Congress of the United States
Washington, DC 20515

March 26, 2010

The Honorable Robert Zoellick
President
The World Bank
1818 H Street
Washington, DC 20433

Dear President Zoellick:

We are writing to express our concern with the World Bank's proposed loan to fund the construction of a large coal power plant for the South African utility, Eskom, that is due to come before the Bank's board in early April. As the World Bank prepares to request a general capital increase, engages in consultations on a new energy strategy, and positions itself to play a leadership role in managing climate finance after the Copenhagen Accord, the possible approval of more than $3 billion for what would be one of the world's largest coal plants raises serious questions.

This 4,800 MW coal plant will be the fourth largest in the world and a significant source of carbon emissions. We are told that the project does not meet World Bank standards for procurement or acceptable standards for environmental impact assessments of associated facilities. Reportedly, it also does not fulfill the new guidelines issued by the U.S. Treasury that require new coal power to be fully offset by other measures.

We recognize that this is a unique project that arrived at the Bank under exigent circumstances, and that the people of Southern Africa have urgent energy needs. The serious power shortages South Africa began to face in 2008 posed a threat to the country's economic and political development as well as to the region's. These shortages added to the region's existing need to provide reliable access to energy for consumers and industry. In addition, the financial crisis destabilized Eskom, which was already a struggling economic entity, causing affordable private funding to evaporate and forcing Eskom to reach out to the World Bank and the African Development Bank when the project was 95 percent procured.

We are aware that the World Bank has sought to improve the project since it began considering the loan, including the addition of important renewable energy components and energy efficiency efforts, as well as the transition of coal transportation from road to rail. And we appreciate that some of the negative impacts of coal power were considered and the project elected to utilize supercritical technology and an air-cooled approach to increase efficiency and minimize water usage.

However, neither the crises which caused Eskom to approach the Bank nor the changes to improve the project fully allay our concerns. While we understand that the decision to build the coal plant is in the hands of the South African government, dozens of South African civil society organizations have raised objections. They charge that the World Bank and Eskom have failed to provide affordable electricity to average South African households, and failed to thoroughly evaluate the full costs of both coal and cleaner energy options. There are also reports that this project may significantly increase electric rates for low and moderate-income households, while subsidizing rates for large industrial customers, although the South African government disputes such reports.

We are aware of and sympathetic to the urgent need to provide electricity to South African communities and industries, and recognize that this project was originally meant to be fully financed by the private sector. But when the World Bank becomes engaged so prominently in a project of this nature, we believe issues of public policy that are within the Bank's development mandate should be specifically addressed. We also believe that the concerns about this project raised by South African civil society ought to be considered and given their due weight. It is our understanding that the Bank's commitments under the Development and Climate Change Strategic Framework were designed to address exactly these types of problems. We would appreciate knowing the extent of the Bank's consultations with South African civil society stakeholders, and how the Bank plans to address their concerns.

We are also interested to know the status of South Africa's new national integrated resource plan, and the World Bank's rationale for financing a coal plant of this size before the plan is finalized. Will the World Bank participate in developing this new resource plan, consistent with the Bank's efforts to address climate change?

There are at least three aspects of the current project that we urge the Bank to address:

1. *Reform at Eskom.* The IMF claims that private investment in generation has not materialized partly because electricity tariffs were set far below the average cost in major economies. Meanwhile there remains a lack of transparency in a number of the utility's "Special Pricing Agreements" with well-connected national industries. The World Bank should work with Eskom management to address such problematic agreements, ensure transparency, and assist Eskom with its effort to end commodity-linked contracts to achieve greater pricing and accounting certainty for the company. As a condition of support, the World Bank should seek a public agreement with the Government of South Africa to continue to meet its commitment to extend conventional electrical service to its country's poorest citizens within a time period arrived at through a transparent process.
2. *Renewable energy and energy efficiency.* The Bank should be commended for including additional renewable energy projects to partially offset the carbon emissions the plant will produce, although the scale of the renewable projects is relatively small. The Bank can and must do more to meet the U.S. Treasury guidelines, including in energy efficiency which can achieve substantial positive returns on investment. The loan contract should include a commitment by Eskom to expand its use of renewable energy in future power projects whenever the economics of those projects make this feasible.
3. *Expert panel.* While the expert panel that reviewed the project recommended proceeding with the loan, it did not determine that the Bank's criteria for financing a coal plant pursuant to the Bank's Development and Climate Change Strategic Framework would be met. The Bank should commit to helping South Africa pursue its low carbon energy

development strategy and to improve energy efficiency in other parts of its economy. We believe that the loan contract should include a commitment by Eskom to retrofit the Medupi plant with additional environmental protection as new technology becomes available. The Bank should also insist that Eskom commit itself to upgrading the environmental standards of its other power facilities in the country and the Bank should consider financing those improvements if private finance is not available.

As the Congress is asked to increase the U.S. contributions to the multilateral development banks, we must be sure that these investments are supporting 21st Century priorities. Energy poverty and climate change are two of the most potent interlocking challenges we face. Billions of people in developing countries are experiencing unprecedented economic opportunities for the first time thanks in part to new access to electricity. No citizen of a developing country should be held back by a lack of access to energy.

But we cannot ignore the reality that our planet is hurtling toward potentially catastrophic climate change. This problem did not begin in developing countries, but the solution will depend, in part, on addressing their growing contribution to it.

We cannot sustainably reduce energy poverty without also addressing climate change. The Bank, with its funding and intellectual leadership, can and must play a central and effective role in maintaining this balance. We are not yet convinced that this project sufficiently advances this goal.

We look forward to your response to our concerns.

Sincerely,

Patrick Leahy

Patrick Leahy
Chairman
Senate Appropriations Subcommittee on
Foreign Operations, and Related Programs

John Kerry

John Kerry
Chairman
Senate Committee on Foreign Relations

Barney Frank

Barney Frank
Chairman
House Committee on Financial Services