

3. SCALING-UP WORLD BANK GROUP RESPONSE: GUIDING PRINCIPLES

45. **Focus on development.** The primary objective of this Strategic Framework is to enable the WBG to effectively support sustainable development and poverty reduction in the new realm of changing climate, through demand-based approaches that focus on new business opportunities and economic benefits accruing to developing country clients. Building on the WBG core mandate and competencies, the Framework seeks to help the entities of the Group—including the International Finance Corporation, the Multilateral Investment Guarantee Agency (MIGA), the International Development Association (IDA), and the International Bank for Reconstruction and Development (IBRD)—to maintain and increase the effectiveness and benefits of the core development and poverty reduction efforts by developing countries as these efforts are becoming threatened and constrained by the added costs and risks due to climate change. The secondary objective of this Strategic Framework is to explore the WBG’s potential to have an impact at the global level by facilitating actions and interactions by all countries.

46. Importantly, climate change adds further urgency to the core development priorities of accelerating economic growth and achieving the MDGs. In low income countries in particular, meeting the basic needs and moving a sizable portion of the population out of poverty is necessary to create endogenous resources and capacities to address the problem. This has three fundamental implications for the WBG approach:

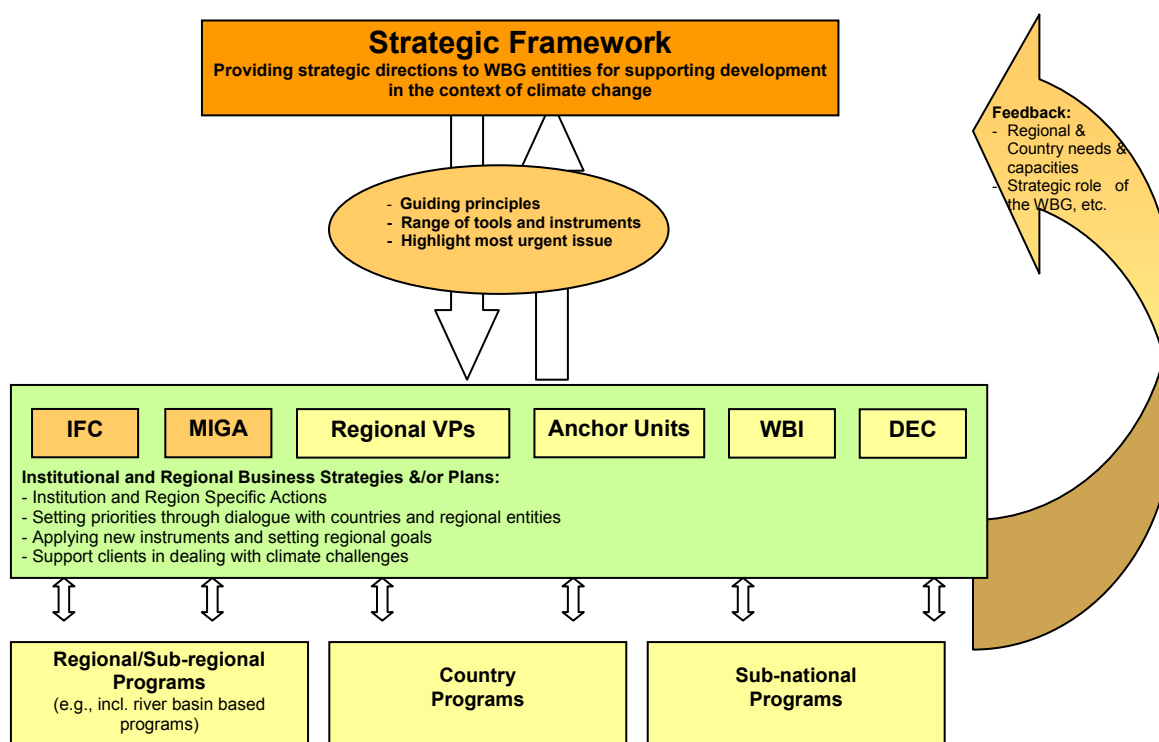
1. *Access to reliable energy services remains a priority*, as it was under the CEIF, and will be addressed within the Sustainable Infrastructure Action Plan and the Africa Action Plan; and
2. *Adaptation to climate variability and change is critical to sustaining and furthering development gains* in virtually all developing countries and will become more urgent in the next decades. From a step-child of the climate change agenda, it is moving to the center of the WBG approach, and
3. *Support to climate action must not divert resources from core development needs.* The WBG attaches the utmost importance—and has demonstrated its commitment by providing its funds—to increasing IDA resources.

47. The Framework will inform and support—not override—operational strategies of the WBG entities. It provides broad principles and directions within which the different entities of the Group, including IFC, MIGA, WB (including its operational Vice-Presidential Units (VPUs) and the Development Economics Department (DEC)), can selectively enhance their assistance strategies and operational programs to help WBG clients—both public and private—better understand, analyze, manage, and adapt to the challenge of climate change. Importantly, it does not attempt to impose climate-related priorities or conditionalities. The Framework seeks to enable the consideration of climate-related factors by these strategies and programs as appropriate and when it directly impacts their development outcomes through providing tools, incentives, financial products, and taking measures to track progress.

48. **Country-based, country-led approach that is driven by demand from WBG public and private sector clients.** The WBG experience is clear that a country-based, demand-driven assistance model has proven to be the key to the development effectiveness of aid. The 2008 Independent Evaluation Group’s (IEG) Annual Review of Development Effectiveness, *Shared*

Global Challenges, further notes that a country-based assistance model has been effective in dealing with the global public goods when those have strong synergies with local priorities like in the case of HIV/AIDS. Lessons from long-standing WBG engagement on climate change show that the entry points to client dialogue and program development arise from the business opportunities of investing in energy efficiency and renewable energy; the multiple benefits from sustainable forest and land management; and the synergies between development progress, disaster preparedness, and climate risk management. Importantly, development opportunities of climate action have to accrue to all categories of developing countries, including those whose economies are dependent on fossil fuel production and export.

Figure 4: Development and Climate Change: A Strategic Framework for the World Bank Group



49. Hence, the Strategic Framework adopts the following dual approach:

- seek to support sustainable development programs within countries’ strategies that have multiple benefits: economic, social, and environmental, both local and global; as well as facilitate access to new climate-related market and business opportunities; and
- focus on a “toolkit” of sub-national, national, regional, and global products that help integrate climate considerations into development programs through a country-based assistance model.

50. **Customizing support to diverse needs and demands.** Recognizing the impacts of climate change on many sectors, including exposure to increasing climate risks and mitigation-related opportunities provided by additional climate financing, the Framework extends the

energy-focused CEIF to position the WBG to help its clients take account of climate-related risks, costs and opportunities in several relevant sectors and thematic areas. Through the implementation of this Framework, the WBG will develop knowledge and capacity to understand and help interested clients address the climate linkages—as related to both adaptation and mitigation—in energy, transport, industry, urban development, water, agriculture, forestry, biodiversity, economic management, and social and human development. It also seeks to promote cross-sectoral approaches, such as integrated approaches to water and energy or coastal zone development, and greater synergies among various WBG entities when it helps to increase the effectiveness of their development assistance in the context of climate change.

51. Within this broad approach, the WBG responds to the distinct needs and demands of different countries, country groups, and population groups within the countries—and the need for differentiated approaches to help them with the climate challenges based on multiple criteria. Among such criteria are: country’s vulnerability to climate risks, the potential impact of global climate action on their economies or livelihoods, and the various degrees of synergy between their national/local development objectives and the global climate change agenda. In the end, a specific program of assisting any interested country will be developed by the regional and country teams as part of the regional business strategies and country assistance strategies. Several generic parameters and considerations that have emerged from consultations with countries, the private sector, and WBG staff, include (also see Annex 3):

- *Exposure to climate risks*, including the nature of the risks, the degree of exposure, and the time horizon within which the impacts might become significant;
- *Natural resource endowments* (forests, land, water, energy, etc.), which affect country’s emission profile, resilience to climate impacts and potential for adjustments in a climate-constrained future;
- *Structure of the economy and trade* that can mediate or exacerbate the impact of climate risks and global climate policies;
- *Socio-economic profile* that points to how climate impacts and actions can affect intra-country inequality;
- *Income level*, which is a proxy for a country’s capacity to deal with the climate challenges, as well as determining the Bank’s instruments and advantages as a lending institution; and
- *Additional considerations*, like being a fragile state with particularly severe capacity constraints, or a small island state with unique risks and limitations, or an oil-exporting economy facing an especially steep economic adjustment.

52. **Approach to Low Income Countries.** In addressing capacity and investment needs of low-income countries to deal with the impacts of climate change, the Strategic Framework builds upon the recent paper on IDA and Climate Change (2007). As IDA countries comprise the majority of the most vulnerable to adverse impacts of current climate variability and future climate changes, a key priority for the WBG is to support a development process in IDA countries that strengthens resilience to climate risks. This will require integrating climate risk management in IDA operations and programs, supported by financing and capacity building that is *additional* to the current level of development assistance (see Box 6). Following strong replenishment, IDA15 has emerged as a good platform for integrating adaptation into the development programs of climate vulnerable poor

countries, with support from additional grant and concessional financing instruments, like the Pilot Program for Climate Resilience (PPCR) and the Adaptation Fund.

Box 6: Highlights from IDA and Climate Change Paper

IDA countries are highly vulnerable. IDA and IBRD-IDA blend countries are the most vulnerable to risks associated with (a) extreme weather events such as floods, droughts, and storms; (b) rising sea levels and related coastal issues; and (c) changes in agricultural production. Furthermore, most important health burdens in poor countries, such as malaria and water-borne diseases, are currently likely to be worsened by climate change.

Adaptation is critical. However, it should be pursued not as an end in itself, but as a means to meet the development objectives of IDA countries.

Due to the impacts of changing climate, maintaining effective levels of development assistance will require additional resources. IDA countries will need additional finance just to maintain the development benefits of projects at their ‘without climate change’ level. The increase in IDA credits that would make this possible has been estimated to range from US\$ 600 million to US\$ 1.9 billion per year (that is, a 6 to 21 percent increase from the total FY06 IDA credits), for each of the climate damage scenarios taken from the Stern Review of the Economics of Climate Change.

Approaching mitigation through the prism of local benefits. IDA countries contribute the least to GHG emissions, thus mitigating emissions constitutes a less pressing issue in the short to medium term. Yet, some mitigation actions—such as expanding access to clean energy (including through regional projects) or financing improved land and forest management programs—can offer win-win opportunities in IDA countries, both in terms of supporting good local development and reducing global GHG emissions.

Source: IDA and Climate Change, World Bank 2007.

53. The IDA countries have the lowest levels of energy access and energy-related GHG emissions per capita. Without focusing on mitigation itself in these countries, the WBG will support “win-win” solutions beneficial for local development, such as energy efficiency measures, cost-effective and reliable uses of renewable energy, and facilitating access to carbon markets and other additional climate financing as it becomes available. Furthermore, deforestation and land degradation in many IDA countries are the main contributors to their GHG emissions, in addition to causing local-level problems. Investments in addressing these issues could provide multiple environmental and development benefits, including improved livelihoods for the poorest communities and greater resilience to climate risks.

54. **Approach to Middle-Income Countries.** The Strategic Framework recognizes a range of situations among MICs with respect to priorities for climate action, including high vulnerabilities in several MICs, such as: the Middle East’s water scarce economies, Latin American countries exposed to glacial melting in the Andes, Asian countries with low-lying coastal areas, or the Caribbean and Pacific islands. The WBG already has a significant GEF portfolio to support adaptation activities in Latin America, and pending the availability of additional concessional financing, will continue its support of adaptation in all vulnerable developing countries.

55. Many middle-income clients are also interested in WBG financial and technical assistance with programs that contribute to GHG mitigation, with support from the GEF and Carbon Finance. Low-carbon growth studies, currently undertaken in six countries, will likely provide the basis for expanded engagement, particularly through links to the CIF and programmatic carbon finance. MICs are increasingly interested in an effective use of emission trading mechanisms set up under the Kyoto Protocol, including those outside the Clean Development Mechanism (CDM). For example, the Bank has been working with several economies in transition, including new EU

members, that have a surplus of allowances under the Kyoto Protocol on design options for Green Investment Schemes (GIS)—voluntary bilateral agreements that assure buyers of the emission credits that the proceeds from the transactions will finance environment—and climate-friendly projects and programs through and beyond 2012.

56. Overall, in line with its strategy for MICs, the WBG, through joint efforts by the IBRD, IFC and MIGA, will focus on an innovative use of existing instruments, including development policy loans (see Box 7) and sub-national applications of its financing tools; new financial products, cutting-edge knowledge and technical assistance, and partnership models that meet the needs of these countries in relation to the climate change agenda.

Box 7: Mexico Climate Change Development Policy Loan

Mexico will be disproportionately affected by climate change, in particular, hurricanes, changes in temperature and precipitation, and increased frequency and severity of floods and droughts. Climate change will further reduce the country's already scarce water resources. Mexico is the twelfth largest emitter of GHGs in the world and second largest in Latin America. Recognizing the need to address these concerns, Mexico adopted a National Climate Change Strategy (NCCS) in 2007 and is currently identifying priority actions and sources of financing.

The Government of Mexico (GoM) has requested a Development Policy Loan (DPL) of US\$ 501.25 million from the World Bank, which the Board approved in April 2008. This is the first DPL provided by the Bank that will support government priorities within its climate change agenda. The GoM has requested that the Bank provide a series of on-demand analytical and advisory services and that it streamline the bulk of its lending program into one larger, annual Development Policy Loan. The streamlined lending approach aims to minimize the transaction cost of borrowing from the Bank, thereby providing access to low-cost financing and freeing up human and budgetary resources for an enhanced, higher-value program of advisory services.

The Climate Change DPL will support the GoM's efforts to incorporate climate change considerations into relevant public policies. The operation consists of policy reforms in three areas: (1) improved analytical basis for policy responses through the submission of a Third National Communication to the UN Framework Convention on Climate Change; (2) the approval of the National Climate Change Strategy by the government's Intersecretarial Commission on Climate Change and its announcement by the President; and (3) the integration of climate change considerations in sector programs.

Source: Mexico DPL 2008.

57. **Approach to the Private Sector.** The IFC's focus on climate change has been prompted by growing demand from its private sector clients and expanding climate change related market opportunities (see Box 8). The scope for cost-effective, pro-development investments in energy efficiency is particularly large and is increasingly becoming a key target area for the IFC in increasing their support for low carbon investments. MIGA is scaling up its operations in the field of renewable energy, which is also becoming increasingly competitive. Technical assistance for understanding and managing portfolio exposure to climate risks and collaboration in the area of technology are among other focus areas.

Box 8: IFC's Approach to Addressing Climate Change

The IFC adopts a balanced and demand-driven approach aligned with its mandate of supporting economic development in client countries while helping mitigate and adapt to global climate change. As long-term cooperative action is being negotiated, IFC is well-placed to be a leader with ideas in respect to the role of the private sector and climate friendly investment in developing countries. Climate change also provides IFC with the opportunity to expand its activities and development impact.

Climate change is included as one priority in the IFC's sustainability pillar. While still evolving, key features of the IFC's approach to climate change include near-term actions on: (a) enhanced support for RE/EE investment; (b) partnerships to address climate change mitigation and adaptation; and (c) extending carbon finance activities. IFC is also expanding its understanding of the potential impacts of climate change on its activities, and proposes to review further: (a) its role in adaptation to climate change; (b) measuring the GHG emissions in the IFC's portfolio; and (c) the implications of using carbon shadow costs in project analysis. As part of its approach, IFC will increase its investment support and aim for a catalytic role in helping facilitate the transfer of appropriate technologies and approaches to the private sector in developing countries.

IFC's Cleaner Production program already actively analyzes opportunities for implementation of energy efficiency processes in IFC's pipeline and portfolio projects. The assignments consist of executing a cleaner production site-based audit followed by a written report about identified opportunities and recommendations for implementation of improvements. Findings of the assessments typically identify savings in energy and water that can reach 25 percent, significantly reducing greenhouse gas emissions while considerably improving companies' net profits. Originally the program used donor funds to subsidize audit costs but more recently the IFC's General Manufacturing Department has integrated cleaner production as part of three loans to include financing for the environmental improvements.

The IFC is partnering with the WB, MIGA, and other institutions on several analytical and capacity building initiatives of common interest such as GHG accounting tools and methodologies, adaptation studies, and effective private sector access to the CIF.

Source: IFC.

58. **A global public good dimension.** With respect to its second objective, the Strategic Framework will explore the WBG's potential to have an impact at the global level by facilitating actions and interactions by all countries. The Framework seeks to enhance the WBG's global role as a knowledge provider, a facilitator of North-South and South-South cooperation, a partner of global international institutions, and an advocate of an efficient and just global climate policy implemented through neutral and well-governed processes and institutions. It initiated in April 2008 and will continue facilitating an informal dialogue on a series of specific topic related to development and climate change among finance and development ministers from both developed and developing countries during the IMF-World Bank Annual and Spring Meetings.

59. Respecting the primacy of the UNFCCC process, the WBG is neutral to any negotiating party position and will make a conscious effort not to pre-judge the outcomes of the on-going negotiations. The WBG sees its role as supporting the UNFCCC process and contributing to its outcomes through improving knowledge at the local, national, regional, and global levels; sharing lessons of experience with implementing the financial mechanisms under the UNFCCC and other relevant activities, including innovative approaches and business models; and—in partnership with other UN agencies—building capacity of developing countries to manage development under climate constraints, understand the implications of alternative climate policies and effectively participate in the UNFCCC negotiations.

60. **A three-year flexible Framework, with the focus on intensive learning and capacity building.** The Framework recognizes that a future global policy and financial architecture is yet

to be negotiated by the sovereign parties to the UNFCCC. It further takes account of continuously evolving scientific and economic knowledge about climate-development linkages, particularly at the national and local level; a nascent stage of understanding of the nature and costs of adaptation processes; and the lack of a decision-making framework to handle multiple trade-offs and major uncertainties over the very long term. Practical experience with reconciling development and climate is still very limited and skewed towards mitigation-related actions, mainly in the energy sector. In this context, operational priorities focus on knowledge, capacity, new business product development, and intensive and structured learning and lessons sharing to create a common platform. The Framework will evolve as international negotiations, scientific knowledge, development policy research, and experience on the ground evolve.

61. **Six action areas.** The WBG’s operational response to meeting the needs of its different clients related to climate change is drawing upon the comparative advantages of, and synergies among, its different institutions—IDA, IBRD, IFC, and MIGA—as well as its research capabilities. The Framework encompasses activities under six inter-related action areas, corresponding to some of the key items in the Bali Action Plan (see Box 2). Each action area provides tools for supporting activities contributing to both adaptation and mitigation and attaches major importance to working in partnerships in order to achieve a development impact:

1. Support climate actions in country-led development processes;
2. Mobilize concessional and innovative finance;
3. Facilitate the development of innovative market mechanisms;
4. Leverage private sector finance;
5. Increase support to technology acceleration; and
6. Step up policy research, knowledge, and capacity building.

62. **Links to WBG six strategic themes.** The degree of the WBG’s impact on global progress will be an important test of its broader effort to play a greater role with respect to Global Public Goods (GPGs), as one of its six strategic themes.⁷ Importantly, the Framework is supportive of and relates to all the other themes. Climate change affects both the WBG’s effectiveness in reducing poverty, with a particular focus on Africa, and the WBG’s relevance for the middle-income countries. Fragile states, as well as conflict-affected countries, are disproportionately represented among the countries most at risk from climate related threats, and require special business products that take into account their severe institutional and capacity constraints. Many countries in the Arab world face an exacerbation of already extreme water scarcity due to climate change. For oil-exporting Gulf countries, this impact may be further compounded by the need for significant economic diversification and adjustment to anticipated global climate policies. Finally, major focus on learning and knowledge about development in the context of climate change makes a strong link to the Knowledge theme.

⁷ To help achieve an inclusive and sustainable globalization, the WBG has outlined six strategic directions: (1) Poorest Countries – help to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa; (2) Fragility and Conflict – address the special challenges of states coming out of conflict or seeking to avoid breakdown of the state; (3) Middle Income Countries – Develop a competitive menu of “development solutions” for middle income countries, involving customized services as well as finance; (4) Global Public Goods – play a more active role with regional and global “public goods”; (5) The Arab World – support those advancing development and opportunity in the Arab World; and (6) Knowledge – foster a “knowledge and learning” agenda across the WBG.