World Bank Partnership for Market Readiness: a critical introduction

by Oscar Reyes
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When the World Bank gets busy, it usually spells bad news for people and the planet. The UN Climate Change Conference (COP16) in CancÃºn was no exception, with the Bank launching a flurry of new climate-related initiatives. Chief amongst these was the Partnership for Market Readiness (PMR), a new Fund which encourages the â€œscaling upâ€• of carbon trading in middle-income countries. The aim is to develop carbon offsets â€œbeyond existing CDM.â€•1 This pre-empts international negotiations on controversial new carbon markets, which made little progress in CancÃºn. In launching the PMR,Â it is clear that the World Bank is prepared to push ahead with new carbon markets regardless of the outcome of multilateral negotiations, using bilateral agreements if necessary, and bankrolling its initiative with â€œfast-startâ€• climate financing. A closer examination of the financial assumptions behind the new Fund reveals that the major costs of the initiative will have to be met by the countries listed as â€œbeneficiaries,â€• whilst the Bank and industrialised country donors retain significant control over how â€œmarket readinessâ€• is implemented.

What is the Partnership for Market Readiness?

The â€œPartnership for Market Readinessâ€• is the World Bank's newest carbon market fund. It is â€œaimed at major emerging economies and middle-income countries interested in exploring new carbon market mechanisms, including sectoral crediting mechanism[s],â€• according to the European Commission, which has pledged $5 million towards an anticipated total of $100 million.2

The largest share of this money will be allocated to creating systems for Monitoring, Reporting and Verifying (MRV) emissions in order to develop a system of tradeable carbon credits.3 Â

Whilst the scale of the new Fund itself is relatively modest, in climate financing terms, promoting â€œmarket readinessâ€• is strategically important for the Bank (and its financial backers) in attempting to open up new forms of carbon market beyond the existing CDM in countries which until now have not being obliged to monitor their emissions. This is a slow path towards blurring the distinction between the industrialised North, historically responsible for global emissions, and theÂ South.

These market proposals, including â€œsectoral creditingâ€•, have so far proven controversial within UN climate negotiations.4 Competition policy is the main factor driving the expansion of sectoral carbon trading, with several developing countries concerned that they could be used in â€œjustifying the introduction of trade barriers on particular products or technologiesâ€• and â€œto bring targets in through the back door.â€•5 Moreover, the â€œscaling upâ€• of carbon offsetting through sectoral programmes (and a reformed CDM) would promote â€œdouble countingâ€•, with industrialised countries outsourcing their responsibilities for reducing greenhouse gas emissions, then claiming a significant proportion of the finances that flow through such projects as â€œclimate financing.â€•

What are sectoral carbon markets?

A sectoral carbon market is one that generates carbon allowances in relation to one particular sector of the economy â€“

whether steel production, cement manufacturing or power generation. Several schemes have been proposed, although these currently exist almost exclusively as academic models, with the PMR aiming to pilot some of these proposals. As with other carbon markets, sectoral schemes can be broadly classified as â€œcap and tradeâ€• or â€œoffsetting.â€•6

Sectoral cap and trade (or â€œsectoral tradingâ€•) proposes to apply a cap (or limit) on greenhouse gas emissions relating to particular economic activity. Companies covered by the scheme are issued licenses to pollute (â€œcarbon permitsâ€• or â€œemissions allowancesâ€•). They can then choose to cut their emissions, or to buy permits from others that have a surplus (â tradeâ€•). The cap is supposed to reduce emissions over time. However, setting a limit on pollution can be highly susceptible to corporate lobbying and favoritism, to such an extent that companies covered by existing cap and trade schemes have frequently been able to increase their pollution while remaining within the cap. Some sectoral proposals envisage national-level schemes, but they could also be applied at a global regional or sub-national level.

Sectoral crediting is an offset scheme. It establishes a â€œbaselineâ€• of emissions within a country, and allows carbon credits to be issued if emissions fall below the level of projected greenhouse gas emissions if â€œbusiness-as-usualâ€• continued. As with other offsets, this rests on a story about what â€œwould otherwise have happened,â€• offering polluting companies and financial consultancies the opportunity to turn stories of an unknowable future into bankable carbon credits. The net result, as shown by existing offset schemes such as the Clean Development Mechanism (CDM), is that offsetting tends to increase rather than reduce greenhouse gas emissions, displacing the necessity to act in one location by a theoretical claim to act differently in another. â€œSectoral creditingâ€• could repeat these fundamental failures on a larger scale: instead of granting credits on a project-by-project basis, they could be issued for whole sectors of economic activity.

Sectoral crediting schemes are the more likely to emerge in the short term, with a variety of approaches suggested in the context of UNFCCC negotiations. These are being advanced in the context of discussions on section 1(b)(5) of the Bali Action Plan, the road map for a new climate agreement signed in 2007, which calls for â€œVarious approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions.â€•7

The European Commission, in particular, has promoted sectoral crediting and trading as stepping stones to the creation full-blown â€œcap and tradeâ€• schemes, similar to its own Emissions Trading System. The underlying rationale is threefold. First, the expansion of such markets helps industrialised countries to avoid responsibility for taking action domestically, by providing a far larger source of carbon offsets than is currently available. Second, they represent what Henry Derwent, President of the International Emissions Trading Association (IETA), has referred to as â€œa sectoral overcoming of common but differentiated responsibilities.â€•8 Proposals for new market mechanisms attempt to chip away at the idea â€“ enshrined in the United Nations Framework Convention on Climate Change â€“ that Annex 1 (industrialised) countries bear the burden of current and historical responsibilities for climate change, and seek to extend further obligations to developing countries. Third, from the point of view of carbon traders, the scaling up of carbon markets provides greater â€œliquidityâ€• - the capacity for more trading, and a greater degree of financial speculation, to take place.

The CancÃºn Accords ask that new mechanisms be considered for agreement by COP17 in Durban, South Africa in December 2011. In proposing a fund that pilots new carbon market mechanisms, the World Bank is pre-empting this political decision, whilst dressing up its intervention as a merely technical exercise. As the European Commission notes, â€œSome countries may perceive the [PMR] project as potentially jeopardizing their negotiation positions and the process under the UNFCCC. However, such risk could be mitigated by focusing on the technical discussions and on-the-ground capacity building.â€•9

This is by no means the first time the Bank has made such a move. At the UN Climate Change Conference in Bali in

December 2007 (COP13), the World Bank launched its Forest Carbon Partnership Facility (FCPF), a â€œmarket readinessâ€• initiative for Reducing Emissions from Deforestation and Degradation (REDD). As Benoit Bosquet, the Bank official who led the development of the facility, put it at the time, â€œThe facility's ultimate goal is to jump-start a forest carbon market.â€• This despite the lack of any UN agreement on REDD carbon markets.10

Moreover, the Bank clearly intends to pursue the creation of new carbon market mechanisms irrespective of UNFCCC negotiations. As the European Commission points out, â€œRegardless if the final decision on the establishment of new carbon market mechanisms will the taken under auspices of the UNFCCC or via bilateral or multilateral agreements, the demonstration actions like the PMR will improve understanding on the options for practical implementation of new and scaled-up carbon market mechanismsâ€• (emphasis added).11

Ultimately, this forms part of the broader expansion of the carbon market into new sectors and territories, with the World Bank leading the charge. When the World Bank launched its first Prototype Carbon Fund in 1999, it was presented as a short-term catalyst to jump start the international carbon market. The World Bank's portfolio has since grown to over $2.5 billion, distributed across 12 different funds.12 The PMR will be the Bank's 13th fund when it becomes operational in early 2011.

Where is the money coming from? And where does it go?

The Partnership has so far received pledges of more than $20 million from Australia (A$10m), â‚¬5 million from the European Commission, $5 million from the US and $5 million from Norway.13 Germany, Japan and the UK have also announced their intention to support the initiative financially, whilst Sweden and Spain are considering support for the Fund.14

The clear majority of this money â€“ most likely all of it â€“ would come from â€œfast start financing,â€• the package of climate measures announced as part of the 2009 Copenhagen Accord.15

A closer analysis shows that the most significant source of money for the new mechanisms proposed by the Fund will come from the countries that are supposed to be its beneficiaries.

As the European Commission explains, each â€œbeneficiary countryâ€• will initially be allocated $200,000 to identify relevant sectors for the scheme, with an average of $5 million subsequently spent on â€œprogram implementationâ€• in each participating country. $3million will be dedicated to establishing systems for data collection, monitoring and reporting.16 In this regard, the programme closely follows the format adopted in the development of â€œREDD-readinessâ€• initiatives, such as the World Bank Forest Carbon Partnership Facility.

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However, as the European Commission points out, â€œUS$5 million is not sufficient to bring PMR program to do piloting. The beneficiary countries will be required to allocate human and financial resources to perform all above mentioned tasks.â€•17

The scale of this shortfall can be seen when the PMR figures are compared with estimates that appear in a 2009 study commissioned by the UK Office of Climate Change Global Carbon Trading Project.18 The comparison is especially noteworthy, because it was conducted by Ecofys, a consultancy which is one of the main advisers to the World Bank and

OECD on â€œmarket readiness.â€•19

Ecofys estimates that the costs of â€œcapacity buildingâ€• for sectoral CDM in Chile â€“ which is likely to be a PMR participant â would be over $14 million dollars (rising to $25 million if sectoral targets were adopted).20 In other words, Chile would contribute two-thirds of the overall costs of developing a scheme from which it is supposed to be a â€œbeneficiary.â€•

In the case of China, Ecofys estimates that capacity building for â€œsectoral CDMâ€• would cost $26 million, rising to $57 millio for the implementation of sectoral targets and $130 million for a scheme linked to national targets.21

Which countries will participate?

A full listing of other participating countries has not yet been confirmed, although the European Commission expects that the PMR will engage between 10 and 15 countries, with six to eight of these â€œtesting of new carbon market mechanisms such as sectoral crediting, and developing domestic market instruments such as emissions trading schemes.â€•22

China is already confirmed as a participant, with Xie Zhenhua, Vice Chair of the National Development and Reform Commission, speaking at the Partnership's CancÃºn launch event.23

In addition, the World Bank's initial press release highlights Chile, Indonesia and Mexico as countries that â€œare exploring the use of carbon market instruments and emissions trading mechanisms.â€•24 The European Commission reports having â€œInformal consultations with interested developing countries, including South Africa, Mexico, Colombia, Indonesia, India, Thailand and Chinaâ€• concerning the Partnership and the use of new market mechanisms.25

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Who controls the money? How will the work be implemented?

The Fund will be run by a Partnership Committee (PC), with â€œbalanced representation from both donor countries and beneficiary countries.â€•26 The EU reports that â€œany decisions with respect to funding will be taken collectively by entire PC giving the donor countries the ability to block proposals or withhold funds.27 Moreover, the initial assessment of needs and strategies â€œwill primarily be led through World Bank country offices.â€•28 A small secretariat will be established within the Bank in 2011 to administer the new Fund.29

The existing experience of World Bank financing is that donor countries retain a significant degree of control, which has made its involvement in climate financing a matter of considerable controversy within international negotiations.30

How long will the Fund be operational?

Each project is expected to last between three and five years. The initial $100 million sought to make the Fund operation

is also expected to be spent over a timescale of up to five years. However, â€œThe Partnership itself does not have a sunset clause and will continue to provide support as long as there is demand from countries for market readiness capacity building and piloting.â€•31

The World Bank's official strategy is to pilot novel approaches to create and trade carbon: the PMR is consistent with these goals. The flip side of this strategy is that the Bank is then supposed to relinquish its role as a carbon offset buyer, but this has not happened.32 In fact, its involvement has continued to grow, mostly through the purchase of controversially issued carbon credits relating to the refrigerant gas HFC23. As of May 2010, the Bank's portfolio had grown to almost $2.5 billion in carbon-related projects managed by the bank, with a further $1.8 billion carbon credits that it had agreed to purchase.33

What is â€œmarket readinessâ€• anyway?

â€œMarket readinessâ€• is a relatively new piece of climate jargon. The term has emerged alongside a new rhetoric about â€œscaled-up mitigation programmesâ€•, and is seen as more politically palatable than talking directly about â€œsectoral carbo marketsâ€•, which are perceived as an instrument of industrialised countries' competitiveness policies.34

The difference is not simply rhetorical, though. Having failed to win political support for the sectoral carbon markets, â€œmarket readinessâ€• represents a diversification of the approach to expanding carbon markets. As the European Commission sees it, â€œfor some developing countries ... [a] domestic ETS is too ambitious and a transitional instrument, such as sectoral carbon market mechanisms, is needed.â€•35 Yet such proposals are frequently obscure, existing only in the imagination of academics, think tanks and lobbyists. â€œMarket readinessâ€• proposals aim to make them a reality. The World Bank euphemistically calls this â€œlearning by doingâ€•, although it might more accurately be called an attempt to alter the facts on the ground. By altering climate policies and institutions so that carbon markets increasingly play a central role, these markets can then be presented as a fait accompli irrespective of their poor record in actually reducing greenhouse gas emissions.

More concretely, market readiness is conceived of as having three main strands: technical, institutional and policy readiness. Measures funded involves an assessment of what sectors to include in the system, including the availability or otherwise of data for calculating a â€œbaselineâ€• of existing emissions; the creation of a system ofÂ measurement, reporting and verification (MRV); and the establishment of a carbon credit registry and transaction log â€“ which are basic instruments in any carbon accountancy system.36 The fund will also pave the way for legal changes, including the drafting of new laws and regulations required to implement carbon markets.

It is worth noting that the majority of market readiness funding will be geared to setting up MRV systems, which is likely to mean that the majority of the money is delivered to international consultants. The counting of carbon is complex and, even in situations where high quality data is available, it tends to lack sufficient accuracy for â€œreductionsâ€• to be sufficiently verified as such.37 The development of baselines often relies on methodologies created by business lobbyists â€“ most notably, the World Business Council on Sustainable Development.38 This clearly risks blurring the boundary between regulators and regulated, reinforcing an information inequality that could see polluters over-claim â€œreductionsâ€• without needing to alter their practice on the ground.

Ultimately, these methodological failures form a component of the broader problems with the approach adopted by the PMR, which is designed to expand a carbon trading system that has proven to be environmentally ineffective and socially unjust.

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1Â Â Â Â JoÃ«lle Chassard (2010), â€œScaling Up Mitigation Through Market Mechanisms: Building Confidence, Capacity and Readinessâ€•, Presentation at the IEA-IETA-EPRI 10th Annual Workshop on GHG Emission Trading 20-21 September, Paris, http://www.iea.org/work/2010/et/Chassard.pdf

2Â Â Â Â European Commission (2010) â€œ2010 Annual Action Programme (Part II) Implementing the Thematic Programme fo the Environment and the Sustainable Management of Natural Resources including Energy (ENRTP) â€•, http://ec.europa.eu/europeaid/documents/aap/2010/af_aap_2010_dci-env_p2.pdf, p.19. Figures in US$, unless otherwise stated.

3Â Â Â Â Ibid, p.25. A similar conclusion is reached by the consultancy Ecofys, cited AndrÃ© Aasrud et al. Market Readiness: Building Blocks for Market Approaches. OECD, p.41: â€œPutting in place adequate MRV represent the largest share of these costs [of market mechanism capacity building], followed by costs associated with putting in place policies and legal reform.â€•

4Â Â Â Â Murray Ward and Martina Jung (2010) â€œScoping study for innovative climate finance facilities for testing scaled-up mitigation programmesâ€•, Frankfurt: Ecofys/Nordic Environment Finance Cooperation (NEFCO), http://www.nefco.org/files/NEFCO%20Final%20Report_2010-10-22.pdf, p.2: â€œ Since the term â€˜sectoral approachesâ€™ fir appeared back in 2007-08, concerns have been raised by major developing countries. In one of its uses, in particular through work by European policy groups and consultants (but also in ideas stemming from Japan) it was perceived as mainly concerned with competitiveness. Major developing countries saw this as a potentially slippery slope to future border tariffs by developed countries.â€•

5Â Â Â Â Jonathon Hanks et al. (2009) Industry Sectoral Approaches and Climate Action: from global to local level in a post-2012 climate framework, Paris: United Nations Environment Programme (UNEP), http://www.unep.org/pdf/industrial_sectoral.pdf, p.9

6Â Â Â Â For a more detailed explanation from a proponent of such schemes, see Mark Lazarowitz (2009) Global Carbon Trading: A framework for reducing emissions

Â Â Â Â The Stationary Office, London, pp.58-72

7Â Â Â Â UNFCCC (2007) Bali Action Plan, http://unfccc.int/files/meetings/cop_13/application/pdf/cp_bali_action.pdf

8Â Â Â Â Remarks at World Business Summit on Climate Change, Copenhagen, May 2009

9Â Â Â Â European Commission, op. cit., p.23

10 Â Â Â AndrÃ© Aasrud, Richard Baron and Katia Karousakis (2010) â€œMarket Readiness: Building blocks for market approachesâ€• Presentation from Climate Change Expert Group on the UNFCCC, Cancun, 7 December, http://www.iea.org/work/2010/cop16/IEA_Day_Aasrud&Baron.pdf, p.7. The authors note a â€œLack of progress in the negotiationsâ€• on new market mechanisms, but that â€œpilot activities may be a useful first step,â€• citing the COP13 decision Bali to initiate â€œREDD demonstration activities â€• through the FCPF. The Climate Change Expert Group is a long-standing IEA/OECD initiative working on behalf of Annex I countries, which was instrumental in the elaboration of emissions trading proposals within the Kyoto Protocol.

11 Â Â Â European Commission, op. cit., p.23

12 Â Â Â World Bank (2010) 10 Years of Experience in Carbon Finance: Insights from working with the Kyoto mechanisms Washington DC: World Bank Group, http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/ 10_Years_of_Experience_in_CF_August_2010.pdf, p.2

13 Â Â Â World Bank, â€œNew Multi-Million Dollar Fund For Developing Country Carbon Trading Initiativesâ€•, 8 December 20 http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK: 22785667~pagePK:34370~piPK:34424~theSitePK:4607,00.html

14 Â Â Â European Commission, op. cit., p.18

15 Â Â Â See Australian Government, â€œAustralia's Fast Start Finance: Progress Reportâ€•

http://www.climatechange.gov.au/en/media/whats-new/~/media/publications/international/australias-fast-start-finance-progress-report.ashx .p.10; The European Commission, op. cit. p. 18 also identifies its pledge as fast start financing, and notes that pledges from Norway, Sweden, Australia, Japan, Spain, and Netherlands would come from fast start funding. See also http://faststartfinanceint.accounts.combell.net/contributing_country/european-union

16 Â Â Â See European Commission, op. cit., p.23: The full breakdown is: Data collection and management system and baseline study and set up: 1.5million; MRV: 1.5million; Institutional strengthening, including setting up domestic unit for coordination and implementation: 0.5million; Regulatory system preparation: 0.7million; Stakeholder consultation: 0.3million;Â Operational cost for PMR support: 0.5 million,

17 Â Â Â European Commission, op. cit., p.26

18 Â Â Â The Office of Climate Change (now â€œClimate Chance Projects Officeâ€•) exists to â€œassist UK businesses to pur opportunities arising from the Kyoto Protocolâ€•, http://www.bis.gov.uk/policies/business-sectors/ccpo

19 Â Â Â Ecofys is a climate consultancy favoured by the EU, several IFIs and governmental bodies. It was part of Econcern NV, a Dutch company that was declared bankrupt in June 2009. Ecofys has since been sold to Eneco, a Dutch power company (through the 100% owned holding company Echo Investments). See http://www.econcern.com/, accessed 17 December 2010. For a listing of recent Ecofys consultancy projects in support of market mechanisms, see Ecofys, â€œSupporting the international climate negotiations: A record of projects, December 2010â€•, http://www.ecofys.com/com/publications/documents/ Folder_Ecofys_References_Climate_Negotiations_12_2010.pdf p.9

20 Â Â Â Marion Vieweg et al. (2009) â€œLinking Developing Countries to Carbon Markets: cost assessment of capacity buildin requirementsâ€•, London: Ecofys UK. The figures quoted for Chile are a like-for-like comparison with the capacity building estimates given by the PMR â€“ both assume sectoral crediting, and exclude implementation costs.

21 Â Â Â The comparison here is more complex: China has announced an intention to pilot schemes at a regional level, but the Ecofys study does not clearly state whether it assumed the costs of regional piloting or a full-blown national programme.

22 Â Â Â p.21

23 Â Â Â World Bank (2010), op. cit. China's National Development and Reform Commission (NDRC) is leading efforts to pilot carbon trading within the country's 12th Five-Year Plan period (2011-2015). See http://www.delicious.com/carbontradewatch/NDRC

24 Â Â Â World Bank (2010), op. cit

25 Â Â Â European Commission, op. cit, p.23

26 Â Â Â European Commission, op. cit, p.20

27 Â Â Â European Commission, op. cit, p.20

28 Â Â Â European Commission, op. cit, p.22

29 Â Â Â Ibid.

30 Â Â Â See, for example, Climate Justice Now! (2010)Â â€œKeep the World Bank out of Climate Finance,â€• 5 December, http://www.climate-justice-now.org/world-bank-out-of-climate-campaign/

31 Â Â Â European Commission, op. cit, p.26

32 Â Â Â World Bank (2006) â€œThe Role of the World Bank in Carbon Finance: An Approach for Further Engagement.â€•

Â Â Â http://wbcarbonfinance.org/docs/Role_of_the_WorkBank.pdf, p.12

33 Â Â Â Independent Evaluation Group (2010) â€œPhase II: The Challenge of Low-Carbon Development Climate Change and the World Bank Groupâ€•, World Bank: Washington, p.78, http://web.worldbank.org/WBSITE/EXTERNAL/EXTOED/EXTCCPHASEII/ 0,,contentMDK:22770905~pagePK:64829573~piPK:64829550~theSitePK:7539940,00.html

34 Â Â Â Murray Ward and Martina Jung (2010), op. cit., p.2

35 Â Â Â European Commission, op. cit, p.23

36 Â Â Â Aasrud et al., op. cit.,Â p.10

37 Â Â Â Natalie Obiko Pearson (2010), â€œClimate Change Math in Treaties Flawed by Suspect Calculationsâ€•, Bloomberg Markets Magazine, 23 November, http://www.bloomberg.com/news/2010-11-23/climate-change-math-in-treaties-flawed-by-suspect-pollution-calculations.html

38 Â Â Â Aasrud et al., op. cit.,Â p.18-19

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