

## **Strategic Framework for TFESSD (FY10)**

This note describes the strategic framework for TFESSD for FY2010. It accompanies the TFESSD Call for Proposals for FY10, discussing the global and Bank context for the Call and the goals of the TFESSD support.

### **A. Climate Change and the World Bank Group**

#### **Climate Change and the Developing World**

The earth's climate is changing and is projected to continue to change under a variety of emissions scenarios. It is projected that average temperatures will continue to increase, sea levels will rise, and rainfall patterns will change. Extreme weather events (hurricanes, storms, flooding, drought, heat waves) are likely to become more frequent, more widespread, and of increased severity. Melting glaciers will increase flood risk during the wet season and reduce dry season water supply. Droughts could become more common in many parts of the world. Ocean acidification will have major effects on marine ecosystems and fish stocks. Crop and livestock production patterns and productivity will be impacted by changing climate and changes in pests and diseases. Human mortality and morbidity from malnutrition, heat stress, and vector borne diseases are expected to increase. A growing number of plant and animal species may face extinction.

Developing countries have contributed the least to create this problem but will face the most adverse impacts because of their geographic exposure, reliance on climate sensitive sectors, low incomes, and weak adaptive capacity. Socio-economic impacts are likely to be profound and will impact humans through a variety of direct and indirect pathways.

#### **Vulnerability to Climate Change**

While climate change affects everybody, the poor have the weakest adaptive capacity and are the most vulnerable. Development gains in some countries (Africa and low income countries, coastal, mountainous, and small island states) are at significant risk from the effects of climate change unless adaptation is improved.

The households most vulnerable to climate change are those whose livelihoods are exposed to climatic risks and who have weak risk management capacity. This includes smallholders and households engaged in fishing and livestock. Impacts are likely to fall disproportionately on particularly vulnerable individuals within households such as children, women, elderly, and persons with disabilities. However, only few studies have attempted to quantify the economic and social impacts of climate change, and often at high levels of aggregation. There has been limited attention to disaggregating the overall effects of climate change and consider economic and social impacts and how they may be addressed.

Climate changes are increasing the frequency of natural disasters. Disasters wipe out the gains from development, destroying lives and livelihoods. Disasters often trigger substantial, sometimes irreversible, losses in consumption, assets, and human capital. Recovery from shocks is often slow and incomplete, particular for the poor. Thus, unless risk management is improved

the increase in disaster risks associated with climate change could adversely affect economic growth, well-being, inequality, and vulnerability.

### **Responding to Climate Change**

Earlier, much discussion on climate change focused on the need to reduce emissions of greenhouse gases and paid less attention to dealing with the realities of climate change via adaptation. Today, there is increasing emphasis on preparing for ongoing and future climate changes. To do so, we need to better understand the nature of risks facing poor communities and households; how these risks will impact household well-being and social outcomes; and how to effectively lower household vulnerability. At the same time, the world is piloting new approaches, technologies, and sources of finance for carbon reduction that sometimes may have unintended consequences as evidenced, for example, by the role of bio-fuels in accelerating the food crisis.

The Bank has presented a *Strategic Framework on Climate Change and Development for the World Bank Group (SFCCD)*<sup>1</sup>. *Preparation of the Strategic Framework* benefitted from inputs from many stakeholders via consultations and briefings all over the world. The SFCCD recognizes that pro-poor growth, poverty reduction, and achieving the MDGs remain continued priorities; that access to energy is fundamental to these goals; and that addressing climate change must not divert resources from core development needs. Reflecting the multi-sectoral and multidimensional nature of the challenge, the SFCCD proposes activities in many sectors, covering energy, transport, urban development, water, agriculture, forestry, industry, economic policy, and social and human development. Six core principles guide the SFCCD: (a) supporting the UNFCCC process; (b) being neutral to any negotiating party position; (c) helping developing countries manage the challenges of climate change and realize opportunities of climate action; (d) considering climate change an overarching development and economic issue, not only an environmental issue; (e) recognizing the importance of partnerships; and (f) building the SFCCD as an integral part of the Bank's strategy on inclusive and sustainable globalization. The SFCCD is complemented by more specific regional climate change business plans.

Climate change is having a profound impact on the Bank's work, with a variety of responses such as financial support, technology development, analytical work, and capacity building. For example, a US\$500 million Climate Change Development Policy Loan was recently approved for Mexico. The World Bank's Board recently approved the creation of two Climate Investment Funds—The Clean Technology Fund and Strategic Climate Fund—to back efforts to curb greenhouse gas emissions and adapt to the effects of climate change. These global funds are expected to start with initial funds of at least US\$5 billion and fill an immediate financial gap for climate actions until a new post-2012 regime is effective. The size of the climate change problem and the likely availability of major funding for climate action in developing countries could transform the way in which the Bank Group does its business. For example, the Bank is faced with a need to support the development and rollout of clean energy technology much more than it has traditionally done in the past. More generally, the Bank is faced with a need to rapidly scale up its work in this challenging area from a small base and in a complex and evolving international environment.

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<sup>1</sup> See <http://go.worldbank.org/6HVS12Q5M0>.

## **Role of TFESSD**

TFESSD is already making major contributions to helping the Bank Group build its knowledge base and analytical capacity on climate change. TFESSD approved 38 multi-sector adaptation activities in FY09, which will complement one ongoing activity on social policy of adaptation started FY08 and a suite of disaster risk projects started in FY07. TFESSD's adaptation work focuses on social issues (8 activities); agriculture, fisheries, and forests (6 activities); social protection, disasters, and migration (5 activities); various environmental issues (5 activities); and capacity building and cross-cutting issues (5 activities). All six Bank regions are represented and several activities tie in closely with regional climate change business plans. Global agendas are also represented, for example with the World Development Report 2010 on climate change and development. The activities embody multi-sectoral efforts at integrating climate science and social science approaches (both participatory and quantitative) and emphasize dissemination and capacity building.

Although the TFESSD climate change portfolio is already large and diverse, it does leave out some relevant issues, in particular those related to climate change mitigation (emissions reduction). There are potentially significant social, economic, distributional, and environmental issues associated with carbon finance projects and low-carbon technologies, as witnessed for example by recent controversy over consultation of forest dwellers on forest carbon finance and on the contribution by bio-fuels to rising food prices. Yet the social and poverty consequences of (project, program, or forest) carbon finance and new low-carbon technologies are not covered by any of the ongoing TFESSD activities, nor in much detail by other Bank work.

The goal of continued TFESSD support to climate change would be to help poor and lower middle-income countries respond to climate change and lower household vulnerability in a manner that is socially and environmentally sustainable. This goal would be reached through Bank-executed analytical work and capacity building efforts. The comparative advantage of TFESSD for this theme lie in (1) the experience gained from its prior efforts; (2) the need for a multidimensional and multisectoral response, for which TFESSD is especially useful; (3) the ability to exert strategic influence on post-Kyoto financing arrangements for global climate change.

While some other trust funds are available for climate change work—notably the multi-billion Climate Investment Funds—funding for Bank-executed work on climate change remains modest considering the demand for rapid scaling up.<sup>2</sup> The Norwegian Trust Fund for Private Sector and Infrastructure has approved 17 climate change activities (of which 15 focus on adaptation), mostly focused on encouraging the contribution of the private sector to climate action, piloting new approaches, and improving the investment climate for infrastructure and private sector. The Bank-Netherlands Partnership Program's environment window expects to spend around 40% of its funds on climate change which would allow for financing a handful of new activities this year. Given growing interest in the topic—especially from sectors other than environment which has been involved for some time—the demand for support and the supply of innovative ideas are unlikely to have been exhausted.

We welcome proposals which focus on the impacts of climate change; adaptation to climate change; or the social and environmental consequences of climate change mitigation strategies.

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<sup>2</sup> The Climate Investment Funds are not for bank executed analytical work and capacity building. The Japanese PHRD trust fund finances some technical assistance on climate change as recipient executed work linked with Bank environmental projects, but not Bank's analytical work.

Proposals linking climate change and food insecurity are particularly welcome. We encourage proposals that support the implementation of the Strategic Framework on Climate Change and Development, the regional climate change business plans, and the WDR2010 on Climate Change and Development. Work under this theme could include:

- Social and human consequences of climate change. This includes efforts to understand and address impacts of climate change on health, gender, poverty, conflict, migration, food insecurity, assets of the poor, and natural disaster risk.
- The social (including gender), economic, and environmental impacts of climate change adaptation interventions. This would include advances in the measurement of adaptive capacity; setting priorities for adaptation interventions; and Poverty and Social Impact Analysis (PSIA) of adaptation.
- Understanding and addressing the social (including gender), economic, and environmental impacts of carbon finance (including projects addressing avoided deforestation and land use) and low-carbon technologies. This would include PSIA and impact evaluation of costs and benefits of forest carbon finance and low-carbon technologies.
- Capacity building and regional dialogue addressing climate change.

### **Proposed Outcome Indicator**

Country responses to climate change take into account the needs of poor communities and Bank CASs incorporate aspects of community-based and pro-poor adaptation. TFESSD-financed work can be traced to have made substantial, positive contributions hereto.

## **B. Food crisis and the World Bank Group<sup>3</sup>**

Rising food and oil prices pose a crisis for the world's poor. For the world's 41 poorest countries, the combined impact of high prices of food, fuel, and other commodities is a negative economic shock estimated to reduce GDP by between 3 and 10 percent, causing increased poverty and malnutrition for millions. Donors, including the Bank, are responding to this crisis by making new aid commitments to some of the worst affected countries and by stepping up technical assistance in areas such as agriculture, social protection, and economic policy. TFESSD support for analytical work will help the Bank improve its technical assistance in this area and inform its medium and long-term responses.

### **Food Crisis: Background**

Food grain prices have more than doubled since January 2006. Over 60 percent of this increase has occurred since January 2008 alone. Individual grain staple prices have increased even more, with monthly average wheat prices doubling and soybean oil prices up by 165 percent since January 2006. Rice prices have tripled between January and April 2008. Prices should start to decline toward the end of this year given record global production forecasted for 2008 and 2009, but are expected to remain high for several months and remain above 2004 levels through 2015.

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<sup>3</sup> This section borrows heavily from a note prepared by PREM titled "Addressing the Food Crisis: The Need for Rapid and Coordinated Action".

Prices have risen due to a number of individual factors, whose combined effect has led to an upward price spiral. Underlying structural factors contributing to rising food grain prices include high energy and fertilizer prices; the continuing depreciation of the US dollar; sharply increased use of both cereals and vegetable oils in bio-fuel production; and declining global stocks of food grains. The effects of these underlying structural factors have been accentuated by the use of counterproductive policies on the part of key exporters and importers. The introduction of export restrictions and bans — such as those imposed by India, China, and Vietnam on rice, or by Argentina, Kazakhstan, and Russia on wheat — has restricted global supply and aggravated shortages and food price inflation. Unilateral actions by exporting countries prompted others to quickly follow suit, undermining trust in the market and leading to worse outcomes for all. The result has been a self-reinforcing price spiral. The thinly-traded rice market has been especially vulnerable.

### **Vulnerability to Food Price Shocks**

Very preliminary estimates suggest that up to 105 million people could become poor due to rising food prices. A recent World Bank study in eight countries estimates that the increase in food prices between 2005 and 2007 increased poverty by 3 percentage points on average. Extrapolating these results globally suggests that, as a result of the rise in food prices, total world poverty may have increased by 73 to 105 million people; close to 30 million of these additional poor may be in Africa alone. In Liberia, the cost of the food basket for a typical household increased by 25% in January 2008, causing the poverty rate to rise from 64 to 70%. In Yemen, the doubling of the price of wheat and bread has resulted in a 12% loss in real income of the poor. This setback may reverse the gains in poverty made over the last seven years. In Honduras, the rise in food prices is estimated to have increased poverty by four percentage points from 51% to 55%, while in Sierra Leone the food crisis has raised poverty by 3 percentage points, to 69%.

Higher food prices are contributing to inflation and may heighten inequality within countries. Recent increases in food prices in Bangladesh have not only increased poverty, but also raised the Gini index of inequality by five percent. This is due to the benefit that larger farmers accrue relative to smaller farmers and relative to the urban poor. Similarly, the effective rate of inflation faced by the poor in Latin America is 3 percentage points more than the official rate implying that rich-poor gaps are widening. More research is warranted on the distributional implications of food, fuel, and fertilizer price rises in different countries and on the policy responses under consideration.

There are over 800 million undernourished people in the world, and this number could increase sharply as a result of the current crisis. Rising food prices are aggravating the vulnerability of children living amongst conflict, instability, HIV, and drought. But even stable, high growth countries are not immune to the damaging effect of escalating food prices on child malnutrition. India, for instance, has double the rates of stunted children (47%) than Sub-Saharan Africa (24%), and nearly five times that of China. According to UNICEF, 1.5 to 1.8 million more children in India are currently at risk of malnourishment, as households cut back on meals or switch to less nutritious foods due to rising food prices. The Bank has increased its emphasis on the dangers of hunger and malnutrition, the “forgotten MDG”, in the response to the food crisis and more generally.

## **Toward a New Deal for Global Food Policy**

The Bank launched the 2009 WDR on *Agriculture for Development* in October, 2007 and has started operationalizing the recommendations. However, as global food prices escalated in early 2008, urgent work was started to gear up the response in the short and medium term. In record time, a \$1.2 billion fast track aid facility, the Global Food Crisis Response Program, was created in May, 2008. Approvals for disbursement of aid to affected countries from this facility are occurring rapidly. However, the urgency of preparing the responses makes it likely that social and distributional issues have not been fully taken into account in all cases.

The Bank has proposed a New Deal for Global Food Policy with both short term and long term actions. Short-term actions include support for the World Food Program for direct food assistance; budget support and expansion of social protections programs such as school feeding, food for work, maternal and child programs, and conditional cash transfers; support to increase crop production through seeds, fertilizers, and crop insurance. At the same time, the crisis offers a window of opportunity to implement key medium-term reforms that address the underlying causes of the crisis and prevent it from recurring. This includes building longer term production capacity through irrigation, water management, fertilizers, and crop diversification, and creation of targeted social protection programs in countries that did not have them previously. TFESSD is well placed to help inform this medium-term response and to bridge to addressing long-term food insecurity.

### **The role of TFESSD**

The goal of TFESSD support to this theme would be to help poor and lower middle-income countries respond to the food crisis in a manner that is pro-poor, environmentally and socially sustainable, addresses its underlying causes, and prevents it from recurring. This goal would be reached through Bank executed analytical work and capacity building efforts.

At the time of writing (July/August 2008), no other trust funds were available to support the Bank's response to the food crisis.

TFESSD, as a useful and flexible source of finance, can support multi-sectoral proposals aiming to inform the response, by the Bank and the client countries, to food insecurity stemming from (food and fuel price or financial) shocks as well as the causes of long-term food insecurity and vulnerability. Proposals linking short-term shocks and responses to long-term food insecurity are particularly welcome. Work under this theme could include:

- Assessing the impacts of increasing food, fertilizer, and fuel prices and financial shocks on different communities and social groups (including households, genders, and individuals). This includes impacts on poverty, food insecurity, and the distribution of assets, income, and opportunity. Research could also look at the links between food and fuel prices and how to insulate the food economy from fuel price and other shocks.
- Distributional and political economy analysis of policies and programs addressing food insecurity and vulnerability. This includes PSIA, monitoring, and evaluation of Bank and country responses in areas such as trade, agriculture, nutrition, social protection, or subsidy reforms.
- Improving, scaling up, and replicating successful nutrition and social protection programs.

- Linkages between climate change, environment, poverty, and long-term food insecurity; failures of rights and entitlements to food; efforts to understand how the type, quality, and pattern of growth affects starvation, hunger, and malnutrition.<sup>4</sup>
- Understanding and addressing the social, economic, and environmental implications of bio-fuels. PSIA and other analysis of trade and subsidy regimes for bio-fuels and the impact of bio-fuels on foodgrain prices.
- Capacity building and regional dialogue on food insecurity, vulnerability, and responses to address it.

### **Proposed Outcome Indicator**

In the medium term, country responses to the food crisis shield the poor from the worst potential impacts, avoid a recurrence of the crisis, and are fiscally and environmentally sustainable. TFESSD-financed work can be traced to have made substantial, positive contributions hereto.

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<sup>4</sup>See World Resources Report 2008: Roots of Resilience for an investigation of poverty-environment-climate change links: <http://www.wri.org/publication/world-resources-2008-roots-of-resilience>.