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Development Funding Done Right

How to Ensure Multilateral Development Banks Finance Clean and Renewable Energy Projects to Combat Global Warming

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Introduction and summary

The World Bank Group is the largest and most important multilateral development bank providing critical funding across the developing world to fight poverty and boost economic growth and prosperity. Yet the World Bank and its affiliates (see box on page 2) direct more than twice as much financing toward fossil fuel-based energy projects than they do toward clean energy and energy efficiency projects despite the global warming crisis that threatens the developing world most severely.

The developed nations of the world, to varying degrees, are shifting away from fossil fuel-based energy toward clean energy in order to contribute to global climate stability, a more secure energy future, and more broad-based economic prosperity. While developing countries are also making great strides in this direction, much more needs to be done.

By 2030, carbon dioxide emissions from developing countries will actually exceed those from developed countries by 77 percent.[1] The dire environmental consequences of a warmer world will be matched by potentially debilitating economic shocks. According to the Stern Review on the Economics of Climate Change, an increase in global temperature of 5° C to 6° C (about 9° F to 10.8° F)—a real possibility over the next hundred years—could lead to an average 5 percent to 10 percent loss in global gross domestic product, with developing countries hit hardest.[2]

Global warming is a looming economic disaster that economic development strategies simply must address. Yet the World Bank, which often sets the standard for multilateral development banks around the world, is not doing enough to help developing nations embrace a more sustainable economic development model. This is a problem for an institution with the moral and financial responsibility to foster large-scale investment in sustainable economic growth. The bank should be using its considerable resources to help developing countries choose low-carbon development pathways.

The World Bank claims that it is now financing more low-carbon energy projects in the developing world, yet carbon-intensive energy projects continue to receive more than five times as much World Bank support as low-carbon and energy efficiency projects. Consider just these two cases in point:

- The World Bank is in the process of providing a $3.75 billion loan to South African utility Eskom to build a "supercritical" coal-fired plant. The World Bank says such supercritical coal projects are more energy efficient than traditional coal-fired plants, but these power plants still contribute massively to global warming compared to alternative or renewable energy-powered plants.

- The International Finance Corporation in 2008 helped finance the Tata Ultra Mega, a 4,000-megawatt supercritical coal-fired power plant in India's Gujarat state. Once online, the Tata Ultra Mega will be one of the world's top 50 greenhouse gas polluters.[3]

The World Bank Group

The World Bank Group is comprised of a number of global economic development facilities consisting of the International Bank for Reconstruction and Development and International Development Association—commonly known as the World Bank—the International Finance Corporation, the equity investment arm of the first two global lending institutions, the Multilateral Insurance Guarantee Agency, and International Centre for the Settlement of Investment Disputes. The World Bank Group's donor country members support all of these multilateral development institutions and hold shares in these institutions that are broadly commensurate with their funding levels.

For simplicity's sake, in this report we refer to all of these entities as the World Bank unless its individual units need to be explicitly referenced.

The World Bank's financing of such energy projects risks putting in jeopardy the world's most vulnerable communities—communities it exists to help. Residents of developing countries, particularly in Asia, breathe in the environmental contaminants of coal's pollution every day. Smog visibly hangs over major urban centers and soot blankets villages causing severe respiratory diseases.

Recent studies show that particulates from air pollution and soot are the second leading cause of global warming behind carbon dioxide.[4] The cost in lost productivity and rising health care costs in the developing world as a result of dirty, fossil fuel-filled air is growing apace. The World Bank should more carefully align its energy financing policies with the broader economic and environmental needs of those it was founded to help.

Fortunately, the method to ensure such a transition is now before the World Bank and its donor countries. This year the World Bank is asking for its first general capital increase in 20 years. A decision is expected later this year, but in late 2009 the U.S. Treasury

Department released a set of guidelines to direct the World Bank to consider low-carbon energy projects on par with coal projects. The guidelines soon became discussion points related to the general capital increase.

The response to the U.S. Treasury guidelines from the World Bank's other donor nations and from civil society organizations close to the bank was a mixed bag of applause, tepid acceptance, and outright objection. The most vociferous opponents of the U.S. policy change are developing country representatives on the board of the World Bank, among them China and India, who are upset with the process by which the United States made such recommendations and adamant about turning to coal in the absence of viable alternatives. What is being overlooked, however, is that the medium- to long-term outlook on the costs of global warming will overrun the benefits of short-term economic growth delivered through new coal-fired power generation plants.

As the World Bank's stakeholder countries consider the multilateral financial institution's request for a general capital increase, the United States needs to muster support to link new capital with new thinking about low-carbon generation and energy efficiency. The United States and like-minded nations that together exercise majority control of the World Bank must demand that the World Bank prioritize investment in low-carbon generation and energy efficiency projects that will not only create jobs and needed energy infrastructure today but also help stabilize local ecosystems, promote community health, and ensure continued economic prosperity.

Discussions this year about a general capital increase for the World Bank—the decision will come in the spring of 2010—present a perfect moment to institute long-term reforms on energy financing. Specifically, the United States and its allies on the World Bank board should require that the bank to:

- Support low-carbon economic growth in developing countries through its financing of energy projects
- Issue an annual report on the entire World Bank Group's energy financing, with clearly defined fuel types and power generation
- Bring more transparency to its energy project selection process
- Consider the impact of greenhouse gas emissions in economic analyses of all energy projects

In the pages that follow, we will first review the World Bank's current energy financing practices, review their recent efforts to finance more low-carbon and energy efficiency projects, and then discuss the Treasury Department's guidelines in more depth—touching on a complicated debate regarding energy poverty and clean energy services. We will conclude with recommendations that more fully flesh out a responsible path for future energy financing priorities for the World Bank.

The energy finance decisions the World Bank makes in the coming years will influence economic growth and prosperity in developing world lending for decades to come. The United States is absolutely correct to insist the World Bank shift its financing priorities to build a more prosperous and sustainable global low-carbon economy. The forthcoming capital-raising talks at the World Bank are just the vehicle to ensure this shift happens quickly. There is little time to waste.

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