

WORLD BANK: Experts push for 'shadow pricing' to account for project emissions (Monday, September 8, 2008)

Lisa Friedman, ClimateWire reporter

A growing number of climate change experts are calling on the World Bank Group to rein in its fossil fuel lending by calculating a carbon "shadow price" when funding everything from coal-fired power plants to hydroelectric projects.

By setting a dollar figure for every ton of CO2 emitted by a proposed energy project and including pricing as a routine part of economic analyses, activists say, the agency could be forced to reflect the impact on climate change in all its investment decisions.

Yet while the private investment arm of the World Bank is already considering carbon accounting on certain investments, shadow pricing remains deeply contentious. Green groups insist that the tool must be used to ensure that renewable energy investments replace fossil fuels. But poor nations, desperate to expand access to electricity, worry that they will be forced to bear greater financial burdens. Many also fear being held accountable for lowering emissions when they are not required to do so under the Kyoto Protocol -- even as industrialized countries that spew the bulk of greenhouse gases do no such accounting.

"It's an interesting dilemma, because it's the right thing to do from a global warming standpoint. But it's politically, and maybe morally, untenable from a development standpoint," said Dennis Whittle, former World Bank economist and now president of GlobalGiving.

The debate over shadow pricing underscores larger questions about the World Bank. As the agency seeks to carve out a stronger role for itself in fighting climate change, it is struggling to balance that with its prime mission of alleviating poverty.

In a sweeping blueprint last month describing its approach to climate change in the coming years, the bank came down firmly on the side of poverty reduction.

"For us, climate change is a development issue. It's not about the World Bank taking a leadership role in trying to solve the problem," Warren Evans, senior director of the bank's Environment Department, said at a recent conference on the agency's climate plan.

Turning a 'big ship'

He noted that the world's poorest countries -- where floods, droughts and rising sea levels are exacerbated by a heavy dependence on agriculture -- are among the most vulnerable. The bank, he said, will help prepare nations to stave off the most devastating impacts of changing weather patterns by promoting clean technology transfers at the same time as improving living standards.

Climate change for the World Bank, Evans said, is "an economic growth issue, a poverty reduction issue."

Yet reducing poverty means not ruling out investment in fossil fuel projects. The World Bank made that clear when it promoted a \$6 billion international fund to invest in clean technology for developing countries.

In testimony earlier this year before Congress, U.S. Treasury Department Undersecretary David McCormick said the fund might pay for supercritical coal-combustion technology or other cleaner coal options. He, along with bank officials, argued that renewable

energy projects are not always the most cost-efficient or the best available option for poor countries, but that the fund will help promote cleaner alternatives.

Environmental groups have lambasted the World Bank for that position, and for what they describe as a history of fossil fuel investment that is incompatible with the new green leaf the bank is turning over.

Creating a shadow price for carbon and capturing the damage costs for climate change, many argue, could fundamentally change the institution's entrenched energy investment strategy.

"The World Bank is this big ship, and how do you turn this big ship around at this point?" said Jake Schmidt, international climate policy director for the Natural Resources Defense Council. "Things like shadow pricing are ways of trying to turn it around," he said.

No consensus on price of carbon

David Wheeler, a senior fellow at the Center for Global Development who was formerly a longtime World Bank lead economist, earlier this year urged Congress to enforce such accounting. Testifying before the House Financial Services Committee, he noted that several U.S. investment banks already include carbon charges in their analyses of energy project proposals. Shadow pricing at the World Bank, he argued, could have made a difference in the agency's recent decision to invest in a controversial coal-fired power plant in India.

"That the World Bank has no policy for, or experience with, incorporating such considerations into project appraisal is worrying, especially given its role as an investor of donor dollars for projects intended to improve the welfare of the world's poor," Wheeler told lawmakers.

Currently, the International Finance Corporation, an arm of the World Bank that does private sector project finance and thus has more leeway on carbon accounting than other parts of the institution, is considering shadow pricing.

The IFC already calculates a carbon footprint for any project emitting 100,000 tons or more of CO₂ -- or about 8 to 12 percent of the agency's investments, according to Alan Miller, a climate change project officer with the IFC.

But calculating a dollar amount is trickier, with no global consensus on an appropriate price for carbon, economists said.

"It's not easy," said Gary Stuggins, an adviser in the World Bank's energy department. He said the agency had done widespread consultation -- including with two Nobel Prize-winning economists -- to "break this nut," but couldn't agree on a price or on how the boundaries for projects should be set. Should the carbon price of a hybrid vehicle plant also include the production of the cars? What about a coal-fired power plant that might reduce emissions in a region because an older, less-efficient one was taken offline?

Tricky accounting and difficult politics

Meanwhile, developing countries are raising concerns of their own. Why, many ask, should poor countries be forced to borrow greater amounts of money for renewable energy projects? Others also say calculating carbon prices for projects in sub-Saharan Africa -- responsible for less than 2 percent of global emissions -- but not for plants in China or the United States, is inherently unfair.

"How can we expect developing countries to accept carbon footprinting measurement if this is going to be done only in the developing world?" asked Eduardo Paes Saboia, a World Bank senior adviser based in Brazil.

At the IFC, officials said their accounting will likely include a

range of carbon prices. Also, it would not have any enforcement mechanism attached that would require a change in investment strategy. Rather, they said, it will be a tool to start making the countries and companies it works with more aware of renewable energy alternatives.

That's a sticking point for activists, who say making sure carbon accounting has teeth and actually creates changes in investments is critical.

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