

EarthTrends Featured Topic: Mobilizing an Investment Framework for Clean Energy

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 Authors: Jon Sohn and Smita Nakhoda
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The G8 Plan of Action on climate change, announced at Gleneagles in July 2005, came as a disappointment to many, quashing hopes that discussions at this year's summit could generate stronger political will to tackle climate change. While the agreement did not go as far as environmentalists had hoped, it opened a window of opportunity by recognizing the important role that the multilateral development banks can play in addressing climate change. Indeed, the plan of action looks to the World Bank in particular to play a lead role in creating an investment framework for clean energy, especially as it relates to development finance.

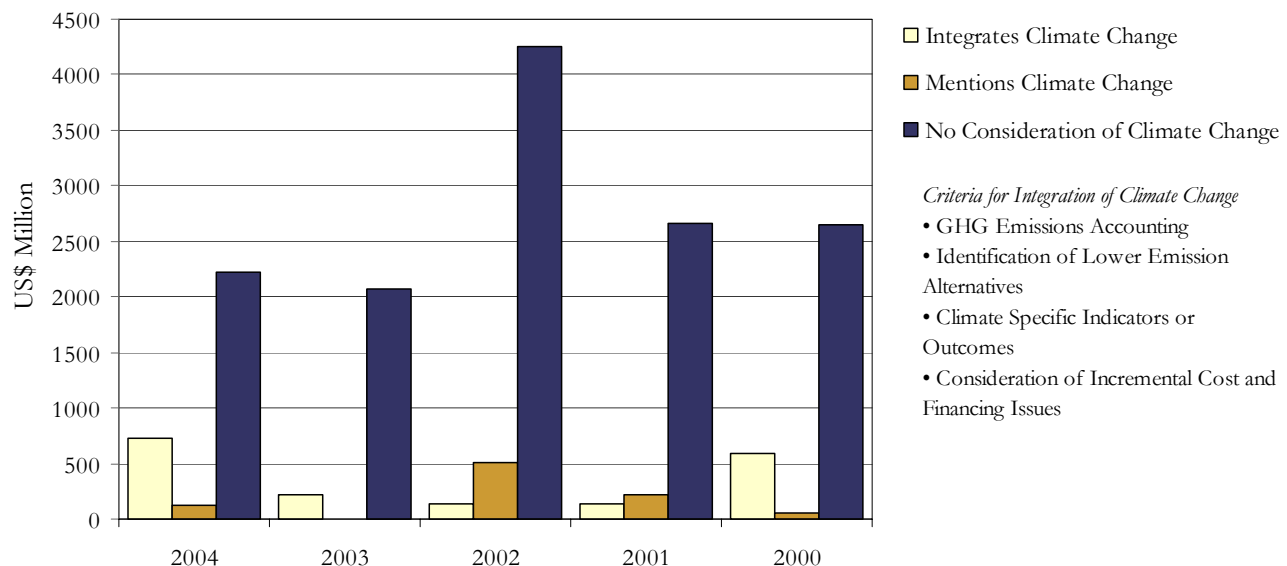
All governments have responded to climate change by agreeing to develop greenhouse gas (GHG) mitigation programs under the United Nations Framework Convention on Climate Change ("Climate Convention"). To pursue these obligations and meet their development goals, developing countries need assistance and support from the international community and multilateral development banks.

The communiqué signed by the G8 leaders pledged to work with the World Bank and other development banks (such as the Inter-American Development Bank (IDB) and the European Bank for Reconstruction &

Development (EBRD)) to expand the use of energy savings assessments as part of investments in energy intensive sectors and to make the best use of their financing to accelerate the adoption of clean energy technologies. In addition, the G8 has urged the multilaterals to increase the volume of investments made in renewable energy and energy efficiency technologies. The G8 also called on multilaterals to work with interested borrowers with significant energy requirements to identify less GHG intensive growth options, consistent with their development priorities.

Through their lending and policy advice, the multilaterals are

Figure 1. Integration of Climate Change Considerations in World Bank Energy Sector Lending



Source Note: These figures are based on a desk review of publicly available documents about IDA and IBRD projects. Projects that "Integrate Climate Change" meet more than one of the specified criteria. Full Details are available at <http://www.wri.org/ijfe>.

well placed to help developing countries consider upstream options to mitigate climate change. These banks also have technical expertise implementing specialized projects addressing global warming, in particular making use of carbon finance under the Kyoto mechanisms. However, it will be crucial for the multilaterals to work transparently and keep developing countries fully engaged in these processes. Poverty alleviation and economic development are the priorities for developing countries, and the multilaterals will need to keep climate stabilization options flexible to avoid perceptions of “green conditionality.”

In its July 2005 brief, *Mainstreaming Climate Change at the Multilateral Development Banks*, the World Resources Institute estimates that 80% of the Bank’s lending in the energy sector alone

over the past five years has been carried out without consideration of climate change implications.

Climate considerations need to be systematically integrated into the World Bank’s operations, in particular through country assistance strategies and lending policy for initiatives such as electricity market reform, in order to help client countries mitigate and adapt to climate change while meeting development priorities. Such integration requires clear Bank strategies that account for GHG emissions for proposed development paths and alternatives.

Since Gleneagles, the World Bank has begun to develop implementation strategies for these directives. The World Bank has also started to coordinate efforts with other multilaterals, including the EBRD and IDB, to implement the plan of action. The

Bank hosted an initial meeting to explore collaboration across the multilaterals in mid-September, and played an important role in the first meeting to address implementation of the Plan of Action in London on 1 November 2005. Notably, the World Bank announced that it will mainstream climate change and clean energy opportunities into the upcoming Country Assistance Strategy for China.

A key challenge will be mobilizing increased funds for clean energy and its incremental costs over conventional infrastructure projects and policies. The upcoming deliberations at the 11th Conference of the Parties to the United Nations Framework Convention on Climate Change in Montreal present an important opportunity to discuss the key parameters of an investment framework for clean energy.