

**U.S. Position Provided by U.S. Executive Director of the World Bank, Whitney Debevoise,
on the World Bank Group Energy Strategy Concept Note
From the meeting of the Committee on Development Effectiveness
July 8, 2009**

As the World Bank Group (WBG) Management undertakes an update of its Energy Strategy, the U.S. supports the twin pillars of improving access and reliability of energy supply and supporting environmentally sustainable energy paths.

The process of revising the Energy Strategy is occurring during a period of intense international interest in the WBG's role in climate change as well as of a retrenchment in private investment in energy infrastructure, both of which have implications for the access and the climate agenda. Although the U.S. recognizes that the update process will unfold over the next year, during which the U.S. awaits the outcome of international climate negotiations, it is important that this Energy Strategy be pointed in the right direction. Thus, the U.S. would like to offer the following comments:

Improving access

The World Bank's access agenda is largely *not* at odds with the climate agenda, as long as the Energy Strategy puts a priority on operations that serve both agendas. Examples include: 1) investing in supply-side efficiency (generation, transmission, and distribution), distributed generation, and end-use efficiency which allow more people to be served by a given fuel input level; and 2) reforming tariffs and improving revenue collection to eliminate incentives for electricity overuse while providing safety nets for the poor.

Greenhouse gas accounting

The U.S. supports acceleration of the World Bank's efforts to apply Greenhouse Gas (GHG) accounting to both public and private sector projects. Analysis of net life-cycle GHG emissions may be relatively easy for large point source projects. If so, the WBG could roll out GHG accounting for such projects first. At this point, the U.S. is *not* advocating that the World Bank begin to adjust its energy sector investment decisions on the basis of a carbon price applied to its economic evaluation procedures. The U.S. acknowledges that developing countries have not yet agreed to formal carbon constraints. Recognizing that attention gets paid to what gets measured, however, calculating the switching price of carbon for projects with large carbon footprints would provide valuable information on the sensitivity of the project portfolio to the social cost of carbon, and indicate the level of incremental cost financing needed to internalize those costs.

Fossil fuel lending

The U.S. is mindful of the debate both within and outside the WBG as to whether the World Bank Group should continue to lend for coal-fired power generation. This Concept Note does not adequately address the issue; the U.S. expects the Energy Strategy and follow-on guidance documents to provide clear procedures and criteria on the subject. The U.S. considers such engagement appropriate under certain limited circumstances, such as when a robust process of upstream engagement has fully evaluated the commercial availability and financing for cleaner alternatives, and has concluded that no appropriate alternative exists, particularly in the poorest countries; and when the project is being brought forward in the context of a broader World Bank-supported plan to control emissions throughout the sector. The U.S. looks forward to the opportunity to discuss these concepts and evaluation criteria with World Bank Management and other Board members.

Allocation of resources

The Energy Strategy should provide clear guidance and criteria on leveraging financial instruments from the World Bank's own resources and external funding sources with the financing needs of low-carbon options. If the World Bank is to play a role in a future financial framework on climate change, it is important that the limited climate trust funds available (e.g., Global Environmental Facility (GEF), Climate Investment Funds (CIF)) be deployed judiciously where none of the World Bank's internal financing instruments will induce the GHG abatement action. For example, energy efficiency projects often have attractive returns when financed using only the World Bank's own resources, whereas some renewable energy projects are only attractive if they receive co-financing from the GEF or CIFs. When climate grant finance is necessary, project designs should incorporate market penetration plans beyond demonstration effects as well as exit strategies. Moreover, incremental cost financing should not be used where subsidies distort energy choices.

Energy sector reform

The U.S. commends the emphasis on improving operational and financial performance of the energy sector and strengthening governance to improve the contribution of energy to equitable economic development. If the private sector is expected to invest in the energy sector over the long term, however, the WBG needs to address investment climate and regulatory issues more proactively. At the same time, the U.S. encourages the WBG to use the Energy Strategy to more effectively incorporate GHG/climate considerations into assistance for energy sector reform given that investments in low-carbon options can be quite sensitive to market design issues. Market design and operations affect investment in capital-intensive generation or options with some technological risk. Some energy sector reforms may tend to make low-carbon options more attractive (e.g., tariff and fuel subsidy reforms); whereas others (e.g. unbundling, wholesale competition) may tend to discourage low-carbon options. Better ex ante understanding of these

implications will allow trade-offs to be considered in choosing among different reform models. Similarly, the World Bank should draw upon successes and failures in subsidy reform to help target limited resources.

Transportation Fuels and Extractive Industries

The Energy Strategy should give greater attention to the WBG's role in transportation fuels than is suggested by the Concept Note. The promotion of low-sulfur gasoline and diesel fuels for transportation is a key factor enabling the introduction of more fuel-efficient and clean vehicle technologies.

The Energy Strategy should also present a clear statement on the WBG's role in energy extractive industries. This should include support for EITI and EITI++ and cover both 1) public sector fiscal transparency and accountability standards; and 2) revenue-transparency requirements for private sector operations.

Institutional changes

WBG management should give careful consideration to how best to motivate the entrepreneurial spirit among staff and generate institutional innovations to address the energy challenge. The U.S. notes the staff disincentives for small-scale renewable energy and energy-efficiency projects. In addition, the Energy Strategy should address means to facilitate cross-sectoral interaction (e.g., between energy and environmental specialists), achieve economies of scale in the knowledge base by sharing technical information across countries, create financial platforms to leverage higher levels of private investment (including portfolio equity), and importantly, induce better coordination between the public and private lending sides of the WBG that is critical to matching policy reform with infrastructure operations. The World Bank should also ensure that it has the staff expertise to pursue a low-carbon energy agenda, both at the center and in the regional Vice Presidencies. Where project performance is constrained by lack of host country capacity, the WBG should leverage expertise from and coordinate with other multilateral and bilateral programs.

Looking ahead, the draft Energy Strategy distributed for consultation should reflect the very real possibility that proposals for an expanded WBG role in climate finance that have been submitted by various Parties to the UNFCCC will become part of the Copenhagen agreement. A scenario in which tens of billions of dollars are to be channeled through the WBG and other MDBs for GHG mitigation in a post-2012 regime would have enormous implications for the World Bank's overall engagement in the sector. Therefore, the U.S. proposes a formal stock-taking and full Board discussion of the draft Energy Strategy shortly after Copenhagen. With respect to outreach, the U.S. encourages the World Bank to hold the planned international forum in Washington early in the consultation process.

Finally, if the Energy Strategy update process is to be worth its time and expense, the final document needs to have a significant and tangible impact on WBG operations. In this regard, the U.S. is less interested in the final strategy document serving as an external flagship study than articulating clear and practical guidance for the WBG's engagement in the sector that is grounded in regional and country programs, as well as in the Strategic Framework for Development and Climate Change. While there is a brief reference to knowledge management and building skills, a key accompaniment to the strategy document should be a business plan with staffing and training needs, internal incentives, technical guidance documents, and budget implications.

The World Bank has been a leader in the development results agenda. This strategy document needs to live up to that standard and demonstrate that the World Bank's shareholders are making a clear set of strategic choices. The Strategy should also incorporate a set of measurable performance indicators whose progress should be tracked and then evaluated after an appropriate period. The U.S. urges that inputs, outputs, and outcomes be explicitly differentiated.