

# Chairperson's Summary: Committee on Development Effectiveness (CODE)

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On August 27, 2008, the Committee on Development Effectiveness (CODE) met to consider the report entitled *Climate Change and the World Bank Group—Phase I: An Evaluation of World Bank Win-Win Energy Policy Reform* prepared by the Independent Evaluation Group (IEG), together with the draft Management Response.

## Background

On December 17, 2007, the Committee considered a study entitled *The Welfare Impact of Rural Electrification: A Reassessment of the Costs and Benefits*, prepared by IEG. The Committee considered the IEG report *Supporting Environmental Sustainability—An Evaluation of World Bank Group Experience, 1990–2007*, and draft Management Response on June 18, 2008. Recently, the Committee discussed the draft *Strategic Framework on Climate Change for the World Bank Group* at its meeting of August 6, 2008.

## IEG Evaluation

IEG introduced the current evaluation report as part of a phased series on climate change. Subsequent phases will address issues of clean technology investments, carbon finance, and adaptation, and will look across the World Bank Group. This Phase I evaluation assessed the World Bank's experience with key win-win policies in the energy sector—those that combine gains at the country level with globally beneficial greenhouse gas (GHG) reductions. The analysis of this report supported the following recommendations:

- Systematically promote the removal of energy subsidies, easing social and political economy

concerns by providing technical assistance and policy advice to help reforming client countries find effective, broad-based safety nets.

- Emphasize policies that induce improvements in energy efficiency as a way of reducing the burden of transition to market-based energy prices.
- Promote a systems approach by providing incentives to address climate change issues through cross-sectoral approaches and teams at the country level and structured interaction between the energy and environment sector boards.
- Invest more in improving metrics and monitoring for motivation and learning at the global, country, and project levels.

## Draft Management Response

Management agreed with the importance of energy efficiency and energy pricing in the Bank's work and the need for collaboration across sectors on energy policy issues. At the same time, management believes that IEG has drawn conclusions from an incomplete analysis based on limited coverage and that do not fully take into account the underlying context. Management expressed concerns that the IEG report does not cover the full range of the World Bank Group's programs and activities (for

example, assisting the private sector in promoting energy efficiency) and that it focuses on one subset of win-win energy opportunities and excludes others, such as energy conservation, load management, and supply-side efficiency investments, as well as renewable energies and fuel switching.

### Overall Conclusions

The Committee commended IEG for an excellent report, which members found very informative, and acknowledged the trade-offs of undertaking the evaluation in appropriate, sequenced parts as had been outlined and agreed in the Approach Paper. Nevertheless, it was essential that strategic communication be carefully designed to avoid misleading or unfair interpretations of the findings. The plan for a capstone paper covering all three phases was endorsed. There was strong support for deepening the Bank's engagement with clients on energy pricing policies, though there was recognition that it is a complex issue encompassing economic, environmental, social, and political aspects that were likely to vary country by country and over time. The Bank could play a useful role in sharing best practices and distilling lessons of experience, particularly on energy taxes and subsidies and on pricing policies for renewable energy to help countries institute socially and environmentally sustainable pricing.

The general sentiment was for greater emphasis than hitherto on energy pricing policy, and energy efficiency in a broad sense. In this regard, the issues of external institutional incentives and internal incentives resonated with several attendees who recommended that management pay greater attention to this matter, including one suggestion to consider organizational changes (noting parenthetically that this issue's relevance goes well beyond the energy sector). While noting management's point about dividing labor appropriately with other agencies such as the International Energy Agency (IEA), the broad sentiment at the meeting was supportive of IEG's recommendations that the Bank be more involved in developing metrics and performance indicators. Indeed, several speakers added that

analytical and design work in this regard should be at a global level, encompassing developed countries as well. Thus, the World Bank Group could play a very useful role in making high-quality information and a balanced monitoring framework for a global public good.

### Next Steps

The report is the first of a three-part IEG evaluation on Climate Change and the World Bank Group, and focuses on IBRD-IDA experience. In response to the Committee's request, IEG committed to clarify the scope, content, and context of the Phase I report as part of its preparation for publication. This includes clarifying how it fits in the three-phase evaluation by IEG (where the second phase will look at the World Bank Group's project-level experience in promoting technologies for renewable energy, energy efficiency, and transport; and the third phase will look at adaptation issues). IEG also committed to prepare a capstone paper summarizing the three phases at the conclusion of the series; the Committee will consider whether or not to recommend this paper for a full Board discussion.

### Main Issues Raised at the Meeting

The principal issues discussed were the following:

#### *Scope of IEG Report*

Some speakers would have liked to have seen immediate treatment (in the current phase) of a broader range of topics, including energy conservation and energy access; supply-side in addition to demand-side efficiency; discussion of new and additional financing, particularly for technology and equipment; discussion of additional energy sources, including biofuel or nuclear; coverage and targeted analysis of Bank support for adaptation; and extension of the evaluation beyond energy to forestry, transport, and agriculture issues. One member agreed with IEG's recommendations but felt that further thought should be given on how to implement them.

IEG's definition of win-win (or no-regret) policies and projects offering potential gains at

the country level aligned to global interest (for example, reduction in GHG) drew some comments. One member felt the report could have expanded this concept to consider environmental taxation and subsidies for renewable energy. Some others underscored that the paper should have given more emphasis to the principle of “common but differentiated responsibilities and respective capacities” in emissions and in additional financing, rather than focusing on savings from removal of subsidies. In this regard, a member noted that the poorest countries, which emit only a tiny fraction of the per capita emissions of developed countries, will be disproportionately affected by climate change. At the same time, the need to address subsidy reductions and energy efficiency in developed countries was raised by another speaker.

Some members stressed the importance of broadening the evaluation to World Bank Group activities, including synergies between institutions. One speaker considered that the structure of IEG's proposed suite of climate-related analyses would be incomplete without explicitly addressing the GHG implications of the Bank Group's engagements to help developing countries reform their power sectors. This speaker suggested that IEG should evaluate the positive and negative links between different power sector reforms and low-carbon electricity services as part of the second phase of its climate evaluation. IEG said that Phase I focused mainly on the World Bank, but the next phase will certainly include the International Finance Corporation and the Multilateral Investment Guarantee Agency. A few members suggested an appropriate communication strategy for disseminating the IEG three-phased review in a comprehensive manner to avoid misunderstandings. As suggested by some speakers, IEG agreed to highlight, during the dissemination of each phase of the report, that it is part of a broader review.

### ***Bank's Assistance***

The Bank was encouraged to deepen its engagement with countries through policy dialogue and to support them to pursue appropriate regulatory

and institutional settings. Some speakers stressed the importance of adjusting the internal (for staff and management) and external (countries, Bank, and development partners) institutional incentive system. However, they also cautioned about the need to consider political economy considerations, as well as market failure and institutional constraints in client countries. A question was raised about the adequacy of the Bank's resources as well as organizational and operational capabilities to address the challenges of policy dialogue and reforms. In addition, one member stressed the need to balance the emphasis between software (price reform and regulatory framework) and hardware (energy-efficiency equipment). Management affirmed the Bank's internal capacity to provide a full package: 200 experts in thematic teams and cross-sectoral teams in the Regions, offering not only lending but also technical assistance, as well as social safety nets and policy advice.

### ***Subsidies and Energy Pricing***

There was general consensus on the need to be mindful of the political challenges of subsidies and pricing reforms, as well as economic and social dimensions at the national and regional levels. Speakers agreed that more emphasis should be given to removal of energy subsidies and were not surprised by IEG findings that subsidies were a poorly monitored drag on the economies of developing countries. They also stressed the importance of supporting energy pricing reform, an area recommended by IEG for greater emphasis. On price reform, the importance of diversity of reform packages to address country-specific circumstances; of a gradual approach to complement progress in institutional development; of finding windows of opportunity for analytical work and policy dialogue to motivate reform; and of client ownership were noted. It was also added that the adjustment of prices to market level should take into account vulnerable groups in relation to the other interests vested in the society, and the need for appropriate compensation systems.

Speakers encouraged the Bank to disseminate lessons learned, good practices, and guidelines,

as well as more analytic work on implementing various reforms including fiscal sustainability, cross-subsidization, distributional impact, and cap-and-trade schemes. Management indicated that the Bank uses a number of instruments to appreciate the political economy, such as Poverty and Social Impact Analyses. Management also noted that the Organisation for Economic Co-operation and Development (OECD) has done work on best practices in environmental taxation and cap-and-trade that the Bank is using in its analysis. Some speakers stressed the importance of addressing energy subsidies analysis and energy pricing reform in the new Strategic Framework on Climate Change and Development (SFCCD), which management indicated would be addressed in the full SFCCD paper.

#### ***Efficiency Policies***

Some speakers agreed with IEG on the need for the Bank to systematically encourage more energy-efficiency activities in client countries. Management agreed, and stated that the full range of interventions, including the supply side of energy efficiency (loss reduction in distribution, transmission, and generation), and alternatives such as buses and public transportation systems need to be taken into account, depending on the country-specific circumstances. While acknowledging the importance of supply-side efficiency, IEG stressed that demand-side efficiency measures have been viewed by recent studies as offering the largest opportunities for energy savings and emissions reductions—larger than those offered by supply-side measures. Demand-side and end-use efficiency require policy attention because of underlying market failures

and have been repeatedly stressed in Bank policy documents.

#### ***Metrics and Monitoring***

Several speakers concurred with IEG's recommendation that the Bank should work toward developing appropriate metrics, while recognizing management's point that data collection would be costly. A few speakers pointed to a 1999 ESMAP "scorecard" publication as precedent. Additionally, some speakers stressed the need for the Bank to play an advocacy role in promoting a more balanced global monitoring mechanism by including indicators such as mobilizing financial and technological support to developing countries, while the political sensitivities and technical complexities of carbon accounting were acknowledged. Management indicated that it does not commit to developing and maintaining a database of this type, but it will work to develop indicators and help countries to establish capacity. Management noted that the Bank works together with the OECD, EUROSTAT, and multilateral development banks, and supports specialized agencies such as the IEA and UN, trying to help them formulate better indicators.

#### ***Global Gas Flaring Reduction Partnership (GGFR)***

A few speakers noted that the Bank has played an advocacy role in promoting reduction of gas flaring, but that adherence to the initiative has been below expectations. Questions were raised on whether there was a lack of interaction between the GGFR and Bank's business or lack of competitiveness of the Bank's financial instruments.

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*Jiayi Zou, Chairperson*