Submission to the Consultation on the Evolution of the World Bank Group

July 2023

The March 2023 Development Committee Report to Governors on the Evolution of the World Bank Group includes proposals to enhance the WBG's mission, operating model, and financing model in response to a request made by shareholders that the WBG play a greater role in addressing global challenges that are impacting development goals, and that can deliver global public goods (GPGs). In particular, the WBG will prioritize addressing global issues of climate change, pandemic preparedness and response, and FCV (fragility, conflict and violence). The present comments focus on the proposals related to expanding the WBG's role in addressing climate change, raising concerns about its continued financing of fossil fuels and false solutions contributing to the crisis; the lack of transparency and accountability of its climate finance; its and its lack of credentials as a climate knowledge clearinghouse.

FoE is also proud to have supported a joint briefing providing an alternative analysis of the current "crisis of development" which the Evolution Roadmap seeks to respond to; presenting key evidence on the damaging effects of the "Cascade" approach to date; and proposing an alternative pathway towards a more equitable and sustainable World Bank Group "evolution", putting public interest at the center of the public development paradigm for the 21st century.

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Still doing harm

The WBG does not have the legitimacy to play a greater role in financing global public goods like a livable climate, land, and health while it continues to finance activities that actively destroy these, like fossil fuels. In the energy sector alone, the WBG has spent over $14 billion in direct project finance for fossil fuels since the Paris Agreement was signed. This does not include indirect financing from its financial intermediary clients, or from the nearly 30% of the WBG's overall lending going towards budget support, meaning the actual subsidization of fossil fuels by the WBG is even larger. The WBG is also a supporter of countless false climate solutions, including net zero targets premised on carbon and biodiversity offsets and carbon markets (which the Development Committee paper proposes to expand), as well as Carbon Capture, Utilization and Storage (CCUS), Bioenergy with Carbon Capture and Storage (BECCS), and Nature Based Solutions (NBS). These and other false solutions not only allow extractors to continue extracting, but are also costly, unproven at scale, dangerous, and can lead to land grabbing and dispossession of Indigenous People, peasant farmers and other rural communities. The WBG also supports international investment treaties that include investor-state arbitration, which even the IMF has characterized as a barrier to climate action. The WBG's role in addressing climate change cannot be expanded without first committing to understand and end its perverse contribution to the crisis.

Unaccountable financing

The World Bank Group likes to boast that it is the largest provider of climate finance to developing countries. However, a recent report by Oxfam found that the Bank's declared levels of climate finance cannot be independently verified and could be off by as much as 40%, or $7bn in its fiscal year 2020 -

emphasizing the need for routine, sub-project level disclosure of the WBG's climate finance accounting and other transparency and accountability reforms as recommended in their report. In this context, it is troubling that the Bank should request more money for investments to address climate change, without first laying out concrete measures to strengthen the transparency and accountability of its current climate finance provision.

Questionable knowledge clearinghouse

Not only has the WBG failed to account for its climate finance, it has failed to demonstrate the impact that this financing has had. The WBG should base its climate investments on evidence of the effectiveness of its policy prescriptions and interventions, but it has failed to study this. According to the Center for Global Development, less than 5% of World Bank projects have been subject to formal impact evaluation methods since 2010. The WBG must embrace a systematic process of routine self-evaluation before it is entrusted with additional funds. Specifically, as the largest provider of climate finance, it has failed to systematically assess the impact of its financing and of its policy advice in supporting countries to embark on lower-emissions pathways, to diversify their economies, and to adapt to climate impacts.

For example, the WBG likes to publicly defend its support for fossil fuels as providing energy access and reducing poverty in line with Sustainable Development Goal 7. However, recent civil society analyses demonstrate that the WBG's support for fossil fuels has not addressed increasing energy access. A report released in March 2021 found that only 5 out of 37 energy-focused operations between 2017 and 2020 involved establishing new household connections to electricity. The report notes that in 4 of the 5 countries with the least energy access, the WBG activities that are related to establishing new household electricity connections are all from renewable energy sources of power, which further undercuts the WBG's argument about the need for fossil fuels to address lack of energy access. Another analysis found that since the Paris Climate Agreement, 75 percent of the World Bank Group's gas project finance did not go towards expanding energy access.

One might argue that while these investments were not focused on energy access, they have overall development impact in the country because of industry applications or revenue from exports, for example. However, the WBG's latest Climate Change Action Plan acknowledges that climate action must move beyond greening projects to "greening entire economies." This said, instead of helping countries reduce their economic dependence on fossil fuels, the WBG has been doing the opposite. In the latest budget support program in Mozambique, for example, the WBG asserts that "Mozambique's LNG investments offer huge potential, despite uncertainty. [...] The country is strategically located to serve Asian and other international markets." This directly contradicts research by the IMF showing that countries in Africa with fossil fuel-exporting economies have statistically experienced slower economic growth, as well as higher levels of unsustainable debt. More specifically, it fails to acknowledge analyses showing that the terms of Mozambique's gas development are disadvantageous and risky for the country.

Shockingly, the same budget support program document claims that, "the gas reserves are low in carbon dioxide [sic], making them a possible source for the clean energy transition." The data cited is obtained from TotalEnergies, the oil major responsible for the project. At this stage of the climate emergency, when scientific consensus tells us that the world needs to urgently phase out all fossil fuels, it is unacceptable for the WBG to be citing self-serving oil industry claims that fossil gas can in any way be clean. New research recently highlighted by *The New York Times* confirms what scientists and responsive civil society have been pointing out for over a decade: that fossil gas is often as bad for the climate as coal. The WBG stands against science in referring to fossil gas as a transition fuel, including in its latest

Climate Change Action Plan. In summary, the WBG has not proven that it has the knowledge credentials required to advise countries on diversifying their economies and reducing their economic dependence on fossil fuels. And by still citing oil industry-commissioned data to justify its promotion of fossil fuel expansion, it has shown that it does not have the credibility to be a global standard-setter on climate action.

The WBG has also failed to study the ways in which its promotion of privatization and financialization is hampering progress on climate action and driving inequality. We are concerned for example about the Development Committee paper's emphasis on private capital facilitation (PCF) under its Cascade Approach. Several reports have found that this de-risking approach has failed to actually raise significant new investments and that it has not satisfactorily proven development impact. Auditors to a similar experiment by the European Commission found that the success of their guarantee scheme was questionable. Instead, this approach puts financial risk on public balance sheets in World Bank borrowing countries, makes it harder for civil society to monitor and hold private actors accountable to social and environmental safeguards, and distracts from the need for strong public responses to climate change and sustainable development. This approach risks subsidizing abusive, laggard institutional investors like BlackRock, prioritizing shareholder returns ahead of truly inclusive, pro-poor policies that often cannot –and should not– be made profitable. Case in point, at an event held during the most recent World Bank Annual Meetings in Washington DC, former WBG President David Malpass suggested [timestamp 25:50] creating an asset class out of coal plant retirement, bundling together several projects for institutional investors to finance in return for saleable carbon credits. It is unclear how the public interest can be ensured by guaranteeing profits from coal retirement to large institutional investors. Any inclusion of private finance as part of a climate strategy must be premised on a credible analysis of anticipated effectiveness and service to the public interest.

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