



Leading the British Government's fight against world poverty



1 Palace Street, London SW1E 5HE

Email: m-wyatt@dfid.gov.uk

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Jamal Saghir
Director – Energy, Transport and Water
The World Bank
1818 H Street, NW
Washington
DC 20433
USA

Dear Jamal

World Bank Group Energy Strategy Review – UK Response

Thank you for the opportunity to offer some early input to the World Bank Group's Energy Strategy Review. We welcome this timely exercise and recognise the key strategic importance of updating the strategy to respond to the range of global challenges that developing countries will have to face over the coming decade.

The UK's Coalition Government has outlined an exciting and ambitious agenda on international development that focuses on achieving results, ensuring value for money, and delivering for the poor. UK Ministers have also confirmed £1.5bn of Fast Start funding for climate change over the period 2010-12.

We will want to see that any additional multilateral spend is helping to mainstream climate change into the fabric of organisations such as the World Bank Group. With this in mind, we attach a response to the Phase I consultation of the Energy Strategy Review in the attached submission.

Overall we think this is a good draft that addressed most of the key issues in an appropriate way. We would, however, like to see the links to poor people and the MDGs made clearer and more explicit, including in the articulation of the objectives.

Key points include:

- **Integrating resilience** – we would like to see a third objective on reducing vulnerability and building resilience to long-term climate impacts, price volatility and political instability



Switchboard +44 (0) 20 7023 0000

Fax +44 (0) 20 7023 0019

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- **Evidence gaps** – the Energy Strategy would benefit from further analysis in a number of areas, including comparative costs, the impact of energy resource depletion and the inclusion of externalities
- **Focus** – there needs to be a clearer exposition of the WBG comparative advantage and how this drives choices of where the WBG should focus

UK Ministers are still considering our position on clean energy lending and fossil fuel projects. We will communicate their decision to all MDBs in due course. In the meantime, please invite your staff to follow up on any of the issues raised in this response with either [Simon Ratcliffe](#) or [Oliver Knight](#).

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Wyatt', written in a cursive style.

Matthew Wyatt

Head of Climate & Environment Group
Policy Division

UK response to World Bank Group Energy Strategy Review

Context

Energy is fundamental to meeting the Millennium Development Goals and achieving sustainable economic growth. Access to modern energy services can provide transformational impacts for poverty reduction. It can improve health and education, particularly for women and girls, and promote reliable electricity supplies to boost economic output by up to 5%.

The Multilateral Development Banks (MDBs) contribute a small percentage to overall energy investment, but clearly have a significant role to play in addressing the global challenges facing developing countries, including:

- Improving access to modern energy services to enable **poverty reduction**
- Taking advantage of new economic opportunities linked to the transition to a global **low carbon economy**
- Improving the **resilience of people and economies** to climate impacts, resource depletion, conflict, supply disruptions and price volatility.

In the energy sector this means assisting client countries in their pursuit of low carbon, climate resilient development strategies by generating and applying the best-available evidence and analysis; helping to produce and enact sector-wide strategies; enabling market transformation and private sector investment; and supporting capital-intensive energy investments through traditional and innovative financing products.

UK Response

Our response focuses on key issues that we would like incorporated into the draft strategy, and on areas that we believe require further work or analysis.

A THIRD OBJECTIVE

We believe that combating vulnerability and improving resilience should be included as a third objective in the WBG's framework for the energy sector.

The Approach Paper describes two objectives for the WBG's energy work: improving access and reliability of energy supply, and facilitating the shift to a more environmentally sustainable energy development path. We believe that this misses a crucial third component – the vulnerability and resilience of energy assets and the economic activity and communities that depend on them. Including such an objective would help to address negative impacts and risks such as:

- price volatility
- resource depletion and other environmental impacts
- sensitivity of assets to the impacts of climate change
- supply disruptions
- civil unrest or conflict

We would articulate the three objectives as follows:

1. **Reducing poverty** by improving sustainable access to modern energy services and facilitating strong economic growth
2. Supporting **low carbon, environmentally sustainable development**
3. **Reducing economic and social vulnerability** through strategies that improve the resilience of energy assets and supply systems.

EVIDENCE AND KNOWLEDGE

The WBG is a leader in carrying out thorough policy analysis and project appraisal, but a number of significant evidence gaps need further analysis.

Policy analysis and project appraisal rely on the use of the best available evidence and knowledge. This is even more important where there is an emphasis on value-for-money outcomes and results. A number of significant energy issues are not adequately covered in the Approach Paper, including:

- improving the link between energy investment and achievement of the MDGs through the measurement of ‘forward’ linkages as a result of energy investments (i.e. the way energy is *used*)
- improving analysis on ‘backward’ linkages from energy investments (i.e. enhanced industrial capacity)
- real-time information on the comparative costs of different energy technologies (e.g. mainstreaming ESMAP’s work in this area), taking account of sensitivity to long-term fossil fuel prices and carbon pricing
- resource depletion issues, and the impact these could have on the long-term viability of energy assets (for example, as a result of supply disruption or price volatility) as well as the impact on transport, mobility and trade, food production, social cohesion and financial systems.
- sensitivity of energy assets to a future price for carbon
- the comparative cost of different ways of widening access to modern energy services (grid-based vs decentralised)
- the impact of different energy choices on gender equality
- water stress and environmental externalities sensitivity of energy assets to other climate impacts and natural disasters

In addition, the WBG should adopt a risk based analysis that includes a wide range of short, medium and long-term risk factors to assist decision making for energy choices.

The WBG should outline how it will incorporate these issues into their policy analysis and project appraisal processes, with a timeline for action where appropriate.

COUNTRY PLANNING

The WBG often plays a constructive role in energy sector planning. It should adopt an explicit goal of supporting low carbon, climate resilient development as a central feature of its energy sector work.

We support the WBG’s engagement on sector-wide planning at the country level, working in coordination with the client country government and other development agencies. Such assistance should draw on cutting-edge tools and analysis to better understand the range of energy options available to individual countries, and the

long-term opportunities and risks that they face. Fundamental to overall country planning should be a focus on win-win-win outcomes that combine poverty reduction and economic growth with long-term sustainability and improved resilience.

SECTORAL FOCUS

The WBG needs to articulate a clearer explanation of their comparative advantage, and where they will focus their efforts.

The WBG needs to analyse its own comparative advantage in the energy sector, and set out how it will build on this and how it will drive its work, including its lending activities. We consider the WBG's strengths lie in providing centralised energy solutions to developing countries in support of economic growth, combined with sector-wide policy development. This might include investments in centralised power generation, cross-border and national transmission, and distribution and grid extension work. We would like to see further analysis of the WBG's future role in decentralised energy solutions, and how it would engage in this sub-sector. This should include its proposed engagement on biomass use, improved cookstoves and gender issues. In relation to large hydropower, the Energy Strategy should outline how the WBG intends to incorporate best practice into its lending to this sub-sector (including the recommendations of the World Commission on Dams).

COUNTRY FOCUS

The WBG should make a case for focusing its support on those countries where it can have the biggest transformative impact.

The Approach Paper does not provide any indication of where the WBG will focus. The UK believes that the three objectives outlined above should be used to determine where the WBG concentrates its energy sector lending and policy work (while recognising, of course, that the WBG will need to be responsive to countries' own choices). As middle-income countries generally have more domestic resource to finance their own projects (or can borrow from commercial markets), it is important for the WBG to concentrate its activities and any concessional resources available in areas that are transformational. This means taking an innovative approach to the design of its lending products and other services, and supporting cutting-edge policy advice.

CLEAN ENERGY LENDING

We are consulting with Ministers on the UK's position to MDB clean energy lending.

The UK has been a strong supporter of MDB efforts to increase clean energy lending over the last five years, and we have provided substantial additional finance through the Climate Investment Funds. We are currently consulting with DFID Ministers on the UK's future engagement on this issue, taking account of recent progress and developments. We will communicate our position on MDB clean energy lending in due course.

FOSSIL FUEL PROJECTS

The UK's unilateral position on lending decisions for individual fossil fuel projects is being discussed with DFID Ministers and will be communicated in due course.

INNOVATIVE FINANCING

We would like to see more emphasis by the WBG on 'results-based financing' and other innovative ways of ensuring value-for-money and a focus on results.

We call on the WBG to further explore and integrate results-based financing mechanisms as a way to leverage private sector investment. The UK is interested in exploring 'demand-pull' mechanisms as an alternative to traditional 'supply-push' methods as a way of achieving long-term market transformation. The MDBs have a crucial role in piloting and mainstreaming such approaches, and in creating stronger links with the private sector. Financing mechanisms need to match the scale of the energy and climate challenge.

EVALUATION AND RESULTS

How will the Bank ensure it measures results clearly and accurately, and maintain harmonisation across Bank programmes?

We welcome an increasing focus on results and understand the WBG's Strategic Development Framework for Climate Change (DCCSF) will generate its own results framework. However, there is a lack of clarity about how the DCCSF results framework, the IDA Results Measurement System (RMS) and the results framework for the forthcoming Energy Strategy will interface. Developing these frameworks should be done in tandem or risk undermining harmonisation across programmes.

TECHNOLOGY

The WBG should adopt an explicit aim of supporting the adoption and dissemination of sustainable energy technologies and the creation of local manufacturing capacity.

Supporting the use of sustainable energy technologies is a crucial component to achieving low carbon growth. Many low carbon technologies have higher up-front capital costs, and the WBG and other MDBs are well-placed to help developing countries invest in such options when they are in their long-term interests. The WBG should also consider how they can help support developing countries' industrial strategies to enable them to take advantage of the opportunities associated with a transition to a global low carbon economy.