

## Climate briefing – civil society meeting with European executive directors to the World Bank Group, 29 October 2020

*This briefing was jointly prepared by Bank Information Center, Bretton Woods Project, Christian Aid, Recourse, Swedish Society for Nature Conservation, and Urgewald.*

### 1. Introduction: More action is needed on the World Bank's climate change mitigation agenda

As climate-related disasters continue to unfold, the urgent need to reduce greenhouse gas emissions in order to limit global warming to 1.5°C becomes more pressing. Given the leadership role the World Bank plays, we as civil society believe it must go further in its climate mitigation efforts and establish a clear timeline for the complete phaseout of its support for fossil fuels. The Big Shift coalition of civil society organisations has been calling for the World Bank and other public finance institutions to end their finance for fossil fuels by 2020, and we are hopeful that development finance institutions will make further announcements to this effect at the Finance in Common Summit in November 2020. To this end, we were encouraged that a recent [open letter](#) from ministers of France, Germany, the Netherlands, Spain, Sweden and Denmark, as well as the European Commission, calling for the World Bank and IMF to spearhead a green recovery to Covid-19, noted, **“We need to urgently phase out investments in coal, oil and gas.”**

#### Topline recommendations for European executive directors:

- ***Work to support enhanced climate change mitigation efforts in the WBG's investment and policy lending and other activities, including by introducing fossil fuel exclusions in the Bank's Development Policy Finance and extending the IFC's Green Equity Approach to cover oil and gas.***
- ***Challenge World Bank staff and management to prioritise renewable energy in all country-level energy planning processes, including Systematic Country Diagnostics, Country Partnership Frameworks and - where relevant - Covid-19 recovery strategies.***
- ***Work to build coalitions of support for a full fossil-fuel phaseout in the World Bank's energy lending, by making the economic and climate case for transitioning to zero-carbon development as soon as possible to other shareholder constituencies.***

### 2. Despite climate-related investments being an increased share of the WBG's overall portfolio, support for fossil fuel expansion remains prominent

A new [Urgewald study](#) shows since the adoption of the Paris Climate Agreement, the World Bank Group has financed **at least \$12.1 billion in public assistance for fossil fuel operations in at least 38 countries**. This includes: \$10.5 billion in new direct project finance (new loans, guarantees, equity, including over \$2 billion in the last 18 months); \$200 million of technical assistance in 11 countries aiming to push specific large fossil fuel projects forward and/or to increase future fossil fuel investments; and \$1.4 billion in existing equity in fossil fuel operations.

Until divested, the Bank's equity continues to provide financial benefits to fossil fuel operations, such as lowering the cost of loans for expansions or development of new oil fields (\$700 million of the equity is in upstream operations in 11 countries). The WBG continues to get dividends and capital gains (or losses) from its equity in these operations. Additionally, billions more continue to flow to fossil fuels through WBG mixed operations (e.g. funding fossil fuels and renewable energy) and indirect funding, including budget support and financial intermediaries. The data also show that **\$4 billion or 35% of WBG fossil fuel assistance went to eight G20 countries; \$1.4 billion went to expand upstream oil and gas operations (exploration & production) in at least 17 countries (e.g., Brazil, Mexico, Nigeria); \$2.3 billion went for oil and gas exports; and \$650 million went to six oil refineries.**

### 3. The World Bank's support for fossil gas as a transition is misplaced

Access to affordable, reliable and sustainable energy (SDG 7) is [positively correlated with every other SDG](#), but it is imperative that this is done primarily through renewable energy sources in order to limit global heating to 1.5°C. At the same time, energy poverty can act as a multiplier of other sources of deprivation, [undermining other development or humanitarian efforts](#). There has been [much debate](#) about the feasibility of supplying all electricity from renewable sources by 2050 but [two-thirds of experts](#) working in the renewables sector think that 100% renewable energy systems are technically and economically feasible<sup>1</sup>.

Nevertheless, the World Bank has indicated in its *Outlook 2050 Strategic Directions Note: Supporting Countries to Meet Long-Term Goals of Decarbonization* [published](#) in June that it will continue to support 'gas as a transition fuel', with no timeline given for phasing out its support. The note states, "The World Bank will support planning of energy market reforms with natural gas trading and regional integration to improve power systems flexibility. An important area is the use of natural gas to improve power system flexibility and district heating systems, especially where the alternative is coal, as a result of limited potential for renewable energy."

**We feel this is an inherently flawed approach, which relies on various false assumptions:**

**Assumption 1: Gas lowers emissions where it replaces coal (NB: this is not the case in most low-income countries)**

**Reality (from the Overseas Development Institute's [FAQs on oil, gas and poverty](#)):** "comparison between emissions from coal and gas often overlooks upstream emissions from gas extraction and transport. ...**Taking upstream emissions into account, CO<sub>2</sub>e emissions from gas-fired generation are more than double those from using coal, over a 20-year timeframe [primarily due to methane release].** Over a 100-year timeframe, emissions from a combined

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<sup>1</sup>This is true economically even before accounting for externalities through carbon pricing, [recommended by the IMF](#) to reach \$75/ton CO<sub>2</sub>e by 2030.

cycle gas turbine (CCGT) plant are [28% lower than coal](#), and for an open cycle gas turbine (OCGT) plant only 8% lower.”

### **Assumption 2: Gas is a ‘flexible’ source of energy**

**Reality: combined cycle gas power plants (i.e. the most climate-friendly ones) are not flexible.** From ODI FAQs: “The most efficient gas power plants use CCGT technology. However, [the ramp-up rate of a CCGT plant](#) is much slower than for an OCGT plant. The viability of a CCGT plant [depends on a high utilisation rate](#), which could not be achieved if the primary purpose were peak power generation. Although most new gas-fired power stations deploy CCGT, the technology is unsuitable for rapidly balancing electricity supply and demand.”

### **Assumption 3: Gas is needed for heating**

**Reality: oil and gas are an inefficient source of heat for most purposes, and renewable energy is increasingly being used even for industrial heating.** From ODI FAQs: “Most of our heating needs do not require very high temperatures, but oil and gas burn at about 1,000°C and are therefore an inefficient source of heat for most purposes. A wide range of [renewable options](#) including solar thermal, geothermal, and electric heat pumps is available to provide low-temperature heat. Because they have almost no running costs, they are often the most economical option. For example, the [Asian Development Bank](#) found that in China it was already cheaper to install solar-powered district heating than natural gas boilers.... Even high-temperature heat for industrial processes<sup>2</sup> is being provided by renewable energy technologies such as concentrated solar, deep geothermal, burning sustainable biomass and renewable electricity.”

## **4. Green Equity Approach (GEA): An update from civil society**

Recourse, together with partners in Korea, Indonesia and the Philippines, published a [new report](#) examining the IFC’s progress in exiting fossil fuel investments in its financial intermediary portfolio. There is good news: In the year from July 2019 to June 2020, over 80 per cent of IFC’s new financial intermediary (FI) investments explicitly excluded coal, while 21 per cent excluded oil and gas. But this is not far enough or fast enough. Worryingly, we found that IFC’s first Green Equity Approach partner, Hana Bank in Indonesia, chose to invest in two huge new coal plants in Indonesia a year *after* agreeing the GEA with IFC. The GEA also applies to existing equity investees - but some, such as [RCBC in the Philippines](#), subject of a [mass climate complaint to CAO](#), are not agreeing to commit to a coal phaseout. This is disappointing and partners in the Philippines and Indonesia are calling on IFC to ensure clients in which it holds equity do not finance new coal and phase out of coal by 2030 as the GEA promises.

We need effective measures to address both IFC’s equity and debt investments. We urge European shareholders to ensure that IFC addresses the following:

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<sup>2</sup> [This map](#) shows hundreds of examples of solar-powered industrial heating.

- When the GEA is reviewed in 2021, we call on you to use this opportunity to extend the GEA to cover oil and gas, in line with the [Principles on Paris Alignment for Financial Institutions](#).
- Challenge Hana Indonesia and its parent bank Hana Korea on their coal exposure, including investments in the Java 9 and 10 coal plants in Indonesia.
- Engage with existing equity clients to address past harms caused by IFC-backed coal projects, and to exit from future coal plants, in consultation with local communities; in the case of RCBC, require it to execute a 2030 phaseout plan for the existing and operating coal plants it has funded in the Philippines.
- Ensure that the use of funds for targeted debt investments is traceable, reported and disclosed by the FI client, and externally audited (either by IFC or a third-party), with the results of the audit publicly disclosed in order to give the public confidence that IFC investments are being used for their intended purpose.

## 5. Climate and Development Policy Financing (DPF): CSO reflections ahead of DPF retrospective

There is a need for the World Bank to publish a clear definition of ‘climate-related prior actions’: Despite the fact that the World Bank indicated in its Phase 2 approach paper to the Covid-19 response that climate-related policy reforms attached to development policy operations were a key means through which it will support countries’ green recovery efforts, as civil society we are concerned that the Bank has yet to disclose a clear public definition of how it defines climate-related prior actions. This lack of transparency adds to broader concerns around whether prior actions are really ‘country-driven’, or whether they constitute a lingering example of World Bank conditionality (especially given that DPF as an instrument is a direct successor to structural adjustment loans).

Beyond this, the WBG must align its DPF exclusions with those it currently has for project lending, at a bare minimum. This is needed given evidence of WBG [DPF prior actions that support fossil fuel development](#). This points to the need for overall strengthening the environmental and social review process and approval criteria in the Bank’s [2017 DPF Policy](#). This should include implementation of recommendations from the 2015 IEG review of [Environmental and Social Risks in DPF](#).

### **Box 1. Budget support for fossil fuels – a case study:**

DPF, ranging from \$8 billion to over \$20 billion a year, is provided as non-earmarked, general government budget support. There is a list of Excluded Expenditures for which Bank DPF loan proceeds cannot be used for, including goods associated with nuclear power/reactors and military purposes. However, goods associated with fossil fuels are not included in the Bank’s Excluded Expenditures. This means that **World Bank budget support could be used for any type of fossil fuel infrastructure or coal/oil/gas fuel purchase, including the building of coal power plants and upstream oil and gas operations.**

Research by Urgewald shows that countries with significant on-going coal development (e.g. power, mining, export) that have received large DPF financing over the last 5 years, include *inter alia*: India, Indonesia, Mozambique, Egypt, Turkey and Poland. For example, from April 2016 until May 2020 Indonesia has received at least \$4.15 billion in budget support through DPFs from the World Bank. The Bank has known since 2014 that the Indonesian government planned to build 35 GW of new power generation – close to 80 per cent of which was planned to be new coal power plants. The World Bank provided three loans as part of the Indonesia Fiscal Reform series of DPFs equaling \$400 million in May 2016; \$300 million in October 2017; and \$1 billion in May 2019 for a total of \$1.7 billion. For each one of these budget support loans, the Bank required, as a Prior Action for disbursement of the funds, that the central government's budget increase the amount of funding provided for new infrastructure investments.

Indonesia's state-owned enterprises (SOEs) are largely responsible for infrastructure development. In 2016, 31 percent (or Rp10 trillion) of the government's budget going to SOEs went to PLN, the state-owned electricity company. PLN is in charge of the government's plan for 35 GW of new power generation. In January 2019, PLN reported that 3,963 megawatts (MW) of new installed power capacity would be completed within a year of which 2,350 MW or 60 per cent would be new [coal power](#). The new plants include Java 7 (1,000 MW), Java 8 (1,000 MW) and Lontar (350 MW). The World Bank's significant budget injections during the construction of these coal power plants certainly supported the government's infrastructure investments.

This case study in Box 1 shows that without fossil fuel exclusions, the World Bank's DPF risks supporting continued fossil fuel expansion. **Given World Bank budget support going through DPFs is not subject to the same safeguards as World Bank project investments, the World Bank needs to add goods or services intended for coal, oil or gas operations/purposes to the standard Excluded Expenditures contained in World Bank DPF Legal Agreements for all budget support** (see Bank Procedure 8.60, paragraph 21).

## 6. Energy access versus fossil fuel expansion - new evidence from WBG lending in Nigeria, Mozambique, and Myanmar

A new [paper](#) by Recourse, Swedish Society for Nature Conservation (SSNC) and the African Coalition for Sustainable Energy and Access (ACSEA) provides a summary of assessments done on WBG energy sector assistance to three high energy deficit countries facing significant climate change threats: Nigeria, Mozambique, and Myanmar. Nigeria has over 87 million people living without access to electricity; Mozambique has over 22 million; and Myanmar has more than 35 million.

### Some of the key findings of this paper are:

- Rate of electrification is inadequate to reach universal access by 2030: the number of new household connections the WBG operations plan to achieve compared to the national electrification targets of the three countries to be reached by 2020-23 falls way short. Nigeria comes up way short of its goal – 9.4 million households short. While Mozambique is over 925,000 short and Myanmar is approximately 500,000 households short.

Furthermore, the WBG assistance provided is uneven for mini- and off-grid renewable energy solutions required most to provide access to those without access to energy.

- WBG prioritizes fossil fuels over renewable energy: instead of prioritizing finance for renewable energy, the WBG's assistance firmly places fossil fuels as the priority. In Nigeria, WBG finance was five times higher for fossil fuels than for renewable energy. Most alarming is the WBG's insignificant support for renewable energy in Mozambique, where fossil fuels receive 16 times more funding. Furthermore, World Bank technical assistance in Myanmar advised the government to prioritize the creation of a master gas development plan ahead of solar or wind development plans. In Mozambique, WBG policy assistance supported tax breaks for coal and gas.
- WBG focuses on gas expansion: the WBG's focus on significantly expanding gas operations in all three countries neglects climate risks and problems of affordability, especially for the poor. Moreover, in Myanmar and Mozambique the WBG is providing significant assistance to liquefied natural gas (LNG).
- WBG facilitates high-GHG development path, non-alignment with Paris Agreement: the three country assessments clearly demonstrate the WBG's untethered support for fossil fuels, while significant renewable energy solutions remain under-developed and under-funded.

#### **Key recommendations from the paper:**

- Given the WBG's warning that without urgent action, climate change impacts could push an additional 100 million people into poverty by 2030, no WBG public assistance should be used to develop fossil fuels.
  - Given the WBG's finance directed at new household connections represents a relatively small percentage of overall energy sector finance in a given country (10 per cent in Mozambique), the WBG can and should direct more finance to connections. A 10-year WBG funding commitment needs to be reflected in updated Bank country strategies for each country.
  - With the vast majority of people without energy access living in rural communities, the WBG needs to exponentially scale up funding for mini- and off-grid renewable energy solutions across all high energy deficit countries. Given that the electrification rate is inadequate, the WBG should assist the government to identify where gaps exist and how the gaps will be addressed in order for them to achieve annual electrification targets necessary to reach universal access by 2030, in line with SDG7.
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