

## World Bank's Approach to Climate Change in South Asia: An Overview<sup>1</sup>

Prepared by the Bank Information Center<sup>2</sup>

### I. Overview

Climate change has recently become an important part of the World Bank's agenda. Higher temperatures, erratic weather patterns, and rising sea level are just a part of the bigger threat posed by climate change. The World Bank considers climate change as an impediment to socioeconomic development and believes that failure to address the issue at the policy and project levels hampers its goals of poverty eradication and environmental sustainability. However, the World Bank Group's longstanding commitment to financing carbon intensive development projects has raised serious questions about its climate strategy in the past and will continue to be an issue in the future. The Bank has adopted a seven-point agenda to tackle this problem. It aims to:

1. Mainstream adaptation and mitigation into its core development work
2. Provide innovative and concessional financing
3. Pioneer and advance new market mechanisms
4. Link private sector financing to environmental initiatives
5. Support technology development and adoption in developing countries
6. Support applied research on climate change economics in developing countries
7. Contribute to an international regime based on areas 1-6 above.<sup>3</sup>

The adaptation and mitigation approach lie at the core of this agenda.

Developing nations' heavy reliance on sectors such as agriculture, fisheries, forestry, water, and natural resources make them particularly vulnerable to the adverse effects of climate change. Starting with the seminal Stern Report, numerous other World Bank studies warn that climate change decreases water variability and quality; increases the chances of floods and droughts; reduces biomass production in certain areas; and adversely impacts agriculture production, fisheries management, and forest growth.<sup>4</sup> Lack of human and technological capacity increases the risk posed

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<sup>1</sup> This preliminary information brief is issued by BIC to generate discussion on the WB's climate change related financing in South Asia. BIC would be interested in comments/feedback on this piece so as to gauge the level of interest of partners on climate change and WBG, and determine issues/topics for future briefing papers.

<sup>2</sup> The Bank Information Center (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) to promote social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency, and public accountability in the governance and operations of the World Bank, regional development banks, and IMF. BIC is not part of the World Bank Group and does not accept nor receive any financing from it. For more information about BIC, see [www.bicusa.org](http://www.bicusa.org).

<sup>3</sup> The World Bank Group, *Climate Change and Development* webpage (accessed September 16, 2008); available at <http://go.worldbank.org/VRETHAGHE0>

<sup>4</sup> Maarten Van Aalst "Managing Climate Risk: Integrating Adaptation into World Bank Group Operations." *World Bank Group Global Environment Facility Program*, p 3, 2006 (accessed September 17, 2008); available at <http://www->

by climate change to these countries. These studies argue that the onus falls on the World Bank and member countries to incorporate climate change risk in project design and implementation, and to ensure proper climate change risk management by developing countries.

*Adaptation:* The World Bank has adopted the following adaptation strategies to help its clients counter threats to poverty reduction and sustainable development:

- Integrating climate change risk management in projects through early risk detection and identification.
- Integrating climate risk management into country and sector discourse.
- Increasing internal support for and coordination of climate risk management by increasing analytical work and capacity of the specific World Bank environmental departments, and by actively developing and promoting these risk management mechanisms in regional departments.
- Establishing financing schemes for adaptation as the Investment Framework for Clean Energy and Development.<sup>5</sup>

*Mitigation:* The mitigation approach emphasizes the need for economic growth to take into account and mitigate the effects of climate change, specifically through control and reduction of green house gases (GHG). The Bank is undertaking the following actions to achieve its mitigation goals:

- Supporting projects geared towards both supply and demand side energy efficiency improvements.
- Directing projects that lead to sustainable management of natural resource, solid waste, water, forestry, and fisheries sectors.
- Developing operations that promote the use of renewable energy and provide countries with incentives to develop and implement clean energy technologies.
- Promoting sustainable transportation systems and improved agricultural practices.
- Generating carbon revenues through carbon finance programmes to support operations.<sup>6</sup>

## II. Financial Instruments

Integrating and adopting climate change risk in development operations would alter the amount and direction of funds flowing to developing countries. Mainstreaming of climate-sensitive development operations remains a challenge at the Bank and many observers continue to be critical of the Bank's climate change ambitions. Indeed debate about who should pay for climate change is far from over at the Bank's Board of Directors, and received only a tentative closure when the WBG Strategic Framework on Climate Change and Development (SFCCD) was approved at the 2008 Annual Meeting. The SFCCD aims to address development issues from a climate change perspective and tries to examine climate change challenges in a multi-sectoral context.

In July 2008 the WB Board of Directors approved the creation of two climate investment funds whose

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[wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/09/28/000090341\\_20060928112135/Rendered/PDF/374620Mainaging0Climate0Risk01PUBLIC1.pdf](http://wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/09/28/000090341_20060928112135/Rendered/PDF/374620Mainaging0Climate0Risk01PUBLIC1.pdf)

<sup>5</sup> Ibid., 25-29.

<sup>6</sup> The World Bank Group, *Mitigating Climate Change at the World Bank*, webpage (accessed September 17, 2008); available from <http://go.worldbank.org/7B8C6JDQ30>

purpose is to provide interim, scaled-up financing to developing countries to integrate climate change considerations in their programs. In September 2008, ten international donors pledged US\$6.1 billion to the two funds which will be administered by the WB and disbursed through the MDB system. Though still in the nascent stages, these funding mechanisms are meant to help developing countries cover the mitigation and adaptation costs of climate change. The funds are as follows:-

A. *Climate Investment Funds (CIFs)*: These would increase financial and monetary resources to enhance investments in clean energy technologies and to incorporate climate change in development assistance. The CIFs comprise the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF).

According to the Bank, the CTF would provide financing for development projects at relatively discounted rates in order to spur governments to include climate mitigation in their development plans and investment decisions at a national level. The Bank says it has designed this fund to assist in the transfer of clean low-carbon technologies to power, transportation, construction, and agricultural sectors.<sup>7</sup> The CTF would employ a variety of financial tools such as grants, concessional loans, and guarantees depending upon the nature of the case and the costs associated with carbon abatement.

The SCF would provide funding for pilot projects aimed at specific climate change induced impacts. The first SCF programme would target national level action for increasing climate mitigation in highly vulnerable countries. Other programmes would concentrate on increasing access to energy efficient technologies in vulnerable countries and promoting investment in sustainable forest management to curb carbon emissions from deforestation.

The CIFs have become controversial with civil society organizations as many CSOs oppose the location of funds mandated by the United Nations Framework Convention on Climate Change (UNFCCC) at the World Bank. The general consensus amongst civil society groups is the World Bank should allocate the funds through a transparent and democratic process. Also, fairness issues arise over the form of the funding; Developing countries advocate that the CIF's should be allocated as grants rather than costly loans.

Another financing mechanism developed and hosted by the World Bank is the Forest Carbon Partnership Facility (FCPF).

B. *Forest Carbon Partnership Facility (FCPF)*: This facility has been designed to assist developing countries to reduce emissions from deforestation and land degradation (REDD). The facility aims to build capacity for REDD in developing countries and test a programme of performance-based incentive payments in pilot countries on a small scale. The results and lessons would then be incorporated into a larger incentive payment system.

In addition to the CIFs and the FCPF, the Bank manages eleven carbon funds through its Carbon Finance Unit (CFU). The aim of these funds is to buy project induced greenhouse gas emission reductions in developing and transitional countries.<sup>8</sup> These funds, worth \$12 billion, are financed primarily by OECD governments and private companies. Civil society organizations in general have misgivings about carbon trading as an avenue to reduce climate change. Besides the methodological

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<sup>7</sup> The CTF framework defines clean technologies as those that reduce green house gas emissions. Hence it emphasizes energy efficiency and renewable energy.

<sup>8</sup> The World Bank Group, *Carbon Finance Unit*, [www.carbonfinance.org](http://www.carbonfinance.org)

difficulties in verifying reduction in emissions, many CSOs feel that the Bank supports the funds in its own self interest as it collects a generous overhead fee for financing projects under the carbon trading plan.

### III. South Asia

*From the Himalayas, which feed water to a billion people, to the coastal areas of Bangladesh, South Asian countries must prepare for the effects of global warming, even as they work to combat the human causes of climate change.*

Sir Nicholas Stern

Even though South Asia has low green house gas emissions, climate change has already deeply affected the economic growth and development of South Asian countries and poses difficult challenges for the future. As South Asian economies rely mainly on agriculture, natural resources, forestry and fisheries sectors, increased risk of floods and droughts would decrease production in these sectors and exacerbate the condition of the poor. Some of the projected consequences of climate change in the region include:

- Increased flooding and problems with water resource management due to melting of Himalayan glaciers.
- Added pressure on natural resources and the environment because of rapid urbanization and industrialization.
- Decrease of almost 30 percent in crop yields by the middle of the century.
- Higher mortality rates because of floods and droughts.
- Increased coastal hazards due to rising sea levels.<sup>9</sup>

Recognizing the extreme risk that climate change poses for poverty alleviation and sustainable development, the World Bank has proposed numerous adaptation and mitigation strategies for the region.

The following lists the Bank's priority for adaptation analytical work on the rural, coastal and water sectors in South Asia:

- Assessment of the Himalayan glacial retreat that could have a significant effect on the management of water resources across borders.
- Engagement of scientific institutions to help develop appropriate strategies in high-altitude areas.
- Using the University of Tokyo's current modelling project to simulate the economic, social, and environmental implications of rising sea levels in Bangladesh.
- Collecting data on Maldives to establish an appropriate response to rising sea levels.
- Examining the impact of climate change on biodiversity and important ecological areas.
- Building capacity to increase dissemination of information and data on the threats of climate change.<sup>10</sup>

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<sup>9</sup> The World Bank Group, *South Asian and Climate Change: A Development and Environmental Issue*, webpage (accessed September 18, 2008); available from <http://go.worldbank.org/OXAV4BYO60>

<sup>10</sup> The World Bank Group, *Future Priorities for South Asia*, webpage (accessed September 18, 2008); available from <http://go.worldbank.org/H5FAQ5UYO0>

Lending priorities for adaptation include:

- Expanding the Indian Global Environment Facility (GEF) Sustainable Land Management Project to include lending for improving farming and irrigation systems, growing new crop varieties, and increasing environmental awareness.
- Encouraging sustainable water management systems by considering supply and demand side issues, both locally and across boundaries.
- Forming monitoring and early warning systems for droughts and floods.
- Increasing institutional and technical capacity to detect droughts and floods.<sup>11</sup>

The World Bank prioritizes the following analytical work on mitigation:

- Identifying sources of emissions in Pakistan, which has a high demand for carbon financing.
- Intervening in coal based power generation projects in Bangladesh.
- Examining the prospects of regional trade in clean energy.
- Integrating climate change mitigation, low levels of pollution, affordability, and better mobility in the Indian urban transport projects.<sup>12</sup>

The lending priorities for mitigation include:

- Provide concessional financing for the Coal-Fired Power Plant Rehabilitation Project in India to reduce carbon emissions using a cost-effective mechanism.
- Increase efficiency of India's power transmission.
- Enhance storage and capacity of hydropower dams.
- Promote renewable energy use in rural areas and improve efficiency of small and medium sized businesses.
- Establish a carbon finance development policy.
- Revise waste management projects to include major cities.
- Develop the public transport sector under the National Urban Bus Improvement Project in India.
- Implement a long-term plan for sustainable urban transport under the Sustainable Urban Transport Project in Pakistan.<sup>13</sup>

The World Bank's next three-year Country Assistance Strategies (CASs) and Country Partnership Strategies (CPSs) for the different South Asian countries will incorporate climate change adaptation and mitigation in development project funding. Climate change strategies might be included under the environment sustainability heading or appear as a completely new section. In either case, the CAS/CPSs would reveal the way in which the Bank will assist countries on climate change.

#### **IV. Key World Bank Contacts and Links to Websites**

*Contacts:*

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<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

- Kathy Sierra ([ksierra@worldbank.org](mailto:ksierra@worldbank.org)) – Vice President, Sustainable Development Network, World Bank
- Warren Evans ([wevans@worldbank.org](mailto:wevans@worldbank.org)) – Head of Environment, World Bank
- Richard Damania ([rdamania@worldbank.org](mailto:rdamania@worldbank.org)), Senior Environment Specialist, South Asia Region, World Bank.

#### Links to World Bank webpages on climate change

- The World Bank Group, *Climate Change and Development* <http://go.worldbank.org/VRETHAGHE0>
- The World Bank Group, *Climate Matters* <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCC/0,,menuPK:407870~pagePK:149018~piPK:149093~theSitePK:407864,00.html>
- Maarten Van Aalst “Managing Climate Risk: Integrating Adaptation into World Bank Group Operations.” *World Bank Group Global Environment Facility Program*,; [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/09/28/000090341\\_20060928112135/Rendered/PDF/374620Managing0Climate0Risk01PUBLIC1.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/09/28/000090341_20060928112135/Rendered/PDF/374620Managing0Climate0Risk01PUBLIC1.pdf)
- The World Bank Group, *Mitigating Climate Change at the World Bank* <http://go.worldbank.org/7B8C6JDQ30>
- The World Bank Group, *South Asian and Climate Change: A Development and Environmental Issue* <http://go.worldbank.org/0XAV4BYO60>
- The World Bank Group, *Future Priorities for South Asia*, <http://go.worldbank.org/H5FAQ5UYO0>
- The World Bank Group, *Carbon Finance Unit*, [www.carbonfinance.org](http://www.carbonfinance.org)

#### V. Conclusion

The potentially disastrous effects of climate change have only recently been realised and the World Bank has come under pressure from member countries to address the risks in its development strategies. The worrying aspect of climate change is its severe impact on livelihoods in the poorest regions of the world, including South Asia. Agriculture, fisheries, forestry, water and natural resources are just a few of the productive areas in South Asia that would suffer from climate change. In this regard, the Bank has created the CIFs to provide grants or loans to countries to incorporate the risk of climate change in their development projects and to invest in cleaner technologies. Since the Bank's is a relatively new player in this arena, civil society will need to monitor its actions so as to ensure UN-led processes on climate change are not circumvented by the Bank as it goes about implementing its SFCCD. Another concern is that other negative impacts of development, such as for example displacement or disregard of gender impacts, may be given less priority by the Bank in its quest to 'climate proof' development.