

# Management Response

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Management welcomes the evaluation by the Independent Evaluation Group (IEG) of some of the World Bank’s experience with “win-win” energy policy reforms, which constitute an important but not exhaustive set of activities within the wider suite of World Bank Group efforts on the energy front.

It is useful to take stock of progress on the win-win reforms as defined by IEG, as they are an important element of the World Bank Group’s vision to contribute to inclusive and sustainable globalization—to help reduce poverty, enhance growth with care for the environment, and expand individual opportunity. In this context, management particularly would welcome the promised second phase of IEG’s evaluation, covering the expanding project-level experience of the Bank and International Finance Corporation (IFC) in promoting renewable energy, energy efficiency, and carbon finance, the absence of which precludes a comprehensive assessment of the focus and success of World Bank Group efforts on the energy front.

## Overview of Response

Management concurs with several aspects of IEG’s main findings, many of which reinforce important messages already captured in the Bank’s energy sector practices or in the findings from Bank economic and sector work, internal reviews and self-evaluation, and emerging lessons from operational experience across the World Bank Group. At the same time, management takes issue with the evaluation scope of IEG’s report; its definition of win-win energy opportunities; the gaps in evaluated areas; and the use, in certain cases, of findings to draw overly broad conclusions or recommendations, such as promoting the use of integrated resource planning by regulators of supply-side energy entities. Therefore, in several respects, management differs with IEG’s findings and recommendations.

## Key Issues of Agreement and Divergence

This management response first outlines the areas in which management broadly agrees with the analysis in the review, noting, however, areas where IEG could have given a fuller account of efforts the World Bank has made or is making. It then discusses areas in which management believes that IEG has drawn conclusions from an analysis based on limited coverage or that do not fully take into account the underlying context.

## Areas of Agreement

Management agrees with the importance of energy efficiency and energy pricing in the Bank’s work and the need for strong collaboration across sectors on energy policy issues. However, management believes that the report does not adequately reflect the considerable work the Bank has undertaken to address energy efficiency. The Bank’s strong involvement in energy efficiency began in the late 1970s/early 1980s in response to oil price shocks. Although interest in energy efficiency languished after the subsequent fall in oil prices, it was rekindled in the early 1990s when Eastern European and former Soviet Union countries became active borrowers. During the 1990s, the Bank supported energy efficiency reforms in Europe and Central Asia Region countries through a combination of technical assistance, policy loans, and investment projects.<sup>1</sup> The role of energy efficiency was further reinforced by the Bank’s *Fuel for Thought* (World Bank 2000), which pushed for market-based approaches to energy efficiency.

**Post-Bonn Efforts.** The World Bank Group has followed up on its commitment made at the 2004 Bonn International Conference on Renewable Energy to increase annual energy efficiency and new renewable energy lending by 20 percent, starting in fiscal year 2005. Indeed, average fiscal 2005–07 energy-efficiency commitments have more than doubled compared with the previous three-year period. The World Bank continues to scale up energy efficiency work in the energy sector. Staffing up to increase the skills base is well under way in both the anchor and operational units. Energy efficiency specialists have been/are being hired by Regional units, Carbon Finance, and the Energy Sector Management Assistance Program (ESMAP).

#### **Areas of Divergence**

Management believes that IEG has drawn conclusions from an analysis based on limited coverage or that do not fully take into account the underlying context. Management is concerned that limitations on both definitions and the scope of IEG’s report open the way to mischaracterization of the extent and impact of World Bank Group effort on energy efficiency.

**Circumscribed Scope.** The evaluation scope of IEG’s report is circumscribed, incorporating only International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) energy-efficiency policy, energy pricing, and gas flaring initiatives, while excluding IFC’s substantive role (except, very occasionally, at the margins). Management observes that excluding IFC programs and activities that target the key private sector role in promoting energy efficiency is a major shortcoming. IFC activities encompass a range of initiatives (such as the Efficient Lighting Initiative) and sustainability advisory services. By focusing piecemeal on Bank policy experience and deferring project-level experience to a second phase of review, IEG has not taken into account that the efforts of each of the World Bank

Group’s components are intended to complement one another and build on respective comparative advantages and synergies, and it has precluded a comprehensive evaluation of the energy efficiency experience in the World Bank Group. As a result, management observes that some of the report’s Phase 1 findings paint an incomplete picture of World Bank and World Bank Group efforts on the energy front.

**Definition of Win-Win.** IEG’s report uses a narrow definition of win-win energy opportunities. Management is concerned that the report focuses on, and draws conclusions from, one dimension of energy efficiency (end-user energy efficiency), while not adequately incorporating other important win-win energy opportunities, in particular, supply-side energy efficiency (which covers power plant rehabilitation to improve efficiency and also electricity transmission and distribution system loss reduction), renewable energy, and fuel switching.

**Indicator.** The IEG report uses an indicator that is limited to “specific efficiency efforts, including end-user efficiency and district heating.” This opens the way to conclusions and perceptions that may be misleading, including that only about 1 in 10 World Bank energy projects involves energy efficiency. However, as noted in the IEG report, “including a broader range of projects identified by management as supporting supply-side energy efficiency would boost the proportion above 20 percent by number.”<sup>2</sup>

Management, and certainly the clients of the World Bank Group, would have benefited from a more comprehensive analysis and an indicator that included all energy supply-side efficiency, technical assistance, and development policy lending, as well as IFC investments in energy efficiency.

**Management Action Record.** Management’s specific responses to IEG recommendations are outlined in the attached draft Management Action Record.

## Management Action Record

Recommendation	Management Response
<p><b>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 solutions, and analytical work demonstrating the cost and distributional impact of removal of such subsidies and of building effective, broad-based safety nets.</b></p> <p>Energy price reform, never easy or painless, can pose social and political economy risks in client countries. But the Bank can help provoke and promote reforms by providing clients with assistance in charting and financing adjustment paths that are politically, socially, and environmentally sustainable.</p> <p>One way to do this is for the Bank to continue to develop and share knowledge on the use of cash transfer systems or other social protection programs as potentially superior alternatives to fuel subsidies in assisting the poor. This would include systematic analyses of the distributional impact of energy subsidies. Timely monitoring and analysis of energy use and expenditure, at the household and firm levels, will also be important in policy design, in securing public support, and in detecting and repairing holes in the safety net.</p>	<p><b><i>Agreed; work is already ongoing.</i></b></p> <p>The Bank continues to work with client countries to address the issue of energy subsidies. Technical assistance and policy advice are provided, as requested by our client countries. The Bank focuses on the legal and regulatory mechanisms needed to support sustainable energy pricing reforms.</p> <p>Energy staff will continue to work with Poverty Reduction and Economic Management Network and Human Development Network staff (for example, <i>Guidance for Responses from the Human Development Sectors to Rising Food and Fuel Prices</i>, World Bank HDN 2008) to develop and apply social safety nets, including cash transfers, designed to protect the poor from the impact of energy price adjustments. A regulatory thematic group has been established in the Bank to foster dissemination of lessons learned. These lessons will be applied, taking into account the unique circumstances in client countries. When requested, the Bank provides support to enable countries to monitor and analyze energy use so that findings can be applied to their energy policies.</p>
<p><b>Emphasize policies that induce improvement in energy efficiency as a way of reducing the burden of transition to market-based energy prices.</b></p> <p>Cost-reflective prices for energy boost the returns to efficiency, but the Bank should support country policies that allow households and firms to exploit efficiency opportunities. Conversely, the deployment of energy-efficient equipment such as compact fluorescent lights can be used as a device for cushioning the impact of price increases. The Bank should explore innovative ways to finance efficiency (and renewable energy) investments in the face of fuel price volatility.</p>	<p><b><i>Partially agreed; work is already ongoing.</i></b></p> <p>The Bank has established an Energy Efficiency for Sustainable Development program to help guide and scale up energy efficiency activities. It is implementing the first step of this program, to increase the staffing with energy-efficiency experience, in ESMAP, the Energy Anchor Unit, and the Regions. This effort is complemented by a learning program developed by the Bank's energy-efficiency thematic group, under the oversight of the Energy and Mining Sector Board. Another step is the development of programs and projects at the country/policy level, the industry level, and the equipment level to ensure that a broad-based implementation program evolves.</p>

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<p>In order to strengthen internal incentives toward promotion of energy efficiency, the Bank should develop appropriate metrics, such as indicators that more directly reflect energy savings, instead of dollar growth targets in lending for energy efficiency (which may distort effort away from the high-leverage, low-cost interventions). These indicators, in turn, need to be harnessed to country strategies and project decisions. All of these efforts are likely to call for increased funding for preparation, policy dialogue, analysis, and technical assistance rather than lending.</p>	<p>To foster World Bank Group support for energy efficiency, the draft “Development and Climate Change: A Strategic Framework for the World Bank” (World Bank 2008) has proposed an initiative to screen the project pipeline for energy-efficiency potential early in the project design phase.</p> <p>The Bank is working with the donor community to: (i) increase the financial support needed to intensify energy-efficiency efforts; (ii) increase low-cost funding to support energy-efficiency and renewable energy programs; and (iii) broaden the support from partners in implementing a renewable energy and energy-efficiency program.</p> <p>In terms of internal incentives, the discussion on developing appropriate metrics has been ongoing with the International Energy Agency and with UN Energy, but to date it has been inconclusive. Given the inconclusive nature of the discussion to date, management is not prepared to agree with establishing new metrics that focus solely on energy efficiency. The World Bank Group has committed to accelerate lending for new renewable energy and energy efficiency to 30 percent per annum over the next three years, a 50 percent increase over the 2004 Bonn commitment (which it has consistently met since that time).</p>
<p><b>Promote a systems approach by providing incentives to address climate change issues through cross-sectoral approaches, teams at the country level, and structured interaction between the Energy and Environment Sector Boards.</b></p>	<p><b><i>Partially agreed; work is already ongoing.</i></b></p>
<p>Helping clients reform will require a systems view, such as looking at the power system as a whole; looking at energy subsidies as just one, undesirable, part of a social protection system; and looking at the connections between water and power management.</p> <p>To be effective the Bank needs to break down sectoral silos and encourage cross-sector approaches and teams. This will require championship by country directors and vice presidents, to promote incentives such as supporting capacity building for power system regulators in integrated resource planning, and using the Clean Technology Fund to support public systems that will catalyze widespread investments.</p>	<p>The Bank will continue to use a system-wide approach in reviewing projects and programs.</p> <p>Most Regions and many country teams have already created climate change teams of staff from several sectors to promote synergies, and are developing cross-sectoral business strategies to integrate climate change considerations. The World Bank Group established a Climate Change Management Group as a focal point to discuss cross-sectoral issues and promote synergies. The Bank supports regulatory capacity building, drawing on les-</p>

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<p>Structured interaction of the Energy and Environment Sector Boards, initiated with ad hoc groups to address specific cross-sectoral challenges, could move the Bank closer toward mainstreaming sustainable development.</p>	<p>sons learned from successful cases accomplished to date. On the basis of previous experience, management disagrees with the proposed use of integrated resource planning, as it is unconvinced of the effectiveness of the use of integrated resource planning by either supply-side entities or their regulators.</p> <p>However, the Bank supports the use of broad-based planning tools by policy makers to support the implementation of policies in the legal and regulatory framework.</p> <p>The Bank is currently considering large-scale responses to demand-side issues using new funding for low-carbon technologies when the funds become available.</p> <p>The merging of infrastructure and environment into a common vice presidency has facilitated interaction at the sector boards and thematic working groups.</p>
<p><b>Invest more in improving metrics and monitoring for motivation and learning at the global, country, and project levels.</b></p> <p>Good information can motivate and guide action. One particularly useful global initiative for the World Bank would be to collaborate with the International Energy Agency or other partners to set up an Energy Scorecard that would compile up-to-date and regular standardized information on efficiency indicators, energy prices, policies, and subsidies at the national and sectoral levels. Indicators could be used by borrowers for benchmarking; in the design and implementation of country strategies, including sectoral and cross-sectoral policies; and in assessing Bank performance in assisting countries.</p> <p>At the national level, the Bank should support integration of household and firm surveys with energy consumption and access information to lay the foundation for assessing impacts of price rises and mitigatory measures, as well as planning for improved access.</p>	<p><b><i>Partially agreed; work is already ongoing.</i></b></p> <p>The Bank has been working with the International Energy Agency on collecting energy-efficiency-related information in pilot countries for two years, with limited success. Management does not commit to the idea of establishing a centrally maintained Energy Scorecard. Rather, the focus of our efforts is now on helping client countries establish their capacity to undertake the data collection exercise in a manner that targets both effective implementation and related policy-making guidance. Without this capacity and country willingness to participate in and lead this initiative, it will not be sustained. The Bank is also looking into possible new, innovative knowledge-sharing mechanisms to facilitate sharing lessons learned.</p> <p>The Bank lacks the resources to maintain a comprehensive and reliable database on energy policies, prices, subsidies, and energy efficiency at the national level. Regional organizations provide part of this information, which the Bank selectively draws upon, depending on the information's reliability.</p>

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At the project level, the Bank should invest in rapid-feedback monitoring and impact evaluation of efficiency projects and policies.	<p>The Bank, with ESMAP support, has led in improving Living Standards Measurement Survey (LSMS) instruments for increased collection of energy data as part of LSMS surveys.</p> <p>The Bank will include rapid-feedback and monitoring and impact evaluation of efficiency projects when requested by our borrowers.</p>