

Asia, the Multilateral Development Banks and Energy Governance

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Abstract

The World Bank and the Asian Development Bank are key actors in global energy governance and in Asia, spreading new ideas about technology, regulation, policy and service delivery as they invest in new energy infrastructure. They have encouraged market approaches to energy around the world. They are increasingly being held accountable for the environmental and social impacts of their investments. Many are looking to the Multilateral Development Banks to leverage their financing and expertise to facilitate low-carbon development in Asia. Climate change is a growing priority for these institutions, but energy security remains a primary concern for Asian member countries. A role for the MDBs in climate finance has been controversial because of their governance, which is perceived to prioritize developed country interests, as well as a poor record of consistently integrating environmental and social considerations into their engagement. Efforts to reform MDB governance to give developing countries more voice, however, do not guarantee greater transparency and accountability in energy governance, or the prioritization of increasingly urgent environmental social issues. This article considers the implications of a growing role for Asian countries in the governance of the MDBs.

Policy Implications

- The World Bank and the Asian Development Bank have been highly influential actors in global energy governance and in Asia, spreading new ideas about technology, regulation, policy and service delivery as they invest in new energy infrastructure.
- They have not always effectively reconciled competing environmental, social, economic and geopolitical dimensions of energy governance, however. Their knowledge, technical expertise, finance and convening power can be better harnessed to address these complex challenges. It remains to be seen whether the growing influence of Asian countries over the priorities of the MDBs will allow such opportunities to be seized.
- Investments in the leadership and staff of the MDBs to equip and incentivize them to make creative investments that more effectively address issues of equity and environmental sustainability will be integral to strengthening their role in the governance of energy.
- Reforms that make the MDBs more accountable to a diverse cross-section of stakeholders within member countries through improved inclusiveness, transparency and accountability are also imperative. Such reforms are at least as important as reforms aimed at giving developing country governments greater vote and voice in the governance of these institutions.

The Multilateral Development Banks (MDBs) are unique actors in energy governance as a result of their involvement in both national and global policy processes. They have propagated ideas about technology choice, regulatory policy and service delivery alongside their capital investments in new energy infrastructure in developing countries. Like many intergovernmental organizations involved in energy policy, the MDBs have been significantly affected by the trends identified throughout this special issue: increasing multipolarity, particularly the rise of China and India as globally influential powers; growing contestation over the appropriate roles of states,

markets and citizens; and the growing importance of climate change concerns as constraints on energy policy options. These trends are mediated by the workings of MDBs' internal bureaucracies.

This article considers how the World Bank and the Asian Development Bank (ADB) have influenced energy policy choices in their member countries, and how they have been influenced by these major trends. It focuses on their engagement in the electric power sector. First, it considers the key sources of influence that shape how the MDBs wield influence, specifically country government influence exercised at board level, citizen pressures,

and their well-capacitated bureaucracies. Next, it reviews their activities in the energy sector, and the evolution of the principal policies that have shaped their engagement on energy, with a focus on the MDBs' role in supporting market-oriented reforms over state control of energy. It then traces the emergence of climate change as an important issue in the energy sector, and the political and institutional factors that have shaped this process. It considers the increasing multipolarity of the MDBs and the implications of increasing power for Asian countries in the context of dealing with tensions between energy security and climate change considerations. Finally, it analyses how the MDBs have dealt with demands for greater transparency and accountability and conflicting dimensions of energy governance, using engagement on energy in the Greater Mekong Sub-Region as a case study. It concludes with reflections on the growing role for Asia in MDB governance for global energy governance.

1. MDBs in global energy governance: their influence and influences

The role that the MDBs play in global energy governance today is shaped in part by historical factors and also by institutional factors. Their bureaucracies' priorities are influenced by the agendas of their member governments as expressed in deliberations by their boards of executive directors, the promise of additional and concessional finance from donor countries and by pressure from external stakeholders, particularly civil society and NGOs.

Origins

The MDBs were established to promote balanced economic growth, employment and resource development, by pooling financing, credit risk and research. By working together, countries would reduce transaction costs and 'promulgate their interests in a collective way' (Woods, 2002, p. 29). MDB finance is intended to fill the gaps left by the private sector rather than supplant it. The World Bank was established at the Bretton Woods conference in 1944 and has its roots in post-Second World War reconstruction. The ADB was established more than 20 years later in 1966, primarily at the behest of the government of Japan, which saw it as a tool to advance Japanese interests in Asia (Lincoln, 2002). US support for the ADB emerged alongside its growing involvement in the Asian region in a Cold War context (Dutt, 2001).

The bulk of the MDBs' financial resources are directed towards long-term debt relief and development finance, primarily directed to discrete projects, although increasingly to 'policy loans' which support broad priorities agreed upon with recipient governments as a form of

budget support. Policy dialogue, technical assistance and research are also integral to their influence (Kapur, 2002). Both banks originally focused on financing infrastructure projects, a strategy grounded in the logic that physical infrastructure needed to be in place in order for the private sector to do its job (Stern and Ferreira, 1997).

In the 1990s, however, infrastructure finance declined, and lending policy reform programs increased as the MDBs began to support restructuring initiatives that would promote private investment and participation in Asia. These programs were linked to efforts to help Asian countries weather the impacts of the East Asian financial crisis (Dubash, 2002). The International Finance Corporation (IFC), the private sector lending arm of the World Bank Group, has been an increasingly important actor in this context, though a detailed discussion of its role is beyond the scope of this article. Since 2003, the MDBs have returned to their infrastructure finance roots, and their energy portfolios have grown rapidly.

The board of executive directors

The World Bank and ADB are both governed by a resident board of executive directors representing member country governments, to whom management and staff are accountable. The directors are in turn accountable to a board of governors consisting of national finance ministers. Executive directors approve all internal policies, strategies and loans: the boards therefore become sites in which countries advocate for their national interests, and the evolving priorities of these multilateral institutions are negotiated.

The influence of the US as the World Bank's largest shareholder is well documented. It is also reflected in the informal agreement that the president of the World Bank is a US national nominated by the US government, and the Bank's physical location in Washington, DC, close to US centers of political power. All additional US contributions to the Bank must be approved by US legislators – who have sought to attach conditions to these contributions, including related to environmental and social issues. Japan is the single largest shareholder of the ADB, and analysts have suggested that it has a Japanese organizational culture and characteristics (Dent, 2008; Lincoln, 2002; Rosser, 2009).

Today, almost all countries of the world are members of the World Bank Group, and are formally represented in its governance even if they have unequal power. Reform of the World Bank's governance to give developing country members greater influence in these decisions has been a central focus in recent years (Ballesteros et al., 2010; Kahler, 2010).

The MDBs have a clear business model: they lend their funds to developing countries, which must repay those loans so that the MDBs can maintain their own credit

ratings. Relationships between the MDBs and their developing country clients are therefore 'part coercive and part persuasive' (Woods, 2007, p. 4). The conditions they attach to their financing can prompt governments to take certain policy actions. MDB support can help recipient countries leverage other investment. If MDBs cut off financing, however, it can undermine confidence in a recipient country. This risk is particularly severe in poorer countries. There have been two important responses to this model. First, less poor developing country governments are less eager to do business with them. Second, many citizen groups have objected to the lack of accountability for how the MDBs have engaged with developing countries and the results of the engagement.

Citizen pressures on the MDBs

Another aspect of governance and representativeness of MDBs is their accountability to the people of their member countries. Many of the banks' members are not representative democracies. Many members of the public also reject the idea that they are represented at the MDBs (Woods, 2002). This question of accountability to citizens and local stakeholders has become increasingly material as the MDBs' involvement in domestic policy processes has grown. MDBs have often circumvented domestic democratic political processes in order to work directly with senior government executives through more technocratic channels (Woods, 2007). Their engagement has focused on local elites and been characterized by a culture of secrecy (Wade, 1997).

The sustained efforts of NGOs and civil society organizations have drawn attention to the environmental impacts of the MDBs' activities, particularly in the energy sector. Indigenous civil society and NGO groups have emerged across Asia, particularly in its democracies, advocating for environmental and social considerations to be more material to decision making in the region (Gan, 2000). NGOs are increasingly influential in social and political activities in Asia, critiquing political processes, mobilizing citizens, including at the grass-roots level, and helping to mediate solutions to difficult problems. Transnational campaigns linking Asian NGOs with US- and Europe-based groups have been influential, as in the seminal 1980s campaign against the Narmada river dam in India (Park, 2008). Dedicated civil society networks such as the NGO Forum on the ADB have emerged to monitor ADB operations, particularly in the energy sector, and advocate for change. Such campaigns have prompted the adoption of new policies to manage the environmental and social impacts of the MDB operations, and independent ombudsmen to ensure compliance with these policies. US influence has helped force the adoption of these reforms despite developing countries' reservations (Reed, 1997; Wade, 1997). Such

measures have been unpopular with most Asian governments, which are wary of the associated infringements on their sovereignty (Reed, 1997; Wade, 1997; Woods, 2007). NGOs have also advocated more comprehensive transparency and disclosure on the part of the MDBs as a mechanism to enhance their accountability to citizens.

MDBs have responded by adopting governance-related conditionalities, and by engaging nongovernmental stakeholders in the development of internal policies and strategies although stakeholder engagement in project development, implementation and monitoring remains uneven (Ebrahim and Herz, 2007; Scholte, 2002). In fact, many members of the boards of executive directors of the World Bank and ADB engage NGO stakeholders directly, actively sharing information on evolving priorities and seeking input from civil society. Citizen groups may sometimes find the MDBs more sympathetic and open to engaging with them and their concerns than their own country governments are. This creates a difficult tension: while there are important steps that can and should be taken to enhance the transparency of accountability of MDBs, their presence can create space for debate over projects in political contexts where such deliberation would otherwise have been impossible. The MDBs' engagement in the greater Mekong Sub-Region discussed below highlights this tension.

The inner workings of MDB bureaucracies

MDB reactions to these pressures are mediated by their bureaucracies. The MDBs' power and influence in development are derived in part from the technical expertise and professionalism of their staffs (Stern and Ferreira, 1997; Wade, 1997; Woods, 2007). The MDBs, and the World Bank in particular, are purveyors of ideas about development, norm setters and ideology propagators (Held and McGrew, 2002). The president of the World Bank and the ADB wield particularly strong influence over which ideas, approaches and policy issues emerge as institutional priorities – or not. In the case of the World Bank, its large research capacity is also a significant source of influence: it has the largest research budget of any development institution in the world. Senior management and staff of the World Bank seek to maintain a key role in the global economy, and this requires constantly taking on new roles. In the face of new challenges, however, their responses are shaped by the familiar and long-established operating procedures and practices (Woods, 2007).

Indeed the World Bank has been one of the most important purveyors of the market side of the state-market contestation. The ADB is generally less closely associated with a neoliberal reform and privatization agenda than the World Bank, in part because of the influence of Japanese developmentalist thinking and

ideology (Dent, 2008). But in the energy sector the ADB has also advocated market-oriented reforms much like the World Bank, as discussed further in section 2 below. While staffs are increasingly interdisciplinary, they are nevertheless dominated by economists. They have tended to advocate reforms of a neoliberal orientation, supporting privatization over state ownership, and seeking to attract foreign direct investment through market liberalization.

MDB staff have often been inclined to take technocratic approaches to problems that have political and social roots. It can be difficult for local knowledge to infuse approaches taken by these professional staff. There are few incentives for staff to take risks or try new approaches (Gilbert et al., 2000; Wade, 1996). The ADB echoes this dynamic at the regional level. It has sought to leverage its closer links to the challenges of its region to design programs demanded by member countries (Lincoln, 2002). There has, however, been strong dependence on international consultants and experts from donor countries, and a tendency to value international knowledge over local knowledge. There are also tensions between the research activities of the banks and their operations, which often do not inform each other enough (Squire, 2000; Stern and Ferreira, 1997).¹

2. MDB engagement on energy in Asia: support for energy markets

MDBs exert influence through their financing, as well as through their support for new norms and ideas. They have influenced energy policy in both ways. This section describes how that engagement has evolved in response to the trends described above.

The MDBs' portfolios in Asia

With demand for energy growing rapidly, energy security remains an overriding priority for most Asian countries. Pressing challenges of energy poverty endure, including within major economies where growth has been neither equitable nor environmentally sustainable. In India, Indonesia and the Philippines, as many as 50 per cent of people still lack access to electricity altogether; the lack of access to modern energy services is even more pronounced in poorer countries such as Bangladesh, Laos and Cambodia. The rights and welfare of people affected by the siting of energy projects (regardless of the technology used) are often insecure.

The carbon intensity of energy consumption is a pressing global environmental problem, and reducing the greenhouse gases (GHGs) associated with Asian energy is increasingly imperative in the context of global efforts to address climate change. There are few obvious alternatives, however: for example, the development of

large-scale hydropower resources, which is increasingly justified as a low-carbon solution in many Asian countries, poses risks to the integrity of river ecosystems, as well as to the rights and livelihoods of people living in the river basin. For many governments, climate change remains a concern peripheral to that of keeping the lights on. The emergence of a clean technology industry within Asia, and the possibility of improving the efficiencies of energy use, however, present opportunities to support low-carbon development.

A review of the MDBs' portfolios in the energy sector over the past five years suggests bifurcation, with the banks showing signs of trying to be all things to all people in the face of conflicting pressures. Support for renewable energy and energy efficiency has increased significantly; nevertheless, support for conventional energy, including coal, continues, although this pipeline consists of a handful of large projects. The World Bank's increased lending for clean energy was initially driven by policies adopted at the Bonn Conference on Renewable Energy in response to civil society pressure, and an independent review of extractive industry activities which recommended that it should stop financing fossil fuels. The ADB has similarly adopted clean energy targets, partly in response to NGO pressure to stop lending to coal and gas projects.

Some civil society groups have stressed that the private sector lending arm of the World Bank, the IFC, continues to be invested in fossil fuel-intensive gas and coal infrastructure (Mainhardt, 2009). Detailed reviews of the ADB and World Bank energy portfolios suggest that energy poverty, equity and domestic governance have received limited attention in loans for policy and related technical assistance from 2005 to 2008 (Nakhooa and Ballesteros, 2010). Although energy investments of both the World Bank and the ADB are almost always justified on the grounds of their contributions to poverty reduction, internal evaluations conclude that energy poverty or benefits for the poor have not always been a central concern, even of programs focused on extending access to electricity (World Bank Internal Evaluation Group, 2008).

World Bank and ADB energy strategies

The evolutions of the World Bank and ADB's energy strategies over the past decades reflect continued contestation of the role of the state, and the emergence of climate change as an important consideration. World Bank engagement in the energy sector has been informed by several policies. Its 1999 environment strategy for the energy sector, *Fuel for Thought* (World Bank, 1999), prioritized the need to improve the environmental sustainability of energy production and use, and to reduce urban and indoor air pollution (Tellam, 2001).

This strategy complemented the 1993 policy paper on *The World Bank's Role in the Electric Power Sector: Policies for Effective Institutional, Regulatory, and Financial Reform*, which expressly advocated the introduction of competition and privatisation in the power sector (World Bank, 1993). A strategy on energy conservation and an informal strategy note on energy poverty were also developed. Internal evaluations noted that the introduction of reforms has been much more complex than anticipated, and that the Bank had tended to advocate privatisation without paying due attention to local context and political commitment.

A new strategy has been under development since 2009. Its consultation note highlights increasing energy price volatility as a result of shrinking energy reserves, the importance of climate change as an issue, and falling investment in energy as a result of the financial crisis. It concludes that 'The challenge is to meet the energy requirements of a modern economy and provide access to all people at affordable prices in ways that are sustainable' (World Bank, 2009, para. 14). It seems to recognize the need for a more integrated approach to energy, development and environment challenges than was reflected in *Fuel for Thought*, which presented initial steps to integrate environmental considerations into the periphery of mainstream energy investments, and set relatively modest targets. The new strategy proposes to focus on the twin challenges of '(1) Improving the operational and financial performance of the energy sector (2) Strengthening governance to improve the contribution of energy to equitable economic development' (World Bank, 2009, para. 31). In defining improved governance of the sector, the draft strategy reflects a preference for market-based approaches, noting that 'given that public utilities are expected to dominate the power sector in many countries in the coming years, improving corporate governance and strengthening their overall performance is particularly important' (World Bank, 2009, para. 31).

The ADB's 1995 energy policy similarly sought to attract private investment, and resources were preferentially allocated to countries that were willing to undertake restructuring reforms, advocating the use of market prices where possible and the full costs of supply.² While the strategy stressed that environmental considerations would be addressed at all stages of engagement in the energy sector, addressing sustainability was not an express priority (ADB, 2000). In 2009 it adopted a revised policy that committed the Bank to helping its members transition to low-carbon development, and focused on promoting energy efficiency and renewable energy, extending energy access and promoting reform, capacity building and governance (ADB, 2009). In describing its objectives with regards to reform and governance, the ADB stressed that 'Private sector participation (and public-private partnerships) will be encouraged to enhance

energy sector efficiency through competition, and to increase investable resources, but not as the end objective of reforms' (ADB, 2009).

Spreading new ideas about energy governance

The MDBs have helped propagate new 'wisdoms' about the institutions and instruments that should govern the energy sector. Their research efforts, policy dialogue and convening and technical assistance efforts influence which development ideas become practice. Both the World Bank and the ADB have helped establish new institutions, particularly independent regulators in the energy sector with the objective of overseeing the introduction of market-oriented frameworks for electricity service delivery and attracting private investment. Woods, Wade and others have described these efforts as aimed at making governance of the sector more technocratic and less political (Wade, 1997; Woods, 2007). The introduction of independent regulators has significantly enhanced transparency about the terms on which many decisions about electricity are made within Asian countries (Nakhooda et al., 2007). The World Bank has continued to support research, training and convening to build the capacity of regulators. Since 2008 the ADB has been reviewing the effectiveness of efforts to reform regulation of the electricity and water sectors, collaborating with regional universities, international research institutes and NGOs in this effort. It has also helped convene regulators to explore options for promoting investment in clean energy, and is developing an ASEAN forum on regulation that would institutionalize information sharing and capacity-building efforts to address governance gaps.

The World Bank is of central importance in the spread of new ideas, given the scale of resources it has dedicated to knowledge development, research and policy. Its large research budget is complemented by finance and collaboration with other bilateral and multilateral development agencies, and therefore infuses the programming priorities of many development institutions. Cross-cutting World Bank research, such as its annual flagship World Development Report (WDR), which some analysts describe as 'taking the pulse' of development discourse (Stern and Ferreira, 1997) has periodically focused attention on energy issues. The 2004 WDR focused on service delivery and the implications of privatization particularly for electricity. In 2010, the WDR focused on climate change in the lead-up to the Copenhagen conference of the parties to the UN Framework Convention on Climate Change (UNFCCC).

The World Bank has also built dedicated energy research capacities. An Energy Sector Management Assistance Program (ESMAP) was established in the 1980s to produce research and analysis on sustainable energy, and support program development. Originally,

the United Nations Development Programme (UNDP) was a partner in ESMAP, whose work focused on extending access to electricity, and explored the potential applications of renewable energy technologies for this purpose. Today, its projects cover energy security and energy efficiency, energy poverty including gender and access issues, market efficiency and governance, and renewable energy. ESMAP recently worked with major economy clients of the Bank to develop strategies for low-carbon growth. ESMAP's work, however, has seldom been well integrated into mainstream loan programming in the energy sector.

The World Bank has been firmly on the market side of the debate over market-led versus state-led approaches to energy. Bank research has advocated restructuring energy at the national level (Dubash, 2002). The 2004 research report *Reforming Infrastructure: Privatization, Regulation and Competition* presented a new 'model' for private participation in the energy sector, and a rationale for policy conditions that had been attached to World Bank loans since the mid-1990s (Kessides, 2004). The Bank also hosts a Public Private Infrastructure Advisory Facility (PPIAF) which offers advice and guidance on how to put in place policies, laws, regulations, institutions and government capacity that facilitate private participation in the sector. The ADB is also a partner in the PPIAF, which is supported by numerous bilateral and multilateral donors.³ The PPIAF represents a pooling of donor financing in support of the Bank's knowledge and research capacity, and illustrates how the Bank's research can inform the programming priorities of the donor community as a whole.

While most World Bank loans are justified through extensive technical work, they are not always informed by the research completed elsewhere in the Bank. The Bank's research has sometimes rationalized positions adopted by its operations department (Stern and Ferreira, 1997; Wilks, 1999). Insights into the effectiveness – or lack thereof – of Bank programming as diagnosed by its internal evaluation group are not consistently reflected in its research program.

3. An evolving agenda: the MDBs and climate change

The MDBs were among the first development institutions to recognize climate change as a development issue, stressing that poor countries would be more vulnerable to climate change than rich ones. It is only in recent years that the MDBs have begun consistently to integrate climate change into their lending and operations, and attention to these issues remains uneven even as the banks seek a greater role in managing new resources to help developing countries respond to climate change. We therefore consider how the governance of the MDBs

has affected the integration of climate change into its energy sector operations.

When the world's leading industrialized nations met at the Gleneagles G8 Summit in 2005, they agreed an action plan on Climate Change, Clean Energy and Sustainable Development emphasizing the role of MDBs in helping developing countries respond to climate. They tasked the World Bank with mobilizing an 'investment framework for clean energy', recognizing that the MDBs' technical expertise, development policy advice and investment support could catalyze a transition to sustainable energy in a carbon-constrained world.

The emphasis on the role that the MDBs could play resulted in part from the efforts of US and European NGOs to make the links between the UK's interest in using the G8 process to address climate change, and in part from their own efforts to draw attention to the environmental impacts of MDB activities in the energy sector.⁴ Each of the MDBs developed internal responses to the Gleneagles Communiqué. The dynamics at the World Bank, which have arguably been the most influential with regards to global energy and climate change governance, are detailed below.

Climate change at the World Bank

The Gleneagles Communiqué tasked the controversially appointed new president, Paul Wolfowitz, with steering the World Bank to take a more proactive approach on climate change and sustainable energy. This agenda was inconsistent with US President George W. Bush's skepticism of the science of climate change, which was shared by Wolfowitz and the advisers who followed him from the US State Department to the World Bank (Gumbel, 2007).

In the months after the Gleneagles summit, the World Bank made a concerted effort to mobilize a response, and many senior staff sought to develop a proactive strategy to support low-carbon, environmentally sustainable development in client countries. Senior management resisted these efforts, however. Reports later surfaced that representatives of Wolfowitz's office had personally removed references to climate change in drafts of the Bank's evolving investment framework for clean energy (Guha, 2007).

After more than a year of internal deliberations, the Bank released a final version of its Clean Energy Investment Framework (CEIF) in March 2007. Its priorities were to support improved access to electricity in Africa; a transition to a low-carbon economy, especially in the '+5' middle-income countries; and support adaptation to the impacts of climate change. To achieve these goals it would have to sustain a strong energy program and increase investment in the energy sector, including lower-carbon fossil fuels and hydropower, and to explore

options for enhanced financing of these options. This largely represented an extension of the Bank's existing strategy to scale up infrastructure investment. While the World Bank housed several experts on clean energy and climate change, its infrastructure project teams were dominated by staff familiar with conventional infrastructure. An emphasis on adaptation to the expected impacts of climate change eventually emerged. Early drafts of the CEIF made the case for a number of specialized funds that the Bank could administer in support of these objectives. Donor countries originally resisted these proposals, expressing the view that the Bank should first explore what it could do with existing resources.

When Robert Zoellick took over as president of the World Bank later that year, he took a radically different approach. The Bush administration's attitude to climate change had evolved from outright resistance to tentative engagement, albeit outside the UNFCCC.⁵ In February 2008, after discussions with the World Bank's new president, the governments of the United Kingdom, the United States and Japan announced their intention to '[pool] efforts to support a new clean technology fund, administered by the World Bank, help developing countries bridge the gap between dirty and clean technology ... and boost the World Bank's ability to help developing countries tackle climate change' (Paulson et al., 2008).

The World Bank worked quickly to launch a series of Climate Investment Funds (CIFs) which included a Clean Technology Fund (CTF) and a Strategic Climate Fund (SCF).⁶ By September 2008, some 12 donor governments had pledged \$6.1 billion to the CIFs. The bulk of these funds (more than \$4 billion) are dedicated to the CTF, to support the deployment of clean energy technologies and make transformative reductions in GHG emission trajectories in developing countries. The ADB as well as the Inter-American Development Bank, African Development Bank and the European Bank for Reconstruction and Development are partners in implementing CIF programs, which has created a structure for operational coordination across the MDBs for the first time.

The sequence of developments that led to the adoption of climate change as a policy issue for the World Bank on its own terms demonstrates the strong continued influence of US policy positions in shaping approaches taken. Strong support from UK and European members was inadequate to make climate change a central focus in the face of US opposition. It further demonstrates the significant influence of senior management and the World Bank president in particular in shepherding (or blocking) new agendas and approaches. Developing countries were open to the Bank doing more to support low-carbon development, as long as it would not imply that the Bank would cut off support for carbon-intensive development. Nevertheless, as we will

discuss further in section 4, US support for stronger action on climate change in an increasingly multipolar governance context is insufficient to drive a climate change agenda in the face of resistance from major developing countries, particularly Asian powers.

The challenges and opportunities of climate change

The availability of concessional financing through the CIFs has attracted the interest of Asian countries that have not borrowed from the MDBs for some time. For example, Thailand is borrowing from the World Bank for energy projects for the first time in decades. Blending concessional finance with the MDBs' core resources has the effect of lowering the overall costs of capital for borrower countries, which in turn makes them more likely to borrow from the banks.

Asia's emerging powers in global governance such as China and India have been reluctant to seek access to these funds. This is in part because of the controversies around the links between the CIFs and negotiations over climate finance within the UNFCCC. Developing countries originally rejected the idea that contributions to the CIFs should count as climate finance, or that the World Bank should have any role in managing climate finance (Ballesteros et al., 2010). Their concerns stem largely from these same power imbalances that stalled the adoption of climate change as a priority issue for the Bank until 2008. Yet India and China both have seats on the governing committee of the CTF, reflecting their desire to influence spaces of relevance for global climate change and energy governance.

Furthermore, the World Bank has been designated as the interim trustee of the Climate Change Green Fund agreed at the Cancun UNFCCC meetings in December 2010, although a new committee has been formed to further develop the governance arrangements of the Fund (UNFCCC, 2010). As the MDBs vie for a role in managing climate finance, governments, NGOs and others are asking them to prove that they will use these resources well, and achieve real results.

The CEIF evolved into a Strategic Framework on Development and Climate Change (DCCSF) in part as a response to these demands. The DCCSF went through an extensive process of consultation with government and civil society stakeholders before it was adopted by the World Bank's board in late 2008. Discordant views on whether the Bank should continue to finance conventional fossil fuels resulted in the adoption of a set of criteria for financing coal, including the demonstration that assistance is being provided to identify and prepare low-carbon projects, a full consideration of viable alternatives, and the incorporation of environmental externalities. An independent panel of experts assesses whether proposed programs meet these criteria before the World

Bank can finance coal projects. Since 2009, the World Bank has also been expanding its staff capacity on climate change. It appointed a special envoy on climate change to ensure focused leadership and representation of the World Bank in international climate change discussions, as well as creating the position of a Chief Technical Specialist for Renewable Energy and Energy Efficiency.⁷ The ADB has also sought to expand its profile and capacity on clean energy and climate change. Efforts are under way to build new capacities and expertise that will allow the MDBs to address climate change considerations more effectively throughout their operations.

4. The rise of Asia and the emergence of multipolarity

These dynamics must be considered in the context of the growing energy needs of Asian economies, and the abundance of private capital in the countries that have emerged as significant economic powers such as India, China, Thailand and Korea. Many of these countries, particularly China, are investing in energy resources in neighboring countries to help maintain their own energy security. Asia's largest economies are far less dependent on MDBs to finance their major infrastructure programs than they may once have been. The legacies of the heavy conditionalities that the MDBs attached to their interventions in the midst of the financial crises of the 1990s have not been forgotten.

The MDBs' business model in turn makes a strong case for sustained engagement in such countries, as they are well placed to repay loans at higher interest rates. Developing countries, particularly newly powerful states such as China and India, continue to maintain that MDB financing for conventional energy is needed. For the MDBs, conventional energy continues to represent a viable and lucrative investment opportunity. The World Bank has launched initiatives to strengthen its engagement in middle-income countries, and to resuscitate its engagement on infrastructure through a series of 'Infrastructure Action Plans'.⁸ MDB involvement potentially offers the possibility of helping these countries manage the divergent aspects of global energy governance, including energy poverty, energy security and geopolitics, environmental considerations and improvements in domestic governance.

Efforts to reform the anachronistic governance structure of the World Bank have focused on giving developing countries greater voice in the governance of the institution. Asian giants such as India and China have been champions for such reform. Recent steps to reform voting arrangements at the World Bank resulted in a 3.13 per cent increase in the voting share of developing countries to 47.19 per cent and China emerging as the third largest shareholder of the Bank after the United

States and Japan (Ballesteros et al., 2010). Developing countries own 47.42 per cent of the ADB's shares. As the influence of Asian countries in the MDBs rises, however, what is this likely to imply for public interests and transparent, inclusive governance of energy?

Friction around the energy agenda

Asian countries have been wary of the implications of the growing pressure on the MDBs to prioritize climate change. The governments of India and China have been proactive in organizing developing countries to respond to these developments. In December 2009, the Obama administration's US Treasury released a set of guidelines restricting the terms on which the US would support the use of MDB resources to support coal technology. The guidelines suggest that coal should only be supported as an option of last resort, and were developed after quite extensive consultation within the US government and with US-based NGOs. However, the US made few efforts to engage other country members of the banks in the development of these guidelines.

In general, Asian member countries of the ADB and the World Bank hold fundamentally different views about where the priorities for MDB financing should lie. In the absence of significant international support for developing countries to act on climate change, Asian countries maintain that energy security must take priority over environmental sustainability in cases where trade-offs arise. The intent of the Treasury guidelines is to incentivize MDBs to use adequate diligence to avoid such trade-offs. Yet the promulgation of these guidelines has been a source of enormous friction between developed and developing country members. The executive director for India took the lead in organizing a strong response to the terms on which the guidelines were put forward. This measure is consistent with India's strong and established international position on the need to prioritize equity between developed and developing countries in international agreements on climate change. Indeed, the politics of the UNFCCC seem increasingly to infuse decision making within the World Bank's board. In a letter to the president of the World Bank coordinated by India, developing countries expressed grave concerns about the implications of constraining the terms on which the MDBs engage with conventional energy technologies such as coal:

Coal is the cheapest source of energy for electricity generation ... In the year 2007, of the total electricity generation of 4,323 billion kWh in the US, as much as 2,118 billion kWh came from coal fired power plants, this is 26% of the total coal fuelled electricity generation in the world. If the US had indicated its intention to

retire its coal based power plants for replacement by renewable energy to free up space in the global commons to enable poorer countries to set up coal fuelled power plants to access cheaper electricity, the developing world would have welcomed such an initiative. Instead the US seeks to make it more difficult for poor countries to obtain bank funding for coal fired power forcing them towards more expensive renewable energy (Arnoldafi et al., 2010).

The controversial \$3.75 billion loan to South Africa's national utility Eskom, primarily to finance the 4,800 MW supercritical Medupi power plant was the first test of these discordant perspectives on how the MDBs should incorporate climate change into their engagement in the energy sector.⁹ The debate over the loan offers insights into trade-offs between various aspects of energy governance that have been and will be quite relevant in Asian countries. Many of these issues were raised in 2008, for example, when an IFC loan for the 4,000 MW Tata Mundra supercritical coal plant in India was considered by the World Bank board. IFC support for Tata Mundra was also justified because increasing coal prices had raised the total anticipated cost of the facility. Four constituencies (the US, the UK, the Netherlands and Italy) abstained when the loan finally came before the board of executive directors of the World Bank (Friedman, 2010).

For developing country members of the Bank, particularly those that objected to restrictions on fossil fuel lending, the approval of the program may have provided some assurance of the Bank's responsiveness to their stated priorities. For many observers, particularly environmental NGOs, the loan has created the impression that the Bank ultimately prioritizes energy security over environmental or social sustainability objectives.¹⁰

5. Conflicting dimensions of energy governance

As discussed in section 1, the MDBs have sought to respond to civil society demands for more accountability and transparency in a variety of ways. These responses, however, conflict with the preferences of emerging powers as well as with the Bank's staff's own technocratic preferences, so results have, perhaps unsurprisingly, been quite modest. This section considers some examples of the MDBs' efforts to address transparency and accountability considerations in the energy sector, before presenting a case study of how various aspects of energy governance discussed in this article have conflicted in the case of MDB interventions the Greater Mekong Sub-Region (GMS).

For example, the World Bank has explored new experiments in multistakeholder governance to work through

complexities. It helped convene and support the World Commission on Dams, which brought pro-dam lobbyists and anti-dam protesters together to complete an independent review of the implications of hydropower development. The recommendations of the Commission were rejected by many developing country members of the World Bank – notably China – and were not endorsed by the Bank itself. Nevertheless, it did provide new insights into how multistakeholder groupings can provide a platform to deepen dialogue at both global and national levels about difficult issues, and help democratize decision making (Dubash et al., 2001).

Similarly, the Bank has sought to address governance and corruption in the oil and gas sectors through improved transparency about how revenues from resource extraction are used. It has embraced the concept of the Extractive Industries Transparency Initiative (EITI) as a tool to this end, including by administering a multi-donor trust fund to support countries to become compliant with its core reporting requirements. Indeed, getting member countries to comply with EITI has been one of the objectives of Bank engagement on extractives. The World Bank spent several years encouraging the government of Indonesia to commit to the EITI in the context of its ongoing engagement with the country's primarily state-owned oil and gas sectors, before Indonesia finally made the commitment in 2009. The effectiveness of these transparency provisions as a condition for Bank engagement is debatable: relatively few government members of EITI are compliant with its provisions as yet (Extractive Industries Transparency Initiative, 2010). In some countries, the banks have also sought to influence how the revenues from oil and gas development are budgeted for and programmed, including by promoting participatory budgeting.

MDB engagement in the Greater Mekong Sub-Region

The experience of MDB engagement in the GMS highlights the tensions between different aspects of global energy governance highlighted in this article. With regards to the contested role of the state versus markets, the MDBs have encouraged more open trade between countries, advocating for greater cooperation and integration on issues where regional benefits may be possible. They have catalyzed regional cooperation around energy in the GMS (and similarly in Central Asia through the establishment of the Central Asian Regional Economic Cooperation Program) in contexts in which history, politics and culture might otherwise seem to conspire against collaboration.

The GMS comprises Thailand, Laos, Cambodia, Vietnam, China and Myanmar, and has been supported by the ADB since 1992. It is an unlikely cooperation of socialist, formerly socialist and capitalist economies, but

reflects the general trend towards greater regional cooperation that also led to the Association of South East Asian Nations (ASEAN) Free Trade Area in 1992.¹¹ The ADB conceived of it as an 'apolitical' investment platform, for which it would provide strategic and technical guidance to enable development and investment. It convenes government representatives from GMS countries several times a year to assess progress in implementing priority projects in the GMS master plan.

Consistent with the MDBs' tendency to find technical solutions to challenges with political underpinnings, the GMS is an operational space in which infrastructure investments link together countries with very different political systems and economic power (Krongkaew, 2004). While the ADB led efforts to operationalize the GMS consistent with a general trend towards supporting regional integration in East Asia (Dent, 2008), the World Bank has joined in with these programming efforts. The conflict, cultural and political differences that have characterized the region have been replaced by a focus on 'getting things done' by taking investment ideas and turning them into action, seeking to attract private investment (Bakker, 1999).

Energy has been central to the GMS, and has important implications for environmental sustainability and climate change. Its member states depend on each other for liquid fuels, and for electricity. While Myanmar and Vietnam are net energy exporters, the rest are importers. The ADB has focused on energy security and productivity, investing significant resources in technical modeling on how to develop GMS energy resources. The Nam Theun 2 dam in Laos, for example, was built primarily to provide electricity to Thailand, the economic powerhouse of the GMS. The revenues from electricity exports are in turn an important source of foreign exchange income for Laos. Similarly, Thailand sources natural gas from Myanmar. Indeed, the cumulative impacts of dam development in the Mekong, with China proposing to build as many as 12 upstream dams, pose serious risks of river ecosystem disruption and displacement of communities living in the basin (UNEP and Asian Institute of Technology, 2009). Both hydropower and natural gas development in the GMS have been justified as low-carbon options to meet regional energy needs.

The GMS has facilitated the 'regional spillover' of unsustainable resource development of its largest economies, such as Thailand. This spillover is prompted by the increasing difficulty of implementing projects with environmental impacts within Thailand (Hirsch, 2001). Integration of regional energy markets may in fact serve to undermine progress that has been made in strengthening governance of environmental issues and of energy within GMS member countries, who look to develop disruptive projects in neighboring countries

where these strengthened standards do not apply (Electricity Governance Initiative of Thailand, 2005–07; Hirsch, 2001).

Questions of public accountability, inclusiveness and governance have been particularly complex in the GMS context. Thai NGOs have sought to join forces with international NGOs such as International Rivers and the Environmental Defense Fund. While these transnational networks have been effective in raising awareness of the environmental and social problems at hand, they have struggled to influence the core of the approach taken. Their limited effectiveness can be explained in part by the fact that political space for expression of views simply does not exist in most GMS member countries. As a result, there has been very little scope for a legitimate debate about the long-term implications of energy resource development for the people of the GMS, and the options for best managing these (Hirsch, 2001). The ADB has responded to critiques of the GMS model by introducing programs to strengthen environmental management capacities within member countries, and to focus more on poverty alleviation aspects of GMS programs.

With member countries focused primarily on energy security, however, concerns about environmental integrity, social impacts and democracy have been difficult to address within the GMS. There is likely more transparency about developments in the Mekong and greater effort to manage environmental and social impacts of energy development in the region than in the absence of the MDBs' technical capacities and support.¹² Nevertheless, the extent to which the MDBs are inclined – or indeed able – to introduce transparent, inclusive and accountable governance in order to address more completely competing objectives of security, environmental sustainability and poverty alleviation seems to have been quite limited given the political conditions within the member countries of the GMS.

Conclusions

The MDBs are actively engaged with most Asian countries on energy issues, and have had significant influence over national systems of energy governance. As multi-lateral institutions, they are also formally involved in international processes to govern global challenges, including environmental issues such as climate change, as well as economic, trade and finance-related processes. This article has described the implications of their influence over reframing the roles of the state and the private sector, respectively, in the energy sector, their responses to the emergence of climate change as an increasingly salient issue, and the implications of a growing role for Asian countries in their governance in this context.

In the past, the strong influence of the US in the case of the World Bank has affected which issues emerge as priorities in MDB engagement on energy policy in developing countries. President-level leadership and the priorities and interests of senior management have also shaped whether new ideas are embraced or resisted. Asia's growing role in the governance of the MDBs raises important questions about their future role in global energy governance.

Imperatives to address energy poverty, environmental sustainability and norms of good governance of energy come up against the tough realities of meeting soaring demand for energy to power economic growth in Asian countries. Energy security continues to be the priority for recipient countries loath to see the MDBs close off their access to financing for low-cost energy, even as climate change becomes an increasingly important issue.

This tension is juxtaposed against the functions and business models of the MDBs, which are tasked with earning a reasonable rate of return on their investments for their shareholders (a growing share of whom also happen to be borrowers). Their core business is to issue loans that will be repaid. Conventional projects also continue to be lucrative investments for MDBs. But the emergence of an important potential new line of business in climate finance, and the possibility of renewed relevance in international issues, may be prompting the MDBs to reassess how they manage competing and sometimes conflicting aspects of energy governance.

Thus far, Asian governments have not played a proactive role in shaping MDBs' priorities with regards to energy governance, though they have resisted efforts by donor countries to reshape priorities. In so doing, they have emphasized issues of equity, particularly with regards to the issue of climate change. The growing influence of Asian governments within MDB governance will not necessarily prompt greater attention to strengthening the governance of energy. As the example of MDB engagement in the Greater Mekong Sub-Region suggests, the limited political space for deliberation and discussion that exists within many Asian countries can constrain the scope to improve governance and reconcile competing objectives in the energy sector at a transnational level.

Therefore, reforming the MDBs to improve governance of energy will require much more than simply giving Asian governments more votes: it will require reforms that make the MDBs more accountable to a diverse cross-section of stakeholders within member countries through improved inclusiveness, transparency and accountability. It will also require new investments in the leadership and staff of the MDBs, to equip and incentivize them to better address equity, environmental issues and governance of energy. Whether growing Asian influence in the governance of the MDBs will allow this potential to be realized, however, remains to be seen.

Notes

1. This finding is echoed by Stern and Ferreira, 1997 and Squire, 2000.
2. A revised paper was released in 1995 which, consistent with larger trends in the sector and the precedents being set by the World Bank, sought to reform the electricity sector by introducing competition. In general, however, the ADB has been less insistent on privatization. Wade (1996) argues that this may reflect the influence of the Japanese who endorsed a market guiding role for the state in development.
3. PPIAF donors include Australia, Asian Development Bank, Canada, European Commission, France, Germany, International Finance Corporation, Italy, Japan, Millennium Challenge Corporation, the Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States and the World Bank. See Public Private Infrastructure Advisory Facility, <http://www.ppiaf.org/ppiaf/page/about-us>.
4. For example, WRI's analysis of climate change considerations in the energy portfolios of the World Bank was used to draw the attention of the UK government to this issue: see Sohn et al. (2005). The Institute for Policy Studies and the World Wildlife Fund also produced reports documenting the environmental implications of the World Bank's activities prior to the summit.
5. The new US Treasury Secretary Henry Paulson had led efforts to green Goldman Sachs investment practices as its CEO, and was also a board member of The Nature Conservancy. The government of the UK remained committed to championing the climate change agenda catalyzed by the Gleneagles Communiqué through the World Bank. Japan had announced new initiatives to help developing countries respond to climate change including through its \$10 billion Cool Earth 50 partnership.
6. The SCF will support several lines of programming including a Pilot Program on Climate Resilience (PPCR), a Forest Investment Fund (FIF) and a Scaling Up Renewable Energy Program (SREP). The UK contribution to the CIFs came from their Environmental Transformation Fund which had three priorities: adaptation to climate change, reducing forest-related emissions, as well as technology-based mitigation. This prompted the World Bank to establish multiple funds that could respond to these multiple agendas.
7. Which has recently been filled by Dr Daniel Kammen, formerly of the Energy and Resources Group at the University of California, well known for his pioneering work on renewable energy, including in developing countries.
8. These are now called Sustainable Infrastructure Action Plans: new versions were approved in 2003, 2007 and 2009, respectively.
9. The Eskom loan is the largest energy loan the World Bank has ever made to a single entity. South Africa has taken the position within UN climate change negotiations that it is imperative to mitigate climate change in order to achieve sustainable development, but it has struggled to put this intent to act into practice domestically. Within the Bank's internal frameworks, the program was justified as a 'transitional measure'. The Eskom support program included complementary measures to support a wind farm and a concentrating solar thermal power plant (Nakhooda, 2010). Furthermore, the financial crisis had closed off Eskom's access to alternative sources of finance. The loan had been under development for several years before the crisis hit, however. The International Bank for Reconstruction and Development and the International Finance Corporation are lending to Eskom at close to commercial rates, and in hard (US) currency. Eskom's B++ credit rating may seem risky to

some private investors, but it is quite attractive for an institution that lends to high-risk entities in some of the poorest countries in the world.

10. These concerns have been reinforced by slow progress in implementing the renewable energy components of the support program, which have been poorly grounded in the underlying institutional, policy or regulatory processes of South Africa (Nakhoda, 2010). Woods' observation that the World Bank tends to respond to new challenges using familiar tools and processes (Woods, 2007) may help explain the World Bank's failure thus far to engage creatively with the realities of the local context for implementing renewable energy. In South Africa, these include a poorly coordinated policy framework, weak energy regulatory institutions and powerful vested interests, although there is a vocal emerging group of NGOs and private sector companies seeking to develop clean energy. Similar challenges exist in most Asian countries. This raises important questions about the extent to which the Bank's continued support for fossil fuels enables stakeholders and institutions within the country really to address the challenges of a transition to a low-carbon energy future.
11. ASEAN now includes all members of the GMS (with the exception of China), as well as Brunei, Indonesia, Malaysia, Philippines, Singapore and Myanmar. While cooperation on energy issues has also been a priority issue for ASEAN, ambitious ideas from that forum such as an ASEAN grid have not yet been acted on in practice.
12. Given China's strong interest in developing Mekong energy resources, claims that many of these projects could be developed in even more disruptive ways without the MDBs seem plausible.

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