World Bank and Climate Change: How Much Ambition, How Much Action - *and What Comes Next?*

By Ladd Connell

The World Bank has a pretty high profile in global climate finance. Climate change is the exemplar of a global public issue and the World Bank is the pre-eminent global public financial institution. So it's a natural fit. And while some may argue that the Bank has acted as an institution which has had greatness thrust upon it[i], under WB President Jim Yong Kim, the Bank made sustainability central to its mission, and has interpreted climate action to be at the core of sustainability.

Climate Progress under President Kim

While the World Bank had assumed a leadership role in several climate funds before his arrival[ii], President Kim amplified this engagement. Consider the climate initiatives in which the WB assumed a leadership role during his tenure:

Name:	When started
• Pilot Auction Facility	2014
• Carbon Pricing Leadership Coalition	2015
• Carbon Initiative for Development (Ci-Dev)	2016
• Nationally Determined Contribution (NDC) Partnership	2016
○ NDC Support Facility [part of NDC Partnership]	2016
• Stakeholder Advisory Network on Climate Finance	Nov. 2016
• Invest4Climate platform (+11 sectoral platforms) w/UN	Sept. 2017
• InsuResilience Global Partnership	Dec. 2017
• Roadmaps for Sustainable Finance (w/UN Environment)	Dec. 2017
• Finland-IFC Climate Change Program (returnable capital)	Dec. 2017

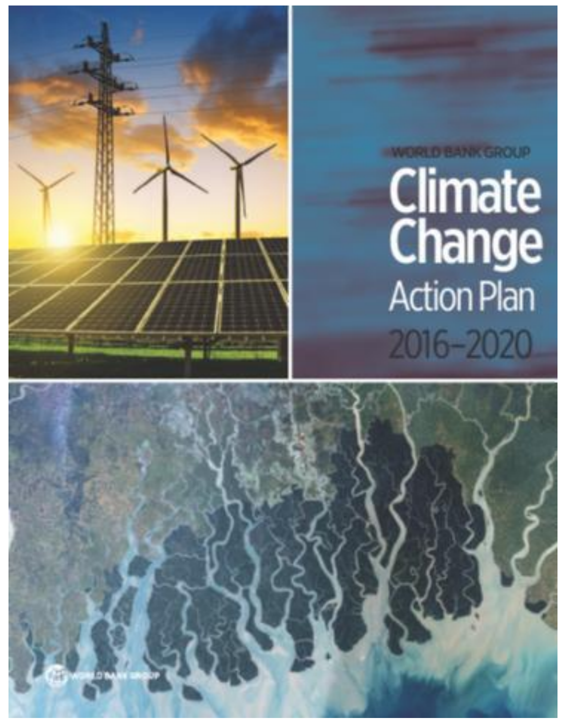
What is most notable here is not the size of these initiatives, but their number, variety, and breadth of engagement, with at least 60 client countries involved. Also noteworthy: their potential impact. The best example here is the Carbon Pricing Leadership Coalition (CPLC), which "brings together leaders from across government [46 member governments], the private sector and civil society to share experience working with carbon pricing and to expand the evidence base for the most effective carbon pricing systems and policies." That may not sound super-exciting, but putting a price on carbon is widely agreed[iii] as essential to shifting economies away from fossil fuels. And the CPLC is addressing not only the what, but the how: it held the 1st International Research Conference on Carbon Pricing in New Delhi in February[iv].

Beyond the CPLC, initiatives such as the NDC Partnership [60+ country members] are helping countries to fulfill their NDC commitments and move towards alignment with the global goals laid out in the Paris climate accord. Others are less ambitious, but fill gaps in financing.

Of course, the Bank cannot effectively lead on climate action if it does not itself act to improve the impact of its own activities. There are two sides to this: policy and practice.

On the policy side, the Bank made a series of commitments under President Kim to ensure that it moves away from fossil fuel financing and increases its work on climate. By our count, the Bank announced eight new climate-related policies[v] in the four years from mid-2013 to mid-2017, a rapid pace of change. Likely the most impactful, in terms of curbing fossil fuel support, are its coal policy (2013) to limit financing of coal-fired power plants to "rare circumstances," and its upstream oil & gas policy (2017, effective 2020) by which those are no longer financed, except for gas in the poorest countries.

As for increasing its climate work, the major commitments are those contained in the [Climate Change Action Plan], covering its work in FYs 2017-20. Our analysis finds at least 32 distinct commitments, of which several major ones have already been met:



1) Increase climate-related share of WBG portfolio from 21 to 28% by 2020: FY 2018: 32.1% ($20.5B) of WB finance[vi] and 70% of WB projects (vs. 37% just two years ago) had climate co-benefits.
2) Scale up country-level support and global advocacy to "get prices right" by reducing damaging fossil fuel subsidies, putting a price on carbon, etc.: the Carbon Pricing Leadership Coalition, Carbon Pricing Dashboard, and Partnership for Market Readiness all contribute to success in this objective.
3) Scale-up of IFC and MIGA own account investments/guarantees with climate co-benefits: In FY18, climate finance was 60% of MIGA, and 36% of IFC total [$3.9B own account + $4.4B mobilized] finance.
4) Work on innovative solutions for forest-based low-carbon development in IDA countries: some 30 IDA countries have received support from WB via Forest Carbon Partnership Facility to prepare and at least 10 have validated & executed REDD+ strategies, Strategic Environmental and Social Assessments, and E&S Management Frameworks. IDA countries also benefit from the Forest Investment Program (17) and Bio-Carbon Fund Initiative for Sustainable Forest Landscapes (Ethiopia, Zambia).

Similar success, at least in meeting overall targets, has been recorded in (climate-smart) agriculture and water projects. And the Bank has signaled that it will improve on this record, announcing in December 2018 its targets for 2021-25:

- Mobilize $200 billion -- $100 billion in direct finance from the World Bank (IBRD/IDA), and ca. $100 billion combined finance from IFC, MIGA, and WBG-mobilized private capital;

- Support the generation, integration, and enabling infrastructure for 36 GW of renewable energy and support 1.5 million GWh equivalent of energy savings through efficiency;
- Help 100 cities achieve low-carbon and resilient urban planning and transit-oriented development; and
- Increase integrated landscape management in up to 50 countries, covering up to 120 million hectares of forests.

That's all great, right? What's not to like?

World Bank Efforts: Still Early and Incremental

Let's start with where the Bank is in its current commitments. Most are still in early stages of implementation, and are small relative to the Bank itself. For example, the World Bank NDC Support Facility, started in 2016, has only $23 million in contributions pledged to date, with projects in 17 countries. While NDC planning & coordination (the main activities under the Facility) is important and donors should be thanked, it is tiny, both for client governments, and the Bank-- equivalent to 0.1% of the FY18 commitments of IDA (the Bank's soft loan window).

For the nine post-Kyoto climate funds managed by the Bank, pledges total roughly $10.4 billion and reported disbursements, $3.3 billion. So close to 70% remains to be disbursed. Slow disbursement may fairly be criticized, but reflects that climate financing remains a relatively new field, dealing with new & evolving technologies, circumstances, and finance mechanisms. The WB-managed Climate Investment Funds, the Bank's biggest single climate program, just celebrated its 10th anniversary. That experience is worth building on. According to a Brookings Institution analysis, the WBG "has a comparative advantage [in] climate mitigation and adaptation (especially in agriculture, forestry, power, and transport)."[vii]

Assuming disbursement of the balance of these funds over the next five years, this means average disbursements of $1.4 billion/year. Wonderful…but remember too that there are at least 72 beneficiary countries, or average disbursement per country of less than $20 million/year over five years[viii]. Again, this is helpful, but leaves a stark gap between the ambition of "Transformational Change" and the reality of….incremental change.

This incrementalism is further illustrated by the WBG targets for 2021-25. $200 billion, the five-year target, is a big number, but consider how it breaks down. Over five years, it averages $40B/year. Of that, half is to come from IBRD/IDA, and half from IFC, including funds mobilized by IFC. That leaves $20B/year from IBRD/IDA. This compares to $47B total IBRD/IDA commitments in FY2018, or a pledge for roughly 42.5% of new IBRD/IDA commitments in FY2021-25 to offer climate co-benefits. This is good, but hardly transformational, given the current (FY18) level of 32%-- improving the climate share by less than 2% of total commitments/year[ix]. And if the Bank grows, as one would expect, that share goes down. Moreover, the Bank has pledged that half of its climate financing in FY2021-25 will be for adaptation and resilience. This is needed, given the dearth of past financing for adaptation, but also means that growth in mitigation finance is likely to be even less than the overall rate.

What about the $20B/year that IFC/MIGA are pledged to mobilize for climate? That looks like a big jump from $9.2B[x] in FY2018, and it is, but the key word here is "mobilize." This introduces significant flexibility in how the $20B is reached, and incentivizes deals where IFC and MIGA represent a smaller share of a financing syndicate. That is consistent with WBG efforts to maximize finance for development, which are intended to bridge the gap between what is available for development finance and what is needed. While it is logical that the Bank apply this to climate finance, it raises questions about possible privatization of public goods.

What Comes Next?

Our argument is not that the Bank's climate efforts are misdirected, only that they are far from being realized—or sufficient. Given the importance and urgency of addressing the climate crisis, especially its impacts in WB client countries, it would be malpractice for any development bank not to prioritize climate issues[xi].   While some observers are concerned that MDBs' efforts undermine the Green Climate Fund, most donor governments seem to appreciate having a variety of mechanisms, each with their areas of specialization.[xii]   The climate challenges require that we work to expand and improve efforts to address them—an "all of the above" climate/climate finance strategy.[xiii]

What this means is that the World Bank should, if anything, be prepared to ramp up its climate ambition, consistent with its mission to reduce poverty and raise shared prosperity in a sustainable manner.[xiv]   The Bank's own research shows that 100 million people could be pushed back into poverty by 2030 due to climate change impacts. Climate change thus is a direct challenge to the Bank's organizational mission.

To meet this challenge, the Bank must not only fulfill its current climate commitments, but work towards Paris Alignment. The World Resources Institute (WRI) has already provided a roadmap for the MDBs to do this: Toward Paris Alignment -- How the Multilateral Development Banks Can Better Support the Paris Agreement (Dec. 2018). As WRI explains:

- A "**Paris Alignment Paradigm**"…means [MDBs] looking at not only their climate finance, but also the relationship of the rest of their portfolio to the global climate goals.
- On mitigation, the **MDBs should embrace the need for net zero CO_2 emissions by mid-century**. This means, for example, that the banks need to move swiftly within the next few years stop supporting energy sources that create CO_2 emissions.
- On adaptation, the MDBs should move beyond high-level screening and one-off model adaptation initiatives to thorough mainstreaming of climate risks. This includes **planning for a world that is 3-4°C warmer than today.**

- The MDBs should also **champion NDCs** (which includes helping countries strengthen their first round of NDCs) and **embrace transparency** on how they are supporting the global climate goals.

The Importance of Leadership

The last of these, to "**champion NDCs**" is particularly important for systemic impact, to encourage countries to implement and strengthen their NDCs. In this context, it is worth bearing in mind that the World Bank and its regional counterparts are more than banks—they are development finance institutions—and as such they have important roles as policy advisors and advocates. This is especially true for the World Bank, as the leading global DFI, in addressing climate change, the global policy challenge of our time.

It is in this context that the selection of the next World Bank President is especially important. Around the globe, finance ministers, and prime ministers, are mindful of World Bank policies and the multiple mechanisms the Bank has to promote them. Beyond loans, it offers technical assistance, grants from trust funds, partnerships, and the like. Teaming with the IMF, it can also serve as an "enforcement mechanism," or a foil for politicians who need an outside force to blame for politically difficult but necessary steps.

We know that these issues are politically difficult, and this is precisely why World Bank leadership is so important.

These steps may (and should) include

- carbon pricing, at a rate that reflects the social cost of carbon;
- ending fossil fuel subsidies; and
- valuing nature and its role in ecosystem-based adaptation and mitigation.

and the World Bank is already engaged in all three of these.[xv]

Despite the Bank's excellent technical work, the political economy of climate issues remains more difficult than almost any other, given its "scale, severe risks, long lags, and publicness of causes."[xvi] This makes the Bank's leadership and advocacy role, as an independent and globally engaged entity, that much more important. It also means that the Bank's evolution toward addressing climate more effectively under Jim Kim is sorely needed to continue under the next WB President**. It is up to the Bank's Board to ensure that happens.**

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[i] Cf. Shakespeare's *Twelfth Night,* 1602: Malvolio-- "…be not afraid of greatness: some are born great, some achieve greatness, and some have greatness thrust upon 'em."

[ii] WB-managed climate funds that pre-date Kim's tenure include: [name, when started]

Kyoto Funds and Facilities (10 separate funds)	2000
BioCarbon Fund (BioCF 1)	2004
Climate Investment Funds (4 funds)	2009
Forest Carbon Partnership Facility	2009
Partnership for Market Readiness	2011

[iii] See The Washington Post, "Our Green New Deal," editorial, February 26, 2019. It states in part:

Theory and practice confirm this unassailable point: If it costs more to pollute, there will be less pollution. Taxing all fuels according to their carbon content would send a price signal to every business and every consumer. Habits that pollute would become more costly. Changes that reduced pollution — generating cleaner electricity, buying more efficient appliances, weatherizing homes, investing in smart thermostats — would become more desirable.

A high-enough carbon price would shape millions of choices, small and large, about what to buy, how to invest and how to live that would result in substantial emissions cuts. People would prioritize the easiest changes, minimizing the costs of the energy transition. With a price that steadily rose, market forces would steadily wring carbon dioxide out of the economy — without the government trying to dictate exactly how.

[iv] CPLC states that it will draw on outcomes of this conference to help bridge the gap between theory and practice, and to inform future decisions taken by policy makers and corporate leaders.

[v] WB **Climate-related Policies**	Announced	Effective Date	Summary/Impact
Shadow price of carbon in economic analysis [under OP10.00]	7/1/2017	7/1/2020	Use a low and high estimate of the carbon price starting at US$40 and 80, respectively, in 2020 and increasing to US$50 and 100 by 2030.
Upstream oil & gas	12/12/2017	12/31/2019	No longer financed, except gas in the poorest countries where there is a clear benefit in terms of energy access for the poor
GHG Reporting	12/12/2017	12/31/2018	Report greenhouse gas emissions from the investment projects it finances in key emissions-producing sectors, such as energy
Global standard on green bonds	12/12/2017	12/31/2018	Joint standard, which WBG is applying: as of March 2018, WB had issued 217 green bonds worth over $10B and IFC 103 green bonds worth over $7.25B.
ESS3 - Resource Efficiency and Pollution Prevention & Mgmt.	8/4/2016	10/1/2018	Avoid or minimize project-related emissions of short and long-lived climate pollutants; promote the sustainable use of resources, including energy.
Climate Change Action Plan	4/6/2016	FY20 17-20	32 commitments (see below) with goal of building resilience to climate change impacts and policies and de-carbonizing development
Coal	7/16/2013	immediate	limit financing of coal-fired power plants to "rare circumstances," i.e. to countries that have "no feasible alternatives" to coal
increased support for hydro-electric power	7/16/2013	immediate	See "Energy Sector Directions Paper"

[vi] This reflects new WBG commitments in FY18 of $63.9B, which equals the combined commitments of IBRD, IDA, IFC (core mobilization), and MIGA.

[vii] Kharas, H.: *The Post-2015 Agenda and the Evolution of the World Bank Group*, Global Economy & Development Working Paper 92 | September 2015, Brookings Institution, Washington, DC, p.5. This is not intended as endorsement of CIF re-capitalization, which requires a separate analysis as part of the global climate finance architecture. Rather 1) the CIFs need to be effectively implemented, and 2) the Bank has useful experience in climate finance, whatever climate finance mechanism is used.

[viii] For perspective, even in the poorest CIF countries, such as Liberia and Sierra Leone, this would amount to roughly 3% of government revenues.

[ix] Math whizzes will point out that going from 32.1% to 42.5% is a jump in proportion of almost a third. This is true. That being said, the WBG commitment is expressed in dollars, so the proportion will be smaller to the extent the Bank's overall commitments grow. We also expect that the increased focus on adaptation and resilience will cause project managers to include and code projects as contributing to those goals more aggressively. Finally, the target is for FY 2021-25, and being compared to FY2018, so the Bank has built in a two-year period to ramp up.

[x] This is comprised of $0.9B MIGA plus IFC $8.3B [$3.9B own account + $4.4B mobilized] finance. See http://pubdocs.worldbank.org/en/606651532004021569/Fact-Sheet-World-Bank-Group-Fiscal-Year-2018-Climate-Finance.pdf.

[xi] The Bank itself has highlighted factors that merit this characterization, e.g.:

- Without urgent action, climate impacts could push an additional 100 million people into poverty by 2030.
- The impact of extreme natural disasters is equivalent to a global $520 billion loss in annual consumption, and forces some 26 million people into poverty each year.

[xii] We base this on a few observations:
-- The World Bank and some of the regional MDBs are also accredited entities of the Green Climate Fund; the MDBs and GCF have co-financed projects, recognizing the complementarity of their roles. Client countries have also developed proposals so they may be considered for funding by both.
-- Many third parties have accepted, even embraced, the diversity of climate funds, multilateral and bilateral. See e.g. Act Alliance, A Resource Guide to Climate Finance An orientation to sources of funds for climate change programs and action (2018).
-- We're not aware of any donor governments which have declined to contribute to the Green Climate Fund because they have given to other multilateral climate funds. The greater competition for government support of the GCF may come from donors' own bilateral funds (e.g. Germany funding IKI ahead of GCF).
While donor governments attending the 10th anniversary celebration of the Climate Investment Funds indicated interest in the CIFs continuing to exist, and some indicated desire to continue contributing to the CIFs beyond their sunset date, we are not taking a position specifically on CIF re-capitalization, merely on the need for MDB engagement in climate, and the benefit that multiple forms can offer.

[xiii] We suggest this specifically in contrast/opposition to the "all of the above" *energy* strategy first posited by Republicans and the American Petroleum Institute in the US and used by the George W. Bush Administration as a smokescreen to continue use and development of fossil fuels while claiming to be green.

-- Meanwhile, the value of multiple sources of climate finance has been widely recognized. See e.g. World Resources Institute, "New UN Assessment Delivers Good News on Climate Finance, But No Time for Complacency," Joe Thwaites and Niranjali Manel Amerasinghe, World Resources Institute, November 27, 2018.

[xiv] As the World Bank website phrases it: "Our Mission: The World Bank Group has two goals-- To end extreme poverty and promote shared prosperity in a sustainable way."

[xv] Besides the work of the Carbon Pricing Leadership Coalition and Partnership for Market Readiness, see The Real Costs of Fossil Fuel Subsidies, Fossil fuel subsidy and pricing policies (2016), and Convenient Solutions to an Inconvenient Truth: Ecosystem-based Approaches to Climate Change (2009), as well as the work of WAVES (the Global Partnership for Wealth Accounting and the Valuation of Ecosystem Services), both specific to climate and more broadly on natural capital accounting.

[xvi] As analyzed by Samuel Fankhauser and Nicholas Stern in "Climate Change, Development, Poverty and Economics" (Grantham Research Institute on Climate Change and the Environment, May 2016).