Refreshing the World Bank Group for Climate Action

A strategic refresh of the World Bank Group (WBG) could help catalyze a significant scale-up of climate action and follow up on the Glasgow Climate Pact that called on multilateral development banks (MDBs) to accelerate alignment with the Paris Agreement. This needs to be focused on ensuring the delivery and mobilization of better and more climate finance, with appropriate safeguards.[1] It should be aligned around five core high profile objectives and a set of tangible near-term actions that should be implemented in an integrated manner[2]:

1. **Do better on climate finance.** At a time when fiscal space is being squeezed on all fronts, the WBG should ramp up the quality and quantity of its overall climate financing, while being strategic to best leverage scarce resources. The WBG reports that on average they provided $27.9 billion of climate finance from fiscal year 2020-2022 – an increase from the $18.6 billion on average in the previous two years. In fiscal year 2022, the WBG reported that it invested $31.7 billion – accounting for 36% of its overall finance.[3] Of this climate finance the WBG reports that $12.9 billion was for adaptation actions, with the WBG operating as the single largest multilateral financier of adaptation projects. At the same time, the WBG is significantly funding fossil fuels (around $5.7 billion from 2018-2020)[4] and there is concern the WBG could be overreporting its climate finance based on a review of its project level reporting[5]. To deliver better climate finance the WBG should:
   - Increase the target for the share of its climate financing from 35% to 50% by 2025. This is already best practice among the MDBs, with European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) and Asian Infrastructure Investment Bank (AIIB) all setting targets of 50% by 2025. With the WBG current lending amounts this could increase climate finance by over $13 billion per year in 2025.[6] And this amount could significantly increase after the WBG increases the overall lending capacity by implementing the reforms identified in the Capital Adequacy Framework (CAF) review (see below).
   - Ensure the highest quality of climate finance including by: being more transparent around the methodology and practice of how it counts investments as climate finance including transparency around policy-based finance; ensuring that the results frameworks are specific about climate; accounting conservatively what it considers adaptation finance; consulting more widely on the development of its Climate Change and Development Reports (CCDRs) so that these are robust, credible and fully-aligned with mitigation and adaptation strategies necessary to deliver on the Paris Agreement; aligning investments with credible CCDRs; and consistently assessing the impact of its interventions to be more impactful.

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[1] **These recommendations are supported by groups as listed in the Annex.**

[2] The groups recommend that these are implemented together as they are synergistic and none of the five recommendations is more important to deliver than the others to effectively refresh the World Bank Group for climate action.

[3] See: https://www.worldbank.org/en/news/press-release/2022/09/07/world-bank-group-delivers-record-31-7-billion-in-climate-finance-in-fiscal-year-2022

[4] See Big Shift analysis: https://bigshiftglobal.org/MDB-finance-2020.

[5] See Oxfam analysis which found that WBG FY2020 climate finance could be off by as much as 40% ($7bn): https://policy-practice.oxfam.org/resources/unaccountable-accounting-the-world-banks-unreliable-climate-finance-reporting-621424/

[6] In FY 2022, the World Bank Group provided $88.2 billion in in loans, grants, equity investments, and guarantees to partner countries and private businesses, excluding the $6.4 billion in recipient-executed trust funds, see: https://www.worldbank.org/en/news/press-release/2022/07/14/world-bank-group-responds-to-overlapping-crises-with-nearly-115-billion-in-financing-in-fiscal-year-2022**.** Assuming roughly this level of total investment in 2025, climate financing could rise to $44.1 billion per year if the share was increased to 50% of climate finance. This is compared to $30.9 billion with the current 35% climate finance target at the current level of overall WBG investment.

- Deliver high-quality climate finance that provides respect for human rights including the rights of Indigenous Peoples, promotion of gender equality, compliance with environmental and social safeguards, and inclusive and meaningful stakeholder engagement throughout the project cycle.
- Better integrate medium and long-term planning strategies – such as Long-Term Strategies (LTSs) and CCDRs – upstream in the project cycle so they drive project proposals and overall investment patterns. To be effective, the WBG will need to: open the drafting of CCDRs to stakeholder consultation for the specific country in question to support the LTS, re-open Country Partnership Frameworks (CPFs) to consultation in cases where they may be outdated by CCDRs, and align these strategies to deliver on the Paris Agreement climate goals.
- Announce new innovative finance mechanisms such as sovereign guarantees for energy transition, support for national or subnational green banks to crowd-in private finance, currency risk hedging mechanisms, or other tools.
- Tackle the difficult projects where investors are wary including by using their limited concessional finance to foster the transformations that unleash significantly wider deployment of those strategies even if that entails smaller early-stage efforts.

2. **Delivering Paris Alignment: faster, credibly, comprehensively, and in an inclusive and transparent manner.** It is also essential that all WBG financing – not just the part that is counted as climate finance – is aligned with global ambitions to hold temperatures to 1.5°C and supports efforts to grapple with the impacts of climate change. With the WBG's current climate target over $50 billion in investment is going to non-climate operations. While the WBG has increased its reported climate finance, from 2018-2020 it has invested around $5.7 billion in fossil fuels.[7] We can't afford to have these fossil fuel investments flowing against the goals of the Paris Agreement. This is further compounded by also having too few investments seizing opportunities to support the economic transitions to green development. Making the WBG finance "Paris Aligned" would help ensure that its climate finance is of the highest quality, but also that its non-climate finance "does no harm" to the Paris climate goals and flows into short and medium-term interventions that are driving towards the Paris Agreement's long-term goals. This should apply to all types of financing instruments (e.g, direct investment, financing through intermediaries, Development Policy Financing, equity investments, technical assistance, and guarantees). To deliver on this, the WBG should commit in the near-term that:
    - IBRD, IDA, MIGA, and IFC should commit to ruling out all fossil finance, not just coal and upstream oil and gas, by FY23, except in rare circumstances where a credible alternative analysis transparently and robustly proves that the poverty alleviation needs can't be met with a renewable energy, energy efficiency, or energy storage option and does not create any fossil fuel lock-in. This restriction should also be applied to investments that support internal combustion engines – as these investments lock-in fossil fuel combustion for decades;
    - IFC and MIGA move their Paris Alignment date to FY23 (instead of 2025);
    - Specify how the joint MDB Paris alignment methodology for direct investments will be implemented including how the respective criteria will be defined and assessed;
    - Publish an ambitious methodology for policy-based finance (jointly with the other MDBs) that avoids both direct and indirect climate risks and systematically seizes opportunities for green development;
    - the WBG use the EBRD Paris alignment methodology for intermediary lending[8] as a starting point for its own methodology;

[7] See Big Shift analysis: https://bigshiftglobal.org/MDB-finance-2020.
[8] See: https://www.ebrd.com/ebrd-finance-paris-alignment

- the WBG should reform its internal structures, diagnostic capacities, and project design processes to enable itself to support and ensure Paris alignment in all its operations;
- the WBG should have Paris Alignment sectoral approaches that among other things:
  - Energy sector: Ensure that all energy finance as of next year is 100% devoted to renewables, energy efficiency, electricity transmission infrastructure and small-scale distributed energy.
  - Industry: Assess all non-energy intensive manufacturing for Paris alignment.
  - Agriculture: Evaluate all livestock related projects for Paris compatibility.
  - Across all relevant sectors:
    - Measure, report and mitigate all scope 1, 2 and 3 additional GHGs associated with the investment, even if those emissions occur in other sectors or within other national boundaries.
    - Use 1.5°C-compatible scenarios such as the IEA NZE;
- IBRD, IDA, MIGA and IFC carry out a robust consultation process with civil society and external stakeholders in the development of its Paris alignment methodology to ensure that their methodology is credible and comprehensive. This would include a commitment from IFC to conduct a public consultation on how it plans to Paris-align intermediate finance and its sectoral frameworks; and
- The WBG and particularly the IFC should strengthen its social and environmental accountability system, including by adopting a strong framework for remedial action when a project results in harm to communities.

3. **Significantly increase the investment in and quality of its adaptation support.** Increasing the overall lending capacity and the climate finance target would significantly increase the quantity of resources for adaptation given that the WBG is already a major financier of adaptation investments (at $13 billion last year) and has committed that at least 50% of the International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) climate finance will be allocated to adaptation. With an increased climate finance target, the amount of resources going to adaptation could also increase significantly – potentially rising to $18.2 billion per year[9]. This could grow even more if the overall lending capacity of the WBG was increased in line with the CAF reforms. It is also essential that the WBG improve the quality of their adaptation projects as some of their projects have dubious quality. Delivering more and better adaptation support should be geared to near-term actions from the WBG to:
   - Drive towards a 50-50 split in finance for adaptation and mitigation;
   - Provide adaptation financing on highly concessional terms. This should include a review of the eligibility criteria for concessional finance to include a particular exception for climate vulnerability for adaptation projects (i.e., high income and highly vulnerable countries could still be eligible for highly concessional adaptation finance);
   - Mobilize investments for large-scale and locally-led adaptation strategies aligned with country strategies;
   - The MDBs should prioritize supporting type 2 and type 3 measures while type 1 measures should be a standard part of any investment;

[9] Assuming that the climate finance target is increased to 50% in 2025 there would be an additional $12.5 billion for climate action with the current amount of overall WBG financing. IDA and IBRD account for 82% of the current financing so if that ratio stays constant, the commitment to a 50-50 split would result in around $18.2 billion of adaptation finance, an additional $5.3 billion compared to FY22 levels of $12.9 billion.

- Clarify the distinction between emergency assistance, loss and damage finance and adaptation finance;
- Apply intentionality upstream in the project cycle;
- Explicitly describe adaptation needs in CCDRs to encourage that those needs drive project design;
- Apply the principle of double materiality: the project must not significantly increase GHGs, applying the same threshold as what is used to determine mitigation co-benefits of projects;
- Provide more support in the form of technical assistance for adaptation so that countries can tap into larger and more transformative investments to increase the resilience of their most vulnerable communities and peoples;
- Use innovative financing tools for adaptation; and
- Mainstream adaptation into other strategies and sectors (e.g., integrating sustainable cooling into buildings, heat action plans, and other strategies to address heat stress from climate change; mainstream adaptation into agriculture and health interventions).

4. **Reform the incentive structure** so that leadership and staff deliver these objectives in the near-term while laying the foundation for the WBG to become a leader in climate finance for decades to come.

5. **Raise the World Bank's overall lending capacity.** Through implementing one or a group of the recommendations in the "G20 MDB Capital Adequacy Framework (CAF) Review",[10] the WBG could increase the overall lending capacity by tens of billions of dollars per year which could go to pressing development needs including climate change. Outside observers have estimated that these reforms could increase the total capacity of the international development financing system by an additional $400 billion to $1 trillion. The WBG's overall lending capacity for climate should be increased by shareholders:
   - Committing to implement one or more of the recommendations in the CAF by June 2023 in a manner that unleashes tens of billions more in overall finance capacity;
   - Agreeing to finalize the implementation of those actions so that increased lending capacity is available no later than FY 2024;
   - Adopting a timeframe to rapidly adopt additional reforms from July 2023 onwards to unleash even more investments; and
   - Show leadership in convincing the other MDBs to implement the CAF recommendations.

As the WBG adopts these actions, countries should start a discussion on the re-capitalization and replenishment of IDA and IBRD to respond to the current crises. Re-capitalization should be connected to the progress made by the WBG in significantly improving its climate investments. If the World Bank does not implement key climate reforms, shareholders should invest in other MDBs or multilateral channels that have better climate track records.

[10] The Capital Adequacy Framework Review concluded that the recommendations: "could add several hundreds of billions of dollars in additional portfolio room in the MDBs…over the medium term…while posing minimal additional risk to their financial stability. The risks of inaction are far greater". See: https://g20.org/independent-review-of-multilateral-development-banks-capital-adequacy-frameworks/

ANNEX: Organizations Supporting the Recommendations

Natural Resources Defense Council
E3G
Bank Information Center
AbibiNsroma Foundation
African Coalition on Green Growth
Brighter Green
Centre for Financial Accountability, India
Center for International Environmental Law (CIEL)
Climate Action Network Canada
ECCO, the Italian climate change think tank
Emmaus International
Federation of Community Forestry Users, Nepal (FECOFUN)
Foreign Policy for America
Fundación Ambiente y Recursos Naturales (FARN) - Argentina
Germanwatch
Global Citizen
Jamaa Resource Initiatives
Pennsylvania Interfaith Power & Light
RMI (Rocky Mountain Institute)
Southern Africa Climate Change Coalition
Union of Concerned Scientists
Zimbabwe Climate Change Coalition