The World Bank: access or impediment to climate finance?

Proposals to place climate funds at an institution like the World Bank, over which developing countries have limited ownership, have undermined the process of negotiations through the UNFCCC. However, G77 countries have stood against the World Bank and have firmly supported placing climate finance under the UN, despite a diversity of positions. Lobbying by the World Bank and key donors both in international and bilateral discussions to secure a significant and decisive position for the Bank within international governance of climate finance has been divisive and has polluted other debates such as the scale and additionality of finance. As recently as August, the Bank has caused controversy by approaching government agencies such as those in the Philippines to promote itself as a primary conduit for climate finance.

Meanwhile rumours abound that World Bank president, Robert Zoellick, has approached finance ministers of developing countries to sell the institution to them while claiming that developing countries themselves that are courting. This falls in line with plans, revealed in leaked Bank documents, to expand outreach to government ministries advocating the Bank's role in climate finance. The Bank stands to earn significant fees through the distribution of climate finance. For instance, while not yet agreed, proposals have emerged within the Climate Investment Funds (CIFs), housed at the World Bank, that a fee of $350,000 be charged for each investment project. This is approximately 40 per cent more than the standard multilateral development bank project fee.

With this in mind, the following briefing examines concerns that a significant role for the World Bank in disbursal or management of funds could limit developing country calls for direct access, recreate damaging donor-recipient aid dynamics, and hinder effectiveness. At a time when there is growing recognition that the international finance architecture should link to national entities and many proposals on the negotiating table seek to strengthen ownership by national governments, this is of utmost importance.

Direct Access

In recent UN negotiations developing countries have restated demands for direct access to funds. In light of the growing importance of this debate in global climate governance discussions, the limitations that would be placed on recipients by channelling finance through the World Bank must be taken into account.

For example, developing countries' experiences with the Global Environment Facility (GEF) have raised worries about effectiveness and have informed the debate about direct access to funds. GEF project cycles have lagged, taking years to go through the approval process first at the GEF and then through the implementing agency, the World Bank. Furthermore, having to apply for GEF funds through an intermediary agency rather than presenting proposals directly to the GEF has weakened developing country ownership and capacity building in project design and implementation knowledge acquired through the application process.

On the other hand, the Adaptation Fund, established to distribute adaptation financing to the Kyoto Protocol signatories, has recently made a first step towards direct access following on from debates stemming from the GEF. This will allow governments to put forward implementing entities that can be accredited to apply for funds directly. Senegal is the one country to be registered thus far.

Building on experiences with existing finance mechanisms and global discussions on climate architecture, numerous proposals for what direct access to climate finance might look like are being developed by governments, civil society and academics. Common themes emerging include greater involvement of national ministries, the building of local capacity, multi-stakeholder engagement in decision-making and being aligned with national plans for climate action.

The Bank has begun to adopt direct access language itself. In a leaked memo following the Copenhagen negotiations, Kathy Sierra, the World Bank's former Vice President of Sustainable Development highlighted the need to make the Bank look attractive as an option for finance in light of demands for direct access. The memo suggests that "the use of budget support instruments, SWAp [sector wide approaches] and …multi-donor trust funds as tools for providing more direct access, while still adding value by providing fiduciary services." However, experience in other areas suggests that Bank involvement is likely to mean having influence over policy and how money is spent, which can limit developing countries' ability to support national systems and priorities and undermine principles of direct access.

The Bank is also still exercising control over developing countries' management of their primary industries and natural resources and in relation to the design of sensitive policy areas such as fiscal policy and public sector reform. Conditions laid out in World Bank lending also often link closely to IMF conditionality for austere monetary policy measures.

Models of decades past

Direct budget support channelled through the World Bank has been dogged by a history of economic policy conditionality. In 2004, the Bank recognised that "conditionality is not necessary if there is true country ownership, and that it is not likely to be effective in the absence of ownership." However, a new study from NGO Eurodad looking at loans to Ghana in 2009 finds that economic policy conditionality is "increasingly being pushed in through the side door, for example by being stipulated outside of the loan agreement itself in side documents and letters, contravening responsible financing principles." The Bank is also still exercising control over developing countries' management of their primary industries and natural resources and in relation to the design of sensitive policy areas such as fiscal policy and public sector reform. Conditions laid out in World Bank lending also often link closely to IMF conditionality for austere monetary policy measures.

Numerous other examples exist. Among them are privatisation of the energy sector in Bangladesh under structural adjustment which was followed by Bank conditions that Bangladesh use the Bank's private sector lending arm, the International Finance Corporation, to carry out the privatisation.

Besides the direct economic policy conditions that the World Bank requires countries to comply with, there are indirect requirements for loan access. For example, its Country Policy and Institutional Assessment (CPIA), which largely determines low-income countries' access to funds, has been criticised for ideological bias including measures such as market liberalisation and deregulation. The Bank's Independent Evaluation Group has concluded that the CPIA weighting for IDA loans is more driven by donor concerns than concerns for achieving growth and poverty reduction. This system is now being considered for allocation of climate finance including in the Pilot Programme for Climate Resilience (PPCR) under the Climate Investment Funds (CIFs), housed at the World Bank.

SWAps and multi-donor trust funds can also provide significant donor control over finance. SWAps have been critiqued because while they place government ministries at the heart of sector-specific programmes, they still create arrangements that are several steps away from developing countries having control of the funds and have tended to foster interference in national ministries by donors. Multi-donor trust funds, such as the climate investment funds in many cases give multilateral agencies and donors significant control over funds.

Bank influence over funds

Even where the Bank claims a role as 'administrator' it tends to have heavy influence over project design and implementation. In some cases Bank procedures have slowed disbursement and reduced developing country access and have opened a window for Bank influence on policy.

While varying roles have been proposed for the Bank in climate finance, the CIFs have been put forward as the pilots of choice for modelling governance structures, criteria for selection of recipient countries and for funding. The CIFs are unique in having equal developing country and donor country participation in their governance with the Bank as a secretariat and administrator. However, the funds have raised concerns about a donor-driven model; the criteria used for selecting countries to access funds; technical criteria on issues like clean energy and forestry; and lack of country ownership and broad consultation in development of country plans. The Bank has greatly influenced the CIFs through Bank staff contributions to 'knowledge' and involvement in fund design, and country missions and implementation. Through its Strategic Framework on Development and Climate Change, the Bank has further asserted the importance of its knowledge and technical assistance in climate finance. This raises concerns about the governance structure of the institution overall, the development models advocated and the contradictions between the aim of funds such as the CIFs and the Bank's lending portfolio.

The Bank has also continued to advocate for CIF funding to be combined with the Bank's core lending arguing this one of the Bank's comparative advantages. Draft financing papers prepared for discussion under the PPCR suggested that all finance should be bundled with MDB lending. This met with resistance from some of the countries on the CIFs committees and is currently up for further discussion. However, this raises questions as to whether trust fund finance such as the CIFs, specifically allocated by donors, could be influenced by desires to generate additional business for the MDBs overall. It also raises serious concerns as to whether such bundling could undermine the purpose of specific funds. For instance, the CIFs were established with an initial contribution from the UK aimed at creating a transformation through funding for climate change. However, this past year a controversial loan was given to South Africa's electricity utility, Eskom, to fund one of the world's largest new coal plants with a $3.75 billion loan from the Bank. An application for $250 million from the Clean Technology Fund (CTF) under the CIFs, was submitted to finance a small renewable energy investment. This would have significantly been overshadowed by the massive investment in the coal plant and its negative environmental impacts and emissions generated over the next several decades. As controversy on the Eskom loan increased, the CTF proposal was suspended in March of 2010. However, it raises questions as to what type of bundling of climate finance will be undertaken and whether or not it will undermine any initial aims of climate finance by linking it to controversial core lending of institutions such as the World Bank.

While targeted at different sectors, other funds placed at the Bank such as the Fast Track Initiative for education, have been slow to disburse funds because of the need for dual approval at the trust fund and the Bank board. Ultimately it is the Bank board of director that sets the rules for grant approval and disbursement (as it does for all Bank-managed funds), which has slowed the funds. For example, a $20 million grant for Yemen, agreed to in 2006, has still not been released. Furthermore, through this process the Bank has required the application of all of its own fiduciary and procurement standards. The procurement standards have been particularly problematic for developing countries in that they have limited developing countries' ability to procure national goods and services as a means for development.

Whose Bank and to what end?

Even after recent governance reforms at the Bank, the institution largely remains one dominated by wealthy donor countries. High-income countries still hold approximately 60 per cent of the vote at the Bank, and some developing countries, which will be significantly affected by climate change, including many in Africa, have lost voting power. The US has also not yet given up its effective veto or said it will relinquish its power to appoint the President, despite G20 promises in this regard.

In addition, developing countries have had limited scope for influencing programmes within the Bank. A report from the Bank's own Independent Evaluation Group confirms that large middle-income countries, which have significantly more voice than low-income countries in global programmes, are only participating in their governance one-third as much as high-income countries.

Effectiveness of the Bank's programmes and lending has also been limited. A recent independent evaluation of the Bank's aid effectiveness highlights that over the past 10 years the Bank succeeded in supporting satisfactory outcomes in just 30 per cent of programmes evaluated. Projects in Africa have lagged far behind the success rates of investments in other regions.

A recent report by the Independent Evaluation Group has also shown that the Bank has not been effective in areas of environmental sustainability and supporting developing countries to shift to cleaner and more efficient energy use. The report further finds that the Bank is largely lacking a monitoring and reporting system to systematically assess the environmental aspects and impacts of projects it supports. Furthermore, not enough attention is paid to the issue within the Bank because it is not the top priority of senior management and there is limited capacity among staff in the institution.

Looking forward

In the face of significant environmental and human impacts from climate change, international architecture for climate finance must take into account the needs and requirements of recipient developing countries. Establishing a strong relationship between global institutional arrangements and national funds and entities is of utmost importance. In response to initial bilateral flows of fast-start finance, developing country governments have begun to undertake efforts to coordinate and better align ministries to work toward delivering on the goals of climate finance in the long-term. Examples thus far include the South Africa National Planning Commission and the Mexican Special Climate Change Program as well as efforts in Brazil and the Philippines. Such initiatives must be built upon and brought into global discussions about how to face the challenges ahead.

In this context, the World Bank's controversial history and limited effectiveness must be incorporated into any evaluation of instruments and institutions for delivering climate finance and establishing the models that will be used in years to come. The limitations that would be placed on recipients of funds by the World Bank, in the various roles proposed for the institution, must be taken into account. This must include evaluating the distinction of climate finance from aid; the allowance and facilitation of direct access to funds; and the creation of country owned systems that build national capacity and deliver on national priorities for addressing the challenges presented by climate change. To date, the Bank has continued to apply business-as-usual development models of the past, as seen through the Bank's policy conditionality and limited environmental engagement. Therefore, the question must be asked as to if the Bank, which stands to expand the use of its existing lending tools and garner increasing fees from climate finance, can provide the kind of innovative tools and knowledge required to truly provide solutions to climate change.

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