

TOWARDS A STRATEGIC FRAMEWORK ON CLIMATE CHANGE AND DEVELOPMENT FOR THE WORLD BANK GROUP

EXECUTIVE SUMMARY

1. Addressing climate change is central to the development and poverty reduction agenda. In its Fourth Assessment (2007), the Intergovernmental Panel on Climate Change (IPCC) makes clear that warming of the climate system is unequivocal and that a delay in reducing greenhouse gas (GHG) emissions significantly constrains opportunities to achieve lower stabilization levels and is likely to increase the risk of more severe climate change impacts. With increasing climate variability and risks, the poorest countries and communities are likely to suffer the earliest and most. Climate change has the potential to reverse the development gains that have been hard-earned by developing countries over the past decades and progress towards achieving the Millennium Development Goals (MDGs), such as eradicating poverty, combating communicable diseases and environmental sustainability. An effective response to climate change must combine both mitigation—to avoid the unmanageable—and adaptation—to manage the unavoidable.

2. The past year witnessed impressive consensus building on the importance of addressing climate change that culminated in an agreement at the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP)13 in Bali to launch negotiations towards long-term cooperative action by all countries. The framework for negotiations embraces mitigation of climate change (including, for the first time, consideration of reducing emissions from deforestation and land degradation), adaptation, technology development and transfer, and provision of financial resources in support of developing countries' actions. Because of their lower historical contribution to GHG concentrations, much lower *per capita* energy use, and higher vulnerability to the impacts of changing climate, developing countries expect a cooperative arrangement to finance their transition to low-carbon growth in a manner that does not compromise their energy access, growth agenda and adaptation efforts, in accordance with the principle of common but differentiated responsibilities. Importantly, financial resources are required in addition to the present level of Overseas Development Assistance (ODA) finance so as not to compete with achieving the MDGs.

3. The World Bank Group (WBG) has accumulated substantial experience in addressing climate change in the context of development and poverty reduction, most recently through the Clean Energy for Development Investment Framework (CEIF) (See Annex 1). The CEIF achieved commendable results: lending to energy access and low-carbon energy projects, and the Carbon Finance (CF) business have increased significantly. Increased awareness of the impacts of climate change found their reflection in the Country Assistance Strategies (CASs) and a growing program of analytical work and pilots. Work has begun on additional innovative mechanisms for climate financing, both for mitigation and adaptation. The WBG is an implementing agency of the Global Environment Facility (GEF), a major lender to renewable energy and energy efficiency (RE/EE), a pioneer in the carbon market, and a facilitator of energy sector reforms that provide incentives for efficiency, energy savings and better environmental practices.

4. **Progress on the CEIF resulted in a mandate to develop a comprehensive Strategic Framework on climate change for the WBG engagement.** The CEIF has been an important step in accelerating investments in low-carbon energy, while advancing the WBG knowledge on climate action, both mitigation and adaptation. At the 2007 Annual Meeting, the Development Committee welcomed the progress made in implementing the CEIF, recognized the critical importance of energy access for growth, and called on management to develop a comprehensive strategic framework for Bank Group engagement, including support for developing countries' efforts to adapt to climate change and achieve low-carbon energy growth while reducing poverty. It also called for enhanced cooperation and harmonization with other development partners, and for catalyzing substantial additional resources from both public and private sources.

5. The *Strategic Framework on Climate Change and Development (SFCCD)* for the World Bank Group will be proposed for endorsement by the Board in September 2008 and subsequently discussed at the 2008 Annual Meetings. This early draft, which outlines objectives, principles, approaches and key issues, will be distributed at the 2008 Spring Meetings, together with the attached *Clean Energy for Development Investment Framework—Implementation Report on the World Bank Group Action Plan*, which served as a platform to launch a more comprehensive and multi-sectoral SFCCD.

6. **The proposed SFCCD will be a way to articulate the WBG's vision on how to integrate climate change and development challenges,** without compromising growth and poverty reduction efforts through country operations, including policy dialogue, lending, and analytical work in client countries, and through regional and global operations. The SFCCD will include a results framework, priorities, operational approaches and a roadmap of actions, including addressing internal constraints, for achieving the results.

7. Scaling-up WBG action on climate change rests on the understanding that (a) economic growth, poverty reduction and achieving MDGs in developing countries is a continued priority, (b) access to energy services and increased energy use by developing countries are fundamental to these goals, and (c) adaptation to climate variability and change is critical to sustaining and furthering development gains in the majority of developing countries. Addressing climate change must not divert resources from core development needs. The WBG attaches the utmost importance—and has demonstrated its commitment by providing its own funds—to increasing International Development Association (IDA) resources.

8. **The WBG will continue scaling-up its engagement in energy access** through its Sustainable Infrastructure Action Plan (forthcoming) and the Africa Action Plan. The SFCCD will help explore opportunities to link energy access programs to carbon finance and provide cost-effective and reliable solutions through renewable energy and energy efficient devices.

9. **Reflecting the multi-sectoral and multidimensional nature of the challenge, the SFCCD will encompass activities in many sectors,** covering energy, transport,

urban development, water, agriculture, forestry, industry, economic policy, and social and human development. The SFCCD acknowledges and will address multiple dimensions through which changing climate affects development: economic, financial, social, gender and environmental, including impacts on other global environmental goods such as biodiversity.

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10. The development of the SFCCD is also guided by the principles of: (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, which requires involvement and leadership by the ministries of development and finance, in addition to environment ministries; (e) recognizing the importance of partnerships given the many actors on the international arena with different mandates on the issue; and (f) building the SFCCD as an integral part of the Bank's strategy on inclusive and sustainable globalization.

11. Climate change is a global challenge of unprecedented scale that requires collaboration among a large number of development partners, including the UN system, the GEF, regional development banks, bilateral donors, the private sector, research institutions and civil society groups. The SFCCD will detail the roles and mandates of the key actors on the international arena, identify a particular niche that the WBG is well-positioned to fill, and propose specific steps towards strengthening collaboration with key actors in terms of both joining efforts and dividing responsibilities. Significant focus will be given to further strengthening collaboration with GEF in the area of climate change financing.

12. To exploit comparative advantages, the WBG will adopt an action framework based upon the following six pillars: (a) scaling-up operational approaches to integrate adaptation and mitigation in development strategies; (b) consolidating efforts to mobilize and deliver finance; (c) expanding the WBG's role in developing new markets; (d) tapping private sector resources for climate friendly development; (e) clarifying the WBG's role in accelerating technology development and deployment; and (f) stepping-up policy research, knowledge management and capacity building.

13. The SFCCD recognizes distinct needs and demands of different country groups based on multiple criteria: income (differentiated approaches to IDA and IBRD countries), institutional capacity and social stress (for example, fragile and conflict states might need a special strategy), vulnerability to climate risks (particularly relevant for many African countries, small island states, and countries with long coastal lines, acute water stress, or exposure to glacier melting); GHG emission profile (for example, dominance of energy vis-à-vis forestry sources of GHG emissions), and economy structure and dependence on energy sectors. Country ownership built on demonstrated development opportunities and multiple benefits from a low carbon, climate resilient strategy tailored to specific country circumstance is the key for the SFCCD. Importantly, development opportunities have to accrue to all groups of developing countries, including

those whose economies are dependent on energy exports, such as oil producing economies.

14. The SFCCD will outline how synergies within the WBG can be exploited to address climate change. The work to articulate a specific strategy for each institution within a common framework has already started, and will be expanded during the preparation process. It is important to emphasize that the SFCCD is envisaged as a framework that sets directions and principles, and proposes tools, incentives, global products, and measures to track progress, with an agreement on the key messages to convey to our clients and external stakeholders. It is not a substitute for the International Finance Corporation (IFC), Multilateral Investment Guarantee

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Agency (MIGA), sectoral and regional business strategies, which will be much more specific and detailed about integrating climate actions in their operations and deliverables.

15. The need for further mobilizing and innovating finance for climate change emerged as a critical lesson from the CEIF implementation, and is amplified by the SFCCD's focus on scaling-up climate action. In consultation with interested parties, the WBG and Regional Development Banks (RDBs) are joining efforts to establish a portfolio of strategic Climate Investment Funds (CIF). The funds aim to complement, build upon and enhance the activities of other existing instruments, like the GEF, IDA, International Bank for Reconstruction and Development (IBRD) and the IFC. In further developing the proposal for climate investment funds, the WBG will engage in extensive consultations with all key stakeholders to expand the donor base, seek the views of potential recipient countries and other interested parties and advance the design of funds and financial instruments. Other initiatives to increase financing for climate action are underway. Having pioneered and made significant progress in carbon finance, the WBG is continuing to facilitate the development and innovation of the carbon market.

16. Going forward, the SFCCD will take stock and articulate complementarities among an increasing number of instruments and outline a plan of actions that will serve to: (a) promote more effective and innovative use of existing and emerging financing instruments (IBRD, IDA, IFC, MIGA, GEF, CF funds, innovative climate insurance schemes, etc.) in WBG operations; (b) facilitate applications of new instruments at the target scale; (c) identify gaps and needs for developing new products, giving particular attention to public-private partnerships in adaptation financing; and (d) strengthen developing countries' capacity to avail these instruments.

17. Given that knowledge about climate change, particularly its economic and social aspects, is continuously evolving and uncertainties remain, the design of the SFCCD will be flexible so as to incorporate new knowledge and support actions, whose benefits are robust under any future scenarios of climate change negotiations and impacts. The SFCCD will benefit from close coordination with the proposed *World Development Report 2010 on Climate Change* and several other major analytical products, such as a global research program on the economics of adaptation to climate

change, the work on economic policy and climate change in PREM, and the ongoing and expanding research programs in DEC. The findings of these and other studies will inform the formulation and implementation of the SFCCD.

18. The development of the SFCCD will include extensive consultations with a full range of stakeholders, including developing country clients, development partners (UN agencies, RDBs, bilateral donors), private sector, and civil society. Particular attention will be given to understanding the needs and concerns of the WBG shareholders from developing countries, and demonstrating how their views have been taken into account in preparation of the SFCCD.