



## Recommendations for Strengthening Consideration of Climate Change in the World Bank Safeguard Policies

April 2013

According to World Bank President Dr. Jim Yong Kim, “the lack of action on climate change not only risks putting prosperity out of reach of millions of people in the developing world, it threatens to roll back decades of sustainable development.”<sup>1</sup> Thorough consideration of climate change in all aspects of Bank operations will allow the institution to remain effective and competitive as an agent against poverty.

The Bank has highlighted climate change as one of the key emerging areas for the safeguard review process.<sup>2</sup> While the safeguard policies alone will not cover all of the Bank’s aspirations regarding climate change, they can provide vital building blocks toward successful achievement of mitigation and adaptation goals. The Bank’s Strategic Framework for Development and Climate Change outlines several key action areas for the institution. It encourages the Bank to, among other things, “support climate actions in country-led development processes” and “step up policy research, knowledge, and capacity building.”<sup>3</sup> If implemented properly, safeguards can aid implementation of these actions by: informing investment decisions early in the project cycle, illustrating alternatives, and support efficient project implementation.

The following recommendations regarding climate change mitigation and adaptation have been compiled by a number of experts at the World Resources Institute. They are accompanied by an additional submission related to the general architecture of safeguards.<sup>4</sup>

### 1. CLIMATE CHANGE MITIGATION

A first step in making the World Bank more sensitive to climate change is to understand the level of GHG emissions associated with the Bank’s investments. The safeguard review process provides an opportunity for this vision to be made into reality. WRI recommends that the Bank structures its safeguard policy to:

1. Measure and report absolute GHG emissions from each individual investments, as well as emission reductions or increases relative to a baseline scenario for each individual investment in high-emitting sectors such as energy and transport.
2. Plan and implement projects in a manner that avoids or reduces GHG emissions.

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<sup>1</sup> World Bank. 2012. *Turn Down the Heat: Why a 4 Degree Warmer World must be Avoided*, p. ix.

<sup>2</sup> World Bank. 2012. *The World Bank’s Safeguard Policies Proposed Review and Update Approach Paper*, para. 35.

<sup>3</sup> World Bank. 2008. *Development and Climate Change: A Strategic Framework for the World Bank Group*, p. 12.

<sup>4</sup> The additional submission, entitled “Recommendations for Balancing Ownership and Accountability for Effective Safeguard Implementation” is based on the WRI working paper “[Striking the Balance: Ownership and Accountability in Social and Environmental Safeguards.](#)”

### *Measuring Emissions from Individual Projects*

We understand that the Bank has started to pilot approaches to measuring GHG emissions in key sectors as required under the Environment Strategy for 2012-2022.<sup>5</sup> Solidifying this commitment in the safeguard policies can help provide further clarity and guidance to operational staff.

Safeguard policies should require, for instance, that the Bank carry out GHG assessments before implementation of individual projects that emit over a specified threshold (such as 25,000 metric tonnes CO<sub>2</sub>e per year, as designated in the IFC Performance Standards). The assessment of emissions should occur in a timely manner, well before a final decision on whether the project should be supported has been made, so that lower-GHG alternatives and GHG efficiency improvements can be identified and incorporated as appropriate. After absolute emissions have been calculated, net GHG emissions can be estimated for investments that reduce or avoid GHG emissions relative to the next best alternative or another appropriate baseline.

Project-level accounting should include both *direct* and *indirect* emissions. *Direct emissions* include the direct impact of Bank's investment, such as the effects of a mining or infrastructure investment. *Indirect emissions* should include both any electricity purchased to implement the project (so-called scope 2 emissions), as well as significant emissions resulting from use of the infrastructure or product resulting from the project (scope 3).

Assessing individual projects will allow the Bank to aggregate this information to the portfolio level. This, in turn, will help the Bank and relevant stakeholders understand the effects of its investments on the global effort to mitigate climate change. Disclosure of portfolio-wide emissions should occur regularly.

We recognize that the current safeguard review only covers policies that apply to project loans. While this constitutes an important first step toward integrating climate change into the Bank's social and environmental policies, the Bank will benefit from eventually applying similar standards to other types of investments as well.

### *Reducing Emissions*

In addition to calculating emissions, Bank safeguards can help ensure that projects are designed and implemented in a manner that helps to mitigate climate change. One method for helping to ensure support for climate change mitigation is to put in place specific requirements for sectors or project types. While the details of these requirements may be elaborated in guidelines, the safeguard policies can lay out the basic obligations. Best available technology requirements can sometimes be effective for select sectors<sup>6</sup> and support technology transfer to developing nations.

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<sup>5</sup> World Bank. 2012. *Toward a Green, Clean, and Resilient World for All A World Bank Group Environment Strategy 2012 – 2022*, p. 63.

<sup>6</sup> References are available to help determine best available technology, including in the EU Best Available Techniques reference documents (BREFs) and guidance from the United States Environmental Protection Agency. Care should be taken to ensure that technologies are appropriate for the circumstances.

## *Incentivizing and Supporting Emission Reductions*

We understand that imposing emission reduction requirements could be experienced as burdensome by borrowing governments tasked with managing economic, social and environmental objectives. We also recognize that adding safeguard requirements related to climate change may be received by some as yet another way of imposing conditionalities on financing strategies, programs and projects. However, given the latest science<sup>7</sup> many countries are developing national climate change strategies to address mitigation and adaptation in their national development plans. These present opportunities to engage countries on the benefits of weighing the risks associated with climate change before investment decisions, especially in fragile states and in the most vulnerable regions, are made.

In order to help ensure that the borrower experiences efforts to mitigate climate-related as valuable, the Bank can provide technical assistance and other forms of support aimed at building national systems to assess climate impacts. Such support should be provided strategically in collaboration with the recipient country government and other relevant stakeholders. The Bank can also provide positive incentives for borrowers who voluntarily engage in emissions reductions, such as further concessionality or access to climate finance. The IFC's new metrics for energy efficiency in staff scorecards provides another model for positively influencing incentives. Finally, the Bank can conduct and pay for its own emission assessments, similar to those currently conducted by the IFC.<sup>8</sup>

## **2. VULNERABILITY AND ADAPTATION**

Developing countries are already experiencing effects from climate change. According to the Strategic Framework for Development and Climate Change, the “adaptation dimension of the climate change agenda, in particular, is directly linked to the World Bank Group’s mission of fighting poverty and will grow in importance.” The World Bank will benefit significantly from assessing the impact of this change on its investments and on the countries within which it invests. Future investments should support resilience to these changes, particularly among the world’s most vulnerable communities and ecosystems.

The World Bank has committed to reducing vulnerability to climate change and supporting resilience. In the Strategic Framework the Bank commits to providing “financial and technical assistance to managing climate risks, especially focusing on those countries that are lacking capacities and infrastructure to deal with present climate variability, as can be witnessed by their vulnerability to floods, droughts, and hurricanes.”<sup>9</sup> In the Environment Strategy for 2012-2022 the Bank promises to continue “to work with development partners and the private sector to help countries reduce their

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<sup>7</sup> See Potsdam Institute for Climate Impact Research and Climate Analytics. 2012. *Turning Down the Heat: Why a 4°C Warmer World Must be Avoided* (commissioned by the World Bank).

<sup>8</sup> See International Finance Corporation, Carbon Emissions Estimator Tool (CEET) spreadsheet-based tool.

<sup>9</sup> World Bank. 2008. *Development and Climate Change: A Strategic Framework for the World Bank Group*, p. 7.

vulnerability to climate risks.”<sup>10</sup> The safeguards review provides an opportunity to turn these commitments into Bank policy.

To fully incorporate vulnerability and adaptation in the World Bank safeguards, the new safeguards should include a process to:

- A. screen investments for their impact on vulnerable; and
- B. prevent investments in projects that can be maladaptive.

The original safeguards were meant to identify and minimize harms to people and the environment. In today’s world, such harm is compounded by climate change. Although the precise effects of climate change remain uncertain, it is possible to identify which part of society or group of people is more vulnerable. Investments have the potential to both reduce and increase the vulnerability of people and their resilience to change. World Bank safeguards should focus on screening investments for their effect on vulnerable communities and the environmental resources they depend upon.

To ensure that the commitment to reducing vulnerability is engrained in safeguard standards, the World Bank should ensure that the safeguard process helps staff identify investments that are maladaptive. This requires a screening process that entails analysis of the climate risk to both a) the success of the investment itself and b) the wellbeing of people and ecosystems. The aim is to prevent investments that set society on a pathway toward greater climate vulnerabilities in the future. An investment is considered to be maladaptive if it meets one or more of the following criteria:

- The investment ceases to perform its intended function due to changes in the environment that are caused by climate change. An example of this is a hydroelectric dam that ceases to function due to a lack of water in the reservoir caused by climate change driven droughts.
- The investment increases the costs of adaptation to climate change for people who are either directly or indirectly impacted by the investment. An example includes an investment in tourism infrastructure too close to the shore, which in due time is either lost or needs added protection against sea level rise.
- Investments that limit options or reduce flexibility of societies to adapt to climate change. Examples include investment in water dependent crops in areas with increasing droughts.

Several climate risk screening tools have been or are under development that could assist with evaluating projects against some of the above criteria.<sup>11</sup> Work on integrating adaptation to climate change into impact assessments is also emerging.<sup>12</sup> The

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<sup>10</sup> World Bank. 2012. *Toward a Green, Clean, and Resilient World for All A World Bank Group Environment Strategy 2012 – 2022*, p. 4.

<sup>11</sup> See, for example, the African Development Bank’s new climate safeguard, including the [Climate Screening and Adaptation Review & Evaluation Procedures](#).

<sup>12</sup> See Agrawala S., A. Matus Kramer, G. Prudent-Richard and M. Sainsbury. 2010. “Incorporating Climate Change Impacts and Adaptation in Environmental Impact Assessments: Opportunities and Challenges,” OECD Environmental Working Paper No. 24, OECD Publishing.

assessment should be carried-out in full cooperation with communities that depend on resources that might be impacted.

Investing in robust projects is only one of the components of an adaptive society. Another component is adaptive institutions that are able to respond to observed changes in the environment and adjust development pathways based on new insights and lessons learned. Analysis of the adaptive capacity of institutions and societies should be an integral part of project design. Safeguard standards should hinder investments in projects that restrict the adaptive capacity of institutions.

*For further information on climate change mitigation and adaptation see, for instance:*

- H.McGray, J. Gonzales, and M. Desmond. 2012. *Ready or Not: Assessing Institutions Aspects of National Capacity for Climate Change Adaptation*, [http://pdf.wri.org/ready\\_or\\_not.pdf](http://pdf.wri.org/ready_or_not.pdf)
- World Resources Report. 2010. *World Resources Report 2010-2011: Decision Making in a Changing Climate*, [www.worldresourcesreport.org/wrr-2010-2011](http://www.worldresourcesreport.org/wrr-2010-2011)
- World Resources Institute. 2012. *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting and Standards*, <http://www.ghgprotocol.org/standards/scope-3-standard>
- World Resources Institute, *The GHG Protocol for Project Accounting*, <http://www.ghgprotocol.org/standards/project-protocol>
- World Resources Institute, *Financial Sector Guidance for Corporate Value Chain (Scope 3) Accounting and Reporting* (forthcoming), <http://www.ghgprotocol.org/feature/financial-sector-guidance-corporate-value-chain-scope-3-accounting-and-reporting>
- *Mitigation Accounting* (forthcoming), <http://www.ghgprotocol.org/mitigation-accounting>