June 6, 2024

Subject: Stop Larry Fink and other climate change profiteers from advising (and cashing in) on World Bank policies - Shut Down the Private Sector Investment Lab

Dear President Banga,

As incoming World Bank President, you were tasked with leading the institution's reform – or "Evolution"-- process to better position the Bank to address global challenges like climate change. One of your first actions was to create the Private Sector Investment Lab to "[develop] solutions to address the barriers to private sector investment in emerging markets," particularly in "scaling transition finance in renewable energy and energy infrastructure." This action represents 1) an unacceptable conflict of interest; and 2) an unproven and harmful development approach, based on 3) a flawed diagnostic of the climate finance issue.

As such, we call on you to shut down the Private Sector Investment Lab, and deploy the Bank's existing resources and structures to support thinking and policies on how to facilitate massive public investment in the green energy transition, with the public interest at the heart of it.

1. **Foxes guarding the hen-house.**

The list of founding members of the Lab is a "who's who" of leaders of major financial institutions managing an estimated wealth of USD $16 trillion. These institutions are largely responsible for continuing to profit from climate destruction and associated environmental and social abuses. For example, Corporate Accountability nominated BlackRock CEO Larry Fink to its Corporate Hall of Fame for its massive investments in fossil fuels and weapons, and named BlackRock for contributing to climate catastrophe. As Corporate Accountability put it, "there are few corporate actors that are more heavily invested and have more of an ownership share in fossil fuels and extractive industries than BlackRock." In addition to all of this, the Lab is co-chaired by Mark Carney, who launched the Taskforce on Scaling Voluntary Carbon Markets and has been one of the key architects of the resurgence of very problematic carbon markets in the last few years. Carbon markets are a false solution that have allowed polluters to keep polluting while supposedly "offsetting" their pollution through various problematic means, including forestry schemes – which have led to land grabbing and human rights violations in vulnerable communities around the world, all while failing to reduce emissions.

People like Larry Fink should not be advising the World Bank on how to address climate change when they are actively contributing to the problem, and when they have an interest in pushing for solutions to assure and increase their own profit margins. These firms' fiduciary duty to increase shareholder profits by investing in enterprises with high rates of return is in direct conflict with the World Bank's mandate of helping the world's poorest people, reducing inequality, and safeguarding the planet. According to retired World Bank agricultural economist, John McIntire,"This core conflict has potentially toxic effects on the Bank's risk profile, its role in fighting climate change, and its independent agency in assisting debt-stressed countries."

McIntire argues that the financial institutions represented in the Lab stand to benefit from access to information about debt sustainability negotiations, and macroeconomic and business climate analyses and reforms in which the Bank participates in borrowing countries. Even if they recuse themselves from these advisory operations of the Bank, "whatever the PSL members may have promised on being admitted into the Bank's confidence, having been so admitted, they now can steer the Bank in the directions of their class and personal interests. It is not enough to say that they are above such manipulation." Standard Bank, whose CEO is one of the members of the Lab, recently received two loans from the IFC to support renewable energy access in South Africa, with little transparency on the website regarding the nature and terms of this support.

2. An unjust transition.

The approach of "de-risking" the private sector for climate action is both unproven in practice, and unfair in principle. There is no doubt that the private sector must have a role in the global climate transition and development more broadly. But private finance flows must be directed by public sector policies and regulations that serve the broader public interest. This must be based on evidence of impact and principles of justice. As Professor Mark Paul has argued, "Our challenge in the coming decade isn't to reward private investors looking for a safer return on investment; our challenge is compressing two or three decades of gradual decarbonization into one, and doing so in a way that begins to remedy centuries of racial and economic injustice, lifts up workers, and keeps communities safe from extreme weather, all at the same time," through massive *public investments*.

A retired World Bank director recently wrote for the Financial Times that the Lab's proposal to better use World Bank guarantees to mobilize additional financing has been tried by the Bank before, in 1992, and failed; he should know: he led the attempt. An audit of a similar derisking experiment by the European Commission found no evidence of effectiveness, even as they prepared to pour billions more into it. Furthermore, a study by another former World Banker, Charles Kenny, found that IFC (the private sector arm of the World Bank Group) projects have had worse outcomes than IDA-financed projects (the public arm of the Bank focused on the poorest countries) in the same countries, calling into question the proof of concept behind calls to increase development finance channeled to private financiers.

Additionally, as Professor Daniela Gabor wrote for The Guardian, "the world of 'green finance' has injustice and inequality built in. It reduces democratic government action to higher carbon taxes, which often place the burden of decarbonisation on the poor. Government spending is to be directed to 'de-risking' private infrastructure, to cover the gap between the fees paid by users of essential public services and the commercial rates of return expected by private investors."

When States make all the fiscal effort in de-risking, while corporations earn the profits, this does not make for a just transition. It is also not clear that it is cheaper than States simply investing themselves, especially over the medium-to long- term. And why not tax corporate profits to fund transition initiatives, instead of just rewarding private firms to invest in the markets of the future, something they will likely do anyway? After all, it is for-profit corporations and rich people who owe the vast bulk of a "climate debt."

A further problem with the Bank's Just Energy Transition Partnership (JETP) finance - epitomized in South Africa's Eskom coal-fired power plant phase-out at Komati (in a $500 million November 2022 loan) - is the use of market-rate, *hard currency loans,* even when a great deal of a Just Transition project (such as Komati) really requires local inputs, especially paying labor costs. Burdening over-indebted countries with more forex repayment obligations - just so the lender can avoid currency depreciation risk - is unconscionable at a time hard-currency loans are so expensive (in effective real terms). Local-currency concessional lending and grants are the only justifiable financing systems for projects that leave fossil fuels underground and compensate workers and communities for income losses, so as to confirm their own commitment to a Just Transition.[1]

3. A wrong treatment for a wrong diagnosis.

The de-risking agenda is often justified by the claim that there is not enough public finance in the world to pay for the necessary climate action in the Global South. This is false. When the pandemic hit, and when the war in Ukraine broke out, the West "found" trillions in public funds virtually overnight. Elites around the world are still swimming in tax breaks, skimming off wealth from the real economy, often for largely unproductive, exploitative and speculative activities. Historic polluters have not had to pay for destroying our global public good - "a livable climate" - and central banks have not been deployed to their full potential. The problem is not the inexistence of finance - it's the inadequacy of political will.

Furthermore, you and the Bank have failed to acknowledge how financialization has in fact contributed to not only climate change, but also to poverty, systemic racism and inequality. Rather than get advice from profitable firms on how to use limited public funds to subsidize private financiers, you should be consulting with stakeholders and academics who have a proven track record of serving the public interest, including the interests of those in the Global South, and are leading cutting-edge thinking about how to increase and manage public investments in a just global energy transition.

President Banga: you must make clear to us once and for all: who do you work for? The world's poorest people, or Wall Street? We call on you to shut down the Private Sector Investment Lab, and redirect resources towards facilitating substantial public investment in the green energy transition. We also urge you to consult with stakeholders and academics committed to serving the public interest in devising *just* strategies for the global energy transition.

---

[1] It is worth noting that not only South African civil society but the country's leading ministers consider the Komati ETP to be a scam.

We look forward to hearing from you.

Sincerely,

AbibiNsroma Foundation
Asia Indigenous Peoples Network on Extractive Industries and Energy (AIPNEE)
Asociación La Ruta del Clima
Bank Climate Advocates (BCA)
BankTrack
The Bretton Woods Project
Community Empowerment and Social Justice Network (CEMSOJ), Nepal
Debt Justice UK
European Network for Debt and Development (EURODAD)
Friends of the Earth Europe
Friends of the Earth US
Gender Action
Institute for Policy Studies Climate Policy Program
Jamaa Resource Initiatives, Kenya
Justica Ambiental/Mozambique
MenaFem Movement for Economic, Development And Ecological Justice
The Oakland Institute
Oil Change International
Public Services International
Sustentarse (Chile)
Texas Campaign for the Environment
University of Johannesburg Centre for Social Change
Urgewald
World Economy, Ecology & Development (WEED).
Women's Environment and Development Organization (WEDO)
Zambian Governance Foundation