



World Bank Group

CLIMATE
CHANGE
ACTION
PLAN

2021-2025
A SUMMARY



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Introduction

Our collective responses to climate change, poverty, and inequality are defining choices of our age. We must tackle them together to deliver on our twin goals of reducing poverty and boosting shared prosperity. The COVID-19 pandemic and economic crisis have been devastating, and as we support countries to respond to the ongoing crisis and build back, there is an urgent need to integrate climate and development strategies to deliver green, resilient, and inclusive development. There will be trade-offs when implementing an ambitious climate agenda, including transition costs, but these can be reduced through a people-centered approach, effective fiscal and social policies, and policies supportive of attracting private sector investment. The cost of not addressing climate change is already immense and will only get more expensive. The World Bank Group (WBG) recognizes that globally, the poor, who are the least responsible for greenhouse gas (GHG) emissions, often suffer the most from climate change impacts.

WBG client countries and private sector clients have powerful reasons to fight climate change. Not only are many of them highly vulnerable to climate impacts, which threaten their ongoing development and the well-being of their people, but as the global economy moves toward a net-zero future, they need to stay competitive. A well-managed transition can ensure that climate action brings more and better jobs and reduces poverty. Accelerating economic transformation is the best way to boost employment sustainably. The WBG will work with both the public and private sectors to support the climate agenda. For example, public sector interventions can help countries implement policy and regulatory reforms and create incentives to crowd-in private sector participants and to catalyze private sector investment, using our menu of advisory and financial instruments.

The WBG is the largest multilateral provider of climate finance for developing countries and has increased financing to record levels over the past two years. Building on our long-standing support for climate action, we intend to go further and faster to help countries integrate climate into their development agendas. The context today is vastly different from 2016, when the WBG launched its first Climate Change Action Plan 2016–2020. In addition to the COVID-19 pandemic, in the last two years major advanced and developing countries have committed to net-zero targets by 2050 and pathways to peak in 2030.

The Climate Change Action Plan 2021–2025 aims to advance the climate change aspects of the WBG's Green, Resilient, and Inclusive Development (GRID) approach, which pursues poverty eradication and shared prosperity with a sustainability lens. In the Action Plan, we will support countries and private sector clients to maximize the impact of climate finance, aiming for measurable improvements in adaptation and resilience and measurable reductions in GHG emissions. The Action Plan also considers the vital importance of natural capital, biodiversity, and ecosystems services and will increase support for nature-based solutions, given their importance for both mitigation and adaptation. As part of our effort to drive climate action, the WBG has a long-standing record of participating in key partnerships and high-level forums aimed at enhancing global efforts to address climate change.

The new Action Plan represents a shift from efforts to “green” projects, to greening entire economies, and from focusing on inputs, to focusing on impacts. It focuses on (i) integrating climate and development; (ii) identifying and prioritizing action on the largest mitigation and adaptation opportunities; and (iii) using those to drive our climate finance and leverage private capital in ways that deliver the most results. That means helping the largest emitters flatten the emissions curve and accelerate the downward trend and ramping up financing on adaptation to help countries and private sector clients prepare for and adapt to climate change while pursuing broader development objectives through the GRID approach.

The WBG will advance efforts on a number of fronts:

I. Aligning Climate and Development

This Action Plan starts from the premise that climate and development need to be integrated, both to facilitate successful mitigation and adaptation, and to ensure economic development is sustainable. We will do so by (i) ramping up engagement at the country level on climate and development diagnostics, planning, and policies to help countries reach their climate and development objectives; (ii) aligning WBG financial flows with the goals of the Paris Agreement to further mainstream climate into our development activities; and (iii) increasing climate finance for mitigation and adaptation in ways that deliver the most results.

Country Climate and Development Diagnostics, Planning, and Policies

We will build a strong analytical base at the global and country level, including by introducing Country Climate and Development Reports (CCDRs) that address the interplay between climate and development. CCDRs will be used to inform, prioritize, and sequence climate action through the country engagement process and thus implement the Action Plan. These CCDRs will investigate how climate change and decarbonization may impact a country’s development path and priorities, and identify potential mitigation, adaptation, and resilience-building actions to improve development outcomes. They will support the preparation and implementation of our client countries’ Nationally Determined Contributions (NDCs) and Long-Term Strategies (LTSs) and will feed into the WBG’s Systematic Country Diagnostics, Country Private Sector Diagnostics, and Country Partnership Frameworks. Over the next year, we plan to complete up to 25 CCDRs, focusing for this first round on developing countries with particularly large carbon emissions and/or great climate vulnerabilities. These diagnostics will underpin country-level dialogue on policy directions and institutional strengthening. We will support a “whole of economy” approach that focuses on policies and plans to create the right enabling environment for climate action and deliver transformative change, including private sector led growth. Beyond greening projects, the WBG will focus on the greening of entire economies, while supporting a just transition.

Aligning our Financial Flows with the Paris Agreement

The WBG is committed to aligning its financing flows with the objectives of the Paris Agreement. We define alignment as providing support to clients that is consistent with pathways toward low-carbon and climate-resilient development. For the World Bank, we plan to align all new operations by July 1, 2023, the start of fiscal year 2024. For IFC and MIGA, 85 percent of Board-approved real sector

operations will be aligned starting July 1, 2023, and 100 percent two years later, starting July 1, 2025. To achieve this, both institutions will begin aligning 100 percent of their projects at the concept stage well ahead of July 1, 2023. Once a methodology for financial institutions and funds is finalized among multilateral development banks (MDBs), a similar approach will be taken for this business as well. The Paris Agreement recognizes that countries have different circumstances and gives countries latitude in the pathways they choose to achieve the overarching goal of low-carbon, resilient development. Our support to countries and private sector clients similarly respects individual country needs and circumstances in integrating climate and development outcomes and shaping green, resilient, and inclusive pathways. The WBG will produce a Paris alignment implementation plan with clear timelines and deliverables.

FIGURE A: The WBG will be Aligned with the Paris Agreement

- The World Bank will align all new operations starting July 1, 2023 (FY24).
- For IFC and MIGA, 85 percent of Board-approved real sector operations will be aligned starting July 1, 2023, and 100 percent of these starting July 1, 2025, two fiscal years later. Once a methodology for financial institutions and funds is finalized among MDBs, a similar approach will be taken for this business as well.



Increasing our Climate Finance and Impact

We commit to achieving 35 percent in climate finance for the entire WBG, as an average over the five years of 2021–2025. This is a big step up from the average of 26 percent on average achieved in FY2016–2020 and an even bigger step up in dollar terms, as the WBG’s total financing has also expanded. This Action Plan highlights the centrality of adaptation, with at least 50 percent of IDA and IBRD climate finance to be allocated to adaptation, to support a range of activities that reduce vulnerability in line with the strategic directions set in the WBG Action Plan on Climate Change Adaptation and Resilience.¹ Similarly, IFC and MIGA understand that adaptation is critical and are stepping up efforts to identify private sector investment opportunities in this area. A new WBG report will guide efforts as we work across the WBG to pilot approaches in several countries to develop supportive policies and regulations to help drive private sector investment.² We will also enhance our results orientation by developing metrics, where relevant, that better capture our climate impact, including as measured through GHG emissions reduction.

FIGURE B: Ambitious New Climate Finance Targets and Commitments

- WBG climate finance target of 35% on average in FY21-25 for clients in support of green, resilient, and inclusive development. WBG will develop new products and platforms to mobilize climate finance at scale.

WBG Climate Finance (%):

26% → **35%**
FY16–20 average delivered FY21–25 target

Targets are ambitious given:

- composition of our financing portfolio;
- low per capita income levels of client countries and other development priorities for which they must borrow;
- private capital investment constraints in emerging markets;
- increased focus on IDA and FCV countries.

WBG Climate Finance (\$ billion):

\$16.7 FY16–20 annual average
\$21.4 FY20

II. Prioritizing Key Systems Transitions

We will support transformative public and private investments in five key systems: energy; agriculture, food, water, and land; cities; transport; and manufacturing. These systems are being prioritized because they contribute the most to emissions—together, they produce over 90 percent of global GHG emissions—and face significant adaptation challenges, which makes support for adaptation a critical priority for all five. These systems are also critical to achieving development goals. Transforming them is key for countries at all stages of development and requires action from the public sector to catalyze the private sector, both to unlock major economic opportunities and create new jobs and to reduce emissions and limit the impacts of climate change. The WBG will give priority to climate action across these sectors—where possible, also supporting natural capital and biodiversity—to deliver impactful country operations and programs, including public and private sector investments, guarantees, and advisory services. Significant investment in education, training, and retraining to develop skills in

these key sectors is essential for people in our client countries to benefit from the new and better jobs created through these systems transitions.

Energy

As the WBG invests in expanding energy access—about 800 million people worldwide still lack electricity—we urgently need a global transition to low-carbon energy that is resilient to climate change and extreme events. WBG priorities in the sector include helping countries with power sector planning, energy subsidy reforms, and improving the operational and financial performance of utilities; investing in projects to increase energy access, including through renewable energy and improved energy efficiency; and a just transition away from coal. Priorities for climate-focused action in this sector will depend on the country context: in high-emitting middle-income countries, for example, key steps may include retiring coal-fired power plants, replacing fossil fuels across the economy, and removing market barriers for green technologies, all while maintaining a just transition, which requires appropriate financing. For lower-income countries still working to provide energy access to all, it is crucial to invest in low-carbon baseload capacity, including renewable energy.

Agriculture, Food, Water, and Land

The WBG will step up support for climate-smart agriculture (CSA) across the entire agriculture and food value chains, including the blue economy, via policy and technological interventions, using nature-based solutions where appropriate. Doing this can achieve triple-win benefits: enhancing productivity, reducing GHG emissions, and improving resilience. The WBG will address policy options and trade-offs involved in tackling food loss and waste. It will help countries manage flood and drought risks together, reducing the water-related shocks and protecting livelihoods and productive resources. The WBG will pilot in operations a low-cost, near real-time Monitoring, Reporting and Verification (MRV) Protocol that can leverage private capital for enhanced soil carbon sequestration. IFC will work with clients to improve productivity while reducing input use, GHG emissions per ton of output, and decreasing post-harvest losses in supply chains globally.

Cities

The WBG will step up support to cities, including technical assistance and financing, to help them decarbonize and build resilience, while supporting broader development goals. This means supporting policies, regulations, and investments to improve urban air quality; decarbonize urban energy systems; promote green and resource-efficient buildings and infrastructure; promote integrated solid-waste management and circular-economy approaches; improve urban transportation; and improve the coverage, efficiency, and resilience of urban water supply, sanitation, and wastewater treatment. Improving urban land use planning and regulations is particularly important. IFC will scale up strategic partnerships through a fully integrated investment and advisory approach to help cities address current market failures, such as limited funds for project preparation, low creditworthiness, and lack of technical expertise. IFC and MIGA will scale up their green building business, both through direct financing and de-risking of asset owners, and by increasing the use of green mortgages and green construction finance through financial intermediaries. The WBG is helping countries and cities adopt integrated waste management and circular economy approaches to advance climate, development, and broader sustainability goals.

Transport

The WBG approach to low-carbon, resilient transport will support improvements in urban mobility and accessibility as well as in logistics and freight. This includes planning, developing, and managing integrated transport systems, including high-quality public transit to replace private vehicles and fragmented informal urban transport services, as well as supporting active mobility (such as walking and cycling). Digital technologies and electric vehicles (EVs) hold significant potential, especially as the power sector is decarbonized, as do pricing and regulatory reforms for fuels and vehicles. Interventions to decarbonize the freight sector and deliver competitive logistics include re-engineering supply chains, including supporting the development of third-party logistics and temperature-controlled logistics, changing inventory practices, bringing production closer to customers, shifting to lower-carbon transport modes, switching to energy-efficient and low-carbon vehicles across modes—including in maritime transport—and optimizing networks. IFC and MIGA will also support investments in energy-efficient equipment and infrastructure, particularly in ports and airports.

Manufacturing

The WBG will help manufacturing sectors to get on a path toward decarbonization via resource efficiency, low-carbon solutions, and circularity. The WBG will work with industrial parks to help them offer low-carbon industrial infrastructure and services through its eco-industrial parks program. It will also support countries and their industries in developing sectoral policies that promote low-carbon and resilient growth, while helping to improve their green competitiveness, engage the private sector, and improve disaster preparedness. IFC leverages and promotes climate finance products and advisory services, and MIGA provides de-risking products, to support proven abatement measures and innovative technologies that clients would like to implement. IFC and MIGA will work with corporate clients in manufacturing, especially in GHG-intensive base materials sectors, to help them meet their climate strategies and targets.

III. Financing to Support the Transitions

Meaningful climate action will require scaling up finance. This is especially important to help poorer countries make large investments in global public goods, such as reducing coal usage, and finance adaptation efforts, which require spending upfront but provide growing benefits over time. Developing countries will need an estimated \$4 trillion per year in investments up to 2030 to build infrastructure to meet their development needs. These investments will enable developing countries to build sustainable and resilient infrastructure, create new jobs, and where relevant leapfrog to low carbon solutions. Current finance flows fall far short of that. To successfully achieve climate and development objectives, the world must mobilize trillions of dollars in the coming decade. Existing public, private, and concessional climate finance needs to be deployed in more transformative and catalytic ways, leveraging additional capital to bridge the gap between available resources and needs.

IBRD, IDA, and IFC have a financial model of issuing AAA-rated bonds in the capital markets, which leverage scarce shareholder capital with substantial private capital mobilization. To further increase the financing available and maximize the use of finance for climate action, the WBG will: (i) help client countries boost their public domestic resources; (ii) increase mobilization of international and domestic capital, including catalyzing domestic private capital; and (iii) support global efforts to raise and strategically deploy concessional climate finance to de-risk climate investment.

The broader financial sector can and must play a key role as well, both in mobilizing capital for green and low-carbon investments, and in managing climate risks. The WBG will support greening the financial sector across emerging markets through its work with central banks, national development banks, and private sector financial institutions, including through targeted advisory engagements to equip clients with the necessary frameworks to create enabling environments and risk mitigation practices to embrace climate action, while also enabling innovative and scalable funding mechanisms in support of sustainable investments.

Conclusion

Tackling the climate crisis while meeting urgent development needs is the fundamental challenge of our time. Building on the achievements of the WBG Climate Change Action Plan 2016–2020, this second Action Plan has been developed in the exceptional context of a global pandemic, with a global economic collapse of a speed and scale not seen in decades, and deep uncertainty about the future. There is now a window of opportunity—and an imperative—to transition to a low-carbon and resilient development pathway, and to do so while supporting natural capital, economic growth, and job creation. The WBG, through its global advocacy, convening power, and support to client countries and the private sector, will be a key participant in this effort. With new diagnostics that will help identify the most impactful adaptation and mitigation opportunities, expanded support for the development of country-owned NDCs and LTSs, and stepped up support for a just transition, our goal is to integrate climate and development by ramping up financing for climate and a just transition to deliver the best results for the people of our client countries.

FIGURE C: WBG Climate Change Action Plan 2021-2025 at a glance

