

# The World Bank and energy: Time for a catalytic conversion

The World Bank is currently consulting on a new energy strategy, due to be finalised in early 2011. We believe this offers an opportunity for a shift towards a limited but catalytic role for the World Bank in ensuring energy access for the poor and supporting the transition towards a low carbon future. But only if the World Bank commits itself to conversion into a much more transparent, representative and environmentally responsible institution, focused on its mission, not its own enlargement. We set out below a clear, focused strategy with key recommendations for making this change, which we call upon shareholders and Bank management to support.

## A clear, limited mandate

- 1 The mission of the World Bank Group (WBG), mandated by its 186 member countries, is to fight poverty. If the Bank only absorbs one message in its energy strategy consultation, then it should be this: it must develop a direct and steely focus on its mission in its approach to energy, and the linked issue of climate change, perhaps the defining issues of our age.
- 2 This direct focus will provide the clear, limited and strategic mandate it needs for its energy portfolio to play a facilitating role in two specific areas:
  - Increasing energy access for the poor
  - Supporting the transition to low carbon energy pathways
- 3 The current Bank 'approach paper' suggests a wide menu of options, thereby avoiding strategic choices – in effect allowing the Bank to make any kind of energy investment. Prioritising the above two goals would mean not making energy investments outside of these areas.
- 4 A focus on these two goals would provide a solid foundation and direction for all energy sector investment decisions. All energy activities of the WBG can be geared towards and measured against them, using metrics directly linked to these goals. Where both can be achieved then win-win outcomes can be gained, but a relative emphasis on one or the other goal may be necessary in response to the context.

## Focus on energy access for the poorest

- 5 In its energy strategy, the WBG must start from a deep analysis of the need for energy by the poor, and the role the Bank can play in addressing that need. Energy poverty is multi-dimensional and context dependent, and the responses to it are equally diverse.
- 6 The analysis presented in the WBG energy strategy approach paper,<sup>1</sup> in which "energy" is essentially synonymous with "electricity", does not demonstrate an understanding of the full range of energy needs, and so cannot fully address energy access. In the setting of targets and the structuring of its energy portfolio, the WBG must move beyond this narrow definition to grapple directly with the full challenge being faced, including access to cleaner and more convenient cooking and heating options, for transport and for the mechanical (or motive) power needed for productive and process uses. This broader understanding of energy has been put forward by many actors in the sector, including the UK Government,<sup>2</sup> and its absence from the WBG approach paper is of fundamental concern.
- 7 Energy poverty is both a manifestation of poverty and an underlying cause of poverty. Particularly in the poorest countries, where need is greatest and capacity least, the WBG can play a valuable role in breaking this cycle by directly supporting energy access for the poor initiatives. In identifying the poor's energy needs,

disaggregated targets and reporting should be taken into account for urban and rural indicators, gender, ethnicity and vulnerable groups including indigenous peoples. However, even in some middle-income countries very significant energy access challenges persist, and the WBG should play a targeted and supportive role wherever energy poverty remains. It should not however enter energy access scenarios with narrow and pre-defined prescriptions.

## Facilitate responsive delivery models

- 8 The barriers to increasing energy access for the poor vary between and within countries, including between rural and urban areas. It will be important for the WBG to be supportive of planning and development processes at national and sub-national level which reflect both the full range of energy needs, as well as the range of approaches to meeting them.
- 9 The apparent emphasis demonstrated by the WBG in the approach paper on grid-based, fossil-fuel oriented and private sector-led approaches represents an increasingly anachronistic approach. A dynamic sector is emerging in delivery models for energy access blending public, private, not-for-profit and community-oriented aspects, seeking to strengthen both representation and responsiveness. Such approaches often also blend new and renewable energy technologies and decentralised or stand-alone systems, which are particularly suited to reaching poor people far from the grid.<sup>3</sup>
- 10 The WBG appears to recognize the “mixed” impacts its power sector reform model has had<sup>1</sup> While there may still be a role for Public-Private Partnerships (PPPs) for example, the WBG should not rely on this as its primary delivery mechanism. Through supporting carefully selected local financial institutions to enable loans and credit to a range of local energy access-oriented initiatives, including co-operatives for example, the WBG can promote capacity development and the expansion of access-oriented delivery models. Such bundling of multiple smaller initiatives can reduce the waste and loss of focus on the poor often seen in large electricity infrastructure projects where benefits often largely exclude the poorest, by the Bank’s own assessment.<sup>4</sup>
- 11 This is a particular danger in the case of regional power pools and the WBG emphasis on power export (often between private industrial sites) where energy access may not be available, even locally, with poor people bypassed is of serious concern. In cases where the WBG supports such projects, clear and direct energy access benefits must be shown.
- 12 Co-ordination between energy access initiatives and initiatives assisting the connection of energy to new productive and economic uses are known to bring additional development benefits.<sup>5</sup> Such benefits, particularly when linked with micro-, small- and medium-enterprises, create multiplier impacts, increase community resilience via livelihoods diversification, and also support the viability of energy access schemes via users’ increased ability to pay. Proactively assisting in creating such connections would increase the impact of WBG energy access lending on poverty.
- 13 Focussing WBG decision making on increasing energy access for the poor as the primary goal and metric of success, will mean a far greater chance of the institution meeting its mission of reducing poverty. Where it is possible to find a win-win with energy access using low carbon technologies, then there is also the opportunity to assist in reducing greenhouse gas emissions causing climate change, the impacts of which the poorest are feeling first and to which they are least able to respond.

## Support the low carbon transition

- 14 All countries party to the UNFCCC process have accepted the need to address climate change and to reduce carbon emissions, including from the energy sector. The WBG has also recognized the connection between climate change and poverty and has committed itself to address carbon emissions in its work. However, progress on integration of renewable energy and energy efficiency in the WBG’s energy portfolio has been limited. This has been further obscured by unclear and inconsistent reporting, as well as unsafe categorizations, including of super-critical coal as “energy efficiency” for example.<sup>6</sup>
- 15 However, in middle-income countries in particular, the WBG may have a valuable role within its energy lending portfolio in supporting initiatives aimed at creating low carbon development pathways. By supporting initiatives breaking new ground, incorporating renewable energy and energy efficiency measures within rapidly growing economies, the WBG may play a catalytic role in promoting the transition to a low carbon future.

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## Verifiably phase out fossil fuel lending

- 16 A crucial step in supporting the transition to a low carbon future is for the WBG itself to support and signal that shift through its lending. The WBG should therefore reduce the proportion of fossil fuel project lending with the objective of phasing out such support in all middle-income countries by 2015, and in all countries by 2020, with intermediate targets for shifting the balance of its energy portfolio in this direction. This would also implement the recommendations of the 2004 extractive industries review.
- 17 For such a shift to be verified it will be important for WBG categorizations and reporting to be far clearer than previously. A new, independently monitored, regular reporting framework including categorizations should be part of the energy strategy and agreed in collaboration with client countries, civil society and donor governments to enable this.

## Internalise low carbon approaches

- 18 In order both to decarbonise its portfolio and to effectively assist client countries in the shift towards a low carbon future, the WBG will have to reorganise itself for this new challenge. This will entail a restructuring of its operations and a shifting of the balance of its energy expertise away from traditional extractive industry, grid power and fossil fuels, towards increasing its pool of experience and skills relating to new renewable energy, energy efficiency and decentralised approaches. This should be reflected in structure and staffing as well as in operations manuals and guidelines. For example, the linking of energy to climate change in a new department could help catalyse internal change.
- 19 In addition to shifting its institutional capacity in this direction, the WBG should also consider, manage and reduce its own impact on the climate.<sup>7</sup> Through implementation of an independently verified, WBG-wide system for carbon accounting, incorporating annual decreases in carbon intensity, the WBG could both raise awareness of the importance of carbon emissions amongst its own staff, as well as demonstrate its institutional commitment to addressing climate change.

- 20 In these ways the WBG may build its capacity and credibility to catalyse the shift to low carbon development pathways. At the moment however, as evidenced by the energy strategy approach paper, it remains poorly positioned to take up a leading role in this respect. This, coupled with its currently low level of commitment to integration of new renewables and energy efficiency within its lending portfolio, make it unsuitable to be a banker for climate mitigation funds. Additional substantial barriers to suitability for this role are weaknesses in its governance and accountability.

## Support representative planning processes

- 21 A crucial challenge facing the WBG is the perception that it is donor-driven and unresponsive to the needs and wishes of the poor people it ultimately serves. This is reinforced by the governance structure of the group, and hinders the legitimacy and effective operation of the WBG.
- 22 In order to address this within the energy sector, the WBG should actively support planning processes at regional, national and international levels which ensure that the voices of poor people are heard in decision-making processes on energy. In this way the WBG may both avoid resistance and take a more effective and legitimate role in supporting national governments, private entities and civil society in development processes, including the shift to low-carbon energy technologies.
- 23 Such participatory planning processes should also form core components of a full options identification and analysis process around bank investments. This should include reinforcing lifecycle cost accounting practices, including GHG emissions, and should build confidence that all technology and project design options have been considered and consulted on, before investment choices are made.

## Key recommendations

24 The barriers facing a massive upscaling of energy access for the bottom two billion and the transition to a low carbon future are significant. Large gaps remain in financing availability, market inertia persists and vested interests stand in the way of sustainable change. The WBG has an opportunity in its new energy strategy to help catalyse that change, but to do so it must commit to targets and approaches which will constitute a substantial shift in its activities and targets from those at present.

25 It will also mean avoiding the temptation to be 'all things to all people', and accepting an important but tightly defined and limited role focused on its core mission.

26 Specifically we recommend the following are adopted by the WBG as part of its energy strategy:

- **Specific energy access targets** for the number of households and enterprises achieving the full range of energy access needs in every energy project which the WBG supports, with an increased level of ambition in the poorest countries.
- **A much greater balance in the WBG's energy portfolio** between centralized, decentralized, stand-alone and commodity-oriented energy delivery systems, oriented towards the energy needs expressed and contexts found in client countries.

- **A much more diverse set of delivery models supported**, responding to energy poverty in both urban and rural areas, which incorporate private sector involvement, but which balance this in "mixed market"<sup>8</sup> approaches with state and civil society engagement.

- **A target to verifiably phase out fossil fuel support** in its lending to all middle-income countries by 2015, and in all countries by 2020, shifting its portfolio to energy efficiency and renewables over that period in full consultation with client governments and with transparent reporting to the international community.

- **Internalise low carbon approaches** via structural, staffing and operational changes developed as part of the strategy review, including a carbon accounting system.

- **Incorporation of representative planning and full lifecycle options assessment processes** in the development and analysis of WBG-supported projects to support governance and sustainability.

27 Energy is a tool like few others to enable poor people to work themselves out of poverty. The new World Bank energy strategy must be tightly linked to the crucial mission of the WBG, the fight against global poverty.

1 *Energy Strategy Approach Paper, Sustainable Development Network, World Bank Group, October 2009*

2 *Energy for the Poor: Underpinning the Millennium Development Goals, DFID, 2002*

3 *Access to Energy for the Base of the Pyramid, Hystra/Ashoka, October 2009*

4 *The Welfare Impact of Rural Electrification: A reassessment of Costs and Benefits, Independent Evaluation Group, 2008*

5 *Energy Poverty: The hidden energy crisis, Practical Action, 2009*

6 *Position Paper, Promoting World Bank Investments in Renewable Energy, Netherlands Ministry of Foreign Affairs Directorate General for Development Co-operation (DGIS), March 2010*

7 *The World Bank and its carbon footprint: Why the World Bank is still far from being an environment bank, Craeynest and Streatfield, WWF, 2008*

8 *Access to Sustainable Energy Sources on a local level – Expert analysis on the current policy issues, Practical Action Consulting, Czech Ministry of Foreign Affairs, 2009*