

for the poor. Towards this end, it should:

- Provide an analysis of costs and benefits to the poor for all energy sector projects.
- Require all energy projects to track and publicly report on energy access for the poor against project-level specified access indicators.
- Revise the WBG's definition of "access-oriented" energy projects to only include those that demonstrate direct energy benefits to the poor based on qualified criteria.
- Expand the scope of the bank's access operations beyond only electricity services to include other energy requirements of the poor.
- Commit to aggressive lending targets for energy access for the poor, both in the WBG's overall energy portfolio and by country.

Climate Change and Low-carbon Development – The World Bank must lead the way in funding low-carbon energy even in cases where it is costlier than conventional options. Towards this end, it should:

- Calculate and disclose project GHG emissions.
- Lend to coal and oil development solely to provide access to the poor and only as a last resort.
- Establish and strictly apply procedures for the approval of energy projects, including
 - a) Require full cost accounting for energy sector project evaluations, including, inter alia future risks to fuel supply, associated infrastructure needs, life-cycle costs, policy risks, costs of social and environmental externalities
 - b) Comprehensively assess and disclose alternative energy options for all proposed energy projects.
 - c) Consider all possible financing options to bring down the costs of low-carbon alternatives.
- Commit to aggressive lending targets for new renewable energy and energy efficiency both in the WBG's overall energy portfolio and by country.

World Bank Group Public Accountability and Accurate Accounting – The World Bank needs to better assess and fully account for its role in the energy

sector as it relates to global climate change, both positive and negative, and how this translates into the overall well being of the impoverished. Towards this end, it should:

- For all power generation projects, clearly identify the targeted or likely consumers, including disclosure of any project associated Power Purchase Agreements.
- Accurately account and publicly report the amount of WBG funding going to the overall development of fossil fuels, large hydropower, new renewable energy, and energy efficiency taking place through all types of operations and funds.
- Disclose a project-by-project breakdown associated with the WBG's annual energy sector funding figures according to
 - a) support for oil, gas, coal, large hydropower, new renewable energy and energy efficiency,
 - b) funding figures for access for the poor.

The current development of a new World Bank Group's Energy Sector Strategy for the period 2011 to 2020 represents a crucial moment for redirecting World Bank funding towards energy access for the poor and low-carbon development. The bank's proposed new energy sector strategy is supposed to "articulate a way forward to help developing countries achieve the twin objectives of improving access and reliability of energy supply; and facilitating the shift to a more environmentally sustainable energy development path." On these twin objectives, most stakeholders agree. However, the current draft of the energy strategy fails to truly change its approach. Although the draft contains some steps in the right direction, such as a household energy programme and an end to coal lending in middle-income countries, the draft fails to focus the bank's resources on its two stated goals. Rather than prioritising actions that would promote both, the draft rules little out and gives incentives for large projects. At this stage the World Bank Group is far from moving in the right direction: increasing energy access to the poor and enabling clean development.

This factsheet is based on the study "World Bank Group and International Energy Development – Implications for Sustainable Development, Poverty Reduction and Climate Change" by Heike Mainhardt-Gibbs, Brot für die Welt/EED, Analysis 21, February 2011.

To download the study, please visit:
www.eed.de/energy-lending

Selected Weblinks

Bank Information Center
www.bicusa.org

Bretton Woods Project
www.brettonwoodsproject.org

International Rivers Network
www.internationalrivers.org

Oil change International
<http://priceofoil.org>

Urgewald, Germany
www.urgewald.org

International Renewable Energy Agency (IRENA)
www.irena.org

Publisher:
Evangelischer Entwicklungsdienst, Ulrich-von-Hassel-Str. 76, D-53123 Bonn
Phone: +49 (0)228 8101-0, E-Mail: eed@eed.de, www.eed.de

Diakonisches Werk der EKD e.V. für die Aktion „Brot für die Welt“, Staffenbergstraße 76, D-70184 Stuttgart
Phone: +49 (0)711 2159-0, E-Mail: info@brot-fuer-die-welt.de, www.brot-fuer-die-welt.de

Printing: in puncto druck und medien
Printed on recycled paper "Envirotop"
Author: Heike Mainhardt-Gibbs
Editors: Christine Lottje, Richard Brand
Photo credits: Crux (C-BY-SA 2.5 (Cover))

Date: June 2011



03 Sustainable Energy Funding?



Climate Change, Energy and Sustainable Development

Worldwide, some 1.5 billion people, or 22% of the world's population, still have no access to electricity and approximately 2.5 billion rely on traditional biomass as their primary source of energy, according to the 2009 report of the International Energy Agency. There is an urgent and critical need for the development of energy services for the poor. However, the sources of energy utilized and the manner in which energy services are produced and consumed are of crucial importance to sustainable development and, in particular, to the poor.

Fossil fuel (oil, gas, & coal) combustion is responsible for more than 75% of the human-caused increase in CO₂ emissions and the associated impacts will hit developing countries the most. Already by the end of this decade, poor countries will be suffering the consequences of climate change. Therefore, efforts to combat climate change and reduce poverty need to reinforce one another. Energy development is key to both of these processes. Everything possible must be done to transition away from the current carbon-intensive energy systems to a low- and no-carbon development path.

Energy Funding – Role of the World Bank

While national governments and the private sector are key actors that affect energy developments, the World Bank Group (WBG) occupies a unique position to influence the nexus between energy development, poverty reduction, and climate change. The overall mission of the World Bank is to fight poverty. The bank further

states that its vision is to support inclusive and sustainable development. Towards this end, the bank provides low-interest loans and grants to developing country governments and attractive finance (debt, equity and guarantees) to private-sector actors on behalf of the international community.

A short guide to the World Bank Group (WBG)

Lending to governments: The main institutions of the WBG are the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD). IDA provides assistance to low-income country governments (i.e. low per capita income or high incidence of poverty) and IBRD lends to middle-income and creditworthy low-income country governments.

Lending to the private sector: The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) only provide financing and investment guarantees to the private sector for projects in developing and transition countries. The IFC and to a lesser extent the World Bank

also make investments, including energy, through financial intermediaries (FIs) who disburse the funds to private companies and investment projects.

Special Funds / Trust funds: In addition to the operations financed by the WBG's own money, the WBG also manages/administers over \$6 billion of donor money committed to special environmental funds. These funds include the Global Environment Facility (GEF), the Carbon Finance Unit (Prototype Carbon Fund), the Climate Investment Funds (Clean Technology Fund and Strategic Climate Fund), the Energy Sector Management Assistance Program (ESMAP) and the Asia Sustainable and Alternative Energy Program (ASTAE).

Strategies and guidelines

The World Bank Group has several frameworks guiding its approach and priorities for development of the energy sector. These include energy sector strategies, climate change strategies, and specific commitments. All of the approaches emphasize sustainable development, such as a low-carbon transition, and access to energy services for the poor. However, none of the approaches directly consider a reduction in financing for fossil fuel development, specify strict investment guidelines for fossil fuels, require consideration of greenhouse gas (GHG) emission costs in project appraisals, or require the disclosure of expected GHG emissions from energy projects.

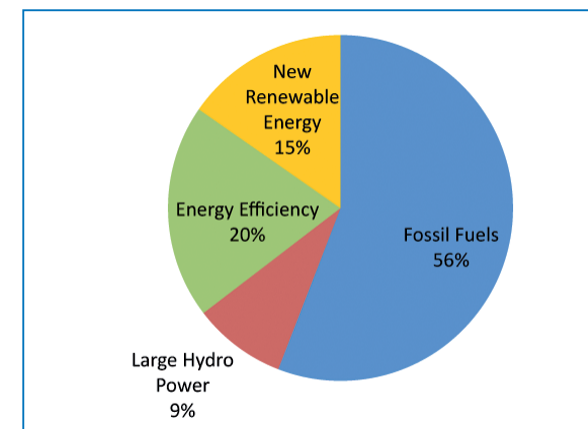
Facts and figures

The bank's total lending to the energy sector, including assistance for policy and institutional reforms not tied to a specific fuel, has substantially increased from 1998 to 2010. Starting from \$4 billion in 1998, it reached over \$13 billion in total energy sector finance in 2010. With this increase, the bank has made important and impressive gains in renewable energy and energy efficiency. However, it lending to fossil fuels continues to increase at an alarming rate. Over the latest period, fossil fuels represented a 56 percent share of WBG

funding by fuel source; coal alone made up 28 percent. New renewable energy and energy efficiency represented 35 per cent, and large hydropower represented 9 percent.

Fossil fuel funding still high

In 2010, World Bank funding for coal hit a record high for the institution of \$4.4 billion, including \$3.05 billion to the Eskom 4800 MW Medupi supercritical coal plant in South Africa. Overall, total fossil fuel funding also hit a record high of \$6.6 billion, a 116% increase over the previous year. The bank's total lending for new renewable energy and energy efficiency combined also increased to \$3.4 billion. However, the bank's support for coal alone still far surpasses this low-carbon benchmark.



World Bank Group Energy Funding by Fuel Source (Three-year Average - Fiscal Years 2008 - 2010)

In considering the assessment of World Bank energy spending on carbon-intensive versus low-carbon energy sources, it is important to note that the total funding going to fossil fuels is likely significantly under-reported by the bank due to problems with its clas-

The twin objectives of energy lending

These funding figures do not answer several key questions with regard to the impact of the World Bank's energy operations. Who ultimately benefits from the energy projects supported by the bank? How many of the 1.5 billion energy-impooverished are receiving energy services as a result of bank projects? And does the current funding for energy contribute to a low-carbon development?

Energy access for the poor

The World Bank defines energy access specifically as "projects aimed at increasing access to electricity services." As suggested by this definition, the bank's overwhelming focus is on electricity generation. Other energy requirements of the poor - such as for heating,

sification of energy projects and lack of transparency. For example, the bank's investments in energy through financial intermediaries (FIs) provide no information on the individual sub-project investments, thus making it difficult to track what ultimately happens to FI funding. The only exemptions are FIs that are targeted at new renewable energy and energy efficiency. They are specifically captured in the World Bank's annual energy figures - ensuring the bank gets credit for climate progressive activities without equal reporting of climate-destructive activities.

Tendencies to change in a sustainable direction

The bank's assistance to renewable energy (RE) and energy efficiency (EE) also comes under scrutiny. Some critics point out that taking a closer look at the underlying figures reported by the World Bank leads to a more modest result with regard to the RE portfolio. For example, in 2009 more than half the RE and EE joint total relates to energy efficiency of fossil energy (US\$ 1.7 billion); and the greater part of the World Bank's renewable energy programs (US\$ 1.4 billion) are funded by specific donor funds aimed at clean energy and are not a structural part of World Bank core energy lending. Thus far, the bank's assistance to the energy sector appears to be following a business-as-usual development path. Along this path, the WBG seems to think it is a forgone conclusion that coal must continue to dominate as an energy source for developing countries.

cooking, and mechanical power - receive much less attention, with the possible exception of district heating investments. In IDA countries, the bank's approach to energy makes it a foregone conclusion that any electricity generation or transmission project translates into access for the poor. Such an approach is highly vul-

nerable to perpetuating an energy scenario providing access only for industry and the well off - potentially leaving the poor yet again in the dark.

According to the bank's own assessment of financing for "access-oriented" energy projects, the majority of its energy sector finance does not target the poor. For 2010, access only accounted for 8% or \$1 billion out of a total \$13 billion. However, given the bank's loose definition for energy access and overall lack of monitoring, even some of the reported figures are questionable. An independent assessment by Oil Change International of 26 fossil fuel projects in 2009 or 2010 concluded, that none of these projects, representing 45 percent of all energy sector financing in this period, targeted energy access for the poor or electricity for services important to the poor, such as health clinics, schools, or telecommunications.

In contrast to a lack of evidence for fossil fuel projects' contribution to energy access for the poor, many of the bank's new renewable energy projects provide direct energy benefits to the poor. However, it is important to note that just because a project is new renewable energy does not mean that it benefits the poor or that it does not pose negative impacts. A shift to clean energy may still leave out the same groups, i.e. the poor, that

were left out of large-scale fossil fuel projects. Lastly, even when new renewable energy projects appear to be more targeted at access for the poor, the bank still is not consistently monitoring project results to ensure the poor are benefitting.

Contribution to a low-carbon development

The World Bank does not typically disclose GHG emission estimates for its fossil fuel projects. However, a recent bank Information Center study (Mainhardt-Gibbs, 2009) determined that bank fossil fuel projects matter to global CO₂ emissions. When the fossil fuels involved in the bank's lending projects for 2008 are combusted, the project lifetime CO₂ emissions from this one-year of financing will amount to approximately 2,072 MMTCO₂ or 7% of the world's total annual CO₂ emissions from the energy sector, and more than twice as much as all of Africa's annual energy sector emissions.

As this analysis demonstrates, the bank needs to change its current approach of high and increasing lending to fossil fuels and the pervasive reliance on trickle down energy benefits to the poor, which are typically uncertain and ill-defined. Instead the bank needs to establish and strictly follow robust project criteria for both energy access for the poor and low-carbon development.

Improving the World Bank activities in the energy sector

Energy poverty and climate change criteria for World Bank funding

In 2011, EED and Brot für die Welt, two church-related development agencies in Germany, published a comprehensive study on the activities of the World Bank in the energy sector and its implications for sustainable development, poverty reduction and climate change. The study puts forward a list of criteria on poverty and climate change against which to screen all World Bank Group's energy sector projects. These criteria are intended to be applied in addition to the World Bank's existing Social and Environmental Safeguards and the IFC's Performance Standards. The criteria should improve the possibility of assessing how the poor could benefit from direct energy and how a quick transition to low-carbon energy could be achieved.

Energy Access for the Poor - By and large, the World Bank's energy sector operations need to more directly

address poor people's energy needs and not simply assume that increasing electricity translates into benefits