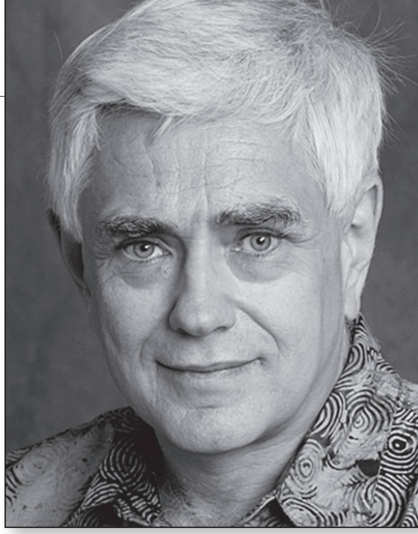

By Bruce Rich

An Incoherent Climate Policy

The world's richest nations are preparing to deliver as much as $12 billion in extra funds to the World Bank to fight global warming. At the same time, the bank is accelerating lending for fossil fuels and giant coal-fired power plants around the world. The bank's schizophrenic approach reflects the political contradictions in the global politics of climate change.

Over the past year the United States, United Kingdom, and Japan have proposed multi-billion-dollar clean energy technology funds for developing nations. Building on these commitments, the bank will establish two new climate investment funds that it hopes to launch this summer. The first is a $5–10 billion Climate Technology Fund to support carbon mitigation technologies. The second is a multi-billion-dollar Strategic Climate Fund to promote adaptation to climate change and forest conservation. Yet the World Bank Group (including the private-sector-oriented International Finance Corporation) increased its fossil fuel lending from $433 million in 2001 to $2.09 billion in 2007.

UN Secretary-General Ban Ki-Moon declared at the Bali climate meeting last December that global warming is a "planetary emergency," yet on April 8 the IFC approved $450 million in loans to subsidize the construction by the Tata Power Corporation of the 4,000 megawatt Mundra coal-fired power plant in India's Gujarat State. The giant coal plant would be India's third-largest greenhouse gas emitter, but the bank argues that by sponsoring the project, it is fighting climate change — the bank claims that the plant will be more efficient than what otherwise would have been built. Indeed, the project will seek carbon credits from the Kyoto Clean Development Mechanism to further subsidize costs. The bank is also considering support (through its risk insurance arm, MIGA) for a giant coal plant in Botswana that would produce 4,800 megawatts. Both plants would be bigger than any in North America and rank among the planet's top 50 greenhouse sources.

The bank's energy finance for its largest borrowers — China and India — is largely demand driven. Developing countries, and particularly these two giants, have argued that they should not pay the price of addressing a problem that historically is almost entirely the responsibility of the rich industrialized nations.

So far the richer countries have supported the bank's incoherent climate policy. At the request of the Group of Seven industrialized nations, in 2005 and 2006 the bank prepared a Clean Energy Investment Framework that identified a financing gap of tens of billions of dollars annually needed to meet the energy needs of developing nations. It advocated increased support for renewables, but its bottom line was that energy for poorer nations, especially China and India, could only be met with massively increased investment in coal-fired power plants. The CEIF argued that with even more funds ($14 billion annually for China alone) new coal-fired plants could use gasification technology and achieve carbon neutrality through carbon capture and storage.

The World Bank's approach to global warming appears increasingly irrational

But carbon capture and storage is still an experimental technology, and pilot projects in the United States and Europe to demonstrate its feasibility on even a small scale have run into unexpected delays and cost overruns. To bet the planet's future on carbon storage by the new plants in China and India is an extraordinarily gamble.

The CEIF directly contradicted another World Bank report, the Extractive Industries Review, which in 2004 urged the bank to phase out all lending for coal and oil development and reorient its energy lending to help developing economies manage the transition to renewable energy. The EIR was chaired by Emil Salim — former head of Indonesia's national coal company but also formerly its environment minister and chair of the 2002 World Summit on Sustainable Development — but the bank rejected his recommendations outright.

The bank's approach to climate change only increases in irrationality. Its February 2008 "strategic framework" note on climate declares that lessening bank support for "carbon intensive sectors such as thermal power" is "simplistic" and "will not serve either climate change or development agendas."

As of April, growing international outcry has resulted in only a short delay on IFC approval of the Mundra power plant, and there is no reorientation of the bank's fossil fuel lending in sight. The World Bank's latest draft of the proposed multi-billion-dollar Clean Technology Fund provides for significant amounts of money to subsidize still more coal power plants — with the rationale of making them marginally cleaner — rather than accelerating a transition to renewable energy.

Bruce Rich *is an attorney at the Environmental Defense Fund. His email is brich@edf.org.*