CDM), that does not involve the World Bank. This fund should provide outright grants, very low-interest and/or microcredit loans to the poorest (particularly women), and conventional loans for renewable energy. There should be no conditionality on these loans; their only goal would be to gain widespread dissemination of renewable energy globally. The fund could be capitalized by a carbon tax<sup>1</sup>, thereby sending the appropriate market signals to fossil fuels, while enhancing the competitiveness of renewable energy. The fund would also provide technical training in developing countries to help ensure adequate capacity to service and deploy these renewable energy systems.

### #3

**Problem:** The World Bank minimizes the climate impact of its fossil fuel portfolio by only counting direct, on-site, greenhouse gas emissions from its projects. The World Bank says that this practice is consistent with the guidelines of the Intergovernmental Panel on Climate Change, the UN's chief scientific advisory body on global warming. This contention allows the Bank to minimize its climate footprint, ensuring rapid approval of carbon-intensive oil, gas and coal mining projects, without regard to its inevitable impact on the global climate system.

**Key Fact:** Over 80 percent of all oil projects financed by the World Bank are for export back to Annex B countries, yet these greenhouse gas emissions are never accounted for, and the "development" rationale for this investment is rarely questioned. Export-oriented oil projects account for nearly half of the 43 billion tons of carbon dioxide emissions associated with the Bank's portfolio. The Bank does not count these emissions because they occur beyond the project site.

**Solution:** The Intergovernmental Panel on Climate Change and the parties to the Kyoto Protocol should endorse the adoption of a methodology that reflects upstream and downstream greenhouse gas accountability for transnational actors like the World Bank.

## A CRISIS OF DEMOCRACY

The United States government wields disproportionate and undemocratic influence over the policies and programs of the world's most important development agency. For decades, the World Bank has pried open developing countries' fossil fuel sectors in order to satisfy the growing import needs of Northern industrialized countries. This process began in the 1980s, under pressure from the Ronald Reagan administration in Washington.

A 1981 U.S. Treasury Department review of the Bank's energy lending program urged the Bank to play a lead role in the "expansion and diversification of global energy supplies to enhance security of supplies and reduce OPEC market power over oil prices." The U.S. Treasury also noted that, as opposed to the U.S. government, "the neutral stance of the Bank can play an important role" in fostering foreign corporate investment in developing countries' energy sector. "As a multilateral 'development advisor' it can help Least Developed Countries revise their incentive structure to encourage investment."<sup>7</sup>

The Bank implemented these directives with great success over the past two decades. After the Rio Earth Summit, the Bank financed energy and power sector privatization schemes in 29 countries. It backed 124 fossil fuel power plant projects, many explicitly in order to privatize them. And it approved 128 deals to support oil, gas, and coal extraction. Over the years, on 332 occasions—roughly once every two weeks—the Bank's directors approved a project that would foster fossil fuel proliferation. The total amount approved since Rio: \$28.5 billion.

Meanwhile, these projects have hardly made a dent in the energy needs of the 2 billion poor across the world, who subsist on energy from wood, crop waste, and animal dung.

While these achievements may not reflect the Bank's stated mission of poverty alleviation, they do mirror the financial goals of its shareholders, primarily the powerful G-7 countries who are represented at the Bank's board level by executive directors appointed by their nation's leaders.

It is worth noting just how qualified these executive directors



World Bank President James Wolfensohn and U.S. President George Bush in 2001. Every World Bank president has been a U.S. citizen, selected by a United States president White House.

are to carry out the task they are charged with, namely, ensuring their nations' contributions to the Bank's coffers result in poverty alleviation and sustainable development. Of the current board of 24 World Bank executive directors, at least half are economists or bankers. Only two (France and Germany's directors) have any apparent background in more human development-minded arenas. This lack of expertise on development and environment issues is made worse by the undemocratic nature of the Board, where voting rights are concentrated in the hands of the

wealthiest nations.

Since the Bank's inception in 1944, a country's Gross National Product and its financial contributions to the coffers of the World Bank have determined its voting shares on the board of the Bank.

Last year, African ministers, in a memorandum to World Bank president James Wolfensohn and International Monetary Fund (IMF) managing director Horst Kohler, demanded more representation on the Bretton Woods institutions' boards.<sup>8</sup> Deepak Gopinath, writing in Institutional Investor, elaborates:

*"The IMF and the World Bank face increasing defiance from another crucial constituency: developing countries around the world. (It doesn't help that the Washington consensus is so closely associated with the U.S. at a time of growing anti-American sentiment.) They challenge the very structures of those institutions. Why, the critics ask, do emerging countries have so small a voice in organizations supposedly dedicated to their interests?"*

*"Forty-four African countries are represented in the Bank today by just two executive directors out of 24 and exercise slightly more than five percent of the vote. France, Germany, Japan, the U.K. and the U.S., meanwhile, each hold a seat on the board and collectively wield 37 percent of the vote. The U.S. alone has veto power."<sup>9</sup>*

The U.S. government, predictably, dismissed foreign demands for reform. In a confidential June 2003 note to the World Bank board, U.S. Executive Director Carole Brookins wrote, "The increase in developing countries' share of votes

### International parliamentarians’ petition for democratic oversight of IMF and World Bank policies

“We therefore call on the Bretton Woods Institutions [World Bank and IMF] and their principal shareholders to ensure that the democratically elected representatives of recipient nations are the final arbiters of all economic policies in their countries. It is vital that national parliaments in recipient nations have the right and obligation to be fully involved in the development and scrutiny of all measures associated with [Bretton Woods Institutions] activities within their borders, and hold the final power of ratification.

“Ensuring the primacy of sovereign national parliaments in this way will improve implementation of measures to reduce poverty, enhance good governance, and foster democracy.”

*As quoted in Bretton Woods Update, September/October 2004.*

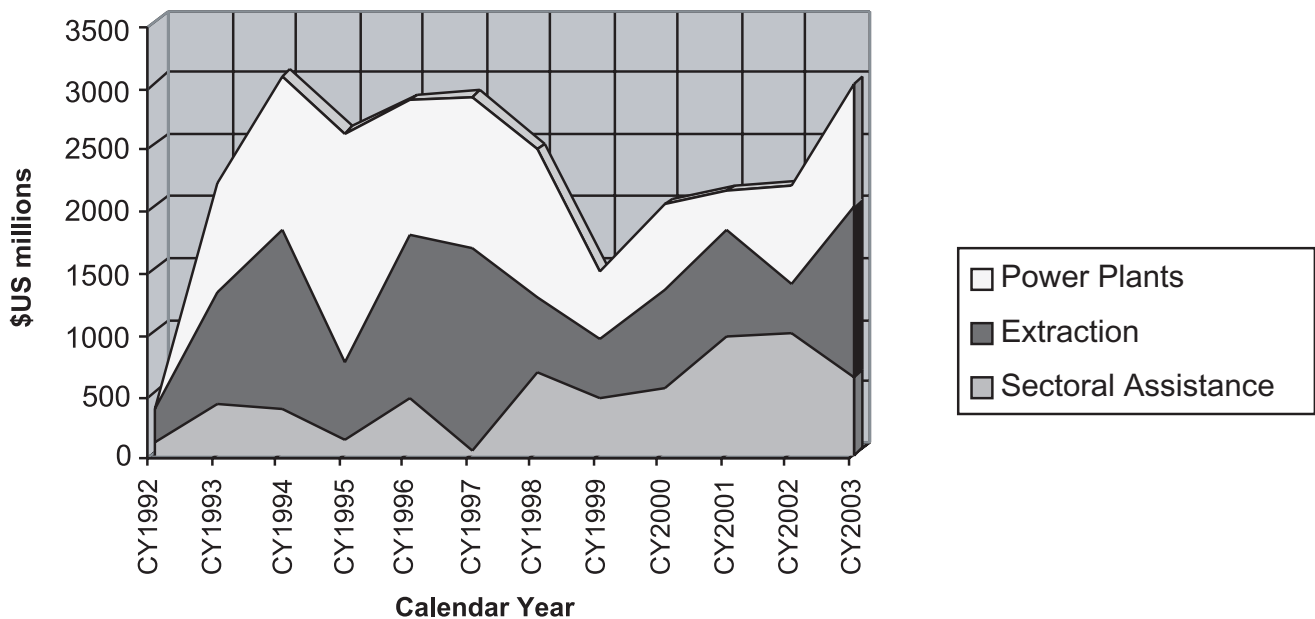
Efforts by developing countries to increase their voting power fell flat in the 2004 annual meetings. World Bank and IMF officials said any change must be made by consensus. Until developing countries gain a real voice, a crisis of democracy will persist at the World Bank. Washington will continue to dictate its agenda, to the peril of the earth’s atmosphere and the poorest.

However, a promising trend among elected officials in developing countries is emerging: They are demanding veto power over World Bank programs in their countries. Presently, parliamentarians are excluded from the processes of negotiation of international development finance.

... would not be material [because of the informal custom of making decisions on a consensus basis], would do more harm than good and, in our view, would be inconsistent with the principle that country shares in the IFIs [international financial institutions] should reflect relative economic weights in the world economy. **Giving population and other factors a weight in voting strength would create a radically different, less desirable and nonfinancial structure for the Bank”** <sup>10</sup> (emphasis added).

This movement among parliamentarians to rein in the power of international financial institutions is growing. In February 2004, the World Bank-initiated Parliamentarians Network on the World Bank made a clean break from its mother institution. The PNoWB asserted “the primacy of sovereign national parliaments” in determining Bank programs within their borders. The Parliamentary Confederation of the Americas also adopted this position. Over 170 elected representatives from 70 countries are demanding “the final power of ratification” over World Bank programs.

### World Bank Group Approved Fossil Fuel Finance



## THE PROMISE AND DEMISE OF THE EXTRACTIVE INDUSTRIES REVIEW

The World Bank's board in September 2004 voted to ignore most of the recommendations of the Extractive Industries Review, a path-breaking report that the lender itself commissioned over three years ago.

After spending millions of dollars having independent teams of experts evaluate the effects of its energy lending, the bank brushed off most of the final report's conclusions.

After years of civil society pressure to make the World Bank accountable for the impacts of its investments, World Bank President James Wolfensohn pledged in Prague in 2000 to undertake a review of the World Bank's support for the extractive industries (oil, gas and mining).

For the EIR, the Bank promoted an "eminent person" model that essentially put all the power for the "independent" review in the hands of one person. Wolfensohn appointed Dr. Emil Salim, a former environment minister from Indonesia, who served under Suharto's dictatorship, to lead the review. Dr. Salim was also on the board of Indonesia's largest coal company. With those credentials, most of the environmentalists, faith-based groups, development advocates and human rights activists who had demanded this assessment were pessimistic about ever seeing the Bank change its ways.

During the consultations, civil society representatives, especially those from affected communities and indigenous people gave testimonials and presented evidence that World Bank-sponsored oil, gas, and coal projects had not helped them.

In the end, to most observers' surprise, the EIR concluded in December 2003 that World Bank support for fossil fuel and other mining projects simply had not alleviated poverty. The report called for the World Bank to cease all lending for oil by 2008 and continue its moratorium on lending for coal. The report recommended that the Bank increase lending to renewable energy by 20 percent annually and become a



"It is not the World Bank that must determine whether this is to be done," Dr. Emil Salim told an Extractive Industries Review consultation in Maputo. "It is up to us."

leader in clean energy development globally.

The report emphasized other important environmental protections and improved governance mechanisms that the Bank should follow. For example, the EIR prioritized social protections, especially for those directly affected by extractive projects. It called for free prior and informed consent for indigenous peoples, a key demand of indigenous rights groups all over the world.<sup>11</sup>

The World Bank's management and board of directors opted to merely endorse minimal commitments to change the way the Bank does business, outlined in a management response to the EIR. For example, while they pledged to increase renewable energy financing by 20 percent annually, the baseline the lender used was so low that the target for renewable support in 2005 is lower than the Bank's loans for renewables in 1994. (See "Renewable Deception" appendix.) Currently fossil fuel financing at the World Bank exceeds renewable lending by a factor of 17 to 1.

Dr. Salim called the Bank's response "business as usual with marginal changes."<sup>12</sup>

Twelve years after the World Bank and most of the nations in the world committed to help reduce greenhouse gas emissions at the Rio Earth Summit, the Bank remains one of the biggest catalysts of fossil fuel extraction in the developing world. Nothing that the Board did in response to the Extractive Industries Review will reverse that trend.<sup>13</sup>

### Key EIR recommendations

- Cease lending for the oil sector by 2008 and continue the moratorium on lending for coal.
- Increase lending to renewable energy by 20 percent annually and lead in clean energy development globally.
- Adopt free, prior and informed consent so that affected communities and indigenous populations have a voice in development and decision-making.
- Recognize and adopt human rights and core labor standards.
- Recognize "no-go" zones for biologically and sociologically diverse areas and avoid funding projects in them.
- Transparency in revenue flows to companies, governments and communities.

## THE WORLD'S CARBON BROKERS: Emissions Trading and the World Bank

Within days of Russia joining the Kyoto Protocol in October 2004, there was a tripling in European commercial trade in carbon dioxide.

A carbon rush is gaining steam in the financial industry. Investors predict that carbon could become one of the largest markets in the world, with a trading volume of \$60 billion to \$250 billion by 2008.<sup>14</sup>

Supporters claim emissions trading allows the invisible hand of the market to do what the “command and control” approach to regulation of greenhouse gas emissions can not; that is, meet and even exceed expectations of emissions reductions.

Even many non-governmental organizations, most of whose members had initially been skeptical of the promises of carbon trading, seemed on board this grand, global experiment, tinkering at the margins rather than calling the entire model into question.

Confidential documents<sup>15</sup> leaked to the Institute for Policy Studies in 1997 from within the World Bank reveal the early internal debates around and plans for the World Bank to get involved in carbon trading.

That year, the U.S. government was forging Kyoto’s “Joint Implementation” trading scheme (JI), in which carbon emission credits were traded exclusively among industrial Northern (Annex B) countries, Brazil and other developing countries countered with a proposed “Clean Development Fund.” The CDF, based upon the polluter pays principle, would have financed projects in developing countries with levies against industrialized Northern countries that failed to comply with Kyoto’s emissions reduction goals. Northern

negotiators, wary of such fines, transformed the CDF into the “Clean Development Mechanism” (CDM) which created a market-based emissions trading scheme, similar to JI, between Annex B and Annex A states.<sup>16</sup>

Here, the Bank saw opportunity. One leaked document shows the World Bank planning to profit handsomely by charging a five percent commission on carbon transactions, in a self-appointed role as a broker between Northern and Southern governments and industries. With a potential market in CO<sub>2</sub> that could reach \$2 billion by 2005, the World Bank noted in this memo, it could quickly earn \$100 million in one year—and that was just for starters.

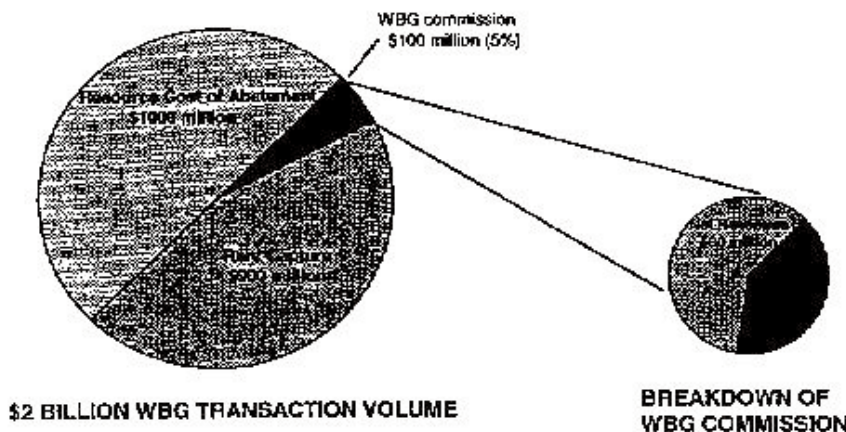
The leaked documents make clear that “low hanging fruit” (see Graph #2)—the easy pickings in the world of carbon emissions reductions—would be the first to be capitalized in a global market. Renewable energy wouldn’t come online via the CDM until carbon reached a price of \$50/ton or more.

None of the signatories to either the Climate Convention nor the Kyoto Protocol had asked the World Bank to play this role—in fact, many, including U.S. Treasury officials, actively discouraged it, recognizing potential conflicts of interest.

They saw that when an institution captures the carbon being released from a broader project it helped to finance (through greater efficiencies, for example), it could create perverse incentives to allow the lowest possible baseline for energy projects.<sup>18</sup> They also were concerned over this expanded role for the World Bank, and the potential for it to declare, for example, large dams as renewable energy resources worthy of CDM credits.

### Leaked 1997 World Bank Group documents<sup>17</sup>

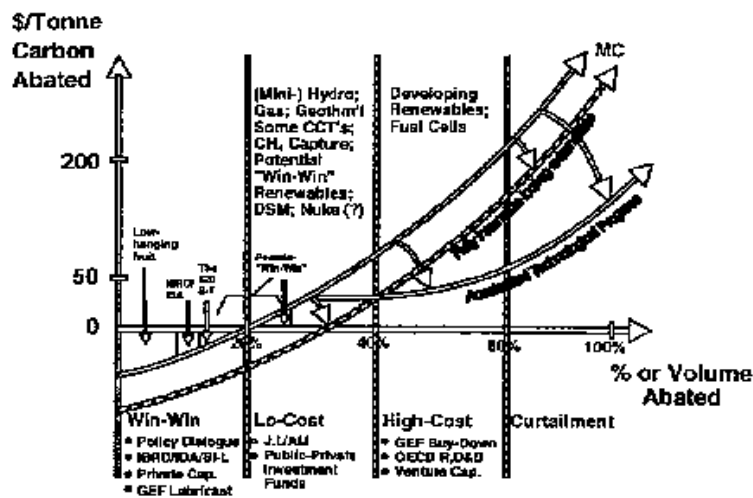
#### WBG’s Share of the Market in 2005



#### Graph #1

This confidential document, leaked to IPS in 1997, shows the World Bank projecting a \$2 billion World Bank Group transaction volume in carbon trading, on which the Bank would collect a five percent commission, or \$100 million. At the close of 2004, the Bank controlled over \$1 billion in carbon transactions.

## Option Space for Climate Change Mitigation Graph #2



This graph, also leaked from within the World Bank to IPS in 1997, shows the World Bank envisioning the pursuit of “low-hanging fruit” when carbon had a price of zero or an actual cost to capture. As the price of carbon rose to between 0 and \$50/ton, the Bank foresaw engaging in mini-hydro, gas, geothermal, methane capture, demand side management, and possibly nuclear power carbon trading transactions. Only once carbon had exceeded a price of approximately \$200 per ton or more did the Bank foresee itself developing renewable energy projects for the poorest. Currently, the price of carbon is roughly \$6/ton and is not expected to rise any time soon.

But the World Bank, rarely accountable to national or international governmental bodies, simply took the task upon itself. The Bank worked its way into the carbon trading business initially with the Prototype Carbon Fund (PCF), portraying it as an opportunity to work out the glitches in the CDM before it was launched globally.

Mostly, the Bank wanted a leading role in the global emissions trading market. In the September 30, 1998 draft energy strategy paper, World Bank officials wrote, “The establishment of an international market for carbon emission offsets or credits should cut the cost of dealing with climate change, and has been agreed in principle at the recent Kyoto conference on climate change. The World Bank Group will help develop this market.”

Thus, in July 1999, the PCF was born.

PCF Director Ken Newcombe assured concerned NGOs that the PCF would be “entirely renewable.” Solar, wind, microhydro, and geothermal power projects would make up its portfolio. As time transpired, it became clear that the PCF was far from “entirely renewable,” and was, in fact, following the more forthright trajectory laid out in the leaked 1997 World Bank document, namely, pursuing the low-hanging fruit in the global carbon market.

### Echoes of apartheid

Perhaps the worst case of low-hanging fruit currently on the PCF’s books is the Bisasar Road Landfill methane capture project. During apartheid-era South Africa, white rulers created the landfill at Bisasar Road in a brown and black community.

The site became a repository of waste, much of it toxic, most of it coming from the more affluent white communities.

What was once an open field in a vibrant community quickly became a foul-smelling, toxic waste dump. Cancer clusters began to emerge in the vicinity of the landfill.

As the apartheid regime was torn down, local community activists raised their hopes and concerns with the ruling African National Congress (ANC). ANC leaders promised in 1996 to close down the symbol of the apartheid regime, and to clean up the site.

“History has seen attempts to commodify land, food, labour, forests, water, genes and ideas. Carbon trading follows in the footsteps of this history and turns the earth’s carbon-cycling capacity into property to be bought or sold in a global market. Through this process of creating a new commodity—carbon—the Earth’s ability and capacity to support a climate conducive to life and human societies is now passing into the same corporate hands that are destroying the climate...”

“In an absurd contradiction the World Bank facilitates these false, market-based approaches to climate change through its Prototype Carbon Fund, the Bio-Carbon Fund and the Community Development Carbon Fund at the same time it is promoting, on a far greater scale, the continued exploration for, and extraction and burning of fossil fuels—many of which are to ensure increased emissions of the North.”

—Excerpts from *The Durban Declaration*, October 10, 2004. Over 150 representatives of people’s movements and independent organizations, primarily based in the global South, have supported this statement. To read it in full, and see who supports it, visit: <http://www.sinkswatch.org>.



Then along came the Bank's Ken Newcombe in 2002. He proposed to the ANC that they keep the landfill open until at least 2014 and profit from methane captured under his Prototype Carbon Fund. The methane gas that this and other landfills produce could be siphoned off to a power plant, and the city government would be rewarded with 60 million rand over 21 years from northern industries reluctant to reduce their own emissions and eager to buy their way out of the problem.

Sajida Khan lives right next to the Bisasar Road dump. She has suffered two bouts of cancer and lost a nephew to the disease. To Sajida Khan, the PCF represented an undemocratic institution, overruling the will of the local people and the stated intent of their leaders, the ANC, by effectively bribing them with sorely needed government revenue. She began organizing her fellow community members, and launched legal challenges and an international campaign to overturn the PCF proposal. However, thus far, her efforts have been met with bureaucratic intransigence.<sup>19</sup>

The Bisasar Road dump is emblematic of the sort of global apartheid carbon trading encourages, allowing Northern governments to profit from carbon profligacy in the North while forcing the poorest and darkest skinned in the South to pay with their health and their lives.

Another type of disturbing model is emerging in Brazil.

### The Plantar project

Plantar, a company located in the state of Minas Gerais owns a monoculture eucalyptus grove, covering 23,100 hectares. The total land owned by Plantar, acquired by pushing local communities off their land under previous dictatorial regimes, is extensive—some 700,000 hectares. The fast-growing eucalyptus trees will eventually be harvested, and used as charcoal for the production of pig iron—a low grade of iron—by the

company. For small farmers living on nearby lands, the consequences of this tree plantation are devastating: streams and swamps have dried up, chemicals contaminate the air and water, and the biodiverse plant and animal species that used to inhabit the land have all but disappeared.

These plantations allegedly are avoiding the production of 4.3 million tons of carbon dioxide that would have been emitted had coal been used for smelting pig iron rather than charcoal from Plantar's plantations. That's 4.3 million carbon credits that can be sold to a Northern industry that is unwilling to reduce its emissions domestically by the same amount. However, these eucalyptus trees may be destroyed by fire or other natural causes, but they will definitely, within 7-21 years, be cut down for use in pig iron production. The CO<sub>2</sub> produced by Northern industries that have bought the PCF's carbon credits will remain in the atmosphere, on average, 50 to 200 years.<sup>20</sup>

### New World Bank schemes

While the PCF has ventured down an already dangerous path, the World Bank Group is diversifying into other carbon trading schemes. In June 2004, it launched the Bio-Carbon Fund. The Bank says this will test and demonstrate how land use, land-use change and forestry activities can generate carbon credits.<sup>21</sup>

The Bank also plans a Community Development Carbon Fund. This fund, which currently has developed two projects, "will link small-scale projects seeking carbon finance with companies, governments, foundations, and NGOs seeking to improve the livelihoods of local communities and obtain verified emission reductions."<sup>22</sup>

Additionally, the World Bank administers some funds for individual countries, including the Netherlands Clean Development Facility, launched in 2002, the Italian Carbon Fund, launched in 2003, and the Spanish Carbon Fund, launched in 2004.

It is preparing to launch a Danish Carbon Fund (Euro 108 million) and will manage the European Investment Bank's carbon fund (Euro 100 million). A condition of managing country-specific funds for these countries is that they invest in the Bio-Carbon Fund (BCF) and Community Development Carbon Fund (CDCF). Spain has put 20 million Euro into the CDCF and 10 million Euro into the BCF, Italy has also invested an unknown quantity.

So, the Bank's strategy of positioning itself as the carbon fund manager of choice is working: countries with no experience in the carbon market find it easier to just give the Bank a lump sum and allow them to handle the transactions. The total funds that the World Bank is now managing in the carbon market probably exceed Euro 1 billion.<sup>40</sup>



## EXTRACTION FOR NORTHERN CONSUMPTION

Over the past dozen years, the World Bank has invested far more in helping the U.S. diversify the array of its global oil suppliers than it has in supporting the commitments of the Rio Earth Summit. The World Bank most egregiously undermines the Kyoto Protocol and sustainable development objectives when it facilitates Northern fossil fuel consumption through extraction in the global South. Such projects occupy alarming shares of the Bank's energy portfolio.



"What we see looking forward is large investments in the oil sector," said Rashad-Rudolf Kaldany in June 2002. Kaldany is the director of the World Bank's Oil, Gas, Mining & Chemicals department.

From the 1992 Earth Summit through late 2004, the World Bank Group has financed 128 fossil fuel extraction projects in 45 countries. Of these, fifty-two projects extract and export oil, coal, and gas for the global marketplace—mainly, to the industrial North (Annex B) countries.

In the oil sector, over 82 percent of the World Bank's approved finance goes to projects that export oil to the industrial North. Since the Earth Summit, the Bank's directors backed 42 globally oriented oil extraction projects with \$4.2 billion worth of loans, credits, investments and insurance. Twenty projects, with \$859 million of World Bank finance, support domestic or regional projects.

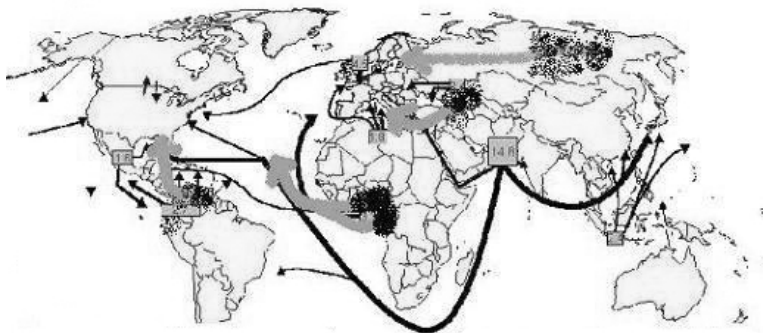
These projects raise considerable on-the-ground environmental, political, military, human rights and human needs concerns. Many of these export-oriented projects face intensive opposition from local communities, activists and experts.

From a climate perspective, the World Bank's energy portfolio represents a long-term risk driven by rising oil consumption in the global North, particularly in the United States.

World Bank energy projects approved since Rio will lead to over 43 billion tons of carbon dioxide emissions; over half of these emissions will be released in export-oriented projects. Export-oriented oil projects alone will over their lifetimes release 18.5 billion tons of CO<sup>2</sup>. Many of these projects would not have come to fruition without World Bank involvement, by the Bank's own admission. By comparison, global consumption of fossil fuels generated 24 billion tons of CO<sup>2</sup> in the year 2004.<sup>23</sup>

Over the next two decades, the U.S. will become increasingly dependent upon foreign sources of fossil fuels to keep pace with its rising consumption.<sup>24</sup> The U.S. government projects "increasing dependence on petroleum imports," rising from 53 percent of domestic petroleum consumption in 2002 to roughly 70 percent in 2025.<sup>25</sup> Many of the new imports will come from projects that the World Bank has financed in the Caspian region, West Africa, Russia, and South America. If the past predicts the future, it is likely that the World Bank will also assist in the development of the biggest potential new source of U.S. oil imports: Iraq.

### Where in the world does the World Bank finance all exports?



The underlying map, with black arrows and gray number boxes, shows oil flows (in million barrels per day), in 1997. (US EIA)

Grey arrows indicate flow of oil from World Bank extractive projects since the 1992 Rio Earth Summit.

*Sustainable Energy and Economy Network*

In 1982, the Reagan Administration demanded that the World Bank "expand and diversify global energy supplies." In 2002, U.S. Vice President Dick Cheney spearheaded a national energy strategy that prioritizes "diversity of supply," particularly from South America, West Africa, and the former Soviet Union.

*(SEEN 2004 update of U.S. Energy Information Administration 1997 graphic)*

## METHODOLOGICAL DENIAL

SEEN estimates that World Bank fossil fuel extraction projects approved since 1992 will lead to over 43 billion tons of carbon dioxide emissions. Over half (23.8 billion tons) of these emissions will emanate from export-oriented projects, over their lifetimes. By comparison, global consumption of fossil fuels generated 24 billion tons of CO<sub>2</sub> in the year 2002.<sup>26</sup>

To date, the World Bank Group's policy has been to consider only the on-site, direct, emissions of its projects, not the ultimate downstream emissions of the coal, oil, and gas it helps to extract and transport.

The Bank adopted this shortsighted approach in its 1995 submission to the UN Framework Convention on Climate Change, which ignored the entire class of projects that extract—but do not burn—fossil fuels. The Bank never considered the climate implications of its export-oriented projects, and concluded, “continued growth of energy and use of fossil fuels in developing countries is quite consistent with the Convention.”<sup>27</sup>

The World Bank continued to embrace a narrow view in correspondence with SEEN in 1997. “All Bank energy loans promote consistency with the Climate Change Convention by improving energy efficiency on the supply and demand sides. This has been increasingly true since the signing of the Climate Convention in 1992,” World Bank environment department director Robert Watson wrote to SEEN's Daphne Wysham in December 1997.<sup>28</sup>

In this same letter, Dr. Watson charged that SEEN's calculations of World Bank-supported carbon emissions “exaggerate the real situation by a multiple of five.” Watson minimized the Bank's CO<sub>2</sub> emissions by citing a World Bank-commissioned “Carbon Back Casting Study.” This study arrives at a total figure of roughly 4.6 gigatons of carbon emitted from 154 projects funded by the Bank between 1990 and 1996—not one-fifth, but a little less than half SEEN's estimates at that time. The report's authors claim the Bank should only take credit for less than one-third of the emissions related to projects it funds, or 1.4 gigatons of carbon, and discounted fossil fuel consumption outside the country of origin.

SEEN replied that an institution entrusted with the mandate of “sustainable development and poverty alleviation” should bear full carbon responsibility for all fossil fuel projects it is involved in, rather than disregard exported fuels, and further diminish its remaining carbon calculations to one-third of the whole.<sup>29</sup>

World Bank management further explained this limited methodology in its January 2004 draft response to the Extractive Industries Review. Here, the World Bank contends

that the “distinction between the direct and indirect contribution of extractive industries to greenhouse gases is important, because it frames much of the debate surrounding the link between investment in oil, gas and coal production, and climate change. At issue is the question of whether investment in oil, gas and coal production in some sense encourages the consumption of these fuels, and can thus be directly implicated in raising GHG emissions.”

This paragraph is footnoted:

*“It should [be] noted that this issue has been resolved within the mainstream global approach to climate change. Thus, the principles of GHG [greenhouse gas] accounting adopted by the UN Intergovernmental Panel on Climate Change, attribute emissions resulting from energy sources to the consuming nation and not the producing nation. GHGs from fossil fuel use are counted at the point of consumption, not at the point of production of the fuel. For the purposes of analyzing emissions and formulating policy on climate change, the IPCC requires detailed information on how and where GHGs are generated. Information on how and where fossil fuels are produced is not deemed useful for policy.”<sup>30</sup>*

There are several problems with this reasoning. Foremost among them is the fact that the Bank is not a state but an institution. The IPCC does not provide guidance for non-state actors to calculate their greenhouse gas emissions, hence, it reasonably only expects GHG emissions to be calculated at their point of release. An accurate global accounting of GHG emissions for non-state actors such as the World Bank is vital for global science and policy-making

Furthermore, The Greenhouse Gas Protocol Initiative developed jointly by the World Business Council for Sustainable Development and the World Resources Institute urges the sort of accounting that the World Bank refuses to conduct.

### A rare confession

*“The [World] Bank has not succeeded in systematically integrating global environmental objectives into economic and sector work or into the CAS [Country Assistance Strategy] process; nor has it taken meaningful action to reduce its traditional role as financier of fossil fuel power development...it has not yet undertaken any programming based on global environmental objectives... Continued financing by the World Bank for such projects (as conventional fossil fuel generation) is inconsistent with mainstreaming of the global environment in the Bank's regular operations.”*

*—Study of GEF's Overall Performance,  
Global Environment Facility, 1997*

This Initiative states that, “unlike for financial accounting and reporting, **there are no ‘generally accepted accounting and reporting practices’ for corporate GHG emissions.**”<sup>31</sup> (The Bank would have one believe that the IPCC actually mandates that the discreet nation-state system of GHG accounting automatically is such a “generally accepted” practice for transnational interests like the World Bank.)

The WBCSD/WRI report further notes that accounting for indirect emissions can be a useful assessment of a company’s climate change exposure. “An inventory of direct GHG emissions, **as well as emissions occurring upstream and downstream of operations**, will provide an assessment of the company’s GHG exposure. It will help the company respond more effectively to any move toward regulations and caps governing GHG emissions, as well as toward shifts in consumer preferences based on corporate GHG performance and reputation.”<sup>32</sup>

The corporate protocol adds that “to ensure maximum flexibility and clarity, companies are encouraged to account and report relevant... emissions from the use and end-of-life phases of products and services produced by the reporting company,”<sup>33</sup> exactly the sorts of calculations the Bank refuses to do.

Currently, the World Bank Group approach to GHG emissions calculations is echoed in the International Finance Corporation’s August 12, 2004 draft “Policy on Social and

Environmental Sustainability and Performance Standards.”

This policy, which is under review, with final language to be issued in 2005, is expected to set a precedent not only for the IFC but also for export credit agencies and private banks.

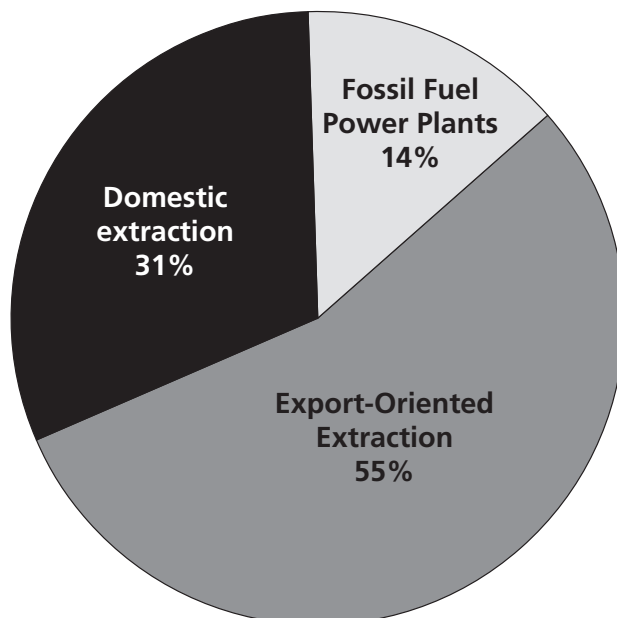
According to its “consultation draft,” the IFC will “promote the reduction and control of greenhouse gas emissions” through energy efficiency, renewable energy, gas flaring reduction, and other approaches. It further calls for project clients to take such steps “appropriate to the nature and scale of project operations and impacts.”

However, the IFC perpetuates the flawed methodology promulgated by the World Bank:

*“For projects that produce significant quantities of greenhouse gases, the client will quantify and monitor **direct** greenhouse gas emissions annually in accordance with the emissions estimation methodologies of the Intergovernmental Panel on Climate Change (IPCC) or other internationally recognized methodologies.”<sup>34</sup> [emphasis added]*

The IFC and the entire World Bank Group have embraced a “lowest common denominator” approach, which conveniently claims that the nation-state accounting system of the IPCC applies to it, a transnational institution. By counting a limited subset of on-site emissions in developing countries, the Bank is denying its own significant climate footprint to the peril of a sound climate change policy for all financial institutions, and to the detriment of those it claims to serve, the poorest.

### Source of World Bank Group-financed carbon dioxide emissions



## Appendices

### RENEWABLE DECEPTION

In a brochure distributed at a June 2004 global conference on renewable energy in Bonn, Germany, the World Bank boasted:

*“Through our project-based work, and increasingly with carbon finance, we are able to give sustainable energy an important seat at the development table and bring the virtues of sustainable energy to the marketplace. . . . We have learned a great deal over the past 15 years with more than \$6 billion in resources from the World Bank Group and Global Environment Facility committed to our renewable energy and energy efficiency investments.”<sup>35</sup>*

The Bank reiterated this figure in a widely-disseminated press release: “Since 1990, the World Bank Group has been the largest lender for energy efficiency and renewable energy projects in the developing nations, investing more than \$6 billion in Bank-managed resources and mobilizing more than \$10 billion from other public and private sources.”<sup>36</sup>

SEEN has long been tracking World Bank investments in fossil fuels and renewable energy, and were thunderstruck by this claim that the Bank had invested \$6 billion in renewable energy. The Bank supported this figure with a non-itemized appendix listing 162 such projects approved since 1990.

We rechecked our own data, and researched each project listed in the Bank’s appendix. We found many of these projects had dubious connections to either renewables or energy efficiency.

In July 2004, SEEN relayed its concerns over the data in a detailed memorandum to World Bank renewable energy staff. This memo noted that many projects listed in the World Bank Group submission in Bonn were either minimally related or completely unrelated to renewable energy or energy efficiency.

Our analysis identified approximately \$1.65 billion in World Bank Group financing since 1990 for projects that are predominantly focused on energy efficiency or renewable energy.

We further identified another \$3.23 billion in financing for broader projects that contained multiple components, many or most of which were unrelated to renewable energy or energy efficiency. For example, the Bank’s brochure listed a “Municipal Housing Divestiture” project in Russia. This project does have a minor “energy efficiency investment” component, but the lion’s share of the \$300 million package supported housing privatization. It appears that the Bank included the entirety of the project’s finance within its \$6 billion figure. SEEN requested—and has not received—clarification of the precise financing value for the renewable energy or energy efficiency components of these larger projects.

Further, SEEN identified \$1.33 billion in projects listed in the Bonn submission that do not appear to match the World Bank’s definition of renewable energy or energy efficiency projects.<sup>37</sup>

World Bank staff informed SEEN that, indeed, there were errors in the Bonn list. In a September 14, 2004, e-mail, a Bank employee replied, “We have revised the projects list shown in the annex of [the] Bonn brochure. There were a number of projects which on review we found to have been misclassified and which we have removed from the revised list. In the revised list we show the investment amounts for each project. This revised list of projects is now being reviewed by management. Once management approves I will be able to send you the revised list.”

Through November 2004, SEEN had not received such a revised list. Instead, the World Bank continues to advertise the \$6 billion figure for renewables. This misinformation is not simply deceptive; it may have played a role in Bank management’s response to one of the most extensive reviews of the Bank’s energy sector lending ever conducted, the Extractive Industries Review. On September 17, 2004, World Bank Management issued its final response to the Extractive Industries Review, and included the following erroneous statement in support of its conclusion:

*“The WBG [World Bank Group] is already one of the largest financiers of renewable energy and energy efficiency in the developing world. By 2004, through its investments and technical support amounting to commitments of over \$6 billion (3.6 billion for renewable energy alone), the WBG had leveraged about \$10 billion in additional financing from public, private and bilateral sources for renewable energy and energy efficiency.”*

Then, in a breathtaking move, the Bank took the opposite approach in setting a baseline for future increases in its energy efficiency/renewable energy portfolio. This important component of the board and management’s response to the EIR commits the institution to increase this kind of financing by 20 percent annually.

If the Bank truly had supported over \$6 billion in renewable energy and energy efficiency since 1990, this would equal roughly \$400 million a year. But the Bank arbitrarily built its baseline from the three most recent fiscal years—a period in which such projects declined relative to the 1990s—and committed only to a baseline of \$200 million a year. By contrast, the Bank approved over \$600 million in renewable and energy efficiency finance ten years earlier, in 1994.

## Summary Table of World Bank Fossil Fuel Financing

### World Bank Group Fossil Fuel Finance, 1992 to late 2004

Type of Project	# of projects	Carbon dioxide (lifetime emissions, million tons)	Total approved finance (\$US millions)
<b>Extraction</b>	<b>128</b>	<b>37455</b>	<b>10980</b>
Oil—overall	62	20173	4924
Global market	42	18513	4064
National/regional market	20	1660	860
Coal—overall	19	11301	2774
Global market	4	4499	151
National/regional market	15	6802	2623
Oil/Gas—overall	15	1577	838
Global market	4	21	61
National/regional market	11	1556	777
Gas—overall	32	4404	2444
Global market	2	786	32
National/regional market	30	3618	2412
<i>Extraction for Global Market</i>	52	23819	4308
<i>Extraction for Domestic/Regional Market</i>	76	13636	6671
<b>Fossil Fuel Power Plants</b>	<b>124</b>	<b>5969</b>	<b>11264</b>
<b>Sectoral Support/Reform</b>	<b>80</b>	<b>n/applicable</b>	<b>6216</b>
<b>Overall</b>	<b>332</b>	<b>43424</b>	<b>28459</b>

Visit SEEN's web site, <http://www.seen.org>, for a statistical companion to this report.

## ENDNOTES

- 1 A carbon tax, while problematic in the past in the U.S., could be more widely accepted if it were counterbalanced by the elimination of the U.S. payroll tax. See, for example, William Drayton, et al, Get America Working: <http://www.getamericaworking.org/program/taxoptionsnew.htm>
- 2 As a news report summarized, "The developing nations had also been rebuffed in their attempt to establish a 'Green Fund' under Third World control for the distribution of environmental aid. Officials from the Group of Seven leading industrial nations June 4 [1992] had affirmed that they would insist on channeling ecological aid through the Global Environment Facility, a branch of the World Bank." "Earth Summit' Held in Brazil; Climate, Species Pacts Signed; Targets Lacking on Aid, Controls," *Facts on File World News Digest*, June 18, 1992
- 3 See, for example, our April 2004 study, *The Energy Tug-of-War: Winners and Losers in World Bank Fossil Fuel Finance*, available at: [http://www.seen.org/pages/press\\_releases/Tug\\_of\\_war.shtml](http://www.seen.org/pages/press_releases/Tug_of_war.shtml)
- 4 World Bank-financed export-oriented oil projects alone will release 18.5 billion tons of CO<sub>2</sub> By comparison, global consumption of fossil fuels generated 24 billion tons of CO<sub>2</sub> in the year 2004 "World Carbon Dioxide Emissions From Energy Consumption, 1992-2001," spreadsheet, U.S. Energy Information Agency. SEEN's methodology for estimating lifetime emissions for fossil fuel extraction projects is available on the Web., at: <http://www.seen.org/pages/db/method.shtml>
- 5 "Carbon finance at the World Bank" webpage, World Bank, as viewed on Nov. 18, 2004.
- 6 Emil Salim, concluding speech to the African consultation during the Extractive Industries Review, Maputo, Mozambique, January 2003.
- 7 Office of International Energy Policy, *An Examination of the World Bank Energy Lending Program*, U.S. Department of the Treasury, July 28, 1981
- 8 "World Bank, IMF Agree to Reform," *Africa News*, September 24, 2003
- 9 Deepak Gopinath, "Free for all: developing countries yearning to grow have gotten fed up with being told how to run their economies by the IMF and the World Bank," *Institutional Investor*, Sept. 1, 2003
- 10 Ibid.
- 11 Free prior and informed consent enables indigenous and other affected communities to have a voice in any development plans within their traditional territories. Although often mischaracterized as a right of veto, free prior and informed consent may result in a positive as well as a negative decision on particular projects and policies. International law already recognizes this right, particularly under the International Labor Organization's Convention 169, which states that not only do indigenous people have the right to decide their development path, but that they have the right to benefit directly from economic activities taking place within their territories. On the issue of free prior and informed consent for indigenous people and affected communities, the official World Bank response to the EIR modified the term "consent" to "consultation," which signifies no new commitment by the Bank on this extremely important issue.
- 12 As quoted in Mark Drajem, "World Bank Accepts New Oil, Gas Lending Controls. Call to Discontinue Programs Rejected," *Bloomberg News*, August 4, 2004
- 13 For further information, see: <http://www.eireview.info/>
- 14 Janine Scheelhaase, "International Greenhouse Gas Trading—New Business Options for Banks and Brokerage Houses," Deutsche Bank Research, December 7, 2001, available at: <http://www.dbresearch.com/PROD/PROD000000000038483.pdf>
- 15 See <http://www.seen.org/pages/ifis/wbstill/wbgrafx.shtml>
- 16 The Institute for Environmental Studies provides an overview of the relationship between the CDF and the CDM in its primer, "On Behalf of My Delegation,...": *A Survival Guide for Developing Country Climate Negotiators*, by Joyetta Gupta, 2000.
- 17 See <http://www.seen.org/pages/ifis/wbstill/wbgrafx.shtml>
- 18 The IPCC's and World Bank's former Environment Department director Rob Watson assured government officials that the Bank would not develop regulations for carbon trading. (Although the IPCC which, he chaired at the time, was advising the supreme body on the Climate Convention, the Conference of the Parties, on how to develop these regulations.) On perverse incentives he admitted there may be a problem, in response to concerns raised by NGOs and government officials, but noted that "the potential for perverse incentives is not specific to the PCF but is a general problem for any emission reduction deals that require additionality, as is required for any JI or Clean Development Mechanism project under the Kyoto Protocol."
- 19 Personal interview, October 5, 2004
- 20 How Plantar Sinks the World Bank's Rhetoric: Tree Plantations and the World Bank's Sinks Agenda, June 2004, CDM Watch and Sinks Watch. For further critiques of this project, visit: <http://www.climnet.org/pubs/CANEuropePlantar.pdf> and <http://www.cdmwatch.org/controversy.php>
- 21 World Bank Carbon Finance web site, <http://carbonfinance.org/biocarbon/home.cfm>
- 22 World Bank Carbon Finance web site, <http://carbonfinance.org/cdcl/router.cfm?Page=About>
- 23 "World Carbon Dioxide Emissions From Energy Consumption, 1992-2001," U.S. Energy Information Agency, available at: <http://www.eia.doe.gov/emeu/aer/txt/ptb1119.html> . Our methodology for estimating lifetime emissions for fossil fuel extraction projects is available at: <http://www.seen.org/pages/db/method.shtml>
- 24 The United States is, by far, the leading consumer of global oil, and this is unlikely to change over the next two decades. It consumed 25 percent of the world's oil in 2001 and, the U.S. Department of Energy (DOE) projects, will consume 24 percent of the world's oil in 2025. By then, the U.S. will devour an additional 8.6 million barrels per day on top of its 2001 levels, outpacing even China and India, which will add 5.9 and 3.4 million barrels per day, respectively. Signatories to the Kyoto Protocol are projected to consume far less oil: While U.S. consumption will increase by 44 percent from 2001 to 2025, Western Europe's oil consumption is projected to increase by just 9 percent, Japan by 22 percent. Overall, the U.S. government figures global oil production will grow by 52 percent between 2001 and 2025.
- 25 U.S. Energy Information Agency tables, available at: <http://www.eia.doe.gov/oiaf/aeo/gas.html> and [http://www.eia.doe.gov/oiaf/aeo/pdf/aeotab\\_21.pdf](http://www.eia.doe.gov/oiaf/aeo/pdf/aeotab_21.pdf)
- 26 "World Carbon Dioxide Emissions From Energy Consumption, 1992-2001," U.S. Energy Information Agency, available at: <http://www.eia.doe.gov/emeu/aer/txt/ptb1119.html>. This estimate is based upon the proved oil, gas and coal reserves — along with the capacities of refineries, pipelines, other mid-stream infrastructure, and power plants —of projects that the World Bank has financed since the 1992 Rio Earth Summit.
- 27 Global Environment Division, *The World Bank and the UN Framework Convention on Climate Change*, World Bank, March 1995, p. 3.
- 28 Letter from Robert Watson, World Bank environment department director, to Daphne Wysham, Institute for Policy Studies, December 2, 1997, available at: <http://www.seen.org/pages/ft/watsnl.shtml>
- 29 For the full correspondence, see Letter from Wysham and Francesco Martone, Campagna per la riforma della Banca Mondiale to James Wolfensohn, President, The World Bank, April 6, 1998, and IPS Fact Sheet on the World Bank's Carbon Back-Casting Study, 1998 .
- 30 *Draft Management Response, EIR Report, Internal Evaluations by OED/OEG/OEU, CAO Review*, World Bank Group, Draft, January 26, 2004
- 31 *The Greenhouse Gas Protocol: a corporate accounting and reporting standard*, World Business Council for Sustainable Development and World Resources Institute, October 2001, p. 3, available at: <http://www.ghgprotocol.org/standard/ghg.pdf>
- 32 *ibid.*, p. 11
- 33 *ibid.*, pp. 20-21
- 34 International Finance Corporation's Policy on Social and Environmental Sustainability and Performance Standards (Consultation Draft), IFC, August 12, 2004, available at: <http://www.ifc.org/policyreview>
- 35 *Renewable Energy for Development: The Role of the World Bank Group*, presented at the June 2004 International Conference for Renewable Energies in Bonn, Germany.
- 36 "World Bank Announces Targets, Calls for Partnerships on Renewable Energy," World Bank Group press release, Bonn, Germany, June 2, 2004.
- 37 For example, the Bank's own list included hydroelectric dams with hundreds, even thousands, of megawatt capacity—far in excess of the Bank's own definition of "renewable hydroelectric power" which stops at 10 megawatts.

38 Since the Kyoto Protocol is a separate legal instrument and must be ratified separately from the UN Framework Convention on Climate Change (FCCC), a new list of countries taking on legally binding commitments along with a listing of their actual commitments was created. Annex B consists of all of those countries listed in Annex I of the FCCC with the exception of Turkey and Czechoslovakia. New countries added to Annex B include: Croatia, the Czech Republic, Liechtenstein, Monaco, Slovakia and Slovenia. Annex B lists the Quantified Emission Limitation and Reduction Commitment (QELRC) for each country. See: [www.evomarkets.com/ghg\\_glossary.html](http://www.evomarkets.com/ghg_glossary.html)

39 The Equator Principles are a set of voluntary guidelines that over 20 of the world's leading private financial institutions (representing over 75 percent of private finance) have agreed to uphold in assessing social and environmental risks when financing development projects. These 'Equator Principles' will be applied to project finance for all industry sectors throughout the world. In 2003, Equator Principle banks represented a third of the global project loan syndication market. By adopting the principles, each bank undertakes to lend money only to projects whose sponsors can demonstrate 'their ability and willingness to comply with comprehensive processes aimed at ensuring that projects are developed in a socially responsible manner and according to sound environmental management practices.' This will apply to all projects with a capital cost of at least \$50m—97 per cent of the market.

The banks, which recoup their investment from revenues earned by dams, power plants and other big projects once these are built, will use a common screening process to decide whether a project has high, medium or low social and environmental risks. They will use assessment methods developed by the International Finance Corporation, the private sector lending arm of the World Bank, and the largest multilateral source of finance for private sector projects in developing countries. For more information, see <http://www.equator-principles.com>

40 Ben Pearson, personal communication, December 6, 2004



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