THE WORLD BANK'S CLIMATE FINANCE: TRANSFORMATIONAL CHANGE, OR DOUBLING DOWN ON NEOLIBERAL GLOBALISATION?

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Summary: This article provides a critique of the World Bank's climate finance flows, which the Bank refers to as 'climate-related investments.' Despite the fact that climate finance constitutes a growing part of the Bank's overall portfolio, there are reasons to be concerned that these finance flows, as currently constituted, won't catalyse the transformational change necessary to achieve global climate goals. The article considers three aspects of the World Bank's climate finance:

1. How the Bank defines climate finance, and whether these definitions are aligned to meet the Paris Agreement's aim of keeping average global temperature increases 'well below' 2°C compared to pre-industrial levels.

2. The instruments through which the Bank's climate finance is disbursed: Most of its climate finance is provided as loans, as opposed to grants, ignoring the climate justice imperative.

3. The link between the Bank's climate finance and its wider promotion of the financialisation of development finance, which, according to Gabor and Sylla, seeks "to reduce statecraft to de-risking investments for global financiers."

INTRODUCTION: POSITIONING THE WORLD BANK'S CLIMATE FINANCE WITHIN ITS SUPPORT FOR NEOLIBERAL GLOBALISATION

The World Bank Group, together with its sister organization, the International Monetary Fund (IMF), has been an important handmaiden of neoliberal globalisation, which has privileged economic growth as the key metric of international development. As a set of processes, neoliberal globalisation, as promoted by the Bank and Fund from the 1980s to the present, has accelerated processes of extractivism from the Global South to the Global North, while promoting deregulation and austerity as key policy prescriptions. Negative climate and environment impacts have been a key 'externality' of the World Bank's lending, in particular. As noted by Bruce Rich:

> *"The Bank's environmental legacy is one of cumulative, avoidable ecological and social harm. ... This dysfunction is rooted in a perverse institutional culture of loan approval and pressure to lend, which also undermines governance in the Bank's borrowers and the economic quality of its operations."*

In recent years, the World Bank has sought to partially pivot to promoting "green growth," including its 'climate-related investments', while also continuing to provide finance for fossil fuels, particularly fossil gas. This article provides an overview of the Bank's climate finance, given this wider context, looking in turn at: 1) Issues with how the World Bank defines climate finance; 2) instruments through which the Bank disburses climate finance, i.e. primarily via loans rather than grants; and 3) the implications for borrower countries of the Bank's climate finance being embedded in its efforts to accelerate the financialisation of international development by crowding in private sector investors – an initiative it refers to as Maximizing Finance for Development.

THE WORLD BANK'S CLIMATE FINANCE: KEY CAVEATS ABOUT GROWING FINANCE FLOWS

According to its internal accounting methods the World Bank's climate finance flows have increased substantially in recent years. In fiscal year 2019 (FY19), which ended at the close of June 2019, 30 per cent of the Bank's lending was 'climate-related', amounting to $18.8 billion across the different arms of the World Bank Group. Of these flows, $14.2 billion came from the International Bank of Reconstruction and Development (IBRD), the Bank's middle-income country lending arm, and the International Development Association (IDA), the Bank's concessional lending arm for low-income countries. A detailed breakdown of the World Bank's climate finance for FY20 is not yet available. However, according to the Bank, climate-related investments rose to a combined $15.89 billion for IBRD and IDA last year. By comparison, IBRD and IDA provided $6.5 billion in climate-related investments in FY15.

This trendline is due to continue in the coming years. In commitments announced at COP24 in Katowice, Poland (2018), the Bank will seek to provide $100 billion in climate-related investments through IBRD and IDA between FY21-25. The Bank has also committed to provide a further $33 billion through the

International Finance Corporation (IFC), its private sector investment arm, and the Multilateral Investment Guarantee Agency (MIGA), its project insurance arm, over the same time period, while also seeking to mobilise $67 billion in co-investment from the private sector. The Bank recently confirmed that it is introducing a target of 35 per cent of its investments being 'climate-related', on average, between FY21-25.

So, what's not to like? The first pertinent issue to reflect on is how the World Bank defines its climate finance, and whether these definitions are well aligned with global climate goals. The Bank tracks its finance using a jointly agreed upon multilateral development banks' (MDBs) methodology, which includes separate guidance for tracking climate change mitigation and climate change adaptation finance. As noted in a report by World Resources Institute and others, the MDBs' mitigation finance tracking methodology is not yet aligned with the aims of the Paris Agreement. Instead it is relying on the Common Principles for Climate Mitigation Finance Tracking, which were developed in 2012:

> *"While the methodology excludes certain activities—switching to more efficient thermal coal power plants, hydropower plants with high methane emissions, geothermal power plants with high CO_2 emissions, and biofuel projects with high net emissions—other activities that reduce GHGs are counted toward mitigation finance, regardless of whether they are congruent with 1.5° or <2°C pathways (emphasis added)."*

Thus, "the methodology allows for the tracking of investments to improve the efficiency of existing thermal power plants or to retrofit a plant to allow for the use of a less GHG-intensive fuel type (e.g. natural gas). But the methodology does not explicitly require that the plant be aligned with the Paris temperature goal."

While the MDBs are expected to release a new joint methodology on tracking mitigation finance in 2021, it is fair to say that some of the World Bank Group's climate-related investments to date are not well-aligned with a 1.5°C future. To cite just one example, according to reporting by Devex IFC is "planning to mobilize up to $400 million to finance an oil company's plan to reduce gas flaring." The article notes that IFC will invest in "Basrah Gas Company's construction of a new gas processing plant in the oil-rich region of southern Iraq, which will significantly increase the company's ability to process raw gas." Under the current MDBs' mitigation finance tracking methodology, the project is eligible to be classified as climate finance on the grounds that it reduces gas flaring.

Questions have also been raised about the credibility of the Bank's accounting methodology for its climate change adaptation finance. A report published by CARE Denmark and CARE Netherlands in January 2021, Climate Adaptation Finance: Fact or fiction? assessed climate adaptation finance reported by donors for 112 projects in six countries between 2013-2017. This study found that in 16 World Bank projects there was a net over-reporting of $832 million mis-labelled as adaptation finance. The report notes that there remains a transparency gap in adaptation finance reporting by the Bank and other multilateral development banks, as "their in-depth methodology and the evidence behind their climate finance figures remain unpublished."

While a full critique of all aspects of the MDBs' climate finance methodology is beyond the scope of this article, another significant dimension is the designation of certain types of hydropower as a source of renewable energy. During the 18th replenishment cycle for IDA (IDA18), which ran from mid-2017 to mid-2020, a 5GW agreed upon target for renewable energy was largely met due to the World Bank's investments in several major new hydropower projects in low-income countries such as the 420MW Nachtigal Hydropower Project in

Cameroon. Given the World Bank's long history of investing in damaging hydropower projects, civil society organisations such as Oil Change International have rejected this classification as mitigation in their independent analysis of the Bank's energy lending.

There are also concerns that the Bank's continued investments in fossil fuels are working at cross-purposes with its efforts to increase climate finance. Despite the Bank introducing a new exclusion on project finance for 'upstream' oil and gas projects that it began implementing in 2020, Germany-based civil society organisation Urgewald estimates that the Bank has provided over $12 billion in support for fossil fuel projects since the Paris Agreement was signed.

UNTIL DEBT DO US PART? DESPITE CLIMATE JUSTICE IMPERATIVE, THE MAJORITY OF MDBS' CLIMATE FINANCE IS DISBURSED AS LOANS

A second thorny issue with the World Bank's climate finance is the instruments through which it is disbursed. Its climate finance flows consist mostly of loans rather than grants, reflecting an overall trend in climate finance that has been mobilised by wealthy donor countries to date. According to Oxfam's Climate Finance Shadow Report 2020, approximately 20 per cent of all public climate finance reported by wealthy countries in 2017-2018 was disbursed as grants, with the rest being provided via loans or other non-grant instruments.

Sonam P Wangdi, Chair of the Least Developed Countries Group at the UNFCCC, made the following statement regarding the climate finance totals mobilised by rich countries in 2018 (the year for which the most recent data exists):

> *"The large majority (74%) was [provided] as loans, much delivered as ordinary, non-concessional loans, which will have to be repaid with interest. This is a concern for us, as many developing countries are facing a looming debt crisis. Climate change is already a burden, and the prospects of increased debts are worrying. We would like to see the promise of $100 billion fulfilled through grants."*

The World Bank does not provide a detailed breakdown of the proportion of its climate-related investments that are in the form of grants. However, the 2019 Joint Report of Multilateral Development Banks' Climate Finance gives a summary of different instruments used to disburse climate finance across the World Bank and other MDBs. According to this report grants constituted just $2.7 billion of a total of $61.5 billion in MDBs' climate finance in 2019. By comparison, the World Bank and other MDBs provided $44.9 billion in investment loans in 2019.

MDBs also provided $4.7 billion in climate finance via policy-based financing in 2019. In the case of the World Bank, this refers to its development policy financing. These loans require borrower countries to undertake 'prior actions' (usually legal changes) in order to secure fungible budget support. If prior actions are deemed 'climate-related', the World Bank counts a proportion of these loans as climate finance, although the budget support provided by these loans may not directly finance climate projects, per se. Worryingly, in the case of the World Bank, there is no publicly available information available on how 'climate-related' prior actions are defined.

THE WORLD BANK'S CLIMATE AGENDA MEETS THE 'WALL STREET CONSENSUS'

The World Bank's climate finance is embedded in a much wider transformation of the development finance architecture, which the World Bank refers to as Maximizing Finance for Development (MfD). MfD seeks to 'crowd in' the private sector in development efforts, by 'de-risking' them. Gabor and Sylla describe MfD as the "Wall Street Consensus":

> *"For the last decade, the G20, the IMF, the World Bank and other multilateral development banks...have pursued a new development agenda focused on a 'grand bargain' with private finance: the Wall Street Consensus. Its logic is powerful. The global portfolio glut – the trillions managed by institutional investors, mostly from the Global North – could finance the Sustainable Development Goals, given the assumption of scarce public resources in the Global South."*

As Gabor notes elsewhere, the Wall Street Consensus, "promises institutional investors $12 trillion in 'market opportunities' in transport, infrastructure, health, welfare, and education, to create new investable assets via public-private partnerships in these sectors and deeper local capital markets." An implicit part of this agenda involves a fundamental change in the role of the state in the Global South. Gabor argues:

> *"Under this consensus, nation states are supposed to protect the financial sector from the risks of investing in developing markets. This would privatise gains for [global] finance and push losses onto low-income governments and the poor."*

She notes that this logic has increasingly been applied to climate finance, which she refers to as the "Wall Street Climate Consensus." It "promises that, with the right nudging, financial capitalism can deliver a low-carbon transition without radical political or institutional changes." Gabor argues that such an approach avoids the reforms to the global financial architecture that are needed in order to address the overlapping climate and inequality crises. She notes: "The Wall Street Climate Consensus will not turbocharge the climate agenda. It is designed to protect the status quo of financial globalisation," rather than yielding a publicly backed Green New Deal on a global scale.

As already alluded to above, the World Bank's 2021-25 climate finance targets explicitly seek to 'crowd in' $67 billion in private finance. In the arena of climate investment (and elsewhere), the Bank typically views its role as a convenor. It understands itself as having the ability to help facilitate de-risking for private sector partners through co-finance, project guarantees, or legal and regulatory reforms attached to its policy lending. However, this architecture often leaves borrower countries holding most of the risk, including long-term public-private agreements that guarantee profits for the private sector. If project risks materialise, borrower countries are likely to face financial liabilities, which essentially translate into further debts that are largely off-balance sheet.

CONCLUSION: TOWARDS A JUST RECOVERY FROM COVID-19 AND A JUST TRANSITION TO A ZERO-CARBON FUTURE

The COVID-19 crisis has deepened the contradictions of the Wall Street Climate Consensus. While many developing countries have been left with unsustainable debt burdens, private creditors have refused to participate in coordinated debt restructuring. This situation has raised the spectre of disorderly sovereign debt defaults. In the face of emergency COVID-19 measures, there are signs that private sector investors are increasingly turning to trade arbitration tribunals, such as the World Bank-hosted International Centre for Settlement of Investment Disputes. Their objective is to seek compensation from countries for lost profits, including those stemming from environmental regulations. Meanwhile, there has been a fresh wave of austerity measures mandated by the IMF for countries who sought emergency lending from the Fund in 2020. According to UNCTAD these measures threaten to further restrict the Global South's ability to prioritise climate action over debt repayments and could usher in a 'lost decade' for development gains.

The implications for climate action are stark. In order to contribute to a zero-carbon transition that is socially just, changes are needed on at least three different levels:

1. The climate finance provided by the World Bank and other MDBs must be genuinely aligned with the aims of the Paris Agreement, and congruent with a 1.5°C pathway. In practice, this means excluding finance for all fossil fuels, in addition to strengthening the joint MDBs climate finance methodology and ensuring project-level transparency in how this finance is reported.

2. The MDBs' wealthy shareholders must commit to mobilise significant amounts of grant-based finance, in order to provide countries with fiscal space and spur the zero-carbon transition.

3. Rather than promoting the Wall Street Climate Consensus, a new consensus is needed that reverses long-term trends of pro-private sector policies, including deregulation, a race to the bottom in terms of corporate taxation, and austerity. Such a consensus must involve a clear break with neoliberal globalisation. Instead, the climate finance provided by the World Bank and other MDBs needs to be couched within wider reforms to global financial architecture. It could lay the foundation to achieve a global Green New Deal, one which addresses the climate crisis and yields a more equitable global financial order.

ENDNOTES

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