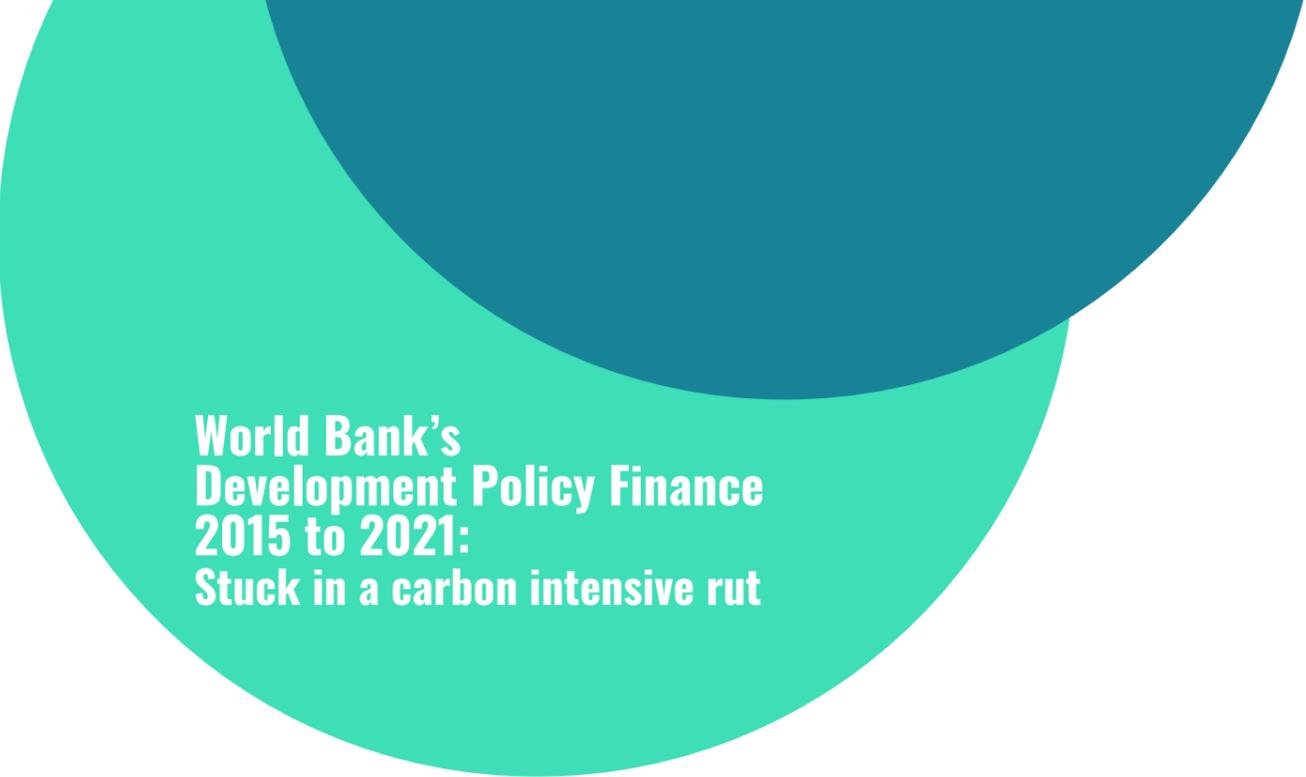


World Bank's Development Policy Finance 2015 to 2021: Stuck in a carbon intensive rut

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World Bank's Development Policy Finance 2015 to 2021: Stuck in a carbon intensive rut

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CASE STUDIES OF DEVELOPMENT POLICY FINANCE IN INDONESIA AND PAKISTAN

Introduction

Development Policy Finance (DPF) in Indonesia and Pakistan portrays the World Bank's particular emphasis on accelerating the use of natural gas and how it supports fragile energy sectors that are heavily invested in coal.

The World Bank's DPF Retrospective July 2015 to July 2021 asks how effective World Bank DPFs have been in supporting countries to achieve their development goals. This report responds to that question with a focus on climate related reforms.

These case studies demonstrate how DPF can influence investment decisions towards either carbon-intensive development, such as gas or coal, or low-carbon development. Worryingly, the World Bank's 2021 Climate Action Plan¹ still identifies gas as a transition or "bridging fuel" and is proactively promoting gas through its lending instruments and advisory services including DPF, Project for Results (P4Rs) and Technical Assistance (ASAs).

This is deja-vu for the World Bank – just ten years ago the World Bank was actively promoting coal in Indonesia and today the World Bank seems to be falling into the same carbon-intensive trap with natural gas. The Indonesia case study examines a World Bank \$500m Sustainable and Inclusive Energy Development Policy Loan (DPL)² to Indonesia which specifically facilitated the expansion of natural gas in Indonesia through its prior actions (or reforms/conditionalities).

This has locked Indonesia into high carbon gas policy and infrastructure and thereby squeezed out the potential for the rapid

expansion of renewable energy in the energy mix.

It calls into question a proposed World Bank Policy Based Guarantee Loan to the state-owned energy company, PTPerusahaan Listrik Negara (PLN), which in spite of pledges to decarbonise still intends to build 35 more coal-fired power stations before 2023.

Civil society groups in Indonesia question how and why the World Bank advocates for gas when the opportunity is ripe to finance and support the rapid uptake of sustainable renewable energy, in line with Indonesia's objective of reaching 23 percent of generation from renewables by 2025.³

In Pakistan the case study observes how DPF can have unintended consequences, even when ostensibly it is seeking to support a renewable energy transition. The \$400 million Pakistan Program for Affordable and Clean Energy (PACE)⁴ focuses on measures to support the country's transition to low-carbon energy.⁵ This loan was dependent on a prior action that required a commitment from the Pakistan government to transition to 66% renewable energy by 2030 through the adoption of a least cost generation plan (IGCEP)⁶

The World Bank sought to speed up the approval of this plan, which resulted in targets on renewable energy sources being slashed from 30- 33% of the energy mix to 17%. Today the energy plan includes the "commissioning of a portfolio of new generation projects including many hydropower projects, Thar coal-based projects, K-3 nuclear power plant, and over 4,000MW of solar and wind-based renewable energy projects".⁷

World Bank DPF in Indonesia and Pakistan is continuing to finance fossil fuels and unsustainable energy models by default through energy sector stabilisation and reforms.

INDONESIA

How World Bank Development Policy Finance supports accelerates fossil fuels in Indonesia

Indonesia is the world's 10th largest economy and a member of the G20, but despite being classified as an emerging middle-income country, poverty, inequality and vulnerability remain in the country. With high exposure to climate change and natural disasters, existing infrastructure is not sufficiently resilient, especially in high vulnerability cities. Indonesia has a high concentration of people and assets in areas exposed to climate change and natural disasters. It is therefore critical that the investment incentives and governance reforms embodied in the World Bank's Development Policy Finance (DPF) in Indonesia specifically tackles carbon emissions and prioritises low-carbon development.⁸

In 2017, Recourse and Greenpeace Indonesia studied the impact of DPF in Indonesia and found that it significantly accelerated the use of coal and gas in the country. This case study shows that DPF is continuing to support coal development through its bailout budget support for the state-owned energy company, PTPerusahaan Listrik Negara (PLN) as well as providing a significant technical assistance for the acceleration of the development of natural gas.⁹

“Indonesian citizens currently need more access to clean energy that does not harm the environment and is affordable to all. This cannot be achieved by using gas which is destructive, costly, and dependent on subsidies. More importantly, emissions from any future gas extraction facilities in addition to the increase of gas consumption are an undeniable threat to the 1.5 C climate target.”

- Andri Prasetyo, Trend Asia, Indonesia

How has the World Bank's DPF supported coal in Indonesia?

Mega Coal Project – the Central Java Coal Power Plant

Recourse and Greenpeace Indonesia's 2017 research into the World Bank's Infrastructure-DPL (I-DPL)¹⁰ programme¹¹ showed how it was the driver behind the Central Java Coal Power Plant, a 2,000 MW coal-fired plant in Batang built in 2016¹². The World Bank selected this as one of the “model” projects of the Private-Public Partnership investment framework implemented under its I-DPL program¹³. From 2008 to 2011, the World Bank's private sector arm, the International Finance Corporation (IFC), was the Transaction Advisor to Indonesia's state power company, PLN, and in this role prepared and promoted the project to investors and in turn secured the coal plant's finance.

In October 2011 this was the first project to receive a government guarantee of \$33.9 million from the Indonesian Infrastructure Guarantee Fund (IIGF), which was established under the I-DPL and partly funded by the World Bank. Note that this occurred just two years before the World Bank's Energy Directions Paper affirmed it would “only in rare circumstances” provide financial support for new greenfield coal power generation projects.¹⁴ The “model” PPP project was and is strongly opposed by thousands of local

residents who have protested against how the coal plant harms the environment and threatens their livelihoods. This infrastructure project has been finished but at end 2021 cannot operate because the Java-Bali grid is facing a major oversupply of almost 50%.

The World Bank has developed a partnership with Indonesia over six decades and

is now one of the Bank's most significant partners in terms of lending, knowledge services and implementation support.¹⁵ As a privileged partner, including in the energy sector, the World Bank must ensure a transition to sustainable renewable energy and stop supporting coal through the backdoor.

2021 - a cosy and costly relationship with coal

The PLN's exposure to coal

In May 2021 the the state-owned energy company, PTPerusahaan Listrik Negara (PLN) CEO announced a moratorium on new coal plants from 2023, stating that 1,500 TWh of new electricity required between now and 2060 (five times the current electricity demand in the country) must come from renewables.¹⁶ However, the PLN also announced that coal-fired power stations that were already financed and under construction would continue to be built until 2023. In total 20 GW of additional power generating capacity will come from coal-fired power stations, plus an additional 13 GW from gas-fired power stations.¹⁷ The energy ministry's new plan also extends the life of PLN's coal-fired power fleet by switching to biomass co-firing.¹⁸

Within these plans lie the Java 9 and 10 coal-fired plants proposed as an extension to the existing Banten Suralaya power station, a 4,025-megawatt (MW) coal-fired power complex in Banten Province, Indonesia. In July 2020, KEB Hana Korea Bank joined its subsidiary Hana Bank Indonesia and other lenders in providing a \$2.6 billion debt facility for the Java 9 and 10.¹⁹ The World Bank's private sector arm, the International Finance Corporation (IFC) has a long and deep history with the Hana Financial Group²⁰ of which Hana Indonesia is a part, stretching back over 50 years. In its most recent engagement in 2019, IFC provided a \$15.36 equity investment in Hana Indonesia and selected this investment to pilot its Green Equity Approach (GEA).²¹ The following year, Hana Indonesia backed the Java 9 and 10 projects, in a violation of the spirit of the GEA. As the owner of nearly 10% equity in Hana Indonesia, IFC should be using the GEA to work with the bank to exit coal and direct its investments to more sustainable solutions.²²

The Indonesian government continues to find other ways to perpetuate gas: a November 2020 presidential regulation features coal gasification on a “priority” investment list, which includes incentives such as tax allowances or tax breaks.²³ The \$2 billion project in Sumatra for the construction of a coal gasification plant to produce methanol and subsequently dimethyl ether (DME) is considered by the Indonesian Government to be a nationally strategic project. Downstream coal processing includes methods of transforming coal into different products, in this case into DME as an alternative to LPG, commonly used for cooking.

Finally, the latest mineral and coal mining law (UU No 3 2020) sees Indonesia's coal production increasing. In 2021, Indonesia is setting a target of 625 million tonnes of coal production, which is the highest in history. Indonesia's coal is mostly exported to India and China with exports reaching over 160 million tons in 2020.

The World Bank's 2022 planned Policy Based Guarantee for the Financial Stabilisation and Reform Project of \$200 million²⁴(of a total project cost of \$750m) will support PLN. This guarantee cannot avoid supporting the PLN's intention to construct 35 more coal fired power stations before 2025, and its objectives to expand downstream coal processing (including the gasification of coal) and biomass co-firing of coal-fired power stations.

The World Bank is also proposing Program for Results (PforR) financing for energy sector reform, including pricing, planning and regulatory reforms that incentivise energy transition, private investments and support for the PLN, but to be effective this energy transition must avoid tying the energy system into gas and coal infrastructure into the future. This PforR would potentially be followed by a further Project-Based Guarantee

to the PLN to address its current precarious cash position. Given the PLN's significant exposure to coal, and the World Bank's stated commitment to accelerating the use of natural gas, this approach would have the consequence of shoring up coal and gas in the country for decades to come.

Bizarrely, the need for a PLN stabilisation project is partly due to its over-reliance on high-cost coal IPPs which the World Bank previously championed, despite their use leaving PLN unprepared to benefit from cheaper new renewable technologies. With new coal IPP costs surging, this is the right time for the World Bank to support the Indonesian government in stepping back from controversial coal and gas projects and instead to help it create new capacity with more reliance on sustainable, renewable energy, while ensuring a just transition.²⁵

Development Policy Finance, Programme for Results and Prior Actions in the Energy Sector since 2015. Number of Prior Actions by Issue²⁶

Indonesia

DPF Operation	Amount (million US\$)	Year	Energy Sector	Infrastr. Investment	Tax Policy	Doing Business	Climate
Indonesia Energy Sector DPL	\$500	2016-18	5			3	
Power Distribution Development Program for Results	\$500	2016 -20	5	1			
Indonesia Fiscal Reform DPL	\$400	2016		4	3	1	
First Indonesia Maritime Logistics Reform Development Policy Loan	\$400	2016		4	1	2	
Indonesia Fiscal Reform DPL 2	\$300	2017		4	2		
Second Indonesian Maritime Logistics Reform DPL	\$300	2018		1		6	
Indonesia Fiscal Reform Development Policy Loan 3	\$1,000	2019		2	2	1	1
Indonesia PLN Stabilisation and Reform Policy Based Guarantee (Pending)	\$200	2022	-	-	-	-	-

The smell of gas in the World Bank's DPF in Indonesia

There is overwhelming international consensus that natural gas cannot be considered to be 'low carbon', because of significant emissions from methane leaks²⁷, and emissions created throughout its production, transportation and combustion. In most places, building new gas infrastructure is more expensive than providing power through renewable energy.²⁸

DPF can influence investment decisions towards either carbon-intensive development such as gas or coal, or low-carbon development. The World Bank's 2021 Climate Action Plan²⁹ still identifies gas as a transition or "bridging fuel" and is proactively promoting gas through its lending instruments and advisory services including DPF, Project for Results (P4Rs) and Technical Assistance (ASAs) in Indonesia. This is deja-vu for the World Bank – just ten years ago the World Bank was actively promoting coal in Indonesia and today the World Bank seems to be falling into the same carbon-intensive trap with natural gas.

A \$500m Sustainable and Inclusive Energy Development Policy Loan (DPL) for Indonesia

On the eve of the Paris Climate Summit in 2015 the World Bank approved a new \$500m Sustainable and Inclusive Energy DPL³⁰ to Indonesia. Although initially planned to be implemented within a year, the DPL in fact extended to September 2018. This DPL specifically facilitated the expansion of natural gas in Indonesia through its conditionalities, which have locked Indonesia into high carbon gas policy and infrastructure for the next 40 years.

One of the key aims of this DPL was "transition towards a sustainable energy sector development path through increased use of domestic gas, renewable energy and scaling up energy efficiency measures". It was also accompanied by World Bank's Advisory Services and Analytics (ASA) which included

enabling gas sector policy formulation and investment planning.³¹

The increased use of domestic gas was already at odds with the Government of Indonesia's Nationally Determined Contribution at the 2015 Paris climate talks to reduce GHG emissions by 29 percent by 2030, compared to the business-as-usual scenario, and which identified the promotion of clean and renewable energy sources among the key measures to achieve this target.

The Asian Development Bank (ADB), AfD (Africa Development Bank) and the German state owned development bank, KfW, prepared policy-based operations against a substantially similar set of policy actions to the World Bank's DPL (ADB: US\$500 million, AfD: US\$100 million and KfW: US\$200 million). Not only did the World Bank help to increase Indonesia's progression on a pathway towards natural gas, but it also helped to facilitate engagement of important development banks amounting to a staggering \$1.3 billion for this reform programme, and those banks then went on to finance a second policy-based loan programme of \$850m.³²

In 2015, the Indonesian government was aiming to increase generation capacity by 43GW by 2019, of which 60 percent was to be coal-fired. The NDC stipulated the importance of finding alternatives to coal and was encouraged by World Bank advice to consider gas as an alternative, in addition to renewable sources. The DPL specifically sought to help Indonesia unlock gas resources, without questioning whether it would help the country to meet its decarbonisation agenda or renewable energy targets.

The specific policy areas of the DPL included:

1. That the PLN enter into new long-term agreements for domestic gas supply, as measured by the daily gas volume to be supplied under new contracts or contract extensions signed after December 2015 of 5-years or greater duration;

2. A reduction by half in the number of days, as stated in the regulations, to process a (gas)³³ Independent Power Producer (IPP) license;

There was considered to be a crisis of under-investment throughout the gas value chain, so rather than taking the opportunity to fast-track renewables, the DPL supported:

- i. setting a conducive environment for commercialising existing gas resources and stimulating exploration in the upstream;
- ii. accelerating investment in critical gas infrastructure (transportation, processing, storage) to manage gas supply in the midstream;
- iii. increasing the share of gas in power generation and promoting the use of gas in a wide range of industry sectors in the downstream.³⁴

The DPL's prior actions (conditionalities agreed with governments) included a set of "triggers" (described as indicative prior actions for future operations). The 2015 DPL's trigger 4 required that "The Borrower introduce(s) regulatory measures in the gas mid-stream that would encourage mid-stream entities to accelerate investment in critical gas processing, transportation and storage facilities."

Trigger 5 stated that the Government of Indonesia had to complete a process of detailed gas infrastructure project planning to build on a 2015 Gas Roadmap to address land use, environmental and social considerations and financing arrangements. In 2018 the Indonesian Government drafted a new gas plan in line with World Bank prior actions³⁵, which lays out their medium-term strategy in the gas sector, firmly and squarely putting carbon-intensive gas on the Indonesia map for generations to come.³⁶

The World Bank and Indonesian government have sustained a deep technical and policy dialogue in relation to gas that continues to this day. Even though the second DPL in this series was cancelled, the World Bank's technical assistance to Indonesia has continued to focus on a gas sector planning review, a gas regulatory assessment, licensing simplifications and a power sector assessment and review of gas-to-power challenges.³⁷

The World Bank's Independent Evaluation Group (IEG) 2019 Implementation Completion Report (ICR)³⁸ welcomes the DPL reforms that helped increase the volume of gas to be supplied under new contracts beyond the programme target. For example, a BP-led consortium assigned 75% of future LNG production to PLN from the third facility for gas liquefaction and purification

of the Tangguh LNG facility in West Papua then under construction by a BP-led consortium, but delayed for completion to 2022 because of Covid-19 and two tsunamis in 2018.³⁹ PLN has contracted gas for the Java 2 power plant from BP's Tangguh project, where gas production was planned to rise exponentially in 2020 from 17 million cubic feet per day (mmscfd) to 218 mmscfd.⁴⁰

Notably the ICR praised reform under the DPL for enabling greater state participation in the upstream oil and gas sector⁴¹. This is in contradiction to the World Bank's own commitment in December 2017 to end its financial support for upstream oil and gas extraction within two years.⁴²

At the time of the ICR in 2019, the Indonesian energy system was far from aligned with the Paris Agreement: coal accounted for 55 percent of the country's power generation (against 53 percent in the programme document), gas for 26 percent (up from 24 percent and considered a success by the ICR), renewables 12 percent (up from 10.9 percent) including geothermal 3 percent (a drop from 4.4 percent).⁴³

The Indonesian government still plans to generate 23 percent of electricity from renewable energy sources by 2025. This is where DPF could play an important role.

Keeping the tap open on gas

In its Country Programme Framework (CPF) 2021-2024 for Indonesia, the World Bank is keeping the taps open for gas. The CPF states that the bank is intending to support the "acceleration of deployment of natural gas and biogas". It also plans an ASA to support gas and alternative energy sources with a stated aim of "improving the investment climate for private investors by strengthening natural resource governance, gas infrastructure planning, and regulatory reform".⁴⁴ The inclusion of gas in the same bracket as "alternative energy sources" remains contradictory to the World Bank's decarbonisation agenda

and is at odds with its new Climate Change Action Plan⁴⁵, which aims to align with the Paris Agreement through the "provision of support to clients in a way that is consistent with low-carbon and climate-resilient development pathways".

Not only will accelerating the use of natural gas lock Indonesia into a high carbon future, but it will also squeeze out the potential for the rapid expansion of renewable energy in the energy mix. In other words, the World Bank's own recommendation will create a major obstacle to the Indonesian government's objective of reaching 23 percent of generation from renewables by 2025.

Civil society groups in Indonesia question how and why the World Bank Group advocates for gas in the CPF, when the opportunity is ripe to finance and support the rapid uptake of sustainable renewable energy, in line with Indonesia's decarbonisation goals⁴⁶.

Indonesia Recommendations

- The World Bank in Indonesia, and globally, must ensure that any policy reforms that incentivise fossil fuel usage or investments (through lower tax liability and/or higher tariffs) are excluded from financing.
- All fossil fuels, including coal, oil and gas, must be on the Excluded Expenditures list for Development Policy Finance (in addition to project finance).
- The World Bank Group, including the IFC, should support Indonesia to seize the opportunity to lock in deep emissions reductions as it recovers from the pandemic, rather than put decarbonisation on the backburner.
- The World Bank in Indonesia should urgently phase out its continued exposure to coal evidenced in the Country Programme Framework (CPF) including through its financial intermediary investments and private sector loans and guarantees, as well as through support to PLN, which has continued

“Indonesia is a renewable energy giant. Transitioning from one dirty energy source to gas is a futile effort as this will hinder the real energy transition. The effort to utilize renewable energy sources, like the abundant solar power in Indonesia, may be thwarted by this dash for gas.”

- Andri Prasetiyo, Trend Asia

plans to expand coal, through coal plants already in its pipeline.

- The World Bank Group should cease finance that accelerates the use of natural gas and gas infrastructure planning and instead prioritise a sustainable renewable energy transition.

Pakistan

World Bank's Prior Actions: opening Pandora's Box for unsustainable energy in Pakistan

DPFs for Energy Sector Reform and Stabilisation in Pakistan, the role, the trends

Pakistan has been a member of the World Bank since 1950. Since then, the World Bank has been a central government partner in energy sector planning and development in Pakistan, and continues to be extremely influential in providing technical assistance and development policy finance that determine the country's legal, regulatory, and policy frameworks.⁴⁷

Looking back as far as 1985, the World Bank engaged with the government of Pakistan to develop a long-term energy development strategy which aimed to bring private investors into power generation. This approach continues today.⁴⁸ Take, for example, the role the World Bank played in forming

Pakistan's first independent power producer (IPP) Hubco. In 2021 Hubco is Pakistan's largest IPP and equity investor/owner in three of the new Thar coal power plants and continues to have growth plans that include "strategic onshore and offshore acquisitions of thermal power plants".⁴⁹

Since the 1980s, the nature of the power crisis experienced in Pakistan has evolved from one of chronic power supply deficit to one where there is excess installed capacity but not enough cash flow in the system to run it.⁵⁰ When this happens, the distribution companies can't pay independent power producers who, in turn, are unable to pay fuel providing companies thus creating the circular debt effect in the country. The build-up of circular debt has undermined the viability of the country's energy sector, hurt industry and exports and impacted new investment and job creation.

The World Bank has sought to address the problem of circular debt by reducing government subsidies and increasing profits. This has had the unintended outcome of attracting new coal investors because of an increase consumer tariffs.⁵¹

Development Policy Loans and Prior Action in the Energy Sector since 2015

The Paris Climate Agreement was reached by governments in 2015, committing parties

to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."⁵²

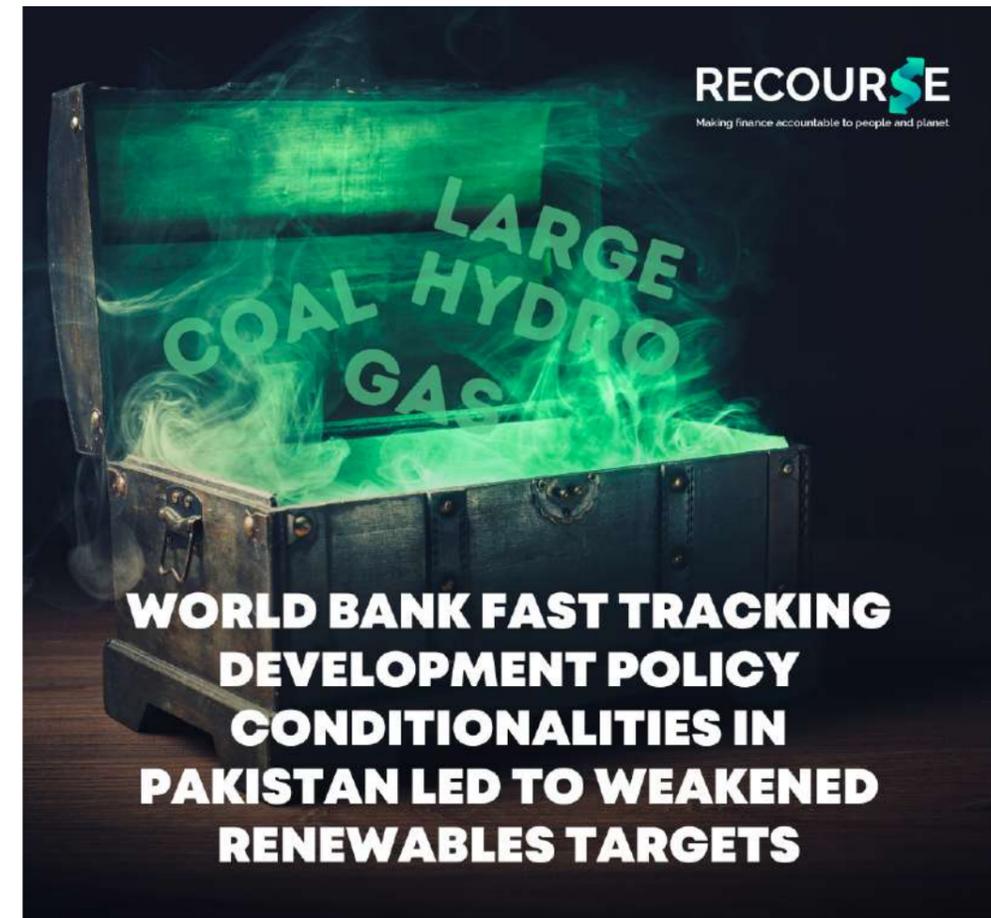
Meanwhile the World Bank, between 2014 and 2016 committed \$1.1billion to energy sector reform in Pakistan that had an emphasis on tariff reform as Prior Actions to the disbursement of funds. This tariff reform paved the way for Pakistan's National Electric Power Regulatory Authority (NEPRA) to offer "the most attractive upfront tariff for coal-fired power projects in the world" according to a NEPRA official,⁵³ thereby setting the stage for massive expansion of coal in the Thar region and beyond.

The bank's technical assistance and advisory services,⁵⁴ which accompanied the DPF operations to support the Pakistan government in policy formulation on how to attract coal investors,⁵⁵ allowed for this exceptionally high Return on Equity (ROE) which drew investments specifically to the Thar-based power plants.

The table on page 12 demonstrates the high number of DPF operations since the Paris Climate Agreement was reached in 2015 and the period under review in the DPF Retrospective, which directly targeted or target the energy sector, infrastructure investment, and tax policies, as well as 'ease of doing business' in Pakistan. When the World Bank provides budget support to governments through development policy finance (DPF) operations, governments must first implement a set of policy reforms known as "Prior Actions".⁵⁶

"The World Bank's Development Policy Financing and technical assistance programs have historically dictated the long-term outlook of Pakistan's energy landscape to detrimental effect on livelihoods, local ecologies, and national cohesion."

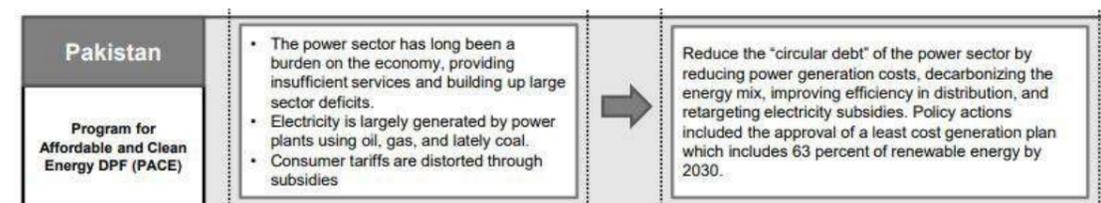
- Zain Moulvi, Alternative Law Collective, Pakistan



Development Policy Finance, Programme for Results and Prior Actions in the Energy Sector since 2015. Number of Prior Actions by Issue⁵⁷

DPF Operation	Amount (million US\$)	Year	Energy Sector	Infrastr. Investment	Tax Policy	Doing Business	Climate
Second Power Sector Reform Development Policy Credit	\$500	Nov-15 to Dec-16	5				
Punjab Jobs and Competitiveness Program for Results	\$100	2016-21		4		2	
Competitiveness and Growth Development Policy Financing (Policy Based Guarantee)	\$420	2016		2	2	1	
Competitiveness and Growth Development Policy Credit	\$500	2016		2	2	1	
Finance for Growth Development Policy Credit	\$301	2017		2		1	
Punjab Agriculture and Rural Transformation Program for Results	\$300	2017-23					1
Public Financial Management (PFM) and Accountability to Support Service Delivery	\$400	2017-21		1			
Punjab Green Development Program for Results	\$200	2018-23	1				1
Punjab Cities Program for Results	\$200	2018-23		2			
Khyber Pakhtunkhwa (KP) Revenue Mobilization and Public Resource Management	\$118	2019-24		1	1		
Securing Human Investments to Foster Transformation (SHIFT)	\$500	2020					
Resilient Institutions for Sustainable Economy (RISE) DPL	\$500	2020	2		2		
Actions to Strengthen Performance for Inclusive and Responsive Education P for R	\$200	2020-25					
Punjab Resource Improvement and Digital Effectiveness P for R	\$304	2020-25		1	3	3	2
Pakistan Program for Affordable and Clean Energy (PACE)	\$400	2021-22	3		1	2	

Those DPLs highlighted in grey are discussed further in this case study.



New Energy Plan relies more heavily on larges-scale hydro and gas

In 2021, the Government of Pakistan is completing its second year of foundational reforms to comply with Prior Actions for three DPF operations amounting to \$1.4bn in this first phase, supported by the World Bank. According to the bank, these DPF operations aim to restore financial viability of the power sector and lock in the transition to a low carbon footprint (Program for Affordable and Clean Energy, PACE, 2021-22, improve fiscal management and competitiveness (Resilient Institutions for Sustainable Economy, RISE, 2020) and accelerate human capital accumulation (Securing Human Investment to Foster Transformation, SHIFT, 2020).⁵⁸

Collectively, the World Bank expects PACE, RISE, and SHIFT reforms to help Pakistan break out of boom-and-bust macroeconomic cycles and get on a sustainable growth path. The World Bank's Retrospective acclaims the Pakistan PACE Programme as an example of a DPF with climate-related reforms:⁵⁹

But in our analysis, the Prior Actions required by this DPF operation have had a destabilising effect on Pakistan's ability to transition to a sustainable renewable energy pathway.

The \$400 million Pakistan Program for Affordable and Clean Energy (PACE)⁶⁰ focuses on measures to improve the financial viability of the power sector and support the country's transition to low-carbon energy.⁶¹The disbursement of loan funds under the first of at least two \$400 million DPF operations for PACE specified Prior Action 3 (PA3):

"PA3 will further the government's commitment to transition to 66% renewable energy

by 2030 through the adoption of a least cost generation plan (IGCEP)"⁶²

This least-cost generation plan, in its current iteration is the Indicative Generation Capacity Expansion Plan, 2021-2030 (IGCEP) and is therefore a key component of PACE. It defines Pakistan's roadmap for reducing costs and greening the energy mix. The IGCEP determines Pakistan's choice of generation technologies and the scheduling of all additions to the national grid in the coming decade. It should therefore be a crucial component of Pakistan's efforts for climate action under the Paris Agreement.

But on August 26, 2021, under immense pressure to meet its Prior Actions towards the World Bank, Pakistan's Cabinet Committee on Energy (CCoE) gave its hasty approval to what is a controversial IGCEP developed by the National Transmission and Dispatch Company (NTDC) as part of its obligations under the Grid Code (this sets out their operating procedures and principles with the authorised electricity operators).⁶³ NEPRA approved the IGCEP on 24 September. However, this approval came with a strong dissenting note from Rafique Ahmed Sheikh, Vice-Chairman of NEPRA and member for the province of Sindh, who refused to sign it.

The political pressure for this fast-tracking of the IGCEP came in early August when World Bank Vice President for South Asia, Hartwig Schafer, visited Pakistan and stated:

"We urge the government to accelerate the pace of power sector reforms as these are critical for Pakistan to achieve higher economic growth and resilient recovery from the COVID-19 pandemic."⁶⁴

Far from responding to the need for a tran-

sition to sustainable renewable energy the CCoE is quoted as saying that the IGCEP envisioned “the commissioning of a portfolio of new generation projects including many hydropower projects, Thar coal-based projects, K-3 nuclear power plant, and over 4,000MW of solar and wind-based renewable energy projects”.⁶⁵

The revised version of the IGCEP slashes the planned wind and solar capacity to 2030 by 17,000MW. The 2020 IGCEP was compliant with Pakistan’s Alternative & Renewable Energy Policy (AREP) 2020, as well as the World Bank’s own research laid out in the “Variable Renewable Energy (VRE) Integration and Planning Study”⁶⁶ which recommends a VRE of 30%-33% by 2030. But the new IGCEP has abandoned this and today only reaches 17% of the generation mix by 2030 (Figure 2).⁶⁷

The generation mix in the new IGCEP is dominated by expensive and dirty fossil fuels, with additions of around 8.5 GW of coal, and 10 GW of liquefied natural gas (LNG) and gas to be made in the next 10 years.

The IGCEP itself states that “Renewable energy, including wind and solar, are quickly becoming cheapest forms of new electricity generation across the globe”

and that the “trend of cost reduction for the renewable technology is set to continue in the future and will inevitably reduce the cost burdens, reliance on increasingly expensive fuels and hence lowering the overall generation cost”.⁶⁹

The 2021 IGCEP contradicts itself, as while confirming that wind and solar are the cheapest forms of new power generation,⁷⁰ it recommends relying less on these energy sources. The IGCEP cannot, therefore, be considered a least-cost plan as it set out to do and it violates the very aims and purposes set by the Pakistan government and the World Bank. Yet the government is still pushing it through post-haste, because of the Prior Actions imposed by the bank itself.

Pakistan civil society’s hopes for an ecologically and socially responsible approach to hydropower has also fallen by the wayside in this plan.⁷¹ The new IGCEP has dramatically scaled up plans for large hydropower projects in the context of Pakistan’s water-stressed geography.⁷² For example the construction of the Tarbela Dam on the river Indus and other upstream structures to divert water on the river Indus are major causes of the degradation of the Indus delta and se-

verely affecting sources of livelihood for local communities.⁷³ By adding more hydropower without considering those with existing legal and established claims on water use, the IGCEP 2021-30 is likely to increase water conflict in Pakistan.⁷⁴

In addition, there are questions over hydropower dams’ ability to supply power reliably for Pakistan. A recent heatwave of the type likely to occur more often as the climate continues to change has led to blackouts, as the power system was unable to meet increased demand.⁷⁵ The fact that the Tarbela dam was only operating at 25% capacity⁷⁶ due to water shortages, contributed to the power cuts.⁷⁷

Pakistan civil society groups have engaged closely with the IGCEP’s development and approval process and have also participated as stakeholders in public hearings and debates. This process yielded visible gains with NEPRA acknowledging the need to uphold the statutory minimums on Variable Renewable energy shares and pledging, at the public hearing in June 2021, to conduct an evidence-based reappraisal of the IGCEP with continuing dialogue and input from stakeholders and independent experts.

It is therefore disappointing that what had been a successful collaborative process has been interrupted and a flawed plan rubber stamped to secure the disbursement of the \$400m PACE DPL in spite of NEPRA’s Vice Chair and Sindh province representative con-

testing it due to grievances with the decision-making process.

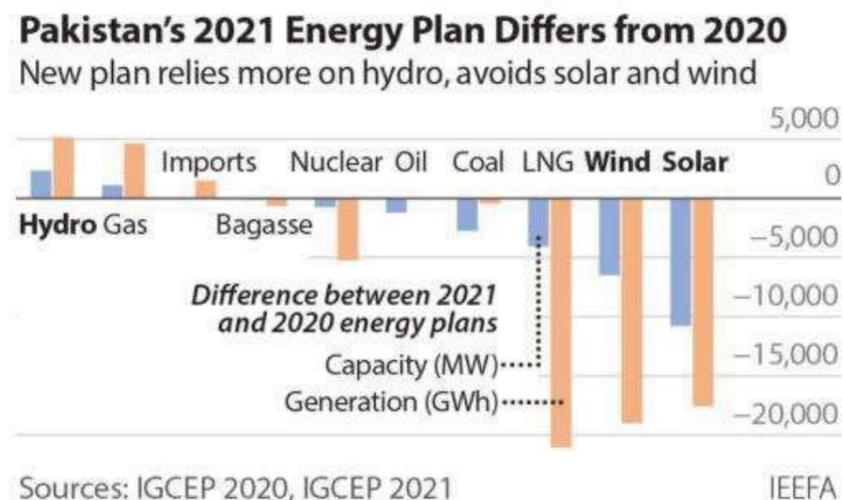
Pakistan Recommendations

“The reforms underpinning PACE and SHIFT can contribute to facilitating sustainable investments and generate welfare gains for those most in need,” said Najy Benhassine, World Bank Country Director for Pakistan.⁷⁸

These laudable goals have been compromised by the Prior Action contained within the PACE agreement itself, that has fast-tracked an IGCEP with significantly reduced wind and solar targets, a massive increase in large hydro power that is highly contentious, and that risks derailing Pakistan from its decarbonisation commitment. This has already proven to be a contentious issue between the provincial governments and the national government.

World Bank DPF in Pakistan is continuing to finance fossil fuels and unsustainable energy models by default through energy sector stabilisation and reform.

- The World Bank in Pakistan, and globally, must ensure that any policy reforms promoted by DPF that incentivise fossil fuel use or investments (through lower tax liability and/or higher tariffs) are excluded from financing.
- All fossil fuels, including coal, oil and gas, must be on the Excluded Expenditures list for Development Policy Finance (as



“It is remarkable that the consultative practices around such programmes continue to ignore and neglect the true stakeholders of these projects - everyday citizens and communities in struggle.”
- Zain Moulvi,
Alternative Law Collective,
Pakistan

well as project finance), so that the World Bank in Pakistan and elsewhere can put the lid on the Pandora's Box of unsustainable energy.

- The DPF and Prior Actions should create opportunities for a green and inclusive economic recovery from the COVID-19 pandemic in Pakistan such as sustainable and clean energy transition, phasing out fossil fuels and promoting access to energy. Climate-focused DPF should be an important part of Bank-supported recovery efforts from now on.
- As the World Bank's COVID-19 response moves into a longer-term recovery phase, DPF should support ambitious climate objectives, where there is high potential to mitigate climate change, or where there is acute climate vulnerability.

Conclusion

The policies countries embrace today as they recover from the COVID-19 pandemic induced crisis will affect their future development, their carbon emissions and their climate readiness far into the future. The

nature of today's recovery efforts supported by the World Bank will influence economic development pathways for many years to come.

The World Bank must ensure that its DPF is aligned with the goals of the Paris Agreement and that the Prior Actions, or reforms, demanded are consistent with that objective, both in the letter of the Prior Actions as well as in the political process that accompanies their implementation.

The case studies above demand a revised approach from the World Bank that ensures that all DPF financing explicitly supports the global transition to sustainable renewable energy and is not complicit in supporting the expansion of coal and gas through the back door. It is time for all fossil fuels to be added to the Excluded Expenditures list.

As the World Bank grapples with energy sector stabilisation in countries affected by crisis it must also urgently address how its DPF operations can stop supporting fossil fuels by default.



Endnotes

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