

Dear President Zoellick,

We are in receipt of an e-mail dated December 21, 2009 from Mr. Eli Whitney Debevoise, the US ED, conveying a copy of his letter dated December 15, 2009 addressed to you along with a Guidance Note issued by the US Government to Multilateral Development Banks (MDBs), including the World Bank, laying down certain conditions for engaging with developing countries on coal fired power generation.

2. It is stated in the letter of the US ED and the accompanying Guidance Note that the current US administration believes that the MDBs have a critical role to play in the future international framework for climate finance, and, in particular, to assist developing countries in mitigation of green house gas emissions. This objective, in turn, involves, inter alia, limiting the conditions under which the MDBs finance coal fuelled power generation. It has been further stated that the guidance has been developed for incorporation into the Bank's operational policies, strategies and procedures related to power sector operations.

3. While there has been no discussion in the Board or in any of its committees on this issue, and no consequential formal amendment has been made yet to the Bank's operational policies, strategies or procedures, we are given to understand that informal arrangements have already been put in place to implement the US guidance. For example, the decision of the Bank to discontinue further work on the Thar Coal and Energy Project of Pakistan on the ground that the limited financing available from the Bank should be directed toward investments that address energy supply shortfalls in an environmentally sustainable manner, points in that direction. We are informed that informal directions have also been issued in IFC to implement the US Government guidance. We apprehend that key elements of the US Government guidance may be incorporated in a similar manner, without open discussion, in the Bank's Energy Sector Strategy which is presently under formulation.

4. We are very concerned about these developments as they indicate an unhealthy subservience of the decision making processes in the Bank to the dictates of one member country brought about in an opaque and non-inclusive manner. We feel that the manner in which the US guidance is sought to be implemented will hurt the legitimacy of the institution, in particular at this critical juncture when we especially need to enhance the Bank's credibility through internal governance reform. This is all the more important if the Bank wishes to play any substantive role in the emerging financial architecture for addressing climate change.

5. The US is an important member country and like any other member, has the right to air its concerns on critical issues and seek suitable amendments in the Bank's policies, strategies and procedures. However, this should be done by bringing up such concerns for discussion in suitable forums/platforms on appropriate occasions. Under no circumstances should the Bank initiate action on the US guidance, informally or formally, without an open, transparent and inclusive discussion and decision process.

6. As regards the specific issues raised in the US guidance, our comments thereon are given in the annexure attached below.

7. In view of the above, we request that the US guidance be treated as an individual shareholder's position and that no consequential operational actions be taken or changes introduced to the Bank's policies, strategies and procedures relating to the energy sector in general and coal fired power generation in particular. If needed, the US chair can raise this issue during the relevant committee discussion on the Bank's new Energy Sector Strategy scheduled to take place later this year.

Sincerely,

Abdulrahman Almofadhi

Pulok Chatterji

Sid Ahmed Dib

Merza Hussain Hasan

Toga Gayeweya McIntosh

Louis Philippe Ong Seng

Carolina Renteria

Sun Vithespongse

Shaolin Yang

ANNEXURE

In so far as the specific contents of the Guidance Note are concerned, we have the following comments:

- The core mandate of the World Bank is poverty alleviation and economic growth in developing countries. The Bank seeks to achieve this objective through CASs and CPSs which are jointly developed with borrowing countries and in consonance with their national priorities. This approach is in line with the Accra Agenda for Action which emphasizes country ownership of development assistance. Addressing climate change issues, per se, does not fall within the Bank's core mandate. The Bank should be concerned about climate change only to the extent it impinges upon the efforts of the developing countries towards achieving poverty alleviation and economic growth. This vision was the foundation of the document titled 'Development and Climate Change – A Strategic Framework for the World Bank Group', approved by the Board in July 2008 and endorsed by the Development Committee in October 2008. The Bank is bound by the Strategic Framework on Development and Climate Change (SFDCC) while dealing with matters such as the US Government guidance. Unfortunately, this does not seem to be happening. While the SFDCC focuses on Bank support for climate actions in country led development processes, the Bank appears inclined to follow the US guidance unilaterally and against the country's own determination of its development priorities. Thus, for example, the decision taken by the Bank in respect of the Thar Coal and Energy Project of Pakistan is evidence of this unfortunate trend. The Bank should not be seen as putting pressure on developing countries to undertake mitigation of green house gas emissions, by refusing to finance coal based power projects which are part of national development plans and insisting that Bank financing for the power sector is available only for more expensive renewable energy projects.
- Coal will continue to be a primary source of energy for the world for a long time to come. It also plays a vital role in electricity generation worldwide. Thus, in the year 2007, coal fired power plants fuelled 41.5% of global electricity. In the same year, coal was the source of energy in 95% of electricity generation in South Africa, 76% in Australia, 68% in India, 81% in China, 49% in Germany, 93% in Poland and 70% in Israel. In the USA, 49% of all electricity generation in 2007 came from coal fired power plants. The importance of coal to electricity generation worldwide is set to continue, with coal fuelling 44% of global electricity in 2030. Emphasizing the continuing

importance of coal in the US power sector, Senator Robert Byrd pointed out in a recent op-ed, "No deliberate effort to do away with the coal industry could ever succeed in Washington because there is no available alternative energy supply that could immediately supplant the use of coal for base load power generation in America." This is true not only for America but for many countries of the world.

- Increasing per capita access to energy, especially electrical power, is the key to development for poorer countries. For years to come, many countries, developed and developing, will derive an overwhelming part of their electric power from coal. As poor countries develop, they will rapidly increase total power generation to increase per capita access to electricity, and a major part of this increase would be coal based. In fact, there is no other option for many developing countries.
- Coal is the cheapest source of energy for electricity generation. The levelized generating cost for coal fuelled power plants for the year 2010 is estimated to be 3.86 cents/kWh against 36.6 cents/kWh for solar-PV, 11.7 cents/kWh for solar-thermal (with thermal storage), 5.1 cents/kWh for wind (ultra large wind generation plants of 100 MW and above) and 5.2 cents/kWh for large hydro. In the year 2007, of the total electricity generation of 4323 billion kWh in the US, as much as 2118 billion kWh came from coal fired power plants. This is 26% of the total coal fuelled electricity generation in the world. If the US had indicated its intention to retire its coal based power plants for replacement by renewable energy, to free up space in the global commons to enable poorer countries to set up coal fuelled power plants to access cheaper electricity, the developing world would have welcomed such an initiative. Instead, the US seeks to make it more difficult for poor countries to obtain Bank funding for coal fired power generation, forcing them towards more expensive renewable energy. The US Government Guidance Note, is, therefore, inequitable and unacceptable.
- Recognizing the importance of coal for electricity generation in developing countries, the SFDC provides that the Bank could support client countries to develop new coal power projects through its traditional financing instruments, subject to certain prescribed considerations. The decision of the Bank on the Thar Coal and Energy Project of Pakistan appears to be inconsistent with these provisions of the SFDC. The US Government guidance also, is unacceptable to the extent it conflicts with these provisions of the SFDC.
- Under the SFDC, the Bank has formally recognized the primacy of the UNFCCC and its principle of common but differentiated responsibilities. The UNFCCC, a binding global agreement, lays

down, inter alia, that developed countries are obliged to provide financial resources and technology to developing countries to enable them to implement their nationally appropriate mitigation action plans. It is intended under this agreement that the incremental cost of such mitigation measures will be met through grant assistance provided by developed countries through mobilizing new and additional financial resources for climate change. The Guidance Note of the US Government tries to evade these responsibilities of developed countries as it aims to shift World Bank lending to developing countries for their power sector from coal based projects to renewable energy projects, without providing the new and additional financial resources and technology to the developing countries to enable them to make the transition. The US guidance may have been acceptable if it had been accompanied by a US commitment to provide such enabling finance and technology.