

BIC Response to World Bank Comments

Egypt Case Study

General

Overall, the World Bank contends that its DPF program in Egypt coupled with other World Bank Group assistance, does support the right incentives for low carbon development. It goes on to list the many ways that it supports an increase in renewable energy in Egypt.

This paper specifically focuses on investment incentives contained within the World Bank's policy and institutional reforms supported by the Sustainable Energy and Competiveness DPF program and any Bank technical assistance incentive/policy recommendations that are linked to the DPF operation and have been adopted by the government.

The climate crisis and staying under 2°C warming not only requires increasing investments in renewable energy but also drastically decreasing fossil fuel investments. In order for the World Bank to get the incentives right for a low-carbon transition, the Bank must understand what kinds of investment incentives are most effective for renewable energy projects while at the same time ensuring subsidies are not being created and granted to fossil fuel projects, especially coal.

Most of the World Bank's specific comments on the Egypt Case Study have been addressed within the paper itself, either by providing the Bank's comments and a response or revising/deleting sections in the paper to reflect agreement with Bank comments. The following are specific comments that required more follow up.

Specific Comments

The World Bank's first specific comment, "Table 1: Responses to specific claims relating to the GHG impact of the operation", refers back to BIC's paper, section: "DPF Climate Change Risk Assessment." With regards to the following specific language:

[BIC Paper] Reason 4: "...through the measures supported in the proposed DPF, GHG emissions are likely [to] decline by 11 to 21% by FY19 compared to the baseline trajectory."

The Bank's baseline trajectory is completely unclear as well as the assumptions it is based on. Even so, given the DPF measures support both renewable energy incentives as well as fossil fuel incentives [including for coal], on balance it is most likely that the DPF measures result in increased GHG emissions for Egypt and potentially from an increase in gas exports that could result from further significant developments in natural gas. [End BIC Paper]

The Bank's comment: "The baseline trajectory assumes 5% annual growth in demand, constant consumption of gas, and the construction of a power plant and retirement pipeline, as shared by the Government of Egypt, as well as standard assumptions about parameters of the new power plants."

BIC Response: The Bank's explanation remains extremely unclear regarding the Bank's assumptions for the GHG emissions baseline trajectory. The data provided by the Bank in the Annex to the Bank's

comments does not provide any trajectory (it is only GHG emissions for 2012 and 2015) and states nothing regarding the assumptions for emissions going forward, which would be the trajectory.

Although assumptions are not disclosed, the Bank appears to assume that the policies supported by the Bank's DPF have nothing to do with any planned new investments in coal power plants. This seems highly unreasonable given the DPF's prior actions include the introduction of amendments to the Investment Guarantees and Incentives Law, which clearly provide incentives, including subsidies, to such power plant investments.

In addition, the World Bank takes no responsibility for the GHG emissions associated with natural gas exports associated with DPF-supported incentives for oil and gas developments in both the Investment Law Amendments and the new Natural Gas Law.

It is very interesting that the World Bank takes credit for GHG emissions reductions that it easily links back to policy support for renewable energy but that it is unable to link any new investments in coal power plants to DPF policy support. Even though these will be the first coal power plants in Egypt and the coal-fired power plant investments will have come after the initiation of World Bank-supported policy reforms.

Bank Comment: "There was no DPF supported increase in natural gas prices. The last price increase for natural gas was in July 2014, long before the DPF came into place in 2016. It was not a condition or prior action of the DPF.

While the DPF's prior actions did not specify fuel price increases (only electricity tariff increases), the DPF Program Document Results Indicators under Pillar 2 include: "Reduced energy subsidies as a percentage of GDP from 6.6% in FY14 to 3.3% in FY16, and further by FY18." This paper argues that the DPF program does support the fuel subsidy reductions because the DPF FY16 target could only be reached by the planned reductions in both electricity and fuel subsidies.

In addition, by definition a Prior Action takes place before the DPF. For example, the New Renewable Energy Law that is a Prior Action of this DPF was adopted by the government in September 2014. Does the Bank not want to get credit for the measures of this action because it took place "long before the DPF"?

Bank Comment: This [coal fuel] shift happened not because of prices, but because the government stopped supplying gas to industry due to the gas shortage.

Several new articles reported that cement plants were spending millions of dollars to convert from natural gas to coal due to a combination of natural gas shortages and tariff increases and government plans to further increase tariffs by 2019. For example: Arabian Cement... "said the decision had been largely a financial one, with coal prices around 30 percent cheaper than gas prices."
<http://www.reuters.com/article/egypt-cement-coal-idUSL6N0SU2YB20141105>

Bank Comment: "There seems to be confusion about how a DPF works. Prior actions are by definition policy and institutional actions that were already taken by a borrower, such as the government, on its own, before World Bank's board approval for the DPF."

Perhaps World Bank staff are confused. According to the World Bank webpage (<http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244732625424/Q&Adplrev.pdf>):

“Prior actions are a set of mutually agreed policy and institutional actions that are deemed critical to achieving the objectives of the program supported by a development policy operation and that a country agrees to take before the Board approves a loan (credit or grant). Prior actions are legal conditions for disbursement.”

Bank Comment: “...the amendments to the Investment Guarantees and Incentives law that were supported by the first DPF on investment incentives were focused specifically on “defining investor rights and improving investment facilitation services”, and did not support any particular investor incentives. The actions supported by the DPF on incentives were related only to transparency of the incentives provided.”

This paper argues that this is a preposterous argument. The Bank cannot have a Prior Action that stipulates the issuance of a Prime Ministerial Decree and expect to only be accountable for a few selected elements that the Bank is comfortable with publically. The DPF operation specifically targets Sustainable Energy and this Prior Action-required Decree contains new incentives/subsidies targeted at the energy sector.

DPF 1 Prior Action #8: The decree promulgating Law No. 17 of 2015 and the Prime Ministerial Decree No. 1820 of 2015 have been issued which, respectively, introduced and implemented amendments to the Investment Guarantees and Incentives Law defining investor rights and improving investment facilitation services.

Regarding the paper’s suggestions on further actions the DPF should have taken to support renewable energy -

Bank Comment: “Neither capacity building nor investments can be financed through a DPF.”

This paper argues that capacity building is often a part of DPF Prior Actions. Even the current Egypt DPF has a Prior Actions related to capacity building:

DPF 2 Indicative Trigger #7.1: The Ministry of Petroleum and Mineral Resources and the Ministry of Electricity and Renewable Energy set up energy efficiency units with dedicated staff within their respective ministries.