

Climate Change Agenda in ECA Challenges and Opportunities: Why? What? How?



Strengthening Corporate Governance in North Macedonia: Sustainability Reporting and the Increasing Role of Audit Committees

Skopje, November 9, 2023



**The Europe and
Central Asia (ECA)
region faces complex
and diverse impacts
from climate change**

***The costs of inaction
are high, especially for
the most vulnerable***



Climate change impacts vary widely across ECA, but most countries have areas that are highly vulnerable.

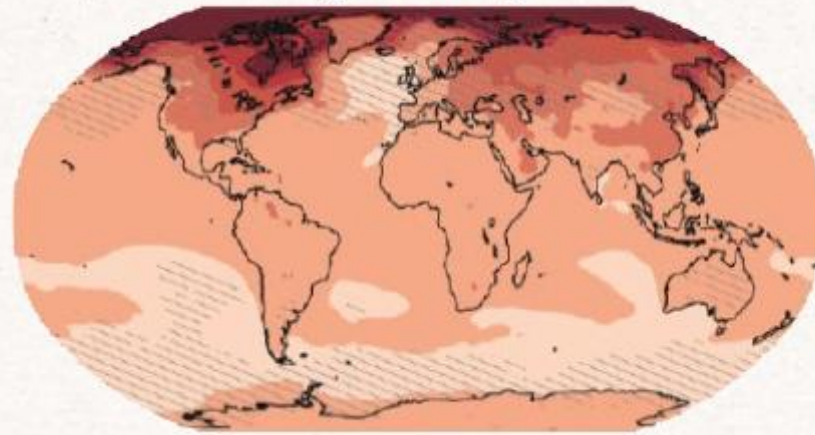
Large parts of the region are water stressed and will face more frequent and more severe droughts, while flood risk and severity is also growing.

Some parts of the region could see higher agricultural yields due to climate change. Taking advantage of this opportunity requires smart investments in adaptation.

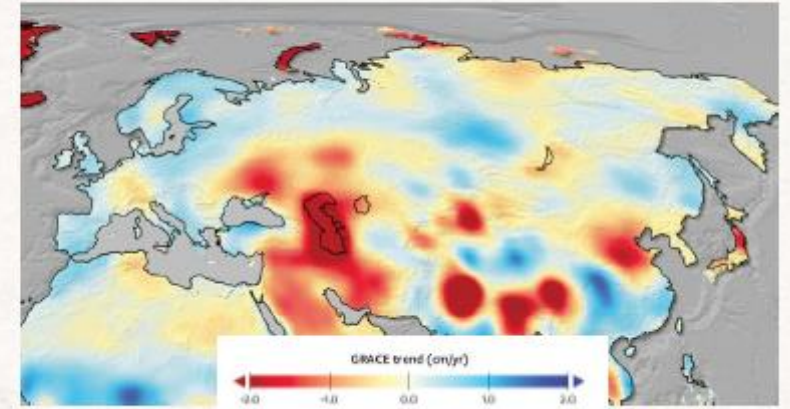
Failure to act will have large impacts on economic growth, health, and social inclusion.

Yet adaptation capacity in the region remains weak.

ECA is warming much faster than the global average



Parts of the region are facing increasing water scarcity, while flood risks also grow



Impact of climate-related extreme weather in the EU



Source: The EU Strategy on Adaptation to Climate Change (2021)

Number of climate migrants in Central Asia projected to reach 5.1 million by 2050



Air pollution accounts for 1 in 8 deaths in Europe



Fossil-fuel and energy intensive economies are highly exposed to policy shocks in the climate transition



ECA is home to many of the world's most energy and carbon intensive economies

The region's **high demand for heat** makes decarbonization challenging, as heating systems are highly reliant on fossil fuels.

Decarbonization will require **huge investments** to shift power systems to renewable energy along with technological innovations (e.g., hydrogen).

Private sector investment will be critical to meet investment needs.

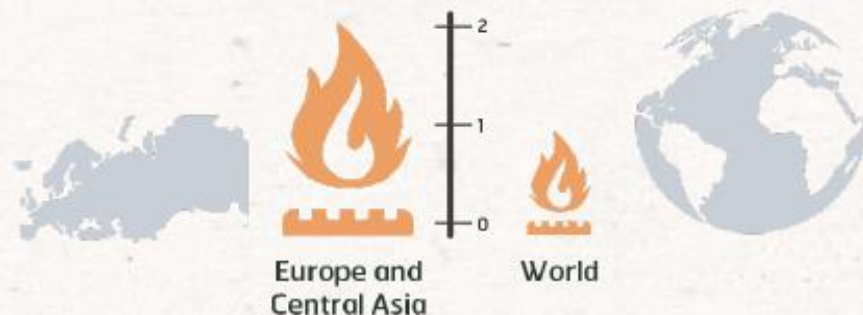
Improving **energy efficiency**, particularly in aging residential housing and industrial facilities, will play a critical role in decarbonizing across the region.

A unique advantage in ECA is the large potential to use landscapes (especially forests) to **absorb carbon**.

10 of the 20 most **carbon intensive economies** in the world are in ECA



The share of energy from **natural gas** in ECA is twice the global average



ECA is the world's largest source of **forests and grasslands**.



Failure to decarbonize will be costly

Regional and global climate policy – for example, the EU's introduction of **carbon border adjustment taxes** – means failure to act on mitigation will put countries at a competitive disadvantage in global markets.

Countries in ECA that are dependent on fossil fuels risk billions of dollars in **stranded assets** if they continue to invest as global demand for oil, gas, and coal dries up.



**The region needs
an ambitious,
people-centered,
and development-
focused climate
transition**



Most ECA countries (outside EU) have made **slow progress** on decarbonization.

The climate transition is made more difficult by the region's **"incomplete transition"** towards a market economy.

Climate transition can help support **diversification, competitiveness, and inclusion** in the region's economies.

Just Transitions are needed: some workers and communities will be hit hard from jobs shifts and energy price adjustments, while others will benefit from new green jobs.

Citizen support for climate action is strong across most of the region.

Fossil fuels accounted for 26% of exports in Europe and Central Asia in 2018, versus 10% globally and just 5% in the EU



In two-thirds of countries surveyed in the region, **environmental protection is** prioritized by the public, even above growth and jobs



**Supporting
transformative
interventions
in 5 key systems
across ECA**



Decarbonization, strengthening resilience to climate change, and safeguarding natural capital and biodiversity in the region depends on actions taken across 5 interdependent systems



ENERGY

WBG will work with client countries in ECA to support a comprehensive approach to developing and delivering energy decarbonization pathways that are efficient, resilient, financially viable, and that ensure Just Transitions for All.



TRANSPORT

WBG will support the region's transport systems transition with an emphasis both on developing healthy and efficient urban mobility systems and more efficient, low carbon, resilient freight logistics systems.



FOOD, LANDSCAPES, & WATER

WBG will support client countries in ECA to transform agriculture and food systems while preserving forests and natural capital. Increasingly, the focus will be on developing integrated approaches to landscape management to support inclusive and resilient rural economies.



URBAN

WBG will support the urban transition needed for low-carbon and climate resilient cities and help national and local governments in the region develop, finance, and implement solutions for cities to systematically reduce emissions.



INDUSTRY

WBG will help support industrial decarbonization and resilience strategies across the region according to best industry practices and sustainable business models in direct operations, supply chains, and sectoral policies.



**A whole-of-economy
approach to ensure the
climate transition supports
countries' development
objectives and puts people
at the center**



ECA's incomplete transition underscores the need for an **economywide approach** to ensure market and institutional incentives facilitate climate action, minimize the impacts of vested interests, and support people to drive and adapt to climate action.



POLICY and INSTITUTIONS

- Establishing appropriate pricing signals and removing market distortions
- Leveraging regulatory policy for climate action
- Strengthening institutional and governance capacity for climate policy and implementation



PEOPLE

- Protecting the poor and vulnerable from the impacts of climate change and the climate transition
- Building skills and capabilities for the transition
- Promoting behavioral change to drive climate action
- Deepening citizen engagement



FINANCE and INNOVATION

- Ensuring sustainability and efficiency of public finance
- Mobilizing private finance and strengthening financial system resilience to climate change
- Facilitating innovation and technology adoption



Mobilizing and targeting financing to enhance climate action, unlock private finance, and ensure Just Transitions for All



WBG will...

- Support policy reforms that are critical to ensure the effectiveness of public investment and promote an enabling policy environment to catalyze private investment.
- Scale-up adaptation finance, including through innovative public and private investments in nature-based solutions.
- Invest in human capital to support climate adaptation in ECA.
- Seek to mobilize expanded sources of concessional financing to support affordability of key investments (including global and regional/national climate funds)
- Expand investments and partnerships to support Coal Transitions in the region.

INVEST

Invest at least 35% of World Bank financing in climate smart projects and policy reforms, while leveraging private sector financing towards climate-smart investments.

ALIGN

Align all operations with Paris Agreement principles by Fiscal Year 2023, including climate-proofing to avoid stranded assets.

BALANCE

Balance to achieve 50% Adaptation finance.

