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## **From Rejection to Adaptation. The Meaning of Sustainability in World Bank “Thinking”**

Paper presented to the Conference on Ecology & Power – Critical Perspectives on Sustainability and Resilience, organized by the Human Ecology Division, Lund university, September 17-19, 2008

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It would have been nice to be able to portray the World Bank's changing attitudes to climate change as akin to those of a person confronted by shock and crisis. In elementary psychology – and in similarly basic management programmes – people, and institutions, come to grips with reality by gradually realizing facts. This implies that a “normal” process of adjustment of beliefs and understandings to facts is taking place, just as when a patient by and by realizes what it is that has happened to him or her. Such a process is said to begin with denial and will through various intermediate phases lead to an eventual acceptance of reality. Could not World Bank thinking about climate change during the last fifteen years be described by using a similar image?

### **World Bank Thinking on the Eve of the Earth Summit 1992: Rejection**

World Bank thinking on climate change does not conform totally to this pattern, but rather strikes a balance between different positions; unifocal, or single-cause, explanations have not been the rule. Hence, it is by studying the shifts in this balance, that we can learn how an institution like the World Bank comes to embrace irrefutable facts.

World Bank thinking on climate change has gone through a number of phases. A relevant starting point is the running up to the 1992 UN Earth Summit in Rio de Janeiro. Just like the World Commission on Environment and Development (better known as The Brundtland Commission), the World Bank initially chose to believe in a win-win hypothesis: economic growth would contribute to resolving the environment problems. This position was phrased in the following way by the Brundtland Commission (World Commission 1987):

“This Commission believes that people can build a future that is more prosperous, more just, and more secure. Our report, *Our Common Future*, is not a prediction of ever increasing environmental decay, poverty, and hardship in an ever more polluted world among ever decreasing resources. We see instead the possibility for a new era of economic growth, one that must be based on policies that sustain and expand the environmental resource base. And we believe such growth to be absolutely essential to relieve the great poverty that is deepening in much of the developing world.”

In other words, growth comes to the rescue not only in the South but also in the North. As the Commission chairperson, Gro Harlem Brundtland, summed up the conclusions in her introduction to the report:

“What is needed now is a new era of economic growth - growth that is forceful and at the same time socially and environmentally sustainable.”

The World Bank sided with this view of economic growth as not only being possible to reconcile with ecological needs, but indeed as a necessary condition for development and sustainability everywhere. However, it did position itself in a rather ambiguous way, which not always is recognized in the critical literature where the World Bank frequently is portrayed as a one-dimensional backer of economic growth (cf Stern 2004). It is true that it did state (World Bank 1992 pp 38-39):

“The view that greater economic activity inevitably hurts the environment is based on static assumptions about technology, tastes, and environmental investments. [...] As incomes rise, the demand for improvements in the environmental quality will increase, as will the resources available for investment. [...] In industrial countries these positive forces contributed significantly to improving environmental quality while maintaining economic growth.”

This may sound like a blanket approval of the pro-growth position, but the World Bank in the same report also cautioned that “there may be tradeoffs between income growth and environmental protection”. Nevertheless, the overall impression is that “there are strong ‘win-win’ opportunities that remain unexploited.” (World Bank 1992, p 1)

So, although a careful reader would find some statements arguing that we might be in a situation of conflicts (so called tradeoffs) regarding economic growth and sustainability, the overall conclusion was one of a positive relationship between the two, a win-win situation. The World Bank built this conclusion on two hypotheses that were presented as facts.

First, it postulated the existence of an Environmental Kuznets Curve (EKC), which means that the impact of economic growth on the environment would turn less and less

destructive once the economy reached a high enough level of economic wealth. While growth impacted negatively on the environment initially, the relationship would turn positive in the sense that a growing economy would be accompanied by a reduction in the environmental load.<sup>1</sup> The threshold value where the impact of the economy on the environment would shift from increasingly negative to less and less so, was set at an average GDP per capita of 4-8000 USD.

Although this optimistic view – for the North, at least – became the message that has survived the test of time, the EKC hypotheses that were presented in the report, in fact were more varied and hence, more interesting, than the hypotheses that all environmental problems would decrease with economic growth. Thus, the World Bank recognized that of the six “environmental indicators” that they presented, four behaved according to the EKC-hypotheses while two did not. The EKC-performers were access to safe drinking water, access to sanitation, urban concentration of particulate matter, and urban concentration of sulfur dioxide.<sup>2</sup>

Two indicators, however, continued showing dismal results, municipal waste and, most significantly in relation to climate change, carbon dioxide emissions. (World Bank 1992, p 11). As far as these two environmental problems were concerned, the EKC did not hold true, not even in the eyes of the World Bank.

Figure EKC here

The second hypothesis that was marshalled by the World Bank in order to argue for the win-win position, was delinking, the thought that environmental problems would increase at a slower pace than the economy. This was presented both as a theory and as a fact (at least in the North):

“Industrial countries have achieved substantial improvements in environmental quality along with continued economic growth.” (World Bank 1992, p 40).

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<sup>1</sup> Note that reductions in environmental load may well mean a deterioration of environmental quality and services, especially as many environmental problems emanating from the economy accumulate in nature. Hence, if the EKC-relationship were true, it would at most imply a slower rate of deterioration, not an absolute improvement. Nevertheless, running in the wrong direction at a slower pace is to be preferred from rushing the wrong way.

<sup>2</sup> Two of these indicators are however best thought of as social rather than environmental: safe drinking water and adequate sanitation.

The evidence that was presented to substantiate this claim showed a reduction in the levels of emissions of sulfur oxides, particulates and lead in the OECD-countries, in spite of economic growth by almost 80 percent 1970-1988.

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By choosing the environmental issues carefully, the World Bank thus managed to transmit a win-win image. However, more serious studies of the phenomenon of delinking, concludes that there has been “some decoupling of CO<sub>2</sub> emissions from GDP in the major economies of the world from 1970-1988” – i.e. the EU, Japan and the USA – “as well as in some major developing countries such as China”. Still, “absolute emissions of CO<sub>2</sub> have been increasing in most countries and periods studied”. The report concludes: “It should be noted that it is the absolute numbers – and not the relative – that matter.” (Azar et al 2002 pp 7-9) Hence, decoupling may exist in relative terms – measured against the growth in GDP – but not in absolute terms, i.e. when measured by relevant physical indicators.

These conclusions are no longer controversial, not even at the World Bank as witnessed by a new World Bank report which concludes that there is no empirical basis for the delinking hypothesis, at least not when it comes to green house gas emissions. (Bacon & Bhattacharya 2008) Based on a study of the 70 heaviest polluters worldwide, the study concludes: there is “no evidence of an eventual decline in emissions per capita at higher per capita income”, thus contradicting the EKC-argument. (op cit, p 1)

In fact, the study goes further than this, and concludes that higher-income countries do not perform better than poor countries in slowing growth of emissions relative to GDP. And even more devastating for the EKC: “emissions can actually increase faster than GDP, even when GDP has reached a high level.” (Bacon & Bhattacharya 2008, p 32). In other words, we may still be on the rising slope of the EKC, also in the North, which does not promise climate stability anytime soon. The least we can say is that there is not much evidence of decoupling in absolute terms.

### The UNFCCC on two legs

The United Nations Framework Convention on Climate Change, adopted by the Rio Conference in 1992, did not choose between the win-win and the tradeoff positions. Rather it opted for believing that climate change could be stopped, and should this hope be found to be unrealistic, assistance to afflicted countries in the South should be forthcoming. The first position was worded as a need for mitigation, while the second found expression as adaptation. The UNFCCC states (Article 4.1(b), emphasis added) that all parties to the convention shall

“Formulate, implement, publish and regularly update national and, where appropriate, regional programmes containing measures to *mitigate* climate change by addressing anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, and measures to facilitate adequate *adaptation* to climate change”.

Note that mitigation is the primary concern here where concrete actions are to be “implemented”, while adaptation only is considered as something that should be “facilitated”. A similar differential treatment of the two approaches was incorporated into the Kyoto Protocol, where “appropriate [...] measures to mitigate climate change” are required, while the second avenue only is seen as requiring “measures to facilitate adequate adaptation to climate change”. (UN 1998 Article 10 (b), cf Jerneck & Olsson 2008)

### Mitigation and Adaptation according to the UNFCCC

#### Mitigation

A human intervention to reduce the sources or enhance the sinks of greenhouse gases

#### Adaptation

Adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.

Source: Glossary, UNFCCC, 2008-10-08

The difference in emphasis here can be seen as a clever device to give priority to resolving the problem of climate change “upstream”, i.e. by reducing the emissions of green house gases rather than to ease the impact of its effects on poor countries. It could also be argued that the general atmosphere at the Rio Conference was still one where the possibility of stabilizing the climate was seen as the first priority; stressing the need for adaptation could have detracted attention from that first priority (Jerneck & Olsson 2008, p 172).

A case in point: the Stern Commission, the most influential statement as to the unavoidability of climate change formulated by economists, concluded that mitigation was to be preferred to adaptation:

“The costs of stabilising the climate are significant but manageable; delay would be dangerous and much more costly.” (Stern 2006, Summary of recommendations)

Nevertheless, a clearer understanding of the unavoidability of climate change has meant that adaptation has come to the fore, especially as seen by the poorer countries of the South, whose contribution to the climate change certainly is much smaller than the impact they will suffer once green house gas emissions create a new climate pattern. Hence, with the realization of the fact that the most likely prognosis for climate change indicates an increase in the average temperature of at least 2 degrees Celsius, adaptation becomes ever more urgent.<sup>3</sup> How is this reflected in World Bank thinking?

### **Climate stability via transfer of technology**

Superficially, it may look as if the World Bank has the need for adaptation at heart, thus showing an acceptance of facts. It has recently established two new funds to finance climate activities: a Clean Technology Fund, which deals with mitigation, and a Strategic Climate Fund for mitigation.

However, the financing that has been forthcoming has almost exclusively been channelled to the Clean Technology Fund, i.e. to mitigation. Just before the World Bank annual meeting in October 2008, over 6 billion USD was committed by donors, primarily by the USA (2 billion USD, entirely for mitigation), Japan (1,2 billion) and the United Kingdom (1,5 billion).<sup>4</sup> Since

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<sup>3</sup> This was also acknowledged in the Stern review, although only as its last recommendation. Under the heading Adaptation the Stern Review stated: “The poorest countries are most vulnerable to climate change. It is essential that climate change be fully integrated into development policy, and that rich countries honour their pledges to increase support through overseas development assistance. International funding should also support improved regional information on climate change impacts, and research into new crop varieties that will be more resilient to drought and flood.”

<sup>4</sup> The distribution of the contributions by Japan and the UK between the two funds is unclear. Other donors that committed to finance the World Bank Climate Investment Funds include Australia, France, Germany, The Netherlands, Switzerland and Sweden (whose contribution of almost 100 million USD, 600 million SEK, entirely goes to the Clean Technology Fund (i.e. to mitigation). The



this fund is dedicated to the transfer of technology, it can be surmised that this is a case where environmental concerns go hand in hand with the interests of commercial actors, a nice example of a win-win situation.

But it is not only the priorities of the donors that decide this biased outcome in favour of technology transfer; the World Bank itself is equally guilty of playing down the costs of adaptation compared to those of mitigation (World Bank 2008). While investments needs for mitigation are calculated to be somewhere in the order of 200-1 000 billion USD per annum, costs of adaptation only amount to an estimated 4-86 billion USD. Obviously, mitigation offers the greatest business opportunities. Equally worrying is that the estimated flows to meet the needs of adaptation probably only will amount to 1 billion USD at the most, and in “worst case scenarios” to as little as a couple of hundred millions USD.<sup>5</sup> Hence, not even the undervalued costs of adaptation will be covered.

The way the World Bank goes about this forecasting of future catastrophes has an interesting logic of its own. The Bank starts out by painting a grim picture of what the future may bring.<sup>6</sup> For low-income countries, major natural disasters already today cost an average of 5 percent of their GDP (which is stunning, considering the fact that these countries only receive an average of 2.4 percent of their GDP in official development aid<sup>7</sup>). Such prospects are indeed worrying, and the World Bank continues to list what the future may have in store:

“Increased climate variability is expected to reduce agricultural productivity, potentially increase malnutrition, decrease water availability in many areas of the subtropics, and increase the incidence of many diseases. Rising sea level could displace tens of millions of people in deltaic areas and small island states.”<sup>8</sup>

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financial commitments cover a period of three years. World Bank Press Release No 2009/092/SDN, September 26, 2008

<sup>5</sup> The estimates of future finance requirements and availability were considered to be “fragile and heroic” in a draft of the World Bank report; after the language was polished, the same estimates are now said to be “unreliable”. According to UNFCCC 2007, p 5, “current global funding for adaptation is a fraction of this figure [estimated needs for adaptation according to the UNFCCC are 28-67 billion USD] and access to these funds for developing countries is often lengthy and complex.”

<sup>6</sup> World Bank 2008 a, pp 18-20.

<sup>7</sup> World Bank 2003, table 6.10.

<sup>8</sup> World Bank 2008a, pp 18-19.

But such enormous strains on societies are then transformed into estimates of “costs of adaptation”, which are calculated crudely as the *additional* investment costs needed to meet the impact of climate change: by guessing that adding 10-20 percent to the funds already being invested in terms of ODA, foreign direct investments, and total domestic investments, the World Bank reaches the conclusion that adaptation costs will amount to as little as between 9 and 41 billion USD per year. To this quite low estimate of adaptation costs, the World Bank adds an unspecified sum of 40 billion USD to cover “costs of additional impacts”. Hence, overall estimates for adaptation total a maximum of 80 billion USD.<sup>9</sup> The “guesstimates” do not seem to have any reasonable relationship with the scenario that depicted such dramatic impacts of climate change. On the other hand, the funding that is expected to be made available for adaptation, as we have seen, is even lower than these underestimated needs.

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The shift to mitigation (and, to a lesser extent, adaptation) can be understood as a necessary step undertaken by the World Bank in order to maintain its position as leading multilateral development agency. In the face of a spreading realization that climate change is already a fact, the World Bank arguments must change.

But it is not easy to change, when you are perceived by those you say you want to assist as a negative force. As a reflection of the fact that the balance of power within the World Bank is heavily skewed in favour of the North, a large number of countries from the South have united in protesting the attempt by the World Bank to side-step the financing mechanisms of the UNFCCC, where Southern countries arguably have a greater say. Thus, the Group of 77 – representing the majority of the South – and China have recently opposed the role of the World Bank climate funds as they are seen as an attempt by the North to keep the control of such funds in their own hands (quote from Third World Network 2008):

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<sup>9</sup> It could be noted that the World Bank here follows the tradition of setting the calculated needs equal to a doubling of today’s ODA, presumably with the reasoning that such a figure is fathomable to decision-makers such as ministers of finance in the North. A similar calculus was presented after the UN agreed to the Millennium Development Goals (MDGs) in the year 2000: ODA then amounted to approximately 50 billion USD, and the finance required to realize the MDGs were then “costed” at only twice that sum.

“Any funding pledged outside of the UNFCCC shall not be regarded as the fulfilment of commitments by developed countries under [the UN] Convention.”<sup>10</sup>

The World Bank needs its climate funds in order to be able to argue that it still is a “learning institution” and that it has taken sustainability on board as one its main concerns. This is no easy task, since the World Bank energy portfolio consists of as much as 92 percent fossil fuel (dubbed traditional energy sources, see World Bank 2007, p 21). This bias has not improved lately, on the contrary: the priority given to financing fossil fuels – energy generation, oil and gas development, refinery and handling facilities, and transports – remain the overall thrust of World Bank energy finance, and increasingly so. During fiscal year 2007/2008, fossil fuel financing at the International Finance Corporation, IFC, increased by a frightening 165 percent compared to the previous year. In comparison, renewable energy finance of the whole World Bank group grew by a modest 9 percent.<sup>11</sup>

### **In conclusion**

Very little mitigation, and even less adaptation, seem to be in store if we are to go by the response of the World Bank to climate and what it may bring, especially to the poorest countries of the South.

Therefore, the forecast regarding what lies in store for us is grim. Recently the OECD (2008) published scenarios that unfortunately do not seem to be exaggerations. By the year 2030, and based on present policies and initiatives, greenhouse gas emissions will grow by 37 percent (base year 2005), and with as much as 52 percent by the year 2050.

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<sup>10</sup> The statement makes refers to Article 4.3 of the UNFCCC, where there is talk of new and additional financial resources, outside of and in addition to the ODA commitments. This is by far not the only criticism of the World Bank initiative regarding financing of climate funds. In a joint statement by global civil society, the following points were highlighted: poor countries should not be forced to borrow money to finance their adaptation to the effects of climate change which has been caused mainly by the creditor countries; additional funds must be in the form of grants. In addition no definition of clean technology has been established, which means that the Clean Technology Fund may well continue financing fossil fuel projects. See [www.eurodad.org](http://www.eurodad.org), Global Civil Society Statement on World Bank Climate Investment Funds, June 5, 2008.

<sup>11</sup> BIC 2008. The IFC is part of the World Bank Group and finances large-scale infrastructural projects in private-public partnerships.

This seems to spell a sad future, indeed, and this scenario certainly does not lend itself to any hopeful conclusions about seeing the light at the end of the tunnel, or of “donor society” waking up to realize what reality demands in terms of action and policies. Nor is this promise, expressed by the World Bank, hopeful: the World Bank will

“maintain the effectiveness of [our] core mission of supporting growth and overcoming poverty while recognizing added costs and risks of climate change”.<sup>12</sup>

It is more in the line of Business as usual, and does not disclose any signs of sobering-up, of facing reality. In other words, although the World Bank with its new Climate Investment Funds – the Clean Technology Fund for mitigation, and the Strategic Climate Fund for adaptation – in words has recognized that new policies are of the essence, deeds have not followed.

This sounds a bell of alarm from the point of view of psychological sanity: to realize that you have to change, to say that you have changed, but to continue along the path of business as usual is a certain recipe for new and probably more profound psychological dissonance. It will possibly lead to a need to choose, a tradeoff: either accept the new understanding of reality, and change accordingly; or return to negating facts and making up wishful dreams of win-win scenarios.

We still do not know where the World Bank is heading, whether its new insights will lead to new policies in real life, or more of the same. But we may guess, based on previous experiences, that it is difficult to embrace a reality that says that your earlier beliefs were in fact wrong.

Thus we may expect more business as usual, but perhaps in the guise of new policies for sustainable future. If so, we can say with a great deal of certainty, that ever more adaptation will be needed, and not only in the South.

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<sup>12</sup> World Bank 2008, p i. A similar worrying attitude was recently voiced by the World Bank President Robert Zoellick when he promised that the World Bank would strive to “meet the challenge of climate change without slowing the growth that will help overcome poverty”. See Swann, Christopher : “Zoellick Fossil-Fuel Campaign Belied by World Bank’s Tata Loan”, at [www.bloomberg.com](http://www.bloomberg.com), August 10, 2008.

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