RECOURSE
Making finance accountable to people and planet

COP26: MULTILATERAL DEVELOPMENT BANKS MUST URGENTLY ALIGN WITH THE PARIS AGREEMENT

We call on all Multilateral Development Banks (MDBs) to:

- Stop all direct and indirect financing for fossil fuels.
- Commit to ambitious targets for quantity and quality of their climate finance at COP26, pledging a substantially greater contribution to a just, equitable and resilient transition, adaptation and mitigation.
- Align all financing with the 1.5 degree Celsius goal of the Paris Agreement, including policy based lending, technical assistance and investments through financial intermediaries.

The world is facing a climate crisis, and urgent action is required on many fronts, not least in ensuring adequate levels of climate finance to support mitigation and adaptation in the Global South. As publicly funded development banks, MDBs are accountable to the global public and therefore should be agents of transformative change to tackle the climate emergency, by scaling up financing for sustainable, green development; helping countries to pursue equitable, low-carbon transitions, and ending all support for fossil fuels.

- **We call on all MDBs to commit to ambitious targets for quantity and quality of their climate finance at COP26, pledging a substantially greater contribution to a just, equitable and resilient transition, adaptation and mitigation.**

The 2015 Paris Agreement unites countries around the world in common cause to fight climate change and help developing countries adapt to its impacts.

The agreement aims to keep global temperature rise well below 2°C above pre-industrial levels while pursuing efforts to limit warming to 1.5°C. In December 2018, nine MDBs, including the World Bank, the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), announced a joint framework for aligning with the Paris Agreement. In September 2019, the MDBs committed to increase climate finance to $175 billion by 2025. They are expected to provide a progress update at COP26.

Twelve years ago, at the COP summit in Copenhagen, rich nations made a pledge to channel US$100 billion a year to less wealthy nations by 2020, to help them adapt to climate change and mitigate further rises in temperature. That promise was broken.

In view of the investment required to avoid dangerous levels of climate change, the new MDB $175billion pledge is still inadequate.

Billions more will be needed each year to meet Paris mitigation goals and to support countries to adapt to warming that is already inevitable.

- **We call on MDBs to stop all direct and indirect financing for fossil fuels.**

Paris alignment means alignment with a 1.5°C pathway, which requires exclusion of any activities that increase the extraction, processing, transportation, or combustion of coal, oil, and fossil gas. MDBs cannot consider as Paris-aligned projects that further fossil fuel expansion, including transmission lines and transport infrastructure that facilitates expansion of fossil fuel use.

The World Bank Group, AIIB, ADB and other MDBs must extend the requirement for Paris alignment to intermediary lenders and clients, in particular for private sector finance.

- **We call on MDBs to align all financing with the 1.5 degree Celsius goal of the Paris Agreement, including policy based lending, technical assistance and investments through financial intermediaries.**

MDBs provide billions of dollars annually in budget support with no restrictions on fossil fuel expenditures, including for coal, while technical assistance advice and lending through financial intermediaries also provide indirect support for fossil fuels. MDBs must exclude policy reforms that incentivise fossil fuel use or investments (for example, through lower tax liability and/or higher tariffs). Policy lending and technical advice must instead promote effective climate action. Paris alignment must include technical assistance and MDB government budget support, and fossil fuels must be on the Excluded Expenditures list. Investments through financial intermediaries must exclude support for fossil fuels and MDBs should publish their Paris Alignment methodologies by June 2022 after public consultation.

THE WORLD BANK'S DEVELOPMENT POLICY FINANCE

The World Bank's main instrument to create the right incentives for a low carbon transition is Development Policy Finance (DPF).

The reforms, or "Prior Actions" implemented under DPF are often aimed at facilitating and increasing investments in a country. As such, DPF can influence investment decisions towards either carbon-intensive development such as gas and coal, or towards low-carbon development. At present, the World Bank identifies gas as a transition fuel and is actively promoting gas through its lending instruments and advisory services including DPF, Project for Results and Technical Assistance. The bank's DPF is also supporting energy sector reforms which provide significant levels of investment to energy companies that are still building new coal-fired power stations.

The World Bank must exclude fossil fuel infrastructure support from its DPF lending and technical assistance since it impedes the renewable energy transition and contradicts its own decarbonisation goals.

THE WORLD BANK'S SUPPORT FOR ENERGY ACCESS

The World Bank, International Energy Agency and other agencies track global progress in meeting Sustainable Development Goal (SDG) 7 on ensuring affordable, reliable, sustainable and modern energy for all. The most recent report revealed that in 2018 there still remained 789 million people without access to electricity. Overall, the report concluded: "Although the world continues to advance toward SDG 7, its efforts fall well short of the scale required to reach the goal by 2030." Under current and planned policies (before the COVID crisis) it is estimated that 620 million people will remain without access to energy in 2030, 85 percent of them in Sub-Saharan Africa.

The World Bank must play its part in accelerating electrification rates in all high energy access deficit countries, by providing significantly more finance directly to new household energy connections. The bank should commit to match or exceed the African Development Bank's (AfDB's) new connections pledge of 75 million new off-grid connections by 2025. To avoid double counting, the bank should make clear that the new household electricity connections the WBG will supply are additional to the AfDB's commitment.

THE INTERNATIONAL FINANCE CORPORATION'S GREEN EQUITY APPROACH

An increasing percentage of climate finance is being directed through "green equity". This means using equity investments – or shares in a client – to promote environmental sustainability, and ensure climate compatibility of projects and programmes with the mandates under the Paris Agreement. But much of what is currently labeled green in equity investing is anything but - and could even be termed green-washing. Instead of creating truly green outcomes for local communities and their environment, green equity investments can perpetuate an extractive and exploitative development model. The IFC's Green Equity Approach is a promising start but still allows clients to invest in new coal and does not even apply to oil and gas.

There is great potential for public funds to be used in a transformative way to shift financial flows out of harmful, dirty development towards green, inclusive, gender-responsive and pro-poor investments. Equity could be a powerful instrument to effect that change. To do that, MDBs like the IFC must ensure green equity investments:

- Meet the climate challenge by ruling out fossil fuels;
- Do no harm ensuring adequate protections for people and the planet;
- Do good, promoting inclusive and gender-equitable development.

THE IMF'S LENDING AND POLICY ADVICE

The IMF trumpets its contribution to COP as "coordinating the macroeconomic and financial policy responses" to climate change, leveraging its role in global economic policy negotiation. It has published on why carbon should be taxed more and exposed the massive extent of fossil fuel subsidies.

Yet the Fund is already influencing countries' renewable energy commitments and approaches to subsidizing coal and other fossil fuel industries. It has provided $118bn to 87 countries in pandemic-related emergency finance since 2020 alone; it could and should use it's lending and policy advice mandate to support the Paris Agreement goal more directly. Evidence shows the IMF is often hindering poorer countries' green recoveries while doing little to confront the largest emitters' ongoing fossil fuel addiction.

The IMF should support borrower countries by giving them the financial breathing space to reduce reliance on fossil fuels fairly and equitably.

THE AIIB'S ENERGY SECTOR STRATEGY REVIEW

The Asian Infrastructure Investment Bank (AIIB) began operations in January 2016, only weeks after countries signed the Paris Agreement. It proudly declared one of its core values to be 'green'. Yet the AIIB's Energy Sector Strategy (ESS), approved in June 2017 turned out to be far from 'green' – allowing AIIB to support all fossil fuels, including coal. AIIB's portfolio shows the result: for every $1 spent on renewable energy, almost double goes to fossil fuels.

This figure excludes indirect financing through financial intermediaries (FIs), like infrastructure funds and banks, so the true ratio is likely greater. For example, AIIB's energy portfolio in Bangladesh since 2016 consists solely of fossil fuels, including a previous FI investment in oil and gas. While AIIB's fossil fuel investments are largely for gas, not coal, funding through FIs has supported both coal mining and coal for industrial use.

After much pressure, the AIIB will finally review the ESS in 2022. The revised strategy must:

- Fully align with the Paris Agreement and its ambitions, most importantly efforts to limit the temperature increase to 1.5°C above pre-industrial levels;
- Support the Sustainable Development Goals (SDGs), particularly SDG7 on ensuring affordable, reliable, sustainable and modern energy for all.

The AIIB must also produce a climate change action plan to cover all policies, operations and activities, including organisational goals and a clear roadmap. In late October 2021, AIIB announced a new target to align with the Paris Agreement by 1 July 2023, but has not yet disclosed any detail on how this will be achieved in practice.

ADB'S GAS FINANCING

In October 2021, the Asian Development Bank (ADB) approved its revised Energy Policy, after a flawed consultation largely excluding project-affected people. The revised policy excludes financing for coal power but is still out of step with the Paris Agreement – in particular by failing to rule out gas. The ADB has approved almost $5 billion in financing for gas projects since the adoption of the Paris Agreement. Gas is sometimes described as a 'transition' fuel to help countries move away from coal dependency, but natural gas emits carbon dioxide and methane, which is over 80 times more potent than CO2. The process of creating Liquified Natural Gas (LNG) is particularly energy- intensive and is driving growth in emissions. Analysis by Carbon Brief reveals that gas, rather than coal, was the main culprit in increasing global CO2 emissions from 2013-2019 - and that gas, rather than renewable energy, is replacing coal demand.

The ADB is now reviewing its Safeguards Policy Statement (SPS). The revised SPS must ensure the ADB aligns with the Paris Agreement, rules out fossil fuels and prioritises energy access for all, in particular the hardest to reach communities.

About Recourse

Recourse is a leading advocacy, research, and campaign organisation focusing on Development Finance Institutions' policies and practices, working in solidarity with affected communities and civil society in the global south to call for rights-based development.

- We campaign to redirect international financial flows away from dirty, harmful investments, towards greener and more inclusive development.
- We work in partnership with others to support communities in their struggle for their rights to be respected and their voices to be heard.
- We hold financial institutions to account for harm to people and the environment

Recourse targets development finance as a means of influencing the wider investment community and governments, to ensure inclusive, environmentally sustainable and socially just development.

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