Still Misguided

The US continues to support oil & gas projects at the World Bank Group

By Delphinium Drake-Mudede

A 2021 Executive Order on Tackling the Climate Crisis at Home and Abroad instructed the US Treasury to “develop a strategy for how the “voice and vote” of the United States can be used in international financial institutions, including the World Bank Group and the International Monetary Fund, to “promote financing programs, economic stimulus packages, and debt relief initiatives that are aligned with and support the goals of the Paris Agreement” (Executive Order). In response, the US Treasury issued guidance on its support for fossil fuel energy at Multilateral Development Banks. The document pledges that the US will oppose coal and oil projects, and only support natural gas projects if a set of criteria is met. As a major shareholder at several International Financial Institutions, such as the International Monetary Fund (IMF) and the World Bank Group (WBG), the US has a massive potential to promote sustainable economic development and climate resilience. Although the intention of this guidance was to solidify the United States’ commitment to clean and sustainable economic development, the 2023 report *Misguided: U.S. Supporting Financing of Fossil Gas at World Bank Group* by Natasha Frazier found that the World Bank Group is continuing to finance oil and gas projects across the globe with the support of the United States government. According to Frazier’s report, “since the guidance was issued, the U.S. has voted to support nearly $400 million USD in financing at the World Bank Group’s MIGA and IFC Boards for four gas-fired power plants [...] Together, these four power plants will emit an estimated combined total of over 6,000,000 tCo2e/year.” (Frazier, 2023). The support the US government has provided to the WBG in these projects sharply contrasts the statements they have made publicly regarding its position on the importance of phasing out fossil fuels.

Recent fossil fuel projects at the World Bank Group

At the International Finance Corporation (IFC), the US has the largest voting power of any country by far, with 17.74 percent of the total. Since Frazier’s report was published in October 2023, the IFC has continued to support oil and gas projects in several countries, with the support of the US government. For example, on February 20th, 2024 the IFC Board approved a loan of $23.3 million to Johnvents Industries Limited, a Nigerian Cocoa processing and trading company. The investment will support the company in its plan to increase its cocoa processing capacity and expand gas power plants, fleet acquisition and working capital. This is a category A project under the IFC policy on Environment and Sustainability due to “significant E&S risks and/or impacts inherently associated with primary production of cocoa in Nigeria, specifically the high risk of child labor, forced labor, unsafe working conditions associated with the cocoa supply chain, in addition to the use of agrochemicals including application of pesticides, and the significant conversion risk of natural and/or critical habitats.” The IFC’s Environmental and Social Review Summary mentions the risk to biodiversity in the area, and a goal of achieving “100% traceable cocoa, with at least 90% certified, by 2027.” According to the IFC’s disclosure document, Johnvents Industries is planning on transitioning from grid/diesel to LNG for its energy requirements In order to improve operational efficiency. There is no explanation in the IFC’s disclosure as to why the company is planning to transition its energy sourcing to LNG, nor how it is going to be “expanding gas power plants”.

Under the Treasury Guidance, in order for the Treasury to support the expansion of fossil gas, like in the Johnvents Cocoa Project, several criteria need to be met, including the existence of a "credible alternatives analysis that demonstrates that there is no economically and technically feasible clean energy alternative." Additionally, the Pelosi Amendment also requires there to be an alternatives analysis before the Treasury can support any high risk project. Despite the fact that there is no public alternatives analysis for the Johnvents Cocoa Project, in contradiction to both the Pelosi Amendment and Treasury's Guidance, the US voted to approve the project.

The IFC Board recently approved a loan of EUR 12.2 million to Yara Oil, a leading fuel supplier in Mali. Yara Oil began as an industrial fuel supplier in 2012 and opened their first commercial fuel stations in 2017. The loan would be used by Yara Oil to expand the company's retail fueling stations from seven to twenty-seven. In addition to fuel, Yara Oil plans on providing services such as Liquid Petroleum Gas (LPG), groceries, restaurants, and ATMs. Of the twenty new stations ten would be placed in rural areas, and the other ten would be in Bamako, the country's capital. As a part of the IFC's advisory program, Yara Oil is advised to establish electric vehicle charging stations and solar panels in its service stations. According to the IFC's Policy on Environmental and Social Sustainability, this is a Category B project due to it having "limited adverse environment and social (E&S) impacts that are few, site specific, largely reversible and readily addressed through existing mitigation measures and good international industry practices (GIIP)." However, the Yara Oil project contradicts the US Treasury's Guidance on Fossil Fuel Energy at Multilateral Development Banks. According to this guidance, the Treasury has committed to opposing oil-based energy projects with only limited exceptions such as "oil-based power generation in crisis circumstances or as backup for off-grid clean energy, if no cleaner options are feasible." However, there is no alternatives analysis in the IFC's disclosure of the project, and therefore no way of knowing why cleaner options are not suitable. The Treasury's guidance does allow for support for natural gas and oil products that are used for household heat generation. Although supplying LPG is a component of the Yara Oil expansion, at its core it is an oil project and will only expand the use of internal combustion engine vehicles and exacerbate greenhouse gas emissions.

Fossil fuel Advisory Services at the World Bank Group

On June 12, 2023, the IFC approved a project to assist the Government of Morocco in "evaluating the feasibility of developing an LNG import terminal and associated distribution infrastructure to improve its energy security against supply disruptions and support its energy transition strategy." There is no Environmental and Social Review Summary nor alternatives analysis provided in the disclosure on the IFC's website. Curiously, this project does not seem to have gone to the IFC Board for a vote. The IFC's Sustainability Policy suggests that advisory services provided by the IFC to a client are a management - not Board - decision.

> ***"IFC's environmental and social due diligence is integrated into IFC's overall due diligence of the advisory activity under consideration, including the review of financial and reputational risks. IFC weighs the costs and benefits of proposed advisory activities and articulates its rationale and project-specific conditions for the proposed activity. These are provided to IFC management when the advisory activity is presented for approval."***

Still, the Treasury Guidance requires the US government to use both its vote and its "voice" in moving MDBs away from fossil fuel financing. This project represents a clear violation of the Treasury Guidance because Morocco is not an IDA country - the first criteria for receiving exceptional support for gas financing. It is therefore unclear if, and if so, how, the US Treasury used its "voice" to influence this project. Either way, considering the outcome, it is clear the US Treasury Guidance has not proven entirely effective at phasing out fossil fuel financing by the World Bank Group, or even in pushing these institutions to justify - with credible, robust and public analyses - why a fossil fuel project is critical for a country's development and why the project objectives cannot be met with alternatives. This is a basic first-step required by the institutions' own Board-approved policies.

The IFC's Sustainability Policy states that advisory services should be consistent with Performance Standards:

> *"39. IFC screens each advisory activity against the IFC Exclusion List. IFC also reviews each proposed advisory activity for environmental and social risk. Should the review result in the identification of environmental and/or social risks, the advice provided to clients shall be consistent with the Performance Standards as a framework of good international industry practice (GIIP)8 in environmental and social risk management. IFC also recognizes that it can work with advisory clients to achieve positive improvements in environmental and social performance, and help clients move towards greater consistency with the Performance Standards, even if they are not able to meet their full intent during the life of the advisory activity. "*

Performance Standards 1 and 3 require environmental impact assessments - including the identification of the impacts of greenhouse gas emissions - and the development of alternatives analyzes to mitigate these impacts (see PS1 paragraph 7; PS1 paragraph 13; PS1 Paragraph 14; PS3 paragraph 7). This recent project is therefore just one example of the IFC's lack of compliance with its own Board-approved policies, and of the US Treasury Guidance's ineffectiveness at securing improvements at the World Bank Group in fossil project disclosure - especially its private sector arms - and fossil fuel phaseout.

Ensuring environmental accountability at the World Bank Group

Although the Treasury Guidance on Fossil Fuel Energy at Multilateral Development Banks was issued three years ago, the US Treasury is failing to use its voice and vote to oppose oil and gas projects at the World Bank Group and support greener alternatives. As the largest shareholder at the WBG, the US has an enormous say in deciding which projects receive funding. the US government should take the following steps to promote transparency and environmental standards at IFIs: Publish detailed Guidance Implementation guidelines elaborating on how it is defining and applying its criteria for fossil gas and all fossil fuel exceptions, and invite public consultation on these; Document all fossil fuel projects to which they have applied the Guidance, explain their decision-making behind the vote on each one, and provide periodic analyses to the public about the impact that its Guidance is having at MDBs more broadly in shifting financing from fossil fuels to renewable energy and green economies; Harmonize Guidance with the 1.5 temperature goal and the U.S.' commitment to end all fossil fuel financing that is not consistent with a 1.5 warming limit, as outlined in the Glasgow Statement. It's crucial that, if the US is going to be taken seriously as a leader in the global green transition, it commits to holding International Financial institutions accountable to its climate goals.