

## **TWO DECADES AFTER THE RIO EARTH SUMMIT: SUSTAINABLE DEVELOPMENT *QUO VADIS?***

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### **Abstract**

The world's most influential development agency, the World Bank Group (WBG), is the leading actor in development finance and plays a central role in global efforts to protect the environment. Following the Rio Earth Summit in 1992, the institution was responsible for all investment projects of the *Global Environment Facility* (GEF), which was then newly established to serve as the interim financial mechanism for the United Nations Conventions on Climate Change and Biodiversity. The promise that the GEF would lead to the "greening" of development finance remains largely unfulfilled.

More recently the United Nations Framework Convention on Climate Change appointed the WBG as the interim trustee of the new *Green Climate Fund* which plans to mobilize an estimated US\$ 100 billion per year by 2020.

While the World Bank Group plays this critical role in global environmental efforts, its main business continues to be lending for development. This includes the financing of large-scale infrastructure projects, agribusiness, large dams as well as investments in gas, oil and mining. This regular lending portfolio for development is often at odds with environmental sustainability. For example, despite the growing area of climate finance, support for fossil fuel projects continues to be dominant in the institution's lending for the energy sector. Another climate-related area is the World Bank's pioneering role in advancing REDD+, an initiative designed to reduce the emission of global green house gases by integrating efforts to protect forest areas into global carbon markets. Ultimately, its success will depend on addressing sensitive questions such as land ownership, forest governance and the equitable sharing of benefits. In conclusion the paper considers the underlying corporate culture and the difficulties in reconciling environmental and social sustainability with the institution's supply-side driven focus on meeting lending targets.

### **Keywords**

International Finance; Development and Environment; World Bank; Rio + 20

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## **TWO DECADES AFTER THE RIO EARTH SUMMIT: SUSTAINABLE DEVELOPMENT QUO VADIS?**

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The Rio Earth Summit in 1992, also known the United Nations Conference on Development and Environment (UNCED), promised to inaugurate a new era where economic growth and environmental sustainability would be closely intertwined and mutually reinforcing. The hope was that the 108 heads of state gathered in Rio would launch a new regime of international cooperation to transform our approach to development and protect the world's climate and biodiversity.

As the 20<sup>th</sup> anniversary of UNCED approaches and delegates from all over the world will once again gather in Rio, it is critical to attempt a better understanding of what has been accomplished to date. Here the focus is on the World Bank Group (WBG), the world's most preeminent development institution with a membership of 187 countries and a large bureaucracy running its day-to-day business. The WBG has played a central role over the past two decades in financing efforts intended to promote sustainable development and address global environmental problems such as climate change and the loss of biodiversity.

Following the publication of its seminal report on **"Environment and Development"** in the year of the Rio Conference<sup>1</sup>, the World Bank Group adopted a mission encapsulated in the twin goals of promoting **poverty reduction and sustainable development**. The new mission statement was based on the recognition that fighting poverty is inescapably linked to environmental protection and improved management of natural resources.

Considered to be a global knowledge center, World Bank Group thinking wields considerable influence over other public financial actors in the arena. Institutions, such as the regional development banks and bilateral aid agencies tend to follow its lead. More recently, some of the world's largest private sector banks, the so-called Equator Banks, have committed to adopting the environmental and social Performance Standards of the International Finance Corporation (IFC), the World Bank Group's branch that lends directly to the private sector.

This paper reviews the WBG's commitments to environmental policies and initiatives as the leading global actor in this arena. It briefly considers the institution's role at the center stage of financing for global environmental goals. This is followed by considering the WBG's main business in development finance and a review of the WBG's framework of environmental and social safeguards. The costs of exempting entire areas of lending from scrutiny of their environmental and social impacts are briefly sketched. Given the WBG's growing role in climate finance, the paper then considers lending for investment projects in the energy sector and reviews the opportunities and risks associated with WBG support for REDD+, an initiative designed to reduce greenhouse gas emissions by

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<sup>1</sup> The World Bank (1992). *World Development Report, Development and Environment*. Washington, D.C.



integrating the protection of tropical forests into global carbon markets. Finally, it will consider the underlying corporate culture and the difficulties in reconciling environmental and social sustainability with the institution's supply-side driven focus on meeting lending targets.

## **A Manager of Global Environmental Funds**

Prior to UNCED in 1992 and again now in the context of the United Nations Framework Convention on Climate Change (UNFCCC), the World Bank Group positioned itself as a key institution in environmental finance. It is central to both The *Global Environment Facility* (GEF) and the *Green Climate Fund* (GCF), which were established two decades apart in the early 1990s and in 2010. Both are mechanisms of financial transfers from North to South to meet the challenges of international environmental cooperation.

Two decades ago, as preparations for the Rio Earth Summit were underway, most developed countries were eager to demonstrate their commitment to finance developing country efforts in addressing globally important environmental problems such as climate change and the loss of biodiversity. Most developing countries, on the other hand, saw themselves confronted with too many other needs and did not consider global environmental problems as a major priority. They wanted, however, to make use of environmental preoccupations in countries of the North and the possibility of additional financial transfers to support their own domestic economic and environmental priorities (Fairman, 1996: 69).

Perhaps even more importantly, Northern and Southern governments did not see eye-to-eye on the governance structure of a fund designed to address global environmental problems. Developing country would have preferred to create a new institution with equal voting rights for all state members.

But developed countries in the early 1990s and again in the present decade insisted on using existing institutions to channel environmental finance. Their clear preference was and continues to be the WBG where voting shares are proportional to a country's financial contributions to the institution, which ensures the predominance of developed countries. In anticipation of the Rio Summit, the World Bank's Board of directors passed a resolution in 1991, which established the Global Environment Facility (GEF) and put the G7 countries clearly in the driver's seat in decisions on North-South financial transfers for the environment.

But in view of developing countries misgivings about a structure in which most of them had a very limited voice, the GEF invited the United Nations Development Program (UNDP) and the United Nations Environment Program (UNEP) to join the GEF in a tripartite arrangement. It also innovated by creating a GEF Council in which the representation of developing countries was strengthened and decisions would require a 'double majority', that is a majority of both Northern donor and Southern recipient countries. In practice, however, twice yearly GEF Council meetings and their proceedings moved along by *consensus*. The real power, at least in the GEF's first decade, lay with the WBG. It was the trustee, provided the secretariat and was responsible for all of GEF investment projects making up the bulk of GEF funding, while the UNDP and UNEP were limited to carrying out technical assistance or environmental studies. The GEF bolstered the World Bank's credentials as an environmentally



responsible institution and helped it establish leadership in an area of increasing interest to the public in its main donor countries (Fairman, 1996: 72).

For its entire first decade, the GEF had funding of about US\$ 4 billion, a paltry sum when compared to the demands of developing countries or to the average annual lending of over US\$ 20 billion a year by the World Bank. To rationalize their limitations on funding, donors promoted the GEF as an environmental “Trojan Horse”, a means to integrate or “mainstream” environmental priorities into all activities of the WBG and its two junior partners. Mainstreaming was seen as a way to make the GEF’s small sums go further by “greening” development work more broadly.

But mainstreaming did not take place (Fairman 1996: 82). With GEF funding, the World Bank has tackled the symptoms of selected environmental problems but GEF funds have not contributed to shaping lending in sectors such as energy, forestry and agribusiness that are central to climate and biodiversity protection (Young, 2002: 215; Horta 1998: 3). An official evaluation commissioned by the GEF in 1998 came to the same conclusion. Its one priority recommendation was the need to mainstream global environmental goals into the WBG’s overall lending portfolio by, for example, shifting away from financing conventional power loans to a new role in financing sustainable energy technologies (Garrett et al., 1998: xv).

Both the United Nations Convention on Climate Change and the United Nations Convention on Biodiversity adopted the GEF as their interim financing mechanism in 1992. But the GEF was never directly accountable to the Conventions and despite its early celebrations as being the one concrete outcome from the 1992 Rio conference, its importance has diminished over the past years.

Similar to its initiative in establishing the GEF, the World Bank more recently positioned itself as a major financial actor in the area of climate change. At stake are an estimated US\$ 100 billion per year by 2020 from both public and private sources to assist developing countries in mitigating or adapting to climate change. In anticipation of substantial new money flows, the World Bank launched its Strategic Framework on Development and Climate Change in 2008. It was designed to serve as a model for channeling large-scale financing to developing countries to cover the added cost and risks to development posed by climate change<sup>2</sup>. Once again, the World Bank’s anticipation of donor sentiment seems to have paid off. At the Conference of the Parties (COP) summit on climate change in Cancun in December 2011, the World Bank was appointed to serve as the interim trustee of a new Green Climate Fund (GCF). The exact working modalities of the GCF and the role of the World Bank Group as interim trustee are still to be determined in on-going international negotiations.

Developed country governments continue to consider the World Bank Group to be the institution most suited to managing large scale funding flows with fiscal prudence. How exactly the World Bank as interim trustee of the GCF will transcend traditional donor-recipient relationships and become an instrument of the UNFCCC principle of common but differentiated responsibilities which recognizes the ecological debt of Northern countries to the South is still open to question. An additional open question is the impact of China’s growing role on the WBG’s Board of Directors. While the G 7’s role on this Board is still predominant, China has recently replaced Germany as the third

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<sup>2</sup> The World Bank (2008). *Development and Climate Change – A Strategic Framework for the World Bank Group*. Washington, D.C.



largest shareholder of the institution after the United States and Japan.

Given the post-financial crisis difficult economic situation in the traditional donor countries, the expectation is that public funding from donor governments for the GCF will leverage larger funding contributions from private sources. The use of carbon markets, hedge funds and a variety of other more or less opaque financial instruments will be under consideration in order to meet the US\$ 100 billion per year transfer target by 2020.

While the World Bank's exact role is still being debated and questions of whether GCF funds will be comingled with World Bank lending are yet to be answered, the World Bank will have an influential role both as the interim GCF trustee as well as through its leadership role in development finance. The next sections of this paper will consider in more detail how the World Bank Group addresses environmental concerns in its regular business as the world's most influential lender for development.

### **A Framework of Environmental & Social Safeguards**

*"If the World Bank has been a problem in the past, it can and will be a strong force in finding solutions for the future"*<sup>3</sup> declared then World Bank president Barber B. Conable when he announced the establishment of a top-level Environment Department in 1987. The promise of this new department was that environmental considerations would be integrated into all of the Bank's lending and policy activities. Largely spurred on by public criticism of major World Bank programs, Polonoroeste in Brazil and Transmigration in Indonesia, both of which became emblematic for the destruction of tropical forests and the impoverishment of local populations, the Bank had recognized that it must adopt the environment as its own cause.

At the core of the World Bank's commitment are ten Environmental and Social Safeguards Policies as well as a new Access to Information Policy adopted in 2010, which is based on the presumption that most documents should be made publicly available to enhance transparency and ultimately positive development outcomes<sup>4</sup>.

The Safeguard Policies cover a broad arrange of topics from environmental assessment and involuntary resettlement to indigenous peoples and forests<sup>5</sup>. They were designed to avoid harming people and the environment in Bank supported projects, such as infrastructure development, power plants and large dams. They require consultations with project-affected people when assessing environmental impacts, the incorporation of their views in resettlement plans and the participation of indigenous peoples in the development of plans meant to benefit them.

Unlike its Environmental Strategy, which is voluntary guidance for Bank staff, the Safeguards are mandatory. This means that individuals or communities who feel that

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<sup>3</sup> Address by Barber B. Conable, President of the World Bank Group, to the World Resources Institute, Washington, D.C., May 5, 1987.

<sup>4</sup> For detailed information on access to information, please consult <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTANDOPERATIONS/EXTINFODISCLOSURE/0,,menuPK:64864911~pagePK:4749265~piPK:4749256~theSitePK:5033734,00.html>, Accessed on May 13, 2011.

<sup>5</sup> For a listing of the Safeguard Policies, please see <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTSAFEPOL/0,,menuPK:584441~pagePK:64168427~piPK:64168435~theSitePK:584435,00.html>, Accessed on May 13, 2011.



they are negatively affected by a Bank-financed project can submit complaints to the World Bank's Inspection Panel and press for solutions to their problems whenever Safeguard Policies have not been properly adhered to.

At present the World Bank has embarked on a process to update and consolidate its Safeguard Policy Framework because the current system is considered to be cumbersome and time-consuming. This process is to be concluded by 2012. While updating the policies is inherently a good idea, there is concern among civil society organizations that under the guise of "unclogging the system", there is the risk of undermining the existing regulatory framework instead of strengthening and broadening it.

The International Finance Corporation (IFC), the World Bank's important private sector branch, has a separate Sustainability Policy and Performance Standards for its private sector clients, which just underwent a major review<sup>6</sup>.

Both the Safeguards and the Performance Standards only cover the shrinking area of traditional project finance. In the case of the IFC, for example, 47% of its current lending is now channeled through Financial Intermediaries, which are not subject to the same degree of environmental and social scrutiny. In the case of World Bank public sector finance, an estimated 50% is now dedicated to providing lending for macro level policy reforms and direct budget support to developing country governments. Such lending is exempt from environmental and social impact considerations.

### **The Cost of Exemptions**

The environment is more than a specific sector. It is cross-sectoral since activities at both the project level and at the macro-policy level have impacts on the environment and natural resources. While the World Bank had promised to mainstream the environment by ensuring that environmental concerns be incorporated into the *entire* portfolio of Bank activities<sup>7</sup>, its Environmental and Social Safeguards have only been applicable to specific investment operations.

Structural adjustment lending, which emerged forcefully in the 1980s when a combination of falling commodity prices and growing public sector deficits led to mounting debt service for many countries, is a case in point. The loans were made in exchange for a government's adoption of a standard set of economic policy reforms, which included deregulation, privatization and trade liberalization and became known as the Washington Consensus. All of these economic reform measures have environmental and social implications, which were not adequately assessed and taken into consideration.

One example would be the shrinking of the role of the state in national economies promoted by structural adjustment lending. An unintended consequence was the reduction of national and local capacity to manage environmental problems such as addressing deforestation and water pollution. The potential impacts of this on local livelihoods and public health were not considered (Saprin, 2004).

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<sup>6</sup> For further information, please see <http://www.ifc.org/ifcext/media.nsf/content/SelectedPressRelease?OpenDocument&UNID=0ADE5C1923DC4CF48525788E0071FAAA>, Accessed on May 13, 2011.

<sup>7</sup> The World Bank (1995). *Mainstreaming the Environment*, Washington, D.C.: 3.



A World Bank report in 2000 acknowledged that lending for growth-oriented macro-economic policy reforms had a highly negative impact on national capacity, "The adjustment decades also saw a substantial deterioration in the quality of public institutions, a demoralization of civil servants and a decline in the effectiveness of service delivery in many countries" (The World Bank, 2000:37).

The term *structural adjustment* was replaced in 2004 by the term *development policy lending* which augments the Washington Consensus to include institution-building, a focus on good governance and warnings about the corrosive forces of corruption.

Has this contributed to greater attention to environmental sustainability? Not so, according to the World Bank's own Independent Evaluation Group (IEG). In a seminal report published in 2008, it found that the Bank lacked a systematic environmental sustainability perspective across its policy and financial instruments. It adds that the environment and natural resource management had not been given sufficient priority in Poverty Reduction Strategy Papers and other Bank analytical and/ or lending activities (Independent Evaluation Group, 2008: 5).

The area of trade finance represents an illustrative example of the high environmental and social costs of exempting certain categories of loans from the Safeguards Framework. For example, the WBG's International Finance Corporation has provided trade finance to support corporations that export specific commodities such as palm oil, which is in high demand given the growing role of biofuels in the energy mix of many countries.

The environmental and human rights impacts of this type of investment have become so problematic that World Bank president Zoellick established a moratorium on investments related to palm oil and other commodities grown in large-scale monocultural plantations in 2009. This decision was the result of an audit undertaken by the International Finance Corporation's Ombudsman's office following civil society allegations of massive deforestation and human rights violations linked to IFC support for a trade facility for the Wilmar Group, one of the world's largest plantation companies with vast holding in Indonesia and Malaysia. The audit confirmed serious IFC negligence and violations of environmental and social standards: "*Because commercial pressures dominated IFC's assessment process, the result was that environmental and social due diligence reviews did not occur as required*"<sup>8</sup>.

The moratorium was lifted in April 2011 with the publication of a new World Bank Group Framework and IFC Strategy to guide the institution's future engagement with the global palm oil sector. It promises to support small holders, share benefits with local communities and protect forests and biodiversity<sup>9</sup>. With the expansion of large-scale agribusiness operations in many of the WBG's client countries, these commitments are important. However, what counts is their implementation in practice and this remains to be tested.

## **Difficulties in Implementation: Investment Projects**

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<sup>8</sup> Compliance Advisor Ombudsman (CAO), Audit of IFC's Investments in Wilmar Trading, Audit Report, Washington, D.C., June 19, 2009, p.2

<sup>9</sup> For further information, <http://www.ifc.org/ifcext/agriconsultation.nsf/Content/Home>, Accessed on May 17, 2011.



World Bank Safeguard Policies and IFC Performance Standards do apply to traditional project finance, such as investments in infra-structure development and in oil, gas and mining. In the following we briefly consider investments in the energy sector and support for REDD+ both of which are particularly sensitive to climate change considerations.

## Energy Lending

The World Bank's most recent Annual Reports have highlighted the links between climate change and poverty. Its 2009 report stated that "*Climate Change will most severely affect the poorest peoples and the poorest countries, potentially reversing decades of development achievements.*"<sup>10</sup> Its 2010 Annual Report again emphasizes that climate changes puts the gains in the fight against poverty and the lives and livelihoods of billions of people at risk.

Today addressing climate change has become one of the World Bank Group's banner activities (The World Bank 2008). Donor governments promoted this development by committing an additional US\$ 6.1 billion for World Bank-managed Climate Investment Funds in 2008<sup>11</sup>.

This welcome shift to a focus on climate change would have provided a unique opportunity to overhaul the World Bank Group's portfolio to ensure that all its lending and non-lending activities are consistent with climate protection goals. However, while the institution's new Energy Strategy, which is currently being prepared, contemplates increasing support for energy access for poor people and low-carbon development, the World Bank continues to be a major funder of fossil fuel projects. Lending for coal projects, the most heavily polluting of fossil fuels, has reached record levels in recent years<sup>12</sup>. One of the most controversial recent World Bank investments is the Medupi coal-fired power plant in South Africa, the World Bank's single largest operation in Africa in 2010.

The Medupi power plant is financed through a World Bank loan of US\$ 3.75 billion loan for Eskom Holding, Ltd., South Africa's state-owned utility (The World Bank, 2010: 20). It finances the 4,800 MW coal-fired power plant, one of the largest in the world. It also includes US\$ 200 million for renewable energy, a small fraction of the massive investment.

The Medupi plant will use super-critical coal, which burns coal more efficiently than standard coal-fired power plants. But this does not make it a "low carbon option" and it will lock South Africa into burning coal for decades to come. The Bank itself estimates that at full output Medupi will release 30 million tons of CO<sup>2</sup> per year, although it claims that the net increase in CO<sup>2</sup> emissions will be considerably lower because the project

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<sup>10</sup> The World Bank (2009). *Annual Report 2009*, Washington: 20

<sup>11</sup> World Bank Press Release, September 26, 2008, <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21916602~pagePK:34370~piPK:34424~theSitePK:4607,00.html>, Accessed on May 19, 2011.

<sup>12</sup> Meinhard-Gibbs, Heike and Bast, Elizabeth (with Kretzman, Steve), World Bank Group Energy Financing – Energy for the Poor?, Oil Change International, Washington, October 2010, available at <http://priceofoil.org/wp-content/uploads/2010/10/ociwbenergyaccessfin.pdf>





will provide energy access to the poor and replace diesel generators, candles and kerosene<sup>13</sup>.

But South African NGOs and the affected people remain unconvinced. They have filed a claim with the World Bank's Inspection Panel stating that the project will cause massive pollution and significantly damage their health, livelihoods and the environment<sup>14</sup>. In addition, they consider the project to be a subsidy to large corporations that will do little to provide energy to local populations. According to Bobby Peek, Director of the NGO GroundWork in South Africa, *"This project is to secure uninterrupted electricity for large corporations, such as smelters and mining houses under secretive special pricing agreements. It is not for the millions of poor people who cannot afford or do not have access to electricity. South Africa does not need this loan"*<sup>15</sup>.

The World Bank's Inspection Panel undertook an initial field visit and found sufficient evidence to justify a full-scale investigation of possible violations of Environmental and Social Safeguards<sup>16</sup>. The investigation is to be concluded in late 2011.

World Bank Group investments in oil, gas and mining have been controversial for many years because of their association with environmental degradation, human rights violations and corruption. In order to address some of these problems, the World Bank commissioned the Extractive Industries Review (EIR) headed by Emil Salim, a former Indonesian environment minister, in 2000. The EIR's mission was to provide a set of recommendations to guide World Bank Group investments in the extractive sector with the goal of ensuring their compatibility with poverty alleviation and sustainable development. The EIR report, published in 2003, recommended an immediate halt to all investments in coal and a gradual phasing out of investments in fossil fuels more broadly. In addition, it called for improved dialogue, respect for human rights, participatory decision-making and sound environmental practices in extractive projects (EIR 2003). But to date fossil fuel lending, including coal, continue to play a dominant role in the WBG's energy portfolio and the EIR's recommendations remain to be implemented.

On a broader scale, the WBG's Independent Evaluation Group (IEG) examined the environmental sustainability of a WBG investment portfolio of US\$ 400 billion covering the years 1990-2007. The evaluation concluded that while attention to the environment had grown over those years, the WBG had not put environmental sustainability considerations into practice when it was lending for large dams, agribusiness, pipelines and other projects (Independent Evaluation Group 2008).

## **Climate Change & Forests: Opportunities & Risks of REDD+**

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<sup>13</sup> The World Bank (2010). *Project Appraisal Document*, Report N° 53425-ZA, Washington, March 19: 49.

<sup>14</sup> The Inspection Panel investigation request is available at [http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/Request\\_for\\_Inspection\\_\(PUBLIC\).pdf](http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/Request_for_Inspection_(PUBLIC).pdf), Accessed on May 23, 2011.

<sup>15</sup> Bank Information Center (2010). *Press Release*, South Africans say 'no' to Eskom coal", Washington, April 6.

<sup>16</sup> Statement by Roberto Lenton, chairman of the Inspection Panel. Available at [http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/Final\\_Elig\\_Rpt\\_for\\_Disclosure.pdf](http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/Final_Elig_Rpt_for_Disclosure.pdf). Accessed on May 23, 2011.



The destruction of tropical forests represents approximately 17% of greenhouse gas emissions generated by human activity. The initial idea behind REDD (**Reduced Emissions from Deforestation and Forest Degradation**).

was that compensating developing countries for slowing their rates of deforestation represented cost-effective and near-term opportunities to stabilize the world's climate. In addition, it would generate other benefits as well, such as the protection of biodiversity and the generation of income for economic development<sup>17</sup>.

Compensating countries for reducing their rates of deforestation from a given baseline (the deforestation that would have happened anyway) ran the risk of providing perverse incentives. Some governments might have decided to accelerate rates of deforestation in their countries in order to qualify for higher compensation payments. To address this problem, REDD has now been expanded to REDD+ which also considers compensation for activities that contribute to forest conservation, sustainable forest management and enhancement of carbon stocks.

REDD+ presents both opportunities and risks. The opportunities are the opening up of political space to address questions of governance, corruption and land rights as well as finding solutions to the underlying causes of deforestation. On the risk side are issues of land speculation, eviction of forest-dependent people, loss of traditional knowledge systems and outright fraud and corruption as vested interests seek to profit from lucrative carbon deals. Furthermore, there is the risk that endemic rent seeking in countries with poor governance systems will lead to REDD+ carbon credits that do not represent genuine reductions in CO<sup>2</sup> emissions (Lohmann, 2009).

The World Bank's Forest Carbon Partnership Facility (FCPF) is the most prominent of REDD+ related initiatives. It came into effect in June 2008 and consists of two parts: a REDD-Readiness Mechanism to prepare countries for REDD, and a Carbon Fund to broker carbon finance transactions<sup>18</sup>. The Carbon Fund, which is scheduled to become fully operational in 2011, will enable countries to participate in global carbon markets. The goal is for countries to sell their Emissions Reductions (ERs) to buyers who find it more cost-effective to purchase ERs than to meet their own emissions reduction targets through technological or other means.

The FCPF has established several criteria that should be included in REDD+ Readiness preparations, including consultations with civil society and indigenous peoples. According to the FCPF Charter, World Bank Environmental and Social Safeguard apply to REDD+ initiatives, although there is ambiguity about whether the Safeguards are already applied at the planning stages or only later during implementation (Forest Carbon Partnership Facility 2011).

The Congo Basin Forest is the second largest after the Amazon and represents one of the regions where the FCPF is pioneering REDD+. One of its client countries is the Democratic Republic of Congo, (DRC) which covers more than half of the Congo Basin forest. DRC provides a critical example of how difficult preparations for REDD+ are in practice. Institutions are weak and not present in large swaths of the country. Questions of land-ownership, resource-use rights and rights to sharing in the benefits of REDD+ payments all remain to be worked out (Horta, 2009).

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<sup>17</sup> Numerous documents on REDD+ are available at the website of the Center for International Forestry Research (CIFOR) at URL <http://www.cifor.cgiar.org>.

<sup>18</sup> Further information on the FCPF's website <http://www.forestcarbonpartnership.org/fcpf/>



DRC's has a very poor record in using the income from its vast wealth in minerals and other natural resources for poverty reduction purposes. Civil society organizations in the region are concerned that shifting cultivation is considered to be a primary driver of deforestation, while industrial-scale logging and mining operations are left out of the equation. The stage may be set for blaming the poor for deforestation while REDD+ benefits accrue to powerful interests.

In DRC as elsewhere, it will be an enormous challenge to ensure that income generated by REDD+ will be shared with the populations living in the forested areas (Sunderlin *et al*, 2008).

The World Bank's own record in DRC's forest sector is not encouraging. In 2007 its Inspection Panel investigated World Bank forest-related investments in DRC. Its investigation report concluded that Bank activities had focused on industrial timber production and had largely ignored environmental and socio-economic issues, including the needs of the approximately 40 million people in DRC who rely on forest resources for their subsistence (The Inspection Panel 2007).

A central problem for the World Bank's FCPF is that its accelerated schedule to assist countries in getting ready for REDD+ and participating in carbon markets is not easily reconcilable with the need for broad participation and the strengthening of national institutions, which require longer-term timeframes.

### **A Corporate Culture at Odds with Sustainability**

As this paper has tried to demonstrate, the WBG's environmental agenda continues to be unfinished. The lack of policy coherence is illustrated by the WBG's growing role in climate finance and its simultaneous financing of large-scale fossil fuel development, which locks developing countries into high greenhouse gas emissions for decades to come.

The World Bank Group's own Independent Evaluation Group (IEG) has documented a static and problematic investment program in the energy sector where incentives are stacked against much needed lending for energy efficiency and renewable energy (IEG 2008: ix). The IEG also has called for much more rigorous environmental and economic assessments of energy investments as well as for the reshaping of the WBG's internal incentive system.

Over the past two decades IEG evaluation reports as well as the findings and recommendations of both internal and external Panels and Commissions, have provided valuable contributions with the goal of improving the environmental sustainability of WBG operations. But the WBG has mainly stuck to a course that has long been subject to serious criticism (IEG, 2008: xxv).

What explains the lack of coherence between official discourse on the environment and actual financing decisions?

The central problem was already identified in 1992 by Willi Wapenhans, a former World Bank Vice-President. He referred to the institutional "culture of (loan) approval" as a critical obstacle to improving loan quality (Wapenhans, 1992). Internal staff incentives are based on moving money and not on actual results in terms of reducing poverty or promoting sustainable development. The lack of attention to actual results has been



documented in numerous internal evaluation reports, which have consistently pointed to serious shortcomings in monitoring and supervision of WBG-supported operations (OED, 2000; OED, 2002; IEG, 2008). But evaluation findings have not led to significant changes.

Former World Bank official Steve Berkman describes the situation in vivid language: "*Obsessed with moving money to further our own careers, we had somehow forgotten our fiduciary responsibilities and just plain old-fashioned logic as we approved loan after loan, enriching the corrupt while ensuring that the poor would remain in poverty*" (Berkman, 2010: 159).

The present geopolitical shifts at the global level with the growing power of China, India, Brazil and other developing country powers are also leading to increasing strength of these countries on the Board of Executive Directors at the World Bank. The growing importance of emerging powers has already led to new trends such as the use of country-systems, *i.e.* the replacement of World Bank Safeguards with environmental and social regulations in the borrowing countries. This could be positive as long as public accountability is built into this system. However, if the country-systems approach impedes the independent monitoring of environmental and social impacts, then it will serve primarily to move large amounts of money with little accountability.

Sustainable development will remain largely elusive as long as the political and economic forces driving unsustainable practices are not addressed. Whether developed country governments or the new powers on the global stage with an important voice at the World Bank will develop the political will to address the root causes of the environmental problems engulfing our planet is an open question.

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