OILCHANGE INTERNATIONAL

October 2013

World Bank Group Increases Lending for Fossil Fuels and Large Hydro; Continues to Fail on Delivering Energy Access to the Poor

Despite its recent commitment to phase out coal lending, the World Bank Group's most recent fiscal year continues a persistent bias towards fossil fuels. The World Bank Group (WBG) increased financing for both fossil fuels and large hydropower significantly over this past year, while financing for clean energy dropped.

In FY 2013, the Bank provided nearly US$7 billion in energy lending, including US$2.7 billion in fossil fuels, US$1.7 billion in clean energy, and US$2.6 billion in "other" energy projects, such as large hydropower or transmission projects. The research, compiled by Oil Change International, covers July 2012 to June 2013.[1]

ENERGY FINANCING CLASSIFICATION

Fossil Fuel. In this analysis, fossil fuels include any oil, gas, or coal projects, or projects supporting the development or transmission of fossil fuel power.

Clean Energy. Clean energy includes energy that is both low carbon and has negligible impacts on the environment and on human populations. Some energy efficiency and some renewable energy — energy coming from naturally replenished resources such as sunlight, wind, rain, tides, and geothermal heat — is included as 'clean' energy.

Other. The development of some 'renewable' sources — notably large hydropower, biofuels, and biomass — can have significant impacts on the environment and on human populations that make it difficult to consider them totally 'clean.' These energy sources, along with nuclear power, incineration, and other forms of power that are not fossil fuel but not 'clean,' are included in the 'other' category.
See more at
http://www.shiftthesubsidies.org/methodology

Significantly, US$336 million was provided by the World Bank Group to explore for more fossil fuels and expand known reserves. The International Energy Agency and the Intergovernmental Panel on Climate Change have both recently issued reports that clearly indicate that a significant portion of currently known fossil fuel reserves will have to stay in the ground if the world hopes to limit climate change to less than two degrees Celsius.[2] Therefore funding the expansion of known reserves is both wasteful and dangerous.

Oil Change International also evaluated which projects are aimed at providing energy access for the poorest. Overall, only 8 percent of the Bank's energy financing last year was aimed specifically at the poor. The Bank's recent Energy Directions paper proposes natural gas and large hydropower as the go-to power sources for the developing world, however less than 1 percent of combined support for natural gas and large hydropower targeted the poorest, according to Oil Change International.

WORLD BANK INCREASING FINANCING FOR FOSSIL FUELS AND LARGE HYDROPOWER

The energy funding amounts for FY 2013 reveal higher energy lending overall, with higher fossil fuel lending and lower clean energy lending than FY 2012. Financing for other energy projects, including large hydropower and transmission and distribution, increased slightly in volume but stayed roughly stable as a percentage of the energy portfolio.

Figure 1. World Bank Group Energy Lending by Year, FY 2008 to FY 2013[3]

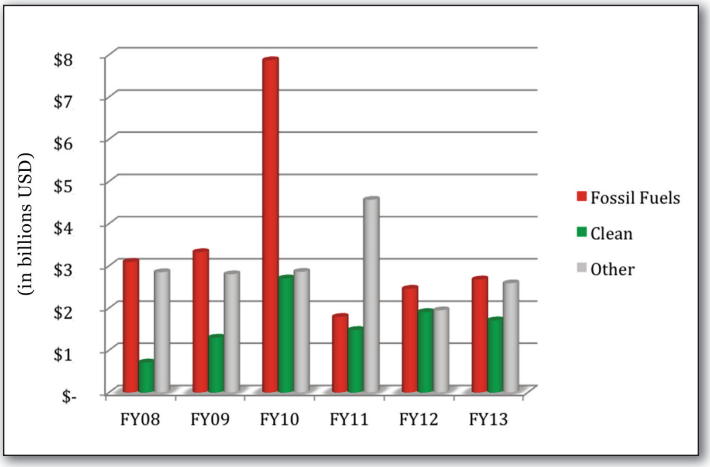
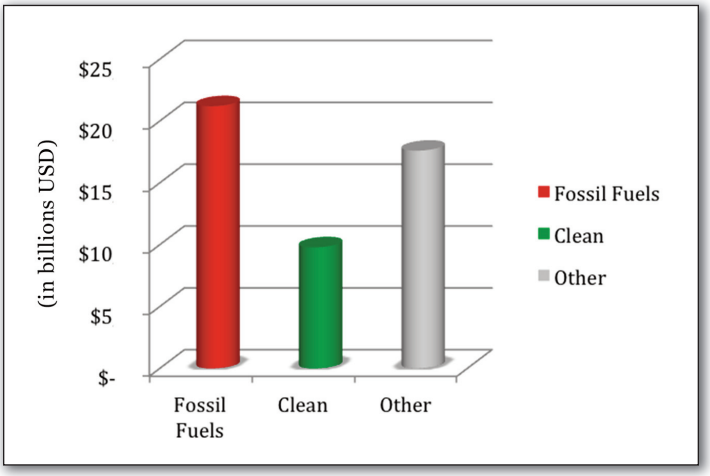


Figure 2. World Bank Group Energy Financing Total, FY 2008 to FY 2013



The WBG Energy Directions paper, approved in July 2013, suggests that going forward, the Bank will increase financing for natural gas and large hydropower. A trend in this direction already appears in the last year's financing, with natural gas financing increasing from US$590 million in FY 2012 to US$1.16 billion in FY 2013, and lending for large hydropower increasing from US$333 million to US$844 million over the same time period.

WORLD BANK FUNDING SIGNIFICANT OIL AND GAS EXPLORATION

The Energy Directions paper also includes support for oil and gas development, including exploration. Based on information available in the International Energy Agency's World Energy Outlook 2012, in order to have an 80 percent chance of keeping global warming under two degrees Celsius, only one-tenth of global proven fossil fuel reserves can be burned by 2050.[5] The implication for any expansion of oil reserves is clear: there is no room for expansion.

This past year, the WBG spent US$336 million on exploration projects. In a climate constrained world, there is no reason for public money to be spent on further exploration for fossil fuels. The World Bank should discontinue this financing immediately in order to meet its aspirations for low-carbon development.

WORLD BANK GROUP CONTINUES TO FAIL ON DELIVERING ENERGY ACCESS FOR THE POOR

The WBG Energy Directions paper also states an objective of supporting universal energy access. But to date the World Bank Group's energy projects largely do not target increased energy access for the poor.

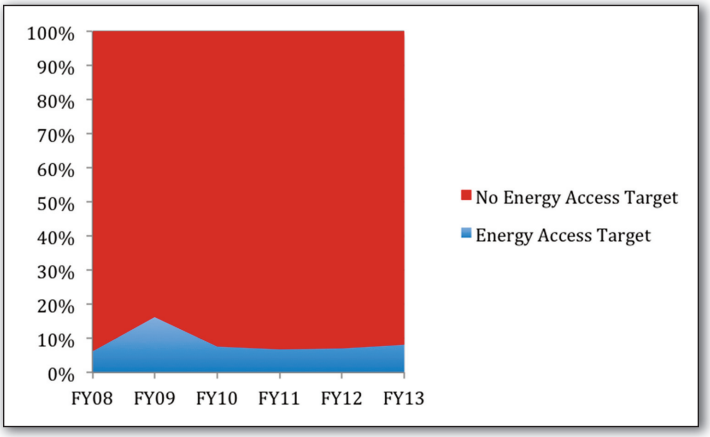
Overall, only 8 percent of the World Bank's energy lending portfolio in 2013 went to increase energy access for the poor, according to Oil Change International. To determine whether a project targets energy access for the poor, project descriptions and documents were evaluated to see if they mentioned providing any services directed at the poor, such as energy to poor areas or households, increasing services to poor areas, or making access to basic energy more affordable.[6]

This latest figure continues a long trend of low amounts of financing for projects targeting energy access, in spite of continued rhetoric from the Bank about the importance of providing the poor with access to energy.

Table 1. FY 2013 World Bank Group Fossil Fuel Exploration

Institution	Amount (in USD)	Recipient	Project	Sector	Category	Access?	Approval Date
International Finance Corporation	$100,000,000	Petroceltic	Petroceltic	Oil and gas	Fossil Fuel	no	4/8/13
International Finance Corporation	$43,790,000	PetroNova	PetroNova	Oil and gas	Fossil Fuel	no	8/30/12
International Finance Corporation	$34,000,000	Transglobe	Transglobe	Oil and gas	Fossil Fuel	no	2/28/13
International Finance Corporation	$8,000,000	Transglobe	Transglobe	Oil and gas	Fossil Fuel	no	2/28/13
Multilateral Investment Guarantee Agency	$150,000,000	Overseas Private Investment Corporation (OPIC)	Apache Egypt	Oil and Gas	Fossil Fuel	no	10/2/12

Figure 3. World Bank Group Energy Access as Percentage of Energy Portfolio, FY 2008 to FY 2013[7]



In particular, the Bank's fossil fuel and large hydropower projects are particularly unlikely to target energy access: in FY 2013, less than 1 percent of these projects targeted the poor. Of the US$2.7 billion for fossil fuels, only one oil project of US$35 million targeted energy access for the poor. None of the natural gas projects supported energy access.

Decentralized renewable energy is often the most effective means of reaching the poor, particularly in rural areas. Clean energy projects were better in terms of increasing access, but still quite low. In FY 2013, US$243 million in clean energy projects, or 14 percent of clean energy financing, were targeted at increasing access.

A number of WBG projects that target energy access fall under transmission and distribution projects, which are categorized as "other". For this category, which includes large hydro, a total of $293 million, or 11 percent of other general energy support, targeted energy access.

In order to achieve energy access goals, the WBG will have to get much better at targeting the world's poorest as part of its energy portfolio. A public bank with a mission of poverty alleviation should be better at targeting and ensuring its energy lending to the world's poorest.

BANK ENCOURAGING COAL POWER THROUGH POLICY LOANS AND FINANCIAL INTERMEDIARIES

World Bank Group financing for coal in FY 2013 was not particularly high at US$62 million. However, further investigation into development policy loans and financial intermediaries suggests that the World Bank Group is still actively involved in supporting coal development — and even expansion.

A recent briefing released by Oil Change International on coal support in Indonesia finds that the World Bank's infrastructure program in Indonesia stipulates policies and government subsidies that promote the accelerated development of the Indonesian Government's plan for over 16 gigawatts (GW) of coal power projects.[8]

The World Bank-created and financially backed Indonesia Infrastructure Guarantee Fund (IIGF) awarded its first government guarantee of US$33.9 million to the Central Java Power Project, a 2,000 megawatt (MW) ultra-super critical coal plant. The Bank states that the guarantee is critical for obtaining long-term infrastructure finance. Moreover, the International Finance Corporation (IFC) served as the transaction advisor to this mega coal project. In this role the IFC arranged financing for the project, promoted the project to investors, and supported the project's expansion to become one of the largest coal plants in Southeast Asia.

In addition, in March of this year, the 1,200 MW Nghi Son 2 coal power plant in Vietnam was awarded for development to Marubeni Corporation of Japan and Korea Electric Power Corporation. The IFC advised the government of Vietnam on developing this coal power plant as well, including mobilizing the necessary private investment. But because the IFC advisory services for both the Indonesia and Vietnam coal plants were funded by special donor funds, the lending amounts do not show up on the World Bank Group's budget.[9]

Table 2. FY 2013 World Bank Group Coal Financing

Institution	Amount (in USD)	Recipient	Project	Sector	Category	Access?	Approval Date
International Bank for Reconstruction and Development	$29,600,000	Government of Indonesia	Indonesia Infrastructure Guarantee Fund Project	Coal	Fossil Fuel	no	9/11/12
International Development Association	$4,200,000	Government of Kosovo	AF - Clean-up & Land Reclamation Project	Coal	Fossil Fuel	no	5/10/13
International Finance Corporation	$28,000,000	Oyu Tolgoi LLC	Oyu Tolgoi LLC	Coal	Fossil Fuel	no	2/28/13

[1] FY 2013 World Bank Group Energy Lending Project List available at: http://priceofoil.org/content/uploads/2013/10/WBG-Energy-Project-List-FY-2013.pdf

[2] See: Intergovernmental Panel on Climate Change, "Climate Change 2013: The Physical Science Basis." http://www.ipcc.ch/report/ar5/wg1/#.Ukxztrx55Jw and International Energy Agency, "World Energy Outlook." November, 2012. http://www.worldenergyoutlook.org/publications/weo-2012/#d.en.26099

[3] Source: Oil Change International, "Shift the Subsidies Database." www.shiftthesubsidies.org/institution_groups/2

[4] Source: Oil Change International, "Shift the Subsidies Database." www.shiftthesubsidies.org/institution_groups/2

[5] International Energy Agency, "World Energy Outlook." November, 2012, p. 259. http://www.worldenergyoutlook.org/publications/weo-2012/#d.en.26099. The 2012 World Energy Outlook (WEO 2012) estimates global fossil fuel "carbon reserves" to be 2860 gigatons of carbon dioxide (GtCO2). WEO 2012 uses Meinshausen et al. 2009, which estimates a carbon budget of 1440 GtCO2 for 2000-2049 for a 50% probability of exceeding the two degree limit by 2100. WEO 2012 subtracts 420 GtCO2 for emissions already emitted from 2000-2011 and, since it considers only fossil fuel CO2 emissions, subtracts 136 GtCO2 for non-fossil fuel emissions from 2012 thru 2049, to reach a fossil fuel carbon dioxide budget of 884 GtCO2. For a 20% probability of exceeding the 2-degree limit, Meinshausen et al. 2009 estimate a carbon budget of 886 GtCO2 for 2000-2049 (not to be confused with the 884 GtCO2 budget above). Subtracting the same figures from this as WEO 2012 subtracted from the 1440 GtCO2 budget yields a 2012-2049 fossil fuel carbon budget of 330 GtCO2.

[6] To determine whether a project targets energy access for the poor, World Bank Group project descriptions and documents are evaluated. If any of the following indicators are verified in project documents then the project is considered to address energy access for the poor:

The project focuses on a targeted number of new electricity connections or energy services, such as clean cook stoves, to low-income households.

The project focuses on electricity for services important to the poor, such as health clinics, schools, or telecommunications.

The project focuses on improving the reliability of electricity services in an area that largely serves low-income households and/or electricity services important to the poor and currently has intermittent or unreliable access.

The project focuses on provisions to make energy affordable for the poor e.g., effective, transparent safety nets to ensure that poor people can afford energy for basic needs, such as subsidies targeted at access, not consumption (as opposed to only having measures aimed at cost recovery, such as tariff increases).

The project is focused on productive uses in energy poor communities, such as energy provision to smallholder farmers, small and medium enterprises and labor-intensive industries.

The project involves power grid extension to new peri-urban or rural areas (as opposed to simply feeding into the existing grid system).

The project involves rural, off-grid solutions for providing energy services.

See more at: http://www.shiftthesubsidies.org/methodology.

[7] Source: Oil Change International, "Shift the Subsidies Database." www.shiftthesubsidies.org/institution_groups/2

[8] Oil Change International, "World Bank Accelerating Coal Development in Indonesia," September 2013. http://priceofoil.org/2013/09/25/world-bank-accelerating-coal-development-indonesia/

[9] For Vietnam and Indonesia, the actual advisory service was provided before 2013, but both projects are being developed now, which brought upon the discovery of IFC involvement.