COMMENTS ON THE CLIMATE AND RESOURCE EFFICIENCY-RELATED PROVISIONS OF THE *SECOND DRAFT ENVIRONMENTAL AND SOCIAL FRAMEWORK*

February 2016

Submitted by
Steven Herz, Senior Attorney, Sierra Club, steve.herz@sierraclub.org
Nezir Sinani, Europe and Central Asia Manager, Bank Information Center, nsinani@bicusa.org

INTRODUCTION

In previous rounds of public consultations, numerous civil society organizations offered insights on how the Safeguard Policy framework could be strengthened to better address climate-related issues.[1] While the *Second Draft Environmental and Social Framework of July 1, 2015 (Consultation Draft)* begins to grapple with the myriad challenges of climate change, it falls short of incorporating best practices in critical areas, and fails to capture important opportunities to promote low-carbon, climate resilient development.

In developing a climate-sensitive safeguards framework, the Bank should be guided by two core insights that emerge from its own recent analytical work. **First**, climate change will impose a layer of "deep uncertainty" over many investment decisions, which will require more robust and sophisticated assessment and decision-making approaches that, among other things, better integrate stakeholder inputs.[2] **Second**, the goals of climate sensitivity and resilience need not be in tension with its mandate to alleviate poverty in an environmentally responsible manner.[3] Ample opportunities exist for the Bank to support projects that capture synergies among these objectives.

[1] See, Bank Information Center, *et al* (May 2014). *Model Proposal: Climate Change Assessment (CCA) Safeguard Policy Submission to the World Bank Safeguard Policy Review*. Available at http://www.bicusa.org/wp-content/uploads/2014/05/Climate-Change-Safeguard-Model-Policy-for-the-World-Bank.pdf

[2] Hellegate, et. al 2012. *Investment Decision Making Under Deep Uncertainty Application to Climate Change*, (World Bank, Office of the Chief Economist). Available at http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-6193. Kalra, et. al (2014). *Agreeing on Robust Decisions New Processes for Decision Making Under Deep Uncertainty*, (World Bank, Office of Chief Economist). Available at http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-6906

[3] World Bank, 2014. *Climate Smart Development: Adding up the benefits of actions that help build prosperity, end poverty and combat climate change.* Available at, http://documents.worldbank.org/curated/en/2014/06/19703432/climate-smart-development-adding-up-benefits-actions-help-build-prosperity-end-poverty-combat-climate-change-vol-1-2-main-report

To incorporate these insights, the revised *Safeguard Policy* framework should adopt best practice approaches to project selection, appraisal, and alternatives assessment that fully account for the costs, risks and uncertainties of climate change. And, it should narrowly focus the Bank's efforts on systematically identifying and capturing synergies between climate sensitivity and development objectives, while precluding support for activities with significant tradeoffs until these synergies are fully exploited.[4]

DISCUSSION

Proposed Revisions to ESS 1

1. Integrate the outcomes of the Paris Agreement into the ESF.

ESS 1 should incorporate the outcomes of the Paris Agreement by (a) ensuring coherence with country-owned strategies to reduce emissions and strengthen resilience; and (b) "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development."

1.1 CODE has requested that Phase 3 consultations further explore "the relation between provisions on climate change in the ESF and broader climate change commitments, specifically the UNFCCC. This relationship should be strengthened in two important ways.

1.2 **First, ESS 1 should ensure consistency between project proposals and national strategies to promote climate-sensitive development.** The Paris Agreement is predicated upon countries developing their own mitigation plans and adaptation plans. These should be a basis for World Bank planning.

1.3 *Nationally Determined Contributions, Low-Carbon Development Strategies, and NAMAs:* Many developing countries have agreed to develop plans for limiting greenhouse gas emissions under the UNFCCC. With regard to pre-2020 actions, the *Cancun Agreements* encourage developing countries to produce national low-carbon development strategies to guide their mitigation actions,[5] and expect them to specify the "nationally appropriate mitigation actions" (NAMAs) that they will take to reduce the growth in their emissions, consistent with their national circumstances and development aspirations. They also created a registry to record these NAMAs, with separate sections for those that require international support to be implemented and those that do not.[6] With regard to post-2020 actions, nearly all developing countries have come forward with their initial "intended nationally determined contributions" (INDCs), and the Paris Agreement encourages countries to produce mid-century low-GHG development plans by 2020.

---

[4] See, World Bank, 2010. *2010 Environment Strategy: Analytical Background Papers: Assessing the Environmental Co-Benefits of Climate Change Actions*, at 4. (The bank should support "win-win-win' solutions which are robust under a range of future climate scenarios and which create environmental benefits while simultaneously contributing to development, adaptation, and mitigation.")

[5] FCCC/CP/2010/7/Add.1, paras. 45, 65.

[6] FCCC/CP/2010/7/Add.1, paras. 48, 54; http://namanews.org/news/the-nama-registry/

1.4 Accordingly, Paragraph 24 should be strengthened to make clear that the Bank will expect that all the activities it supports are consistent with the strategic plans, priorities and objectives that countries have adopted as part of their national development plans, NDCs or NAMAs.

1.5 *National REDD+ Strategies:* Many countries are also developing strategies to reduce emissions from deforestation and forest degradation (REDD+) in ways that can maintain the structure, function, and ecosystem services provided by forests. The World Bank should ensure that its investments are consistent with national REDD+ strategies, and seek synergies with REDD+ readiness efforts and programs. Importantly, ensuring such consistency will require consideration of emerging national REDD+ safeguard systems.

1.6 *National Adaptation Plans:* Similar planning efforts are underway with regard to climate resilience and adaptation. Almost all Least Developed Countries have developed National Adaptation Programs of Action to address urgent adaptation needs. Similarly, a number of other developing countries have also created their own national adaptation strategies and plans. Many countries have put forward new or revised adaptation strategies and plans as part of their NDCs.[7] The World Bank should ensure that its financing is consistent with the adaptation priorities, strategies and plans articulated through national-level processes and should work through national mechanisms whenever possible..

1.7 *National Action Plans for SLCPs:* Under the Climate and Clean Air Coalition (CCAC), many developing countries are developing national action plans to reduce the impacts of short-lived climate pollutants.[8] As a partner in the Coalition, the World Bank should promote the development of these plans by integrating them into its investment decision-making to ensure that its activities are consistent with the national SLCP reduction priorities.

1.8 **Second, one of the overarching objectives of the Paris Agreement is to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development."**

1.9 Operationalizing this objective means, at a minimum, that the planning and alternative assessment provisions of ESS1 should create a strong presumption against supporting financing greenhouse gas intensive and maladaptive, that can only be overcome where there are no feasible alternatives to meet compelling development needs.

2. Assess and Promote Climate Resilience

[7] FCCC/CP/2014/Add.1, para. 12.
[8] http://www.unep.org/ccac/Actions/SLCPNationalActionPlans/tabid/104670/Default.aspx

ESS 1 should require borrowers to assess and manage (a) the climate-related risks facing supported projects and the resilience to climate impacts of those projects; and (b) the impacts they will have on the resilience of local communities and ecosystems.

2.1 Paragraph 35 requires environmental and social assessments to consider "adaptation and resilience issues…." In order to assess the development impacts of a project under various potential climate scenarios, Paragraphs 26 and 35 should require borrowers to assess two types of climate-related risks.

2.2 **First**, borrowers should assess the risks a changing climate pose to their project.[9] This should include how issues such as water stress, vulnerability to severe weather events, effects of increasing temperature (on crops, for example), sea-level rise, and other impacts of climate change will affect the viability and development impacts of their projects.

2.3 Borrowers should also assess the business risks (how their business plans are likely to be altered if climate change affects the local/regional economy and resource base) and regulatory risks (how their operations are likely to be affected by potential regulatory responses to climate change such as carbon-pricing schemes or more stringent efficiency requirements) of a changing climate. Importantly, this need to assess climate risks and resilience is not limited to long-lived projects; it also is relevant to other projects--such as those in agricultural areas--that may be significantly affected by climate change.

2.4 **Second**, Paragraphs 26 and 35 should also direct borrowers to assess the ways in which their projects and programs may affect the ability of host communities and ecosystems to adapt to climactic changes. For example, a sponsor of a project that would affect an intact forest ecosystem should assess the impacts on the resilience of that ecosystem to climactic changes, and on its capacity to provide ecosystem services to local communities. This assessment should consider the cumulative effects that the project and other existing and future projects may have on climate resiliency.[10]

2.5 ESS1 should require borrowers to consider these potential adaptation risks and impacts across a range of potential climate change scenarios (e.g., low, medium, and high).[11] As the Bank's Office of Chief Economist has explained, traditional assessment and planning tools may not be sufficient to manage these kinds of risks effectively. Because historical weather patterns may no longer be a reliable guide to future conditions, and it may not be possible to assign probabilities to various climate scenarios, the analysis of project alternatives must be conducted under conditions of "deep uncertainty".[12]

2.6 To address this uncertainty, the Office of the Chief Economist has proposed a menu of planning and assessment tools that can better ensure that projects achieve attractive development

[9] See, International Association for Impact Analysis, 2012. *Climate Change in Impact Assessment: International Bet Practice Principles.*
[10] *Id.*
[11] *Id.*
[12] Hellegate, et. al 2012. *Investment Decision Making Under Deep Uncertainty Application to Climate Change*, (World Bank, Office of the Chief Economist). Available at http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-6193

outcomes and minimize risks under a range of climate scenarios. They advocate moving away from decision-making processes that focus on identifying one "optimal" alternative, in favor of ones that aim to identify choices that will be robust under a range of climate scenarios. Such "robust decision processes" are designed to (a) identify the vulnerabilities of a proposal and its alternatives to a range of performance criteria and risks; (b) identify a set of "plausible futures," and evaluate the performance of each alternative under each future; and (c) identify which plans are robust to the futures deemed likely or otherwise important to consider.[13]

2.7 Robust approaches to decision-making in the face of climate uncertainty include:

(a) **No-regret strategies** that will yield strong benefits even if initial assumptions about climactic conditions prove to be in error;
(b) **Reversible and flexible strategies** that allow for course correction to address erroneous climate forecasts;
(c) **Safety margin strategies** that build in extra protections to reduce vulnerability; and
(d) **Strategies to reduce investment time horizons** to avoid long-term commitments to maladaptive investments.[14]

2.8 Critically, such processes require effective public consultation. As the Office of the Chief Economist noted, they "demand a process of dialogue to determine which project vulnerabilities to consider, which performance metrics suggest success, acceptable levels of risk, and which possible scenarios to evaluate. The stakeholder process is an opportunity to further fortify the project against uncertainty, as a variety of viewpoints and concerns can simultaneously be addressed in distinct scenarios."[15]

3. Expand the Repertoire of Planning and Assessment Tools to Reduce Emissions

ESS 1 should require the use of transparent planning and assessment tools such as Integrated Resource Planning and full life-cycle accounting to ensure that the Bank's activities are as low-cost, low-carbon, pro-poor, and sustainable as possible.

3.1 Annex I(A)(5) sets out a list of tools for Borrowers to use to conduct environmental and social impacts. However, this list does not include well-proven tools such as integrated resource planning and full life-cycle accounting of environmental and social externalities, including accounting of greenhouse gases and short-lived climate pollutants.

3.2 *Integrated Resource Planning (IRP):* An Integrated Resource Plan is a strategic tool to evaluate and rank all options for delivering utility services—including all end-use efficiency and distributed generation approaches—according to comprehensive assessments of cost and risk. It facilitates transparency and stakeholder engagement around decisions that otherwise are limited

[13] Id., at 11; Kalra, et. al (2014). *Agreeing on Robust Decisions New Processes for Decision Making Under Deep Uncertainty*, (World Bank, Office of Chief Economist). Available at http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-6906.
[14] Hellegate, et. al 2012. *Investment Decision Making Under Deep Uncertainty Application to Climate Change*, (World Bank, Office of the Chief Economist), at 16-17. Available at http://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-6193
[15] *Id*., at 12.

to specific project proposals (usually supply options); enables fuller consideration of environmental and social costs; and reduces corruption and harmful subsidies. It also facilitates the use of a utility's lower cost of capital and earnings-on-capital requirements in comparing competitive end-use and distributed efficiency gains with supply options.[16]

3.3 IRP is a critical up-stream planning tool for achieving the greenhouse gas, energy, and water efficiency objectives expressed in ESS 3. To fully capture the benefits of IRP assessments, IRPs should be used to 1) identify all end-use delivered services the project will provide; 2) identify the costs of improving the end-use efficiencies; 3) incorporate all end-use efficiency options into the project that have a delivered cost up to the cost of expanding new generating supply (including transmission and distribution costs and risk-adjusted costs for externalities like emissions and price volatility of fuels and water requirements); and 4) develop programs to use their low-cost capital to finance these efficiency gains for their customers.

3.4 The Bank should require clients to develop integrated resource plans when considering utility sector projects, and use them to design interventions that promote the best resource allocation to meet demand. ***To advance the objectives of ESS 3, the revised ESS 1 should make clear that the Bank will not support energy or water supply expansion projects unless it is shown through an IRP process to be the most advantageous service delivery option.***

3.5 *Full Life-Cycle Accounting of Environmental and Social Externalities, Including Accounting of Greenhouse Gases and Short-lived Climate Pollutants:* Full life-cycle accounting is essential to better account for the externalized costs and risks of proposed projects, and to better ensure that the World Bank's investments are as low-carbon, pro-poor, and sustainable as possible. Accordingly, Paragraph 22 should specify that appraisal methodologies will internalize the full life-cycle social and environmental costs of proposed projects and alternatives (including demand-side management alternatives), to identify options with the greatest overall benefits. While the other environmental and social safeguards should eliminate many externalized costs, they should explicitly complement, not displace, a full-cost analysis for all projects.

3.6 Full cost accounting should include the environmental and social costs of greenhouse gases and short-lived climate pollutants, including those from indirect emissions associated with the project, such as from land-use changes and forest degradation. ESS 1 should require project sponsors to consider a "social cost of carbon/short-lived climate pollutants" for the direct and indirect emissions associated with the project, which should be factored into economic and alternatives analyses. This accounting should be conducted in accordance with internationally recognized methodologies and best practice.[17] The Bank should disclose this information, along

[16] Regulatory Assistance Project. 2005. Clean energy policies for electric and gas utility regulators. *Issues Letters*. January 2005, www.raponline.org/; Morse, D. 2006. *Water Conservation ratemaking disincentives, the case for decoupling sales from revenues*, 28 March 2006.

[17] See e.g., IFC, 2012. *Performance Standard 3*, para. 9. For example, "Measurement, Reporting and Verification" (MRV) developed for REDD+ (Reducing Emissions from Deforestation and Degradation) may serve as a useful model for carbon monitoring and accounting. See, e.g., *GOFC-GOLD, 2012, A sourcebook of methods and procedures for monitoring and reporting anthropogenic greenhouse gas emissions and removals associated with deforestation, gains and losses of carbon stocks in forests remaining forests, and forestation. GOFC-GOLD Report version COP18-1*, (GOFC-GOLD Land Cover Project Office, Wageningen University, The Netherlands). http://www.gofcgold.wur.nl/redd/sourcebook/GOFC-GOLD_Sourcebook.pdf

with the methodologies applied and assumptions used for the supported project or program and the alternatives considered.

Proposed Revisions to ESS 3

4. Strengthen the resource efficiency requirements and require the use of "best available technologies"

ESS 3 should strengthen its resource efficiency requirements to prioritize end-use resource efficiency improvements as a core climate and development strategy, and to require the use of "best available technology".

4.1 As the World Bank's Independent Evaluation Group[18] and numerous other observers have noted, increasing end-use efficiency is the single most important strategy for expanding and improving energy service delivery, while facilitating the transition to sustainable, low-carbon energy systems at least cost and risk.

4.2 Given the extraordinary opportunities for end-use efficiency initiatives to achieve the Bank's development, environmental, and carbon mitigation objectives at least cost and risk, the Bank should prioritize an end-use oriented approach to the delivery of utility services in all of its activities. ***In the utility sector, ESS 3 should preclude support for a project to expand energy or water supply where the same services could be more advantageously delivered through improved end-use efficiency.*** This strategy has already proven effective in prioritizing energy investments through a project 'loading order' where efficiency projects are given first priority, followed in succession by those with the lowest gC/MW impact.[19]

4.3 Outside of the utility sector, ESS 3 should require all resource and energy intensive projects to undertake efficiency audits to identify and capture opportunities for resource use reductions and efficiency improvements.[20]

4.4 ESS 3 should also provide more specific policy guidance regarding acceptable efficiency performance standards for the construction or procurement of buildings, vehicles, appliances, industrial motor systems, lights, and other energy and water consuming devices used in Bank supported projects. In particular, it should create a presumption that clients will use "best available technologies" unless the client can make a compelling case that they are not appropriate to the specific project circumstances.

5. Fully apply the "mitigation hierarchy" to resource efficiency and greenhouse gas emissions.

[18] Independent Evaluation Group, 2009. *Climate Change and the World Bank Group. Phase I: An Evaluation of World Bank Win-Win Energy Policy Reforms*. Washington, DC: World Bank.
[19] *Implementing California's Loading Order for Electricity Resources.* (2005). California Energy Commission, CEC-400-2005-043 http://www.energy.ca.gov/2005publications/CEC-400-2005-043/CEC-400-2005-043.PDF
[20] EBRD supports such energy efficiency efforts through its Sustainable Energy Initiative. http://www.ebrd.com/downloads/research/factsheets/industriale.pdf

The Safeguard policies should fully apply the "mitigation hierarchy" to issues of resource efficiency, water and energy use, and emissions of air pollutants.

5.1 ESS 1 makes clear that borrowers are expected to apply a mitigation hierarchy that looks first to anticipating and avoiding risks and impacts. Where avoidance is not possible, risks and impacts must be minimized, residual risks and impacts be mitigated, and unmitigated risks and impacts must be compensated or offset. (ESS 1, paragraph 25). Under ESS 1, offsets are only required where financially and technically feasible. (*Id.*)

5.2 Resource efficiency measures are a frontline avoidance strategy. They minimize adverse impacts associated with activities across the entire production chain: they avoid impacts upstream by reducing resource inputs, and downstream by reducing wastes and pollutants.

5.3 In accordance with ESS 1, then, resource efficiency measures should be prioritized at the top of the mitigation hierarchy with other avoidance strategies. Borrowers should be expected to apply efficiency measures along with other avoidance measures wherever possible, and undertake efforts to minimize, restore, or offset impacts only where such avoidance is not possible.

5.4 ESS 3, however, applies a diluted version of the mitigation hierarchy to resource efficiency and pollution prevention measures. **First**, rather than treating efficiency measures as a core avoidance tool that should be implemented wherever possible under ESS 1, ESS 3 requires that they only be implemented where "technically and financially feasible." (Para. 6).[21] This is odd, since ESS 3 purports to apply "in accordance with the mitigation hierarchy." (Para. 4). Instead of limiting efficiency requirements in the same way as offsets—and thus functionally putting them at the bottom of the mitigation hierarchy—ESS 3 should make clear that efficiency will be prioritized within the mitigation hierarchy along with other avoidance strategies, and that feasibility considerations of efficiency measures will be evaluated no differently than other avoidance strategies.

5.5 **Second,** ESS 3 applies an even weaker standard to other measures to control air pollution, including greenhouse gas emissions. It only requires borrowers to implement "technically and financial feasible and cost effective options" to reduce air pollution. (Para. 15). This amounts to an air pollution exception to the mitigation hierarchy. Paragraph 15 therefore should be amended to clarify that the mitigation hierarchy will fully apply to air pollution, including greenhouse gas emissions.

[21] Moreover, since "feasible" is defined as "capable of being done or carried out", it is not entirely clear what distinction the *Consultation Draft* is trying to draw between actions that are "possible" and those that are "technically and financially feasible". But because the mitigation hierarchy uses the distinction to limit the applicability of the offset requirement, it is clear that it intends "technical and financial feasibility" to apply to a narrower set of circumstances.