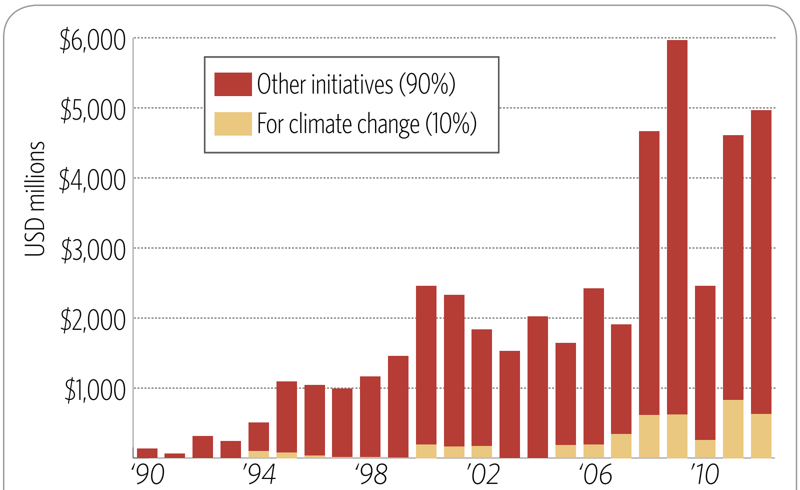
CPI Fact Sheet: Mapping the World Bank Group Risk Mitigation Instruments for Climate Change

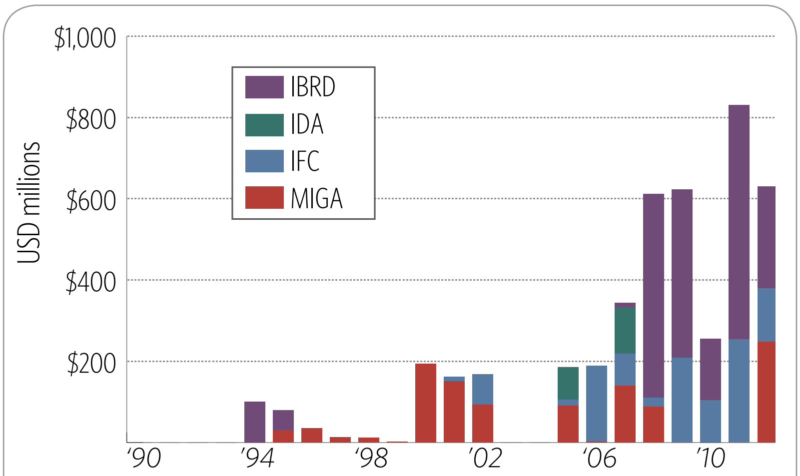
Since the early nineties, the World Bank Group (WBG) has been a major provider of risk mitigation instruments through its member institutions – MIGA, IFC, IBRD, and IDA.* Yet, despite its increasing commitment to addressing climate change, few risk instruments appear to have been used at a significant scale to support climate related projects.

Share of climate related commitments in total WBG risk mitigation



Source: CPI elaborations based on WBG data

Climate related risk mitigation per institution



Source: CPI elaborations based on WBG data

- On average, the WBG has committed 2 USD billion to risk mitigation activities every year since 1990; in the last three years annual commitments rose to 4 USD billion. So far the WBG has dedicated 10% of these flows to climate change, and commitments rose to 14% in 2010-2012;
- Most instruments provided by the WBG explicitly focus on counterparty / credit risks and political risk. Other risks are implicitly covered mostly through partial credit guarantees;
- Most commitments for climate related projects went to established technologies, mainly in Latin America and East Asia & Pacific, with the Sub-Saharan region also receiving significant interest;
- MIGA is the largest provider of risk mitigation instruments in terms of volume, but has a relatively low involvement in the climate change sector. A stronger formal engagement by MIGA would have the most impact on overall WBG support to climate related projects;
- IBRD provides the largest variety of risk mitigation instruments but its commitment to risk mitigation for climate change is gradually focusing on contingent financing provided to the public sector;
- IFC is significantly increasing its commitment to risk mitigation and climate change, and is the only institution to have products specifically dedicated to climate change. However, it has still only seen one product in the climate change sector reach significant scale.

Conclusions: Despite the WBG's growing prioritization of climate related investment, more can be done to increase provision of climate-specific risk mitigation products and keep pace with increasing needs for green investment. More importantly, only a few types of risk instruments appear to have been used at a significant scale to support climate related projects.

- A World Bank Group mandate on a wider use of risk mitigation instruments for climate change could help increase their availability to the climate investor;
- Guarantees, in particular, could be used more frequently to support climate related projects;
- Index-based instruments could potentially be explored for support to climate related sectors beyond disaster risk mitigation;
- While information on premiums is easily accessible for almost all products, more can be done to improve available information on transaction and enforcement costs.

* Acronyms: MIGA - Multilateral Investment Guarantee Agency; IFC - International Finance Corporation; IBRD - International Bank for Reconstruction and Development; IDA - International Development Association. In our survey we also covered GEF (Global Environment Facility) and CIF (Clean Investment Fund).

Climate Policy Initiative mapped available risk mitigation instruments provided by the World Bank Group (WBG) through its member institutions – MIGA, IFC, IBRD, and IDA – to understand to what extent these instruments have been targeting climate-related projects and to highlight gaps. The resulting brief and presentation slides, titled *Mapping the World Bank Group Risk Mitigation Instruments for Climate Change*, can be found at: www.ClimatePolicyInitiative.org /publications

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