Unclear on the Concept:

How Can the World Bank Group Lead on Climate Finance Without an Energy Strategy?

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Table of Contents

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Executive Summary

International climate negotiations highlight the need for a fundamental shift in energy production globally – towards a system of clean, climate-friendly energy choices. For developing countries, these clean choices must go hand in hand with development goals and reducing energy poverty. Fortunately, the costs of clean energy are increasingly competitive, and decentralized, renewable energy is often the most cost effective way to provide energy for the world's energy poor.

In recent years, the World Bank Group (WBG) has become increasingly involved in international climate discussions, indicating that it wants to have a greater role in climate finance in developing countries. The WBG has acknowledged and rhetorically reinforced the need to address climate change impacts in order to achieve development goals going forward. Moving into the Conference of Parties of the UN Framework Convention on Climate Change (UNFCCC) in Durban, South Africa, the WBG has continued to push for a leadership role in climate finance through carbon offsetting schemes and carbon trading, the Climate Investment Funds, and the Green Climate Fund. This presence in climate finance continues even though many of the WBG's decisions and self-appointed roles in climate initiatives continue to be challenged by developing countries and civil society.

As a result of the institution's continued support for dirty fossil fuel projects and its failure to approve a climate sensitive energy strategy, the WBG continues to finance unsustainable dirty energy choices that are harmful to the climate and lock developing countries into energy models that are both dangerous and expensive. In spite of its climate-friendly rhetoric, the WBG continues to disproportionately fund dirty energy projects within its core energy portfolio, with nearly half of energy lending – more than US$15 billion – going to fossil fuels in the last four years. Approximately 20 percent of that lending went to energy efficiency and low impact

renewables, while about a third went to energy projects that either have significant environmental impacts, such as large hydropower, or were not identifiable as to the energy source, such as transmission and distribution projects. At the same time, less than 10 percent of its energy portfolio went to promote energy access for the poor.

Given the WBG's poor energy lending record and its significant role in climate finance, it is clear the institution needs a new energy strategy that puts it on a new course that reflects the realities of the climate-constrained world in which we live. However, the institution has been unable to agree on a new energy strategy after a two-year revision process. Although the current draft contains a number of compromises, the WBG has reached a deadlock, adopted a cone of silence about the process, and refuses to be held accountable to its own analysis of the problem, that: "sustainable development through clean energy is still being addressed through short-term financing and regulatory frameworks that are not aligned to the immense scale of the challenge facing the globe."[1]

Meanwhile, the WBG appears to be disproportionately influencing and being influenced by the G20, the outputs of which do not indicate a climate-friendly course of action for the Bank's infrastructure lending. The multilateral development banks (MDBs) produced a paper for the G20 on infrastructure that did not reflect the climate concerns that have been raised in the UNFCCC context. Then, the final report of the G20 High-Level Panel for Infrastructure Investment reinforces the call for MDBs to catalyze regional investment in the energy sector – particularly in electricity generation, transmission, and distribution. However, it fails to provide any benchmark for MDB energy investment in low-carbon growth strategies or on scaling up climate adaptation. In fact, the recommendations make no

pretensions in any way of promoting investment in energy infrastructure that would improve access to clean energy, help developing countries adapt to climate change, increase energy efficiency, or increase mitigation of greenhouse gases (GHGs).

Based on its own studies, reports and messaging, the World Bank Group has demonstrated an understanding of the impacts of climate change on development issues. However, the institution's actions – its core energy lending, its inability to pass a forward-looking energy strategy, and its mixed involvement in climate-related initiatives – indicate that the WBG does not, in fact, take those climate change impacts nearly seriously enough. In order to change course and support developing countries in a transition to truly clean energy:

- The World Bank Group must stop funding dirty energy projects, either directly or indirectly.
- The World Bank Group must pass an energy strategy that promotes truly clean energy and energy access.

The World Bank Group is experiencing clear difficulties in synching its core lending and its energy strategy with climate goals, and the institution has taken steps that can easily be viewed as creating a conflict of interest. Given these difficulties and contradictions, the institution should focus on cleaning up its own act before making further forays into climate finance initiatives.

1 *World Bank Group, An Investment Framework for Clean Energy and Development, 2006. http://siteresources.worldbank.org/EXTSDNETWORK/Resources/AnInvestmentFrameworkforCleanEnergyandDevelopment.pdf?resourceurlname=AnInvestmentFrameworkforCleanEnergyandDevelopment.pdf*

Clean Energy and Energy Access

The World Bank itself states that climate change "is increasingly acknowledged to be an integral part of the development agenda," especially to help developing nations adapt to global warming's worst consequences through "greater selectivity in investment and technology choice."[2] As the institution moves to address climate change, it must also tackle the challenge of reducing energy poverty and delivering universal energy access. These need not be contradictory goals as clean energy financing reduces climate impacts while presenting an important solution to energy poverty – the provision of decentralized clean energy options for rural areas.

As energy prices soar, it is important to ensure that these challenges are addressed in a cost effective manner. The World Bank's Energy Strategy Approach paper acknowledges as much: "The global energy market did not anticipate, nor was it prepared for, the most recent episode of high world fuel prices and price volatility, caused largely by a rapidly shrinking cushion between supply and demand."[3] This volatility extends to fuel required for electricity, particularly coal, which has also experienced soaring prices. For instance, benchmark Newcastle exports have doubled in price to over US$130/ton over the past five years.

In fact, the International Energy Agency (IEA) stated in its most recent report that developing countries importing oil today "are facing prices in excess of $100 a barrel when, at a comparable stage of development, many OECD countries faced an average price of $22 a barrel (in 2010 dollars.)" Basing large-scale energy development on centralized, fossil fuel powered systems is four-times more expensive for developing countries today than it was for countries with already developed fossil fuel-based energy systems.

Skyrocketing fossil fuel prices, along with the capital intensive nature of large scale grid extension, underscore the recent IEA findings that the most cost effective approach to delivering energy access to the vast majority of the world's 1.3 billion people who live without electricity is most often decentralized clean energy. The IEA estimates that roughly half of the US$48 billion of global energy investment required annually to address energy poverty must go to off grid solutions.[4] Given the economics of off grid energy markets, this means the vast majority of rural lending will be directed to decentralized clean energy.

As the world transitions to clean energy, and increases the provision of energy services to the poor, there is tremendous need for support for developing countries. Public funds for climate finance should be made available from developed countries to support climate-related, energy access initiatives. At the same time, current flows of overseas development assistance (ODA), particularly through institutions like the World Bank Group, should support a transition to clean energy and universal energy access.

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2 "The World Bank Energy Strategy Approach Paper," The Sustainable Energy Network, October 2009. Available at http://siteresources.worldbank.org/EXTESC/Resources/Approach-paper.pdf.

3 "The World Bank Energy Strategy Approach Paper," The Sustainable Energy Network, October 2009. Available at http://siteresources.worldbank.org/EXTESC/Resources/Approach-paper.pdf.

4 International Energy Agency (IEA), Energy for all: Financing access for the poor. October 2011, www.iea.org/papers/2011/weo2011_energy_for_all.pdf

World Bank Group's Increasing Role in Climate Finance

In the past several years, the World Bank Group – on its own and on behalf of some developed countries – has made an aggressive power play to put itself at the center of international climate finance. The WBG has maintained a high profile at the UNFCCC's annual Conference of Parties (COP), with WBG officials touting the WBG's climate successes and lobbying to expand the Bank's role in climate finance. For example, during the Copenhagen climate summit in December 2009, they announced their fifth fund under the Climate Investment Funds (CIFs) and their twelfth carbon trading/offsetting mechanism under the Carbon Finance Unit. In January 2010, a leaked briefing prepared for the WBG board on Copenhagen revealed an aggressive strategy to capture climate finance, saying, "The WBG is particularly well positioned to serve as a channel for fast track financing for adaptation and mitigation… We have already heard from donors who are developing their strategies. We have sent the message that the CIFs are able to receive additional funding to support the Fast Track Financing." The memo stated that Bank staff was conducting an "outreach campaign" to "build awareness on our role, not just with our traditional partners... but also with the Ministries of Environment and Foreign Affairs."

Carbon Offsets

The World Bank Group is heavily involved in establishing and promoting carbon markets, viewing itself as a pioneer of carbon finance and a market catalyst. The WBG made an early entry into the arena of carbon markets, creating the first international carbon fund (the Prototype Carbon Fund), which became operational in April 2000, the first reforestation fund (Biocarbon Fund), and the first avoided deforestation fund (Forest Carbon Partnership Facility).

The Carbon Finance Unit (CFU) of the WBG facilitates international offsetting and carbon trading through the buying and selling of carbon credits by governments (and companies within those countries) that are party to the Kyoto Protocol of the UNFCCC. This is done through the two offsetting mechanisms of the Kyoto Protocol – the Clean Development Mechanism (CDM) for developing countries and Joint Implementation for economies in transition. The World Bank also financially benefits from its involvement in the CDM by earning 5 to 10 percent in commissions on the credits it purchases for the funds that it manages.[5]

The Carbon Finance Unit manages many carbon funds and facilities, and the WBG is working vigorously to ensure the expansion of carbon markets beyond 2012, when the first commitment period of greenhouse gas reductions by developed countries under the Kyoto Protocol is supposed to end. For example, in an effort to provide certainty to offset developers, in January 2011 the WBG launched a €68m fund to buy carbon credits scheduled for delivery after 2012.

Furthermore, the WBG has been innovative in pooling and leveraging public and private sector financing for carbon investments, especially through the Multilateral Investment Guarantee Agency (MIGA)—which provides risk guarantees—and the International Finance Corporation (IFC)—which lends to the private sector.

Criticisms of Carbon Offsets

The climate and development effectiveness of offsetting and the CDM has come under heavy criticism. Offsets very often fail to deliver the promised results and can actually lead to increased emissions, making climate change worse.[6] Dr. David

5 *Vlachou, A. & Konstantinidis, C., 2010, "Climate Change: The Political Economy of Kyoto Flexible Mechanisms", Review of Radical Political Economics 42(I), 32-49.*

6 *Friends of the Earth U.S., 2009, 'A Dangerous Distraction, Why Offsets Are a Mistake the U.S. Cannot Afford to Make'.. Available at www.foe.org/sites/default/files/A_Dangerous_Distraction_US.pdf.*

Victor of the University of California, San Diego estimates that up to two-thirds of projects under the CDM "do not represent actual emissions cuts"[7] because the projects would have happened anyway. For example, one World Bank Prototype Carbon Fund project, the Xiaogushan dam in China, began applying for CDM credits in 2005. The project claimed that, "without CDM support, it would have not been able to reach financial closure, mitigate the high project risk, and commence the project constructions." However, project construction had already started two years earlier, and a 2003 Asian Development Bank analysis of the project found that the dam was in fact the cheapest generation option for the province.[8]

In addition to emissions reductions, an equal objective of the CDM is supposed to be sustainable development. As a development institution, the WBG would presumably hone in on this objective. However, very few CDM projects actually address poverty and local environmental benefits, and some actually have harmful impacts.[9] A 2007 analysis of a sample of CDM projects found that only 1.6 percent of credits went to projects that benefited sustainable development.[10] Furthermore, the CDM is strongly biased towards large-scale projects that produce large numbers of credits; smaller-scale projects, which would be more likely to have sustainable development benefits, would not generate offsets as cheaply. As of the end of July 2009, more than 70 percent of credits went to industrial gas capture projects,[11] while the most common type of project was large hydropower.

Climate Investment Funds

The WBG rapidly set up the Climate Investment Funds (CIFs) in 2008 at the behest of the United States, the United Kingdom, and Japan to provide climate finance in developing countries. Developed countries have directed billions in fast start climate financing (money committed between 2010 and 2012) through these funds. The CIFs are composed of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF), which itself is further divided into three more funds focused on adaptation, forest protection, and renewable energy for low-income countries.

The establishment of the CIFs was met with harsh criticism from many in civil society and developing country governments, as the CIFs were viewed as undermining efforts to establish a global climate fund under the UNFCCC. Some of the suspicion around the motives for the CIFs creation evolved from questions of donor control versus developing country empowerment and ownership. At the UNFCCC, each country is supposed to have an equal voice. In contrast, the World Bank is a donor-controlled institution where one dollar equals one vote, and donor countries have far more control. Establishing the CIFs at the World Bank thus allowed developed countries to maintain this control.

Criticisms of the Climate Investment Funds

A serious concern about the CIFs emanated from the direct competition of the newly established CIF adaptation fund, called the Pilot Program on Climate Resilience (PPCR), with long-established but under-funded UNFCCC funds focused on adaptation – the Least Developed Countries Fund and the Special Climate Change Fund, as well as the Kyoto Protocol's Adaptation Fund. Further, contrary to the widely held principle that adaptation financing should not create debt, the PPCR allows for loans for adaptation, whereas the UNFCCC funds are solely grant-based. Developing countries are therefore being forced to shoulder the costs of a climate crisis that they did little to cause, even as they are unfairly burdened with having to adjust to its impacts. Moreover, for many countries, the enormous costs of dealing with climate change come on top of heavy debt burdens. Adaptation funding should be seen as compensation for damages done by developed countries and should be given only in grants. Indeed, civil society in Bangladesh and Nepal has protested against PPCR loans for adaptation in their countries.

The World Bank's Clean Technology Fund (CTF), which focuses on mitigation in middle income countries, has proven to be particularly controversial because its investment criteria allow it to fund fossil fuel-based technologies, including coal, though financing for such technologies has not yet been approved. Further, a disturbing precedent has already been set of using CTF projects to top off other dirty Bank projects – adding a veneer

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7 *Vidal, J., 2008, 'Billions Wasted on UN Climate Programme: Energy Firms Routinely Abusing Carbon Offset Fund, US Studies Claim', The Guardian, 26 May. Available at www.guardian.co.uk/environ¬ment/2008/may/26/climatechange.greenpolitics.*

8 *International Rivers, 2005, "Comments on World Bank PCF Xiaogushan Large Hydro Project (China)", August 21. Available at http://www.internationalrivers.org/node/1340.*

9 *McCully, P., 2008, 'Bad Deal for the Planet, Why Carbon Offsets Aren't Working and How to Create a Fair Global Climate Accord', International Rivers. Available at http://www.internationalrivers.org/node/2826.*

10 *Sutter, C. & Parreno, J.C., 2007, 'Does the current clean develop¬ment mechanism (CDM) deliver its sustainable development claim? An analysis of officially registered CDM projects', Climate Change, July. Available at http://www.cleanairnet.org/caia¬sia/1412/articles-72508_resource_1.pdf.*

11 *Wara, M., 2009, 'Written Testimony to the U.S. Senate Com¬mittee on Energy and Natural Resources Concerning Meth¬ods of Cost Containment in a Greenhouse Emissions Trading Program'. Available at http://energy.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=9f3597e7-a135-e397-f850-b22b300d4b24&Witness_ID=7b5629a9-8eff-4281-b3e2-2dde0e64e2de.*

of greenwash to projects that are otherwise devastating to the climate. The 2010 US$ 3.75 billion loan to the state-owned utility Eskom for the 4800MW Medupi coal plant in South Africa, which was financed through the Bank's main energy portfolio, included a small additional renewable energy component, for which the CTF has approved additional financing of $260 million. Part of the argument used by some to justify the establishment of the CTF at the World Bank was that it would leverage cleaner investments in the Bank's energy lending portfolio, but the opposite is proving to be true.

Overall, the CIFs have been characterized by a lack of consultation with affected communities and civil society as well as concerns about their development impact, including energy access and poverty alleviation. They have further been criticized for a lack of transparency and accountability and a lack of country ownership, with the World Bank, regional development banks, and donors driving the agenda rather than the recipient countries. The CTF, in particular, has made a poor showing on transparency. Secrecy has surrounded the availability of basic information such as which projects are being funded and how, as well as around the use of financial intermediaries. Other concerns recently raised about the CTF involve possible prioritization of energy for export to Europe rather than for domestic consumption and the extent to which CTF projects actually leverage private sector money.[12]

According to a report by the Institute of Development Studies, "the CIFs and the PPCR have paved the way for a shift in climate finance sources and delivery mechanisms, which establish a longer term role for the World Bank and the MDBs in both financing and implementing mainstreamed adaptation. These forms of finance shift the landscape for action on the ground and further frustrate the ability of those most vulnerable to climate change impacts to shape future adaptation funding flows."[13]

UNFCCC's Green Climate Fund

The role of the WBG in international climate finance has been a major point of contention between developing and developed countries. Indeed, it was precisely because of the inadequacy of the WBG and other international financial institutions to address the needs of developing countries that more than 130 developing countries insisted on the establishment of a new global climate financing mechanism. After multiple years of debate, this ultimately resulted in the establishment of the Green Climate Fund (GCF) at the Cancun climate summit in December 2010.

Civil society and many developing countries have strongly opposed any role for the World Bank in the GCF. However, in Cancun, developed countries prevailed in their insistence that the World Bank be made the interim trustee. Though this temporary trusteeship is supposed to be for three years, there is concern that developed countries will insist on the WBG remaining as permanent trustee, even without a merit-based competitive bidding process.

The WBG has maintained a relatively low profile in 2011 when it comes to the GCF. However, many are concerned that this is because some developed country governments are doing their bidding for them, leading to a significant role for the World Bank once the GCF is operationalized.

Concerns about the World Bank's Role in the Green Climate Fund

Throughout 2011, a Transitional Committee (TC), composed of 25 developing and 15 developed country members, have met to design the GCF. A number of TC members have expressed serious concerns about a potential conflict of interest for the World Bank, given its dual role as interim trustee and its secondment of staff to the Technical Support Unit, which provides expertise for designing the fund. The provision of consultancy services by the World Bank (via seconding staff to the Technical Support Unit) on governance and other issues, while the Bank is also to serve a fiduciary role as interim trustee runs counter to international fiduciary standards. Further, some TC members and civil society have pointed to an additional conflict of interest with respect to the CIFs. The sunset clauses for the CIFs stipulate *"if the outcome of the UNFCCC negotiations so indicates, the [CIF] Trust Fund Committee, with the consent of the Trustee [World Bank], may take necessary steps to continue the operations of the SCF [and CTF], with modifications as appropriate.* Given this, World Bank personnel involved with the CIFs who have also been seconded to the Technical Support Unit have a strong incentive to ensure the continuation of the CIFs.

Some members of the Transitional Committee have pointed to the World Bank Group's private sector lending arm, the International Finance Corporation (IFC), as a model for the GCF. But the IFC has a poor track record of ensuring robust development outcomes. Its emphasis on crowding in private finance has led to serious deficits in transparency, social and environmental standards, public accountability, and equity, ultimately undermining climate and development effectiveness.

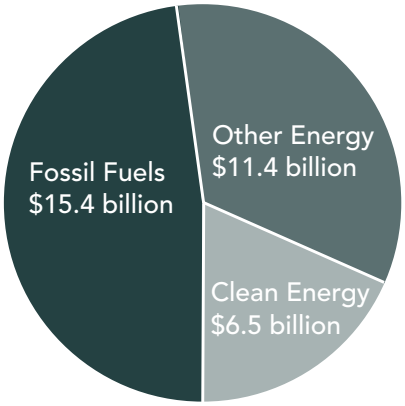
12 Bretton Woods Project, Climate Investment Funds Monitor, October 2011, http://www.brettonwoodsproject.org/doc/env/CIFsMonitorOctober2011.pdf.
13 Seballos, F. and Kreft, S. (2011), Towards an Understanding of the Political Economy of the PPCR. IDS Bulletin, 42: 33–41. doi: 10.1111/j.1759-5436.2011.00220.x

State of Energy Lending at the World Bank

Despite the World Bank Group's acknowledgement of the causes and impacts of climate change and the challenges of energy poverty, and despite the aggressive nature with which the Bank has advanced its role in climate finance, a large portion of its energy lending is still directed towards large-scale, centralized fossil fuel projects, including coal power generation and the development of oil and gas.

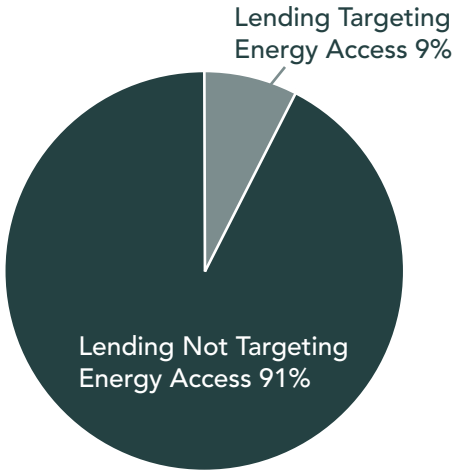
From fiscal years 2008 to 2011, the WBG financed over US$33 billion in the energy sector – an average of over US$8 billion a year (see Appendix 1). Nearly half of that lending – more than US$15 billion – went to build or promote fossil fuels. Approximately 20 percent of that lending went to clean energy – energy sources both low in greenhouse gas emissions and with minimal additional environmental impacts, while about a third went to other sources of energy.[14]

World Bank Group Energy Lending FY2008 - FY2011



World Bank Group officials often cite the need for increasing energy access as a reason for continuing to fund fossil fuels, but an examination of WBG energy lending over the past four fiscal years shows that less than 10 percent has targeted energy access for the poor.

World Bank Group Energy Access Lending FY2008 - FY2011



Given climate change, the changing economics of energy sources, and the development benefits of clean energy and energy access, WBG lending should be squarely focused on clean lending and increasing energy access.

State of the Energy Strategy at the World Bank

The WBG has not updated its energy lending strategy in a decade, while the world energy market has changed dramatically. New clean technologies have emerged as viable energy sources, climate change impacts have dramatically increased along with more dire forecasts of future impacts and the WBG role in the vast global energy market has shrunk. Recognizing the need to update its energy lending, the WBG began efforts to develop an Energy Sector Strategy in 2009, and stated in its initial approach paper that, "sustainable energy

14 *In this calculation, 'clean' energy includes renewable energy projects without significant environmental impacts, including wind, solar, geothermal, and small hydropower, clean energy efficiency projects, and policy loans, transmission and distribution and financing that is directed at renewable energy and energy efficiency. Fossil fuel projects include oil, gas, and coal projects, and policy loans, transmission and distribution and financing that is directed at fossil fuels. Other energy includes large hydropower (over 10 MW), biofuels and biomass, some energy efficiency, projects where the energy sources are unclear, and policy loans, transmission and distribution and financing for these other energy sources or where the source is unclear.*

requires concerted efforts over the long term… but is still being addressed with short-term financing and policy frameworks that are not aligned with the scale of the challenge."[15]

After two years of negotiations and a planned release of a new energy lending strategy in April 2011, the WBG has reached a deadlock, adopted a cone of silence about the process, and refuses to be held accountable to its own analysis of the problem, that: "sustainable development through clean energy is still being addressed through short-term financing and regulatory frameworks that are not aligned to the immense scale of the challenge facing the globe."[16]

The Need for a Strong Energy Strategy

A strong World Bank energy sector lending strategy is essential to help stimulate the needed shift toward a 21st century clean energy economy. While over the last 20 years official development assistance (ODA) from the World Bank has accounted for only 10 percent of total net disbursements to developing countries, its influence goes far beyond its share of actual investments to broader energy markets. Changes in World Bank norms and standards influence the policies of client countries as well as other providers of international development finance. Regional development banks all have substantial energy lending portfolios and typically tailor their lending policies and safeguards to follow World Bank practices. Evidence suggests that any new World Bank reforms in the energy sector would have a ripple effect across a large portion of the international financial market. Anecdotally, leading private sector banks have indicated that they plan to follow World Bank standards on coal lending and carbon capture and sequestration. Many bilateral export credit agencies are seeking to promote domestic manufacturing of clean technologies by stepping up export promotion efforts in this area.

The Problem with No Energy Strategy

The world energy market is vast and diverse and the WBG's portion is increasingly small. The institution must therefore make the best use of its relatively small portfolio to reduce perceived risk for emerging technologies and approaches in our climate-constrained world, and set important benchmarks for international financiers. Doing so will allow it to have important influence in the global energy market, helping to ensure a move towards sustainable energy lending. In the absence of an energy strategy that carves out such a niche for the institution, its goals of poverty eradication and its role in guiding the international finance community are jeopardized. The risk to the institution of not having an energy strategy is epitomized by its current consideration of a new coal project in Kosovo. The project will provide support for the most heavily polluting form of coal (lignite) and comes on the heels of the WBG decision last year to lend more than US$3 billion to help build the Medupi coal plant in South Africa.

Meanwhile, the WBG's draft Energy Sector Strategy, circulated in March 2011, is languishing. The Strategy prioritizes two objectives: (1) increasing modern energy access and reliability, especially for the poor; and (2) facilitating the shift to low-carbon, environmentally sustainable energy sector development. This is an appropriate frame, however, many important components of the draft strategy directly contradict these stated intentions while other components ignore these intentions, resulting in a document that lacks strategic coherence.

Highlights of Current Draft Energy Strategy

Partial phase out of coal lending,
Greenhouse gas accounting,
Targets for low-carbon lending

15 *"The World Bank Energy Strategy Approach Paper," The Sustainable Energy Network, October 2009. Available at http://siteresources.worldbank.org/EXTESC/Resources/Approach-paper.pdf.*

16 *World Bank Group, An Investment Framework for Clean Energy and Development, http://siteresources.worldbank.org/EXTSDNETWORK/Resources/AnInvestmentFrameworkforCleanEnergyandDevelopment.pdf?resourceurlname=AnInvestmentFrameworkforCleanEnergyandDevelopment.pdf*

The draft includes important specific language in a number of areas including a focus on energy efficiency and expanding energy access for poor households, a commitment to work to reduce or eliminate fossil fuel subsidies, and a commitment to empower local communities and women in decision-making around local energy initiatives. Most importantly, the draft includes specific language that phases out financial support for new coal-fired power plants in middle income countries, introduces lifecycle GHG emissions analysis and accounting, and sets targets to significantly raise investment in clean energy, though the definition of what counts as clean energy is quite flawed. Given the volatility of fuel prices and the dual challenges of energy poverty and climate-proofing economies, these aspects of the draft Strategy appear to steer WBG energy lending in an improved direction.

Lowlights of Current Draft Energy Strategy

Failure to prioritize small-scale decentralized, clean energy access,

Improper definition of clean energy,

Continued support for fossil fuels and large-scale hydro

The draft consistently fails to prioritize activities that are tailored towards meeting the energy strategy's stated objectives. For example, the strategy promotes large-scale hydropower, upstream oil and gas, and potentially substantial - albeit restricted - investments in coal. The strategy also fails to specify any evaluation or planning tools that will ensure energy access improvements aside from general assumptions that increasing supply will increase access. This flaw is already reflected in lending practices, as the WBG is set to finance the Lom Pangar large hydropower project in Cameroon, most of the electricity of which will go to dirty aluminum smelters. The strategy goes further to express an intent to increase the average size of projects to "increase operational efficiency" despite the fact that this is at odds with the need to scale-up smaller, decentralized projects to better meet energy access objectives.

Financing large-scale infrastructure projects for energy and revenue generation, as the World Bank often does, is unlikely to lead to a trickle-down effect that alleviates poverty or brings electricity to those who lack it. Yet indicators for new generating capacity and kilometers of transmission and distribution lines implicitly prioritize large, centralized supply options, which directly conflict with the IEA recommendation that 70 percent of energy access financing for rural populations be directed to decentralized renewable energy systems.

Opportunities

While there are some important provisions, the draft Energy Sector Strategy as a whole misses an important opportunity to more fully integrate existing and emerging best practices to ensure the WBG delivers on its promise of clean energy access. To do so, it must:

- Improve energy access metrics to ensure increased financing for energy access for the world's poorest, including metrics on new electricity connections, increased financing for decentralized renewable energy, increased access to advanced biomass cookstoves, increased affordability and reliability of energy in poor communities, and increased energy for productive uses and development benefits for poor communities.
- Improve the definition of clean energy and increase the focus on clean energy and energy efficiency investments – with an accompanying shift in the energy portfolio away from dirty energy options. A revised definition of clean energy would be 'technologies with greenhouse gas emissions at least one order of magnitude lower than conventional alternatives that do not have additional adverse social and environmental impacts through their lifecycles'. The defini-

tion should only include the portions of policy loans, financial intermediaries, and transmission lines and distribution that are dedicated to clean energy sources.

- Commit to increased staffing and expertise on energy access, renewable energy, and energy efficiency, including the creation of 1) an energy efficiency team to identify and implement efficiency opportunities in all energy sector interventions and work with other sectors to identify opportunities for energy efficiency in their lending and 2) a household energy team to identify and implement opportunities to improve access to clean energy services in all energy sector interventions.

Increasing Role of G20 in Infrastructure and Influence on the World Bank's Lending

The Group of 20 (G20) has had a profound impact on the direction that WBG executive directors have taken in negotiating the World Bank's Energy Strategy, while the WBG has also had a reciprocal negative impact on G20 infrastructure discussions. In November 2010, the G20 issued a communiqué to MDBs including the World Bank Group, to facilitate an increase in infrastructure investment in order to sustain economic growth. The G20 mandated the MDBs to form an Infrastructure Action Plan with a special focus on low-income countries (LICs), and established a High-Level Panel for Infrastructure Investment. An early draft of the High-Level Panel recommendations called for MDBs to catalyze an increase in private-sector partnerships with regional development banks in order to accelerate infrastructure investment. The final report of the High-Level Panel released after the 2011 G20 Summit in Cannes reinforces the push for MDBs to catalyze regional investment in the energy sector, particularly in electricity generation, transmission, and distribution.

Nevertheless, the report's recommendations do not benchmark MDB support for energy investment on any achievement of low-carbon growth strategies, nor on achievements in reforming institutions to scale-up climate adaptation. In fact, the recommendations make no pretensions in any way towards promoting investment in energy infrastructure that would improve access to clean energy, increase energy efficiency, or increase mitigation of greenhouse gases.

The support for investment for large hydropower in the draft of the WBG Energy Strategy is especially notable as it parallels the recommendations of the G20 High-Level Report, which lists 11 infrastructure projects considered "exemplary" for increased investment. Four are electricity generation or transmission projects: The highly controversial Inga Dam Complex in the Democratic Republic of Congo; the West Africa Power Pool (WAPP); the North-South Corridor project that would include transmission lines from Inga Dam to Egypt; and the Ethiopia and Kenya Power Systems Interconnection. These initiatives are also reflective of the World Bank's recent push to expand energy markets in Africa, which emphasize providing electricity for industrial demand rather than to support energy access.

The influence of the G20 in setting the agenda of the world's MDBs is troubling. The World Bank is a multilateral stakeholder institution of up to 187 member countries. The finance and agriculture ministers of only 20 of these now have an upper hand in determining the future directions of multilateral development finance, to the exclusion of the possible needs of lower-income countries, which still depend on MDB finance. The mandates of the G20 threaten to weaken the capacity of MDBs to leverage development finance against social and environmental benchmarks that have been scrutinized by member countries. The G20's influence over the WBG Energy Strategy negotiations is significantly disabling the Bank's ability to implement progressive benchmarks that adequately manage the risks of climate change on the world's energy future.

Recommendations

Based on its own studies, reports and messaging, the WBG has demonstrated an understanding of the impacts of climate change on development issues. However, the institution's actions – its core energy lending, its inability to pass a forward-looking energy strategy, and its mixed involvement in climate-related initiatives – indicate that the WBG does not, in fact take those climate change impacts – and their causes – nearly seriously enough. In order to change course and support developing countries in a transition to clean energy:

- The World Bank Group must stop funding dirty energy projects, either directly or indirectly.
- The World Bank Group must pass an energy strategy that promotes truly clean energy and energy access.

The WBG is experiencing clear difficulties in synching its core lending and its Energy Strategy with climate goals, and the institution has taken steps that can easily be viewed as creating a conflict of interest. Given these difficulties and contradictions, the institution should focus on cleaning up its own act before making further forays into climate finance initiatives.

Appendix 1.

World Bank Group Energy Lending Data from Shift the Subsidies Database (www.shiftthesubsidies.org)

Fiscal Years 2008 - 2011

	Clean		Fossil		Other		Total	Access	
International Bank for Reconstruction and Development (IBRD)	$3,571,552,000	22%	$6,469,995,263	39%	$6,552,775,750	29%	$16,539,323,013	$917,310,000	6%
International Finance Corporation (IFC)	$1,622,336,000	14%	$7,444,891,890	66%	$2,201,062,500	15%	$11,266,950,250	$121,650,000	1%
International Development Association (IDA)	$1,234,940,000	24%	$1,282,166,000	24%	$2,657,311,400	37%	$5,098,847,400	$2,075,351,000	41%
Multilateral Investment Guarantee Agency (MIGA)	$88,300,000	18%	$357,000,000	73%	$44,890,000	4%	$490,190,000	$0	0%
TOTAL	$6,517,128,000	20%	$15,554,053,153	46%	$11,456,039,65	25%	$33,395,310,663	$3,114,311,000	9%