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Briefing

World Bank Evolution Roadmap fails to curb financial flows to fossil fuels

[Heike Mainhardt, World Bank campaigner/February 2023]

Executive Summary

Current fossil fuel investments put the world on track to exceed 3 degrees Celsius of warming, which will lead to dire consequences and widespread human suffering. We are out of time. There can be no more excuses for public support of fossil fuels.

People are largely mistaken if they believe there has been a reduction in public money going to fossil fuels. Tax breaks, leading to foregone tax revenue as well as government-guaranteed high energy tariffs are critical to ensuring fossil fuels remain highly profitable while crowding out finance for renewable energy solutions. Across the globe, the fossil fuel industry still has a tight hold on public finance and policymaking to bend it in their favor.

To begin, most people are not aware of the trojan horse relationship the fossil fuel industry has with the World Bank Group[i] (henceforth, referred to as World Bank), which masks the enabling of inflated fossil fuel profits, including for coal.

A severe lack of transparency and reporting obscures the many ways the World Bank continues to artificially inflate and safeguard fossil fuel profits, including through, *inter alia*: direct fossil fuel finance; fossil fuel-favorable tax and tariff reforms; expedited permitting; geophysical data and feasibility studies; trade finance covering coal, oil and gas exports and imports; financial intermediaries (e.g., on-lending through banks and equity funds); port facilities and transmission lines; and government spending on fossil fuel development through non-earmarked World Bank budget finance.

Investors follow the profits. Public assistance to elevate fossil fuel profits is not aligned with the goals of the Paris Climate Agreement, but that is exactly what the World Bank continues to do.

Unfortunately, the World Bank's "Evolution Roadmap" does nothing to end the Bank's mobilization of fossil fuel investments. Such an approach will only continue to destroy our climate. The government shareholders of the World Bank need to demand serious and urgent reforms, starting with:

- **Exclude All Forms of Fossil Fuel Finance**: Historically, when shareholders do not want certain activities funded by the World Bank Group, such as nuclear power, weapons, and tobacco, these items are put on an Exclusion List or Excluded

Expenditures List. All coal-, oil- and gas-related activities must be added to the Exclusion Lists for all types of World Bank Group finance (i.e., direct and indirect finance, e.g., budget finance and financial intermediaries) and included in the legally-binding finance agreements between the World Bank Group and its clients.

- **Require Transparency and Accountability through Audits**: Without transparency and independently verified data on fossil fuel-associated funding, it is impossible for shareholders and the public to ascertain the World Bank Group's alignment with the Paris Climate Agreement. Require publicly disclosed independent audits that determine how much of IFC's financial intermediary funding, including Trade Finance, is linked to fossil fuels.

- **Measure and report Climate Outcomes –** Require the World Bank Group to measure and report on metrics that determine if member countries' economies are becoming more or less dependent on fossil fuels as measured by share of GDP; share of trade (exports & imports); share of power generation; and share of new investments. Such outcomes will reflect both direct and indirect finance outcomes, especially including policy reforms and budget finance.

Call for an Evolution Roadmap to reform the World Bank

The world is facing multiple crises, the on-going impacts of the COVID pandemic, Russia's brutal invasion of Ukraine, rising prices for food and energy, debt distress, and climate change. Many of the World Bank's shareholders, i.e., governments, have called upon the Bank to make significant reforms and increase assistance to help countries meet these challenges and provide more funding for Global Public Goods (GPG), such as the climate.

At the COP27 climate conference in November 2022, the world's governments called for the public multilateral development banks (MDBs), including the World Bank, to define a new vision and operational model that is fit for the purpose for addressing the global climate crisis. Back in October 2022, the US, Germany, and other major funder governments requested the World Bank develop an "evolution roadmap" detailing how the institution would reform to better address the multiple crises, which the World Bank provided in December.

It is urgewald's belief that in order to develop an adequate evolution roadmap, the World Bank first needed to come to terms with how the Bank itself contributes to these crises. However, the roadmap fails to do this and predominantly focuses on how to unlock more funding going through the World Bank, including asking for a capital increase from government shareholders.

This briefing focuses on the Roadmap's approach to the climate crisis, which is interlinked with many other struggles, including debt distress, rising food and energy prices, and gender rights.

Roadmap ignores how the World Bank Group makes Fossil Fuels more Profitable

Global action to address climate change has been far too slow and far too inadequate, including far too little climate finance for developing countries. According to the Intergovernmental Panel on Climate Change (IPCC), even if current climate commitments were met, we are on track to exceed 3 degrees Celsius of warming, locking in decades of dire consequences and human suffering.

The most recent IPCC scientific report shows that the technologies and policies necessary to address climate change exist, and that **the primary obstacles to real climate solutions are politics and fossil fuel interests**.[ii] The IPCC report highlights the fossil fuel industries' influence on policymaking and false narratives.[iii]

Research on the World Bank Group by Urgewald and others finds that the same politics, fossil fuel industry influence, and false narratives are also at play at the World Bank Group. As such, the Bank continues to direct tens of billions in financial flows towards fossil fuel investments and continues to make the economies of country after country more dependent on fossil fuels (e.g., see WBG operations in Mozambique, Indonesia, Pakistan, Nigeria, Guyana, Mexico, Brazil, Turkey, Azerbaijan, and Mongolia).

In general, the World Bank Group's funding aims to increase the return on investment, i.e., make investments more profitable, in low- and middle-income countries so that more investments will go into these countries. There are many ways the Bank increases the return on investment through direct and indirect finance and through favorable policy reforms.

No transition to low carbon economies while World Bank still courts fossil fuels

Most data and research on the World Bank's support for fossil fuels only focuses on the direct forms of fossil fuel finance. However, it must be recognized that direct finance is only the tip of the iceberg. It takes a lot of research to pry open the Trojan Horse and uncover the complex ways the World Bank supports financial flows into fossil fuels.

The major ways the World Bank Group continues to mobilize finance and inflate profits for oil, gas and coal investments include:

1. **Direct finance for fossil fuel projects** – The World Bank provides direct loans, equity, and guarantees with more favorable terms than commercial finance, e.g., longer payback periods, grace period during construction, etc. Urgewald found between 2016-2020, the World Bank Group provided over $12 billion in direct finance for fossil fuel projects in 38 countries. It is also important to know that the Bank's funding for gas is not aimed at increasing access to energy or displacing coal.

2. **Finance for fossil fuel-enabling infrastructure** – The World Bank funds billions in infrastructure, such as transmission lines to evacuate power from newly built coal power plants (e.g., see Urgewald, Table 6, $783 million guarantee to Eskom Holdings) and gas power plants; and port infrastructure to handle coal (e.g., equity in Port Qasim), oil, and gas exports and imports. Alarmingly, the MDBs have put such fossil fuel-enabling infrastructure on the list of project types considered to be aligned with the Paris Climate Agreement.[iv]

3. **On-lending to fossil fuel projects through financial intermediaries –** The World Bank Group makes more capital available by lending through financial intermediaries (FIs), e.g., commercial banks and equity funds. The projects and companies being financed by these banks and funds are typically not disclosed to the public, and can include projects and companies tied to fossil fuels. Additionally, many new oil, gas, or coal projects potentially qualify as

small and medium enterprises (SME) because at the time finance is provided, i.e., before they commence operations, they do not yet generate revenue, have large assets or have many employees (see Urgewald, page 12).

4. **On-lending through non-earmarked government budget support** – The World Bank provides on average $10 billion a year in budget finance to governments with no restrictions on coal, oil, or gas funding. Thus, governments are allowed to use this finance to provide loans, equity or guarantees to fossil fuel projects and/or fund government expenses related to fossil fuel developments. Urgewald research shows that from 2016 to 2019, 81 countries received budget finance. In many cases, these operations specifically target the energy sector in countries expanding coal and upstream oil and gas (e.g., India, Indonesia, Pakistan, Mozambique, Guyana, Nigeria and Egypt).

5. **Policy reforms benefitting fossil fuels –** The World Bank requires policy reforms to be adopted in order to receive budget finance (known as Development Policy Finance operations). The two most important policy reforms the World Bank commonly requires to incentivize fossil fuel investments include lowering tax rates and increasing energy tariffs to incorporate higher rates of return. Urgewald found from 2016 to 2019, the World Bank required energy tariff reforms in 29 countries and tax reforms in 41 countries. In Pakistan, Bank-required electricity tariff reforms made new coal-fired plants the most profitable in the world and further exacerbated Pakistan's energy sector unsustainable debt problems.

6. **Trade Finance** – In order for oil, gas and coal to be traded around the world, the cargoes have to be financed by banks and require letters of credit guaranteeing payment. The World Bank's private sector arm, the International Finance Corporation (IFC), provides such Trade Finance loans and guarantees. This short-term trade finance is transaction-specific, but none of these transactions are disclosed to the public. From 2019 to 2021, Urgewald found at least $7 billion in unaccountable IFC trade finance, including $1 billion to cover trade in Nigeria and $500 million for Mozambique, two countries with significant oil, gas and coal trading.

7. **Technical Assistance** – The World Bank Group provides technical assistance in support of fossil fuel development, including *inter alia*: data gathering, feasibility studies, drafting of policies and regulations, marketing, transaction advisory, etc. From 2016 to 2020, the World Bank provided over $450 million in technical assistance aimed at increasing fossil fuel investments in at least 12 countries (see Urgewald, Table 3), including: Mozambique's coal and

liquified natural gas (LNG) blocks; Guyana's offshore oilfields; Brazil's offshore oil fields; and Afghanistan's coal and gas fields.

8. **Climate Finance** – Some Climate Finance supports fossil fuel operations. For example, in 2021, a $522 million MIGA guarantee for the Indonesian state-owned power company, PLN, was categorized as renewable energy. However, an IEEFA assessment found the guarantee did not cover any new renewable energy projects and, moreover, it applied across PLN's portfolio of assets, which is coal heavy. In another example, a $160 million IFC loan to the Basrah Gas Company owned by Shell oil company and the Iraqi Ministry of Oil is counted as Climate Finance. The loan covers an expansion of the gas processing capacity at the existing plant, which captures and processes gas associated with three oil fields owned by Exxon, ENI and BP. Climate Finance should not be used to fund the reduction of gas flaring by the oil industry. Gas flaring should be outlawed and the oil industry should bear the cost.

The World Bank Roadmap plays into the hands of the fossil fuel industry

The Roadmap largely focuses on ways to expand World Bank finance, including an emphasis on boosting current efforts on private capital mobilization (PCM) and private capital enabling (PCE). The problem is the Roadmap ignores all the opaque ways the World Bank mobilizes private capital for fossil fuels (as explained above). Furthermore, the Roadmap offers no specific action for how the Bank will ensure that the newly mobilized capital will go for real climate solutions and not leak more capital into fossil fuels. As such, the Roadmap is not serious about mitigating climate change.

The first step the World Bank Group must take to be serious about climate change mitigation and unlocking more finance for climate action is to put all coal-, oil-, and gas-related activities on the Exclusion Lists for all types of World Bank Group finance (see details under Recommendations).

Lack of Transparency and Accountability

The Roadmap makes no commitments for the World Bank Group to improve transparency and reporting of its fossil fuel financing. Currently, the World Bank Group does not track or report how much finance goes towards fossil fuels. Moreover, the majority of Bank finance is going through opaque and unaccountable modalities, including budget finance, financial intermediaries, trade finance, and operations with a mix of renewable- and fossil fuel-based energy activities or funding that applies generally across a company's mixed portfolio.

In the absence of this information, it is impossible for shareholder governments and the public to hold the World Bank accountable, to determine development outcomes, or to ascertain alignment with the Paris Climate Agreement. Shareholders need to require the World Bank Group to track and report on annual fossil fuel-associated finance that can be independently verified. For financial intermediaries, including Trade Finance, the IFC needs to provide independent audits that determine when fossil fuel-associated transactions are being supported.

In many instances the concept of commercial confidentiality is being used as a catch-all reason for not disclosing information. In some cases, information that is described as commercially confidential is already available through other publicly accessible sources such as in financial databases protected by paywalls.[v] If information is already accessible elsewhere, it follows that claims of commercial confidentiality cannot be legitimate.

On a positive note, the Roadmap (paragraph 31) indicates the need to revise the World Bank Group's development outcome indicators to incorporate metrics on climate change mitigation and adaptation. One essential indicator of climate change mitigation that must be measured and reported is whether countries' economies are becoming more or less dependent on fossil fuels, including the concentration of exports and imports, energy generation mix, etc.

Recommendations

Given the World Bank Group's track record, both on fossil fuel financing and lack of capacity to distribute quality climate finance, it is highly risky to push for more resources to go through the World Bank Group. At the very least, no capital increase should be granted until adequate public consultations have taken place and critical reforms have been adopted.

We are calling on the World Bank Group shareholders – the governments of the world – to protect the climate and not let World Bank Group money be used to contribute to the climate crisis any more. We are calling on the shareholders to take this "evolution" opportunity to leverage real changes to the World Bank Group's operations and mission. To begin:

- **Exclude All Forms of Fossil Fuel Finance**: Historically, when shareholders do not want certain activities funded by the World Bank Group, such as nuclear power, weapons, and tobacco, these items are put on an Exclusion List or Excluded Expenditures List. All coal-, oil- and gas-related items and activities must be added to the Exclusion Lists for all types of World Bank Group finance (including *inter alia*: direct finance, budget finance, financial intermediaries, trade finance, technical assistance, Program for Results, etc.) and included in the legally-binding finance agreements between the World Bank Group and its clients.

It should be noted, if deemed necessary, the World Bank Board of Directors can vote to exempt a project from the Exclusion List.

- **Require Transparency and Accountability through Audits**: Without transparency on fossil fuel-associated funding, it is impossible for shareholders and the public to ascertain the World Bank Group's alignment with the Paris Climate Agreement. Require publicly disclosed independent audits that determine how much of IFC's financial intermediary funding, including Trade Finance, is linked to fossil fuels. To begin, audits need to provide enough details to determine transactions associated with coal, oil, and gas, including exploration, extraction, production, transport, distribution, power generation, and import and export of fuels and materials used in the building of fossil fuel-associated infrastructure.
- **Measure and report Climate Outcomes –** Require the World Bank Group to measure and report on metrics that determine if member countries' economies are becoming more or less dependent on fossil fuels as measured by share of GDP; share of trade (exports & imports); share of power generation; and share of new investments. Such outcomes will reflect both direct and indirect finance outcomes, especially including policy reforms and budget finance.

For Further Discussion

Many important issues with links to the climate crisis were not discussed in this briefing, such as debt distress and gender equal rights. Debt constrains many countries from being able to take climate action, including growing debt from power purchase agreements for expensive fossil fuel energy sources. An increase in Climate Finance should not create more debt.

Climate change disproportionately harms women, who in most low- and middle-income countries predominantly manage natural resources including water, farmland and forests. To gain a better understanding of gender rights issues and reforms that are needed at the World Bank and other MDBs, please see Gender Action's report IFIs' Rhetorical Gender & Climate Promises.

End Notes

[i] The World Bank Group includes the International Bank for Reconstruction and Development (IBRD, middle income countries sovereign finance), the International Development Association (IDA, low-income countries sovereign finance), International Finance Corporation (IFC, private sector finance), and Multilateral Investment Guarantee Agency (MIGA, private sector finance).

[ii] IPCC, 2022: Climate Change 2022: Mitigation of Climate Change. Working Group III contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, https://www.ipcc.ch/report/sixth-assessment-report-working-group-3/

[iii] Amy Westervelt, "IPCC: We can tackle climate change if big oil gets out of the way," The Guardian, April 5, 2022, https://www.theguardian.com/environment/2022/apr/05/ipcc-report-scientists-climate-crisis-fossil-fuels

[iv] Methodology to determine the Paris Agreement alignment of EBRD investments (Dec, 2022, Annex 2, Page 60, Table A4.1).

[v] 2023-DFI-Transparency-Index-report.pdf (publishwhatyoufund.org)