SUSTAINABLE DEVELOPMENT IN A CHANGING CLIMATE: DESIGNING A CLIMATE SENSITIVE SAFEGUARD POLICY FRAMEWORK

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Introduction

The World Bank has recognized that "[g]lobal efforts to overcome poverty and advance development can no longer ignore an urgent need of addressing global climate change."[1] Therefore, as Dr. Kim stated in the Bank's recent *Turn Down the Heat* report, the challenge for the Bank is "ensuring all [its] work, all [its] thinking, is designed with the threat of a 4°C degree world in mind." Towards this end, the Bank has taken some important steps to make its operations more climate sensitive and resilient, including adopting the *Strategic Framework on Development and Climate Change* (2008), and agreeing to integrate reduction of near-term climate pollution into its activities as part of the Climate and Clean Air Coalition.[2]

Like many institutions, the Bank has not yet fully integrated climate issues into its operational policies. Most notably, the current Safeguard Policy framework does not adequately address the challenges a changing climate presents to client governments, affected communities, local ecosystems and the global commons. At present, the Bank lags behind other financial institutions that have gone further to integrate climate-related issues into their environmental and social policies, including the Inter-American Development Bank, the Asian Development Bank, the International Finance Corporation and many bilateral and private-sector actors.

The Safeguard Policy Review presents an important opportunity for the Bank to adopt best practices for promoting climate sensitive and resilient development in its operational policies. As a guiding principle, the Bank should recognize that the goals of climate sensitivity and resilience need not be in tension with its mandate to alleviate poverty in an environmentally responsible

[1] World Bank, 2008. *Development and Climate Change: A Strategic Framework for the World Bank Group*, at 6.
[2] Fact Sheet: G-8 Action on Energy and Climate Change (Camp David, USA, 19 May 2012); http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSDNET/0,,contentMDK:23180642~menuPK:64885113~pagePK:7278667~piPK:64911824~theSitePK:5929282,00.html .

manner. Ample opportunities exist for the Bank to support projects that capture synergies among these objectives. ***Therefore, in accordance with the Bank's new Environment Strategy, the Safeguard Policy should narrowly focus the Bank's efforts on systematically identifying and capturing these synergies, and should preclude support for activities with significant tradeoffs until these synergies are fully exploited.***[3]

To realize the opportunities, the *Safeguard Policy* framework should incorporate best practice approaches to project selection, appraisal, and alternatives assessment that fully account for the costs and risks of climate change. Specifically, the revised *Safeguard Policy* framework should:

1. Expand the Repertoire of Planning and Assessment Tools;
2. Prioritize end-use efficiency;
3. Promote Climate Resilience;
4. Strengthen the "mitigation hierarchy";
5. Require the use of "best available technologies";
6. Refuse to support projects that produce hydroflourocarbons; and
7. Address the problem of subsidies and poor regulatory environments

Discussion

1. Expand the Repertoire of Planning and Assessment Tools

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

1.1 The current safeguards do not adequately employ long-term planning and comprehensive alternative assessment tools to identify the best options to address sustainable development and reduce carbon emissions.

1.2 The revised *Safeguard Policies* should address these shortcomings in two ways. First, they should make clear that the Bank will support and use country-led strategic planning processes to enhance the evaluation of options and alternatives for all projects and programs. Second, they should require clients to use these evaluation and planning tools to ensure that Bank-supported initiatives are the best options to achieve its sustainable development objectives.

1.3 Specifically, the revised *Safeguard Policies* should incorporate seven planning tools to align the use of its resources with its strategic objectives: (1) integrated resource planning; (2) full life-cycle accounting of environmental and social externalities; (3) greenhouse gas accounting; (4) low-carbon development strategies and nationally appropriate mitigation actions

[3] 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.")

(NAMAs); (5) national REDD+ strategies; (6) national adaptation plans; and (7) national action plans to reduce short-lived climate pollutants.

1.4 *Integrated Resource Planning (IRP):* An Integrated Resource Plan is a 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 to supply options; enables fuller consideration of environmental and social costs; and reduces corruption and 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.[4]

1.5 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.

1.6 The Bank should require clients to develop integrated resource plans when considering utility supply expansion projects, and use them to design interventions that promote the optimal resource allocation to meet demand. ***The revised Safeguards Policies 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.***

1.7 *Full Life-Cycle Accounting of Environmental and Social Externalities:* 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, the *Environmental Assessment* Policy's appraisal methodologies should 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.[5] 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.

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[4] 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.

[5] For example, for traditional large-scale, fossil fuel investments, these would include: the costs associated with price volatility of fossil fuel, water, and other resource inputs; the opportunity costs of public subsidies; the risks of disruption of energy supplies; the costs and risks of oil spills, toxic contamination, acid rain, urban air quality health impacts, and other environmental impacts; the climate impacts of carbon dioxide emissions; and the opportunity costs of the "lock in" effects of promoting existing technological pathways that may inhibit the development and deployment of superior technologies. Conversely, the intangible public benefits of investments in end-use energy efficiency and on-site and locally distributed renewable energy initiatives may include: increased local employment, improved security and resiliency of electricity systems, the demonstration effects of bringing new technologies on-line, and increased innovation and economies of scale to help eliminate the incremental costs of certain renewable technologies over time.

1.8 *Accounting of greenhouse gases and short-lived climate pollutants:* Full cost accounting should include the environmental and social costs of greenhouse gases and short-lived climate pollutants, including indirect emissions associated with the project, such as from land-use changes and forest degradation. The *Environmental Assessment* Policy should require project sponsors to quantify the direct and indirect emissions associated with the project, both *ex ante* as part of project appraisal and alternatives assessment, and *ex post* as part of project monitoring. This accounting should be conducted in accordance with internationally recognized methodologies and best practice.[6] The Bank should disclose this information, along with the methodologies applied and assumptions used for the supported project or program and the alternatives considered. Costs should be factored into economic and alternatives analyses.

1.9 In order to compare the cost effectiveness of its interventions, the Bank should also use this accounting to calculate the "cost per avoided ton of CO_{2eq}" and "avoided tons of CO_{2eq}/year" for each proposed activity and alternatives. This will help the Bank identify those interventions that can yield the cheapest, fastest climate mitigation impacts, in the context of achieving its other environmental, social, and poverty alleviation objectives.

1.10 *Low-Carbon Development Strategies and NAMAs:* Many developing countries have undertaken strategic planning exercises to guide their transition to lower carbon development pathways and strengthen their resilience to climate change. Indeed, through ESMAP, the World Bank has supported such strategic planning at the national, regional, and sectoral levels.[7] ***Where such plans and strategies have not yet been developed, the Bank should require them as a prerequisite for support for projects in greenhouse gas intensive sectors.***

1.11 Moreover, many developing countries have agreed to develop such plans under the *Cancun Agreements* to the UNFCCC. The *Cancun Agreements* encourage developing countries to produce national low-carbon development strategies to guide their mitigation actions,[8] 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 create a registry to record these NAMAs, with separate sections for those that require international support to be implemented and those that do not.[9]

1.12 As a general principle, the *Safeguard Policies* should respect and internalize the agreements, objectives, standards, and commitments regarding sustainable development and environmental protection that the Bank's Members agree to in other multilateral fora.[10] The

[6] 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

[7] http://www.esmap.org/EASP

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

[9] FCCC/CP/2010/7/Add.1, paras. 48, 54.

[10] IFC's *Performance Standards* have made noteworthy progress in this regard. On issues such as human rights, labor conditions and practices, hazardous waste and toxic pollution, pesticide use, the protection of habitats and

World Bank Group has already recognized that the UNFCCC is the primary venue for the international community to devise modes of global cooperation on climate change, including the provision of financial assistance.[11]

1.13 Therefore, the Bank should respect the primacy of the UNFCCC process by integrating national action plans and NAMAs into its investment decision-making. The Bank should use these country-driven strategies as critical planning tools that reflect a country's particular development priorities and challenges. Thus, the Bank should ensure 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 or NAMAs. Moreover, given its limited funds, and the limited public funds available for climate-sensitive development generally, the Bank should establish a clear framework for prioritizing support for those projects that are contemplated in low-carbon development plans and NAMAs, and that are identified in the registry as needing international support to be implemented. The *Cancun Agreements* anticipate three distinct "baskets" of potential investments:

1. Low-carbon NAMAs that have attractive rates of return and do not need international public support to be implemented.
2. Low-carbon NAMAs that may need catalytic support or carry incremental costs, and will require international support to be implemented.
3. "Business as usual" investments that will not appreciably limit emissions growth.

1.14 The Bank should focus on providing support to projects in the second category, as this is where it can best advance its poverty alleviation, sustainable development and climate mitigation objectives. By contrast, projects in the third category will involve fundamental trade-offs between development and climate mitigation objectives, and the Bank should treat these as inconsistent with its strategic focus on capturing synergies between its strategic objectives.

1.15 *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. Indeed, the World Bank already provides extensive support for REDD+ initiatives through funds such as the Forest Carbon Partnership Facility, Forest Investment Program, and Biocarbon Fund. 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.

1.16 *National Adaptation Plans:* Similar planning efforts are underway with regard to climate resilience and adaptation. National Adaptation Programs of Action are key planning frameworks that almost all Least Developed Countries have developed in order to address urgent and immediate needs for climate adaptation. Similarly, a number of other developing countries have also created their own national adaptation strategies and plans. In the future, many countries are expected to develop new iterations of their adaptation strategies and plans, and National

biological diversity, and the protection of cultural heritage, the *Performance Standards* recognize that international agreements and standards provide authoritative guidance for what its policies should include.

[11] World Bank, *Development and Climate Change: A Strategic Framework for the World Bank Group*, 2, 3 (2008).

Adaptation Plans initiated through the UNFCCC process will provide frameworks for longer-term adaptation strategies, particularly in LDCs. In a number of countries, national trust funds and other mechanisms have also been created or are in development to steer and oversee finance for climate adaptation based on national priorities and strategies. 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. The Bank should also work to ensure that its adaptation and resilience financing is developed and carried out based on meaningful, robust consultation and participation involving civil society and local affected communities.

1.17 *National Action Plans for SLCPs:* Under the aegis of the Climate and Clean Air Coalition (CCAC), many developing countries are developing national action plans to reduce the impacts of short-lived climate pollutants.[12] These action plans will focus on five strategic areas: (1) reducing black carbon emissions from diesel vehicles and engines; (2) reducing black carbon and other pollutants from brick production; (3) reducing SLCPs from municipal solid waste; (4) promoting HFC alternatives and standards; and (5) reducing SLCP from oil and natural gas production.[13] As a partner in the Coalition, the World Bank should promote the development of these plans, and integrate them into its investment decision-making to ensure that its activities are consistent with the national SLCP reduction priorities.

2. Prioritize end-use efficiency

The Safeguard Policies should prioritize end-use resource efficiency improvements as a core climate and development strategy.

2.1 As the World Bank's Independent Evaluation Group[14] 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. From a development perspective, systemic improvements in end-use efficiency can do more, faster, cleaner and at lower (often negative) cost to help countries meet their energy needs, and particularly those of the poor, than any other approach.[15] Investments in end-use energy efficiency can dramatically reduce the capital needed to provide energy services compared with expanding power plants and grids by substantially reducing capital inputs and returning that capital to investors much more quickly.[16] Given that the power sector currently consumes nearly 25 percent of global development capital, an efficiency-oriented approach that so dramatically reduces the capital consumption of the sector has the potential to free up enormous amounts of investment capital for other development purposes.[17]

[12] http://www.unep.org/ccac/Actions/SLCPNationalActionPlans/tabid/104670/Default.aspx
[13] http://www.unep.org/ccac/Actions/tabid/102153/Default.aspx
[14] 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.
[15] Casillas, C. and Kammen, D. M. (2010) "The energy-poverty-climate nexus," *Science*, 330, 1182 – 1182. DOI: 10.1126/science.1197412.
[16] Lovins, *id.*, at 20.
[17] Amory Lovins, 2005. *Energy End-Use Efficiency*, at 20. *available at* www.rmi.org.

2.2 Similarly, from a climate mitigation perspective, end-use efficiency improvements offer the greatest benefits and lowest opportunity costs—they can eliminate by far the most carbon emissions per year and per dollar spent.[18] Indeed, McKinsey Global Institute and others have identified a number of efficiency initiatives that can reduce emissions almost immediately, with very attractive returns on investment and short pay-back periods.[19]

2.3 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. ***The Bank should not support a project to expand energy supply where the same energy 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.[20]

2.4 Outside of the utility sector, the Bank should require <u>all</u> clients to implement measures to improve efficiency in their use of energy, water, and other resources and material inputs.[21] Resource and energy intensive projects should be required to undertake efficiency audits and implement resource reduction and demand-side management strategies to identify and capture opportunities for efficiency improvements.[22] The Bank should also require clients to adopt rigorous efficiency standards for the plant and equipment of the projects it supports. IFC has taken some initial steps to promote efficiency initiatives by its clients, but has also overlooked some important opportunities (see section 4 for more detailed discussion).

3. <u>Promote Climate Resilience</u>

The Safeguard Policies should require project sponsors 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.

3.1 The proper assessment and management of climate-related risks are critical to ensure that supported projects remain viable, deliver their intended development benefits, and continue to "do no harm" as local climactic conditions change over time. Towards this end, the safeguards should require sponsors to assess the climate-related risks of projects and programs, and the

[18] World Bank Independent Evaluation Group, 2008. Climate Change and the World Bank Group, Phase I: An Evaluation of World Bank Win-Win Energy Policy Reforms; UN Secretary General's Advisory Group on Energy and Climate Change, 2010. *Energy for a Sustainable Future*. Amory Lovins, 2005. *Energy End-Use Efficiency*. www.rmi.org.

[19] McKinsey & Company, *Pathways to a Low Carbon Economy. Version 2 of the Global Greenhouse Gas Abatement Cost Curve* (2009)*;* Lovins, *Id.*

[20] *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

[21] IFC, *Performance Standard 3: Resource Efficiency and Pollution Prevention*, para. 6.

[22] EBRD supports such energy efficiency efforts through its Sustainable Energy Initiative. http://www.ebrd.com/downloads/research/factsheets/industriale.pdf

impact they will have on the climate change resilience and adaptive capacity of host communities. To cite one example, sponsors should assess impacts on the resilience of intact forest ecosystems, and on their capacity to provide ecosystem services and benefits that assist local communities in adaptation.

3.2 In order to assess the overall development impacts of a project under various potential climate scenarios, project sponsors should assess how issues such as water stress, vulnerability to severe weather events, effects of increasing temperature (on crops, for example), sea-level rise, glacial melt, and other impacts of climate change will affect the viability and development impacts of their projects, and the ways in which those projects and programs may affect the ability of host communities to adapt to climactic changes. In addition to the development risks, sponsors 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.

3.3 Clients should be required to explicitly document risks and impacts, and avoid, minimize and mitigate them in accordance with the mitigation hierarchy. Towards this end, the outcomes of these assessments should be integrated at the project design stage to facilitate proactive risk management. [23] Where the identified risks and impacts cannot be avoided, the Safeguards should require the client to develop an Action Plan for achieving excellent development outcomes across a range of potential climate scenarios. The Plan should describe the mitigation and performance improvement measures and actions that it will take to minimize and mitigate the identified risks to the project, and the environmental and social risks and impacts on local communities and ecosystems in a changing climate.[24]

4. Strengthen the "mitigation hierarchy"

The Safeguard policies should apply the "mitigation hierarchy" to issues of resource efficiency, energy use, and emissions of greenhouse gases and short-lived climate pollutants, and allow offsets only for emissions that cannot be avoided or reduced.

4.1 The current *Environmental Assessment* policy makes clear that project sponsors are expected to improve implementation by "preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive impacts;" and that preventative measures are favored over mitigatory or compensatory measures.[25]

[23] IFC, *IFC's Policy and Performance Standards on Social and Environmental Sustainability and Policy on Disclosure of Information: Report on the First Three Years of Application*, at 31 (2009).
[24] See, IFC, 2012. *Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts*, paras. 15, 16.
[25] OP 4.01 - *Environmental Assessment*, para. 2.

4.2 In the course of moving from *Safeguards* to *Performance Standards*, IFC strengthened this provision by placing these obligations into the framework of a more explicit and robust "mitigation hierarchy". Thus, IFC employs a "mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks and impacts to workers, Affected Communities, and the environment."[26] A significantly strengthened mitigation hierarchy should be incorporated into the revised *Safeguard Policies*.

4.3 In addition, *Performance Standard 3* also expects clients to implement certain efficiency measures to reduce their energy and resource throughput and greenhouse gas emissions.[27] This is also a welcome innovation. The problem, however, is that PS 3 does not adequately integrate resource efficiency and greenhouse gas emissions into the "mitigation hierarchy." While the mitigation hierarchy requires clients to take actions that are "technically and financially feasible," the resource efficiency, energy use, and greenhouse gas emissions provisions require the client to only implement actions that are "technically and financially feasible *and cost effective*."[28] Thus, clients need only adopt energy and resource efficiency measures that are "expected to provide a risk-rated return on investment at least comparable to the project itself."[29]

4.4 Resource efficiency measures 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. In the context of the mitigation hierarchy, then, improving resource efficiency should be treated as a frontline avoidance strategy, and prioritized at the top of the hierarchy. Clients therefore should be expected to apply efficiency measures along with other avoidance measures wherever technically and financially feasible, and undertake efforts to minimize, restore, or offset impacts only where such avoidance is not possible. Requiring efficiency measures only where they provide an additional profit center for the project sponsor needlessly undermines the mitigation hierarchy, and effectively stands the polluter pays principle on its head. Instead, the Bank should make clear that efficiency will be prioritized within the mitigation hierarchy along with other avoidance strategies, and that cost considerations of efficiency measures will be evaluated no differently than other avoidance strategies.

5. Require the use of "best available technologies"

The *Safeguard Policies* should require the use of "best available technology" to improve efficiency and reduce emissions of greenhouse gases and short-lived climate pollutants.

5.1 The *Safeguard Policies* should 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

[26] IFC, *Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts*; see also, *Performance Standard 3: Resource Efficiency and Pollution Prevention*, para 12.
[27] *Performance Standard 3: Resource Efficiency and Pollution Prevention*, paras. 6-7.
[28] *Performance Standard 3: Resource Efficiency and Pollution Prevention*, paras. 4, 6-7.
[29] *Performance Standard 3: Resource Efficiency and Pollution Prevention*, footnote 5.

devices. 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.[30]

6. Refuse to support projects that produce hydroflourocarbons

The *Safeguard Policies* should preclude support for projects that produce hydroflourocarbons, and should require clients that use them to quantify their use and use substitutes, where available.

7. Address the problem of subsidies and poor regulatory environments

The *Safeguard Policies* should include criteria to prioritize support for low-carbon initiatives and improved end-use resource efficiency where regulatory regimes and/or market distortions incentivize throughput and investments in fossil fuel-based supply expansion.

7.1 Government regulations and policies can have a profound effect on the degree to which the Bank's clients seek (or are able) to maximize end-use resource efficiency, and otherwise minimize greenhouse gas emissions and climate impacts. The Bank must determine how to meet its sustainable development, climate mitigation, and resource efficiency objectives where bad policies, inappropriate subsidies, and perverse incentives externalize the environmental and social costs of fossil fuel based energy, and obscure its cost premium over end-use oriented service delivery.

7.2 The current *Environmental Assessment* policy requires an assessment of the "country's overall policy framework."[31] It should be strengthened to require the Bank and its clients to assess how subsidies and regulations may impede the Bank from achieving its sustainable development and climate mitigation objectives. It should provide clear policy direction regarding how the regulatory landscape should be assessed and how the outcomes of those assessments should be factored into project decision-making. In particular, it should provide guidance as to what kinds of projects may or may not merit support given identified shortcomings in the regulatory and policy framework, and how better regulations should be considered as an alternative to a proposed project.

[30] There is ample precedent for the Bank to be much clearer in articulating the kinds of technologies that it expects clients to employ or produce from within World Bank Group policies. For example, IFC's Perfromance Standard 3 specifies appropriate techniques for pest control, and excludes the manufacture, trade or use of persistent organic pollutants, ozone depleting chemicals, and particularly dangerous classes of pesticides. (*Performance Standard 3*, paras. 15-19). IFC's exclusion list also specifies technologies and processes that are not eligible for support.

[31] OP 4.01, *Environmental Assessment*, para. 3.