OIL CHANGE INTERNATIONAL

April 2015

Still Funding Fossils:

World Bank Group Energy Finance FY 2014

The World Bank Group works on climate change because it is a fundamental threat to development in our lifetime. We know that if we don't confront climate change, there will be no hope of ending poverty or boosting shared prosperity. Furthermore, the longer we delay in tackling climate change, the higher the cost will be to do the right thing for our planet and our children.

- World Bank Group President Jim Yong Kim[1]

Despite repeated calls for urgent action on climate change, the World Bank Group increased funding for fossil fuels in its last fiscal year.[2] The World Bank's increase in fossil fuel finance is especially disappointing as 2014 was the first full fiscal year following the World Bank's commitment to limit coal financing due to climate concerns.

The main findings of the review include:

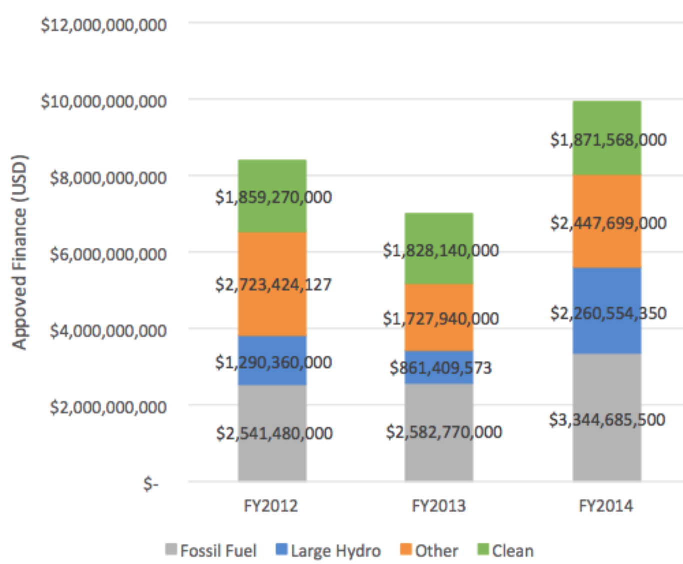
- The World Bank Group increased its support for oil, gas, and coal in FY 2014 over previous years.
- Financing for fossil fuel exploration continued at significant levels, in spite of the fact that this lending supports the expansion of projects that threaten the climate.
- WBG financing still went to coal, despite the pledge to end finance for coal power plants except in extreme circumstances.
- Financing for energy access increased somewhat over previous years, with 13 percent of energy financing in FY 2014 going to projects that target increased energy access for the poor.
- Fossil fuels and large hydropower accounted for only 4 percent of energy access financing, showing again that investing in large, conventional energy projects is not an effective way to increase energy access.

The World Bank's energy finance practices continue to fall far short of the Bank's core missions of reducing poverty and tackling climate change. The World Bank must restructure its energy portfolio to end all coal support, stop financing the search for unburnable carbon, and prioritize clean renewable energy and energy access.

Fossil Fuel Support Increased in 2014

The World Bank has repeatedly called for urgent action on climate change, acknowledging that severe climate impacts will jeopardize its mission of poverty elimination. In recent months, World Bank President Jim Yong Kim has also highlighted the importance of removing fossil fuel subsidies and redirecting public funds to clean energy and public services.[3] Yet despite this clear imperative, the World Bank continues to channel billions of dollars of its own resources into fossil fuel projects that push us closer to the brink of climate disaster.

Figure 1. World Bank Energy Finance, FY 2012 to FY 2014



[1] Speech by World Bank Group President Jim Yong Kim: "Sending a Signal from Paris: Transforming the Economy to Achieve Zero Net Emissions", Washington, DC, December 8, 2014. http://www.worldbank.org/en/news/speech/2014/12/08/transforming-the-economy-to-achieve-zero-net-emissions

[2] Fiscal year 2014 covers financing from July 1, 2013 to June 30, 2014.

[3] Jim Yong Kim, "A Year of Opportunity to Combat Climate Change — and Transform Economies," *The World Bank*, January 22, 2015, http://blogs.worldbank.org/voices/year-opportunity-combat-climate-change-and-transform-economies

In 2014, the World Bank provided $9.9 billion in finance for energy projects, an increase over 2012 and 2013 levels. The largest share, $3.3 billion (34 percent) went toward fossil fuel projects, while finance for clean energy made up the smallest share at $1.9 billion (19 percent). Despite the World Bank's climate rhetoric, its lending for fossil fuel projects actually increased by 32 percent since 2012. (See Figure 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 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 biofuels and biomass — can have significant impacts on the environment and 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. The 'other' category also encompasses projects where the energy source is unclear, as is the case for many transmission and distribution projects.

Large Hydropower. In this analysis, we have broken out large hydropower from the 'other' category to show how much financing is going to hydropower projects greater than 10 megawatts.

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

Financing Unburnable Carbon

In its most recent assessment report, the IPCC states that about three quarters of existing fossil fuel reserves must stay in the ground in order to have a likely chance of avoiding a global temperature increase of 2°C or higher.[4] Nevertheless, the World Bank continues to finance exploration and development of fossil fuel resources that we know we cannot afford to burn. In 2014, World Bank finance for projects that included fossil fuel exploration totaled $643 million (See Table 1). In recent years, the Bank has put much of its oil and gas exploration focus on Sub-Saharan Africa.

EXPLORATION FINANCING CLASSIFICATION

In this brief, exploration in the oil and gas sector refers to activities to identify and access new reserves and expand proven reserves. For the coal industry, exploration activities include initial phases of development of coal deposits (i.e., greenfield coal mine development) and the expansion of existing mines to develop resources that previously were not well-defined. Public finance support often benefits fossil fuel exploration alongside extraction. The FY2014 World Bank exploration projects listed in Table 2 note whether the projects were primarily focused on exploration, or if they include both exploration and extraction components.

From 2012 to 2014, the World Bank's Multilateral Investment Guarantee Agency (MIGA) provided several guarantees worth over $600 million to SCDM Energie for exploration and development of onshore and offshore oil and gas in Côte d'Ivoire's "Block CI-27" lease.[5] Other 2014 exploration support in Sub-Saharan Africa includes a $60 million IFC equity investment in Delonex Energy for oil and gas exploration in East and Central Africa, and a $65 million loan to VAALCO for oil exploration and production in Gabon's Etame region.

[4] Intergovernmental Panel on Climate Change (IPCC), Climate Change 2014 Synthesis Report, 2015, p. 63, https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR_AR5_FINAL_full.pdf

[5] Multilateral Investment Guarantee Agency (MIGA), Block CI 27 Expansion Program Project Brief, http://www.miga.org/projects/index.cfm?pid=1229

Table 1. World Bank Fossil Fuel Exploration Finance, FY 2014					
Project	**Institution**	**Country**	**Description**	**Project Type**	**Total FY 2014 Finance (million USD)**
Block CI 27 Expansion Program		Côte d'Ivoire	Construction and operation on- and offshore oil and gas facilities, including a greenfield platform	Exploration & Extraction	101.1
Second Power and Gas Sector Development Policy Operation	IDA	Tanzania	Development planning for recently discovered offshore natural gas reserves	Exploration & Extraction	100
Niko	IFC	India and Bangladesh	Oil and gas exploration and development wells	Exploration & Extraction	80
Exmar LNG Export	IFC	Colombia	Finance for a gas liquefaction facility, also aimed at encouraging further exploration investment	Exploration & Extraction	75
VAALCO III	IFC	Gabon	Exploration and development of the Etame oil fields	Exploration	65
Delonex Energy	IFC	Eastern and Central Africa	Exploration and development of oil and gas assets	Exploration	60
TransAtlantic Petroleum	IFC	Turkey	Finance for exploration and development of oil and gas basins	Exploration	60
Novomet	IFC	Russia	Finance for oil pump producer Novomet's global operations	Exploration & Extraction	55
President Energy	IFC	Paraguay	Drilling of three exploration wells	Exploration	24.04
Development Policy Program Series	IDA	Afghanistan	Policy development includes focus on mining, in particular recent oil field development is noted	Exploration & Extraction	9.5
Tanzania Poverty Reduction Support Credit 11	IDA	Tanzania	Support for natural gas development	Exploration & Extraction	8.5
Poverty Reduction Support Credit	IDA	Côte d'Ivoire	Oil and gas development is a major focus of the project's energy sector investment aspect	Exploration & Extraction	5
			FY 2014 Total		**643.14**

As with coal, the World Bank also folded its support for oil and gas exploration into broader energy sector and policy loans. In 2014, the $8.5 million Tanzania Poverty Reduction Support Credit policy loan included a heavy focus on natural gas exploration and development, as did the $100 million Second Power and Gas Sector Development Policy Operation for Tanzania.

Loopholes in the Coal Ban

Despite its pledge to stop financing coal projects, the World Bank still provided $400 million in coal finance in 2014, an increase over previous years (See Table 2). Because the coal ban covers only coal power plants and not mining, the World Bank was able to provide a $12.1 million loan to the Government of Mozambique, largely to promote coal and gas extraction.[6]

The World Bank has also repeatedly included coal finance in policy loans to governments. In 2014, the World Bank provided $600 million to the Government of Pakistan for a power sector reform project. While the finance would go toward policy development to promote electricity sector development, the three energy sources listed in the project document are coal, natural gas, and large hydropower, suggesting that the World Bank is failing to guide countries toward clean energy solutions.[7]

Table 2. World Bank Coal Finance, FY 2014

Project	Institution	Country	Description	Total FY 2014 Finance (million USD)
Power Sector Reform Development Policy Credit	IDA	Pakistan	Power sector development strategy anticipates an increase in coal projects	200
Stora China III	IFC	China	Board and pulp mill powered primarily by coal	146.97
ACWA Equity	IFC	Mozambique and South Africa	Equity investment in ACWA Power / International Company for Water and Power projects includes support for a 270 MW coal power plant in Mozambique and a 450 MW coal power plant in South Africa	33.33
Ninth Poverty Reduction Support Credit	IDA	Mozambique	Includes government strategy development for increasing coal and natural gas extraction	12.1
Second Governance and Growth Support Credit	IDA	Senegal	General energy sector support that includes coordination with the development of the 125 MW Sendou coal power plant	7.5
			FY 2014 Total	**399.9**

[6] Ninth Poverty Reduction Support Credit (Republic of Mozambique) Program Document, International Development Association, June 19, 2013, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/06/26/000356161_20130626114537/Rendered/PDF/751170PGD0P131010Box0377356B0OUO090.pdf

[7] First Power Sector Reform Development Policy Credit (Government of Pakistan) Program Document, International Development Association, April 3, 2014, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/04/11/000442464_20140411094222/Rendered/PDF/860310PGD0P128000Box385177B00OUO090.pdf

Another way that the World Bank continues to provide coal support is in general support for companies involved in coal development. The International Finance Corporation (IFC) provided nearly $100 in equity finance to ACWA Power to support its power plant development activities in Africa and the Middle East. The projects described include solar generation, but also natural gas and coal power plants.[8]

Another notable 2014 coal project was IFC's $88 million loan and $59 million in equity finance for the Stora China III project, which would build a board and pulp mill. The U.S. government officially opposed the project due to its substantial use of coal, stating "...the project relies on coal for at least 80 percent of its needs in the expected three years of phase one of the project, and 20 percent thereafter. The United States, as a matter of policy, has greater expectations for the rare circumstance of multilateral development bank projects involving coal, related to off-sets and carbon capture and sequestration. Even considering the attractive features of this project, the carbon intensity, particularly in the initial phase, leads us to vote against the project."[9]

Slow Progress on Energy Access

Along with these troubling trends, the World Bank's energy lending has shown some improvement in targeting energy access. Projects that at least in part aimed to improve energy access increased from 5.5 percent of total energy lending in 2012 to 13 percent ($1.3 billion) in 2014 (See Figure 2). For an institution whose core mission is poverty reduction, the share of energy lending dedicated to extending energy serves to low-income communities should still be much higher.

Figure 2. World Bank Group Energy Access Finance, 2012-2014

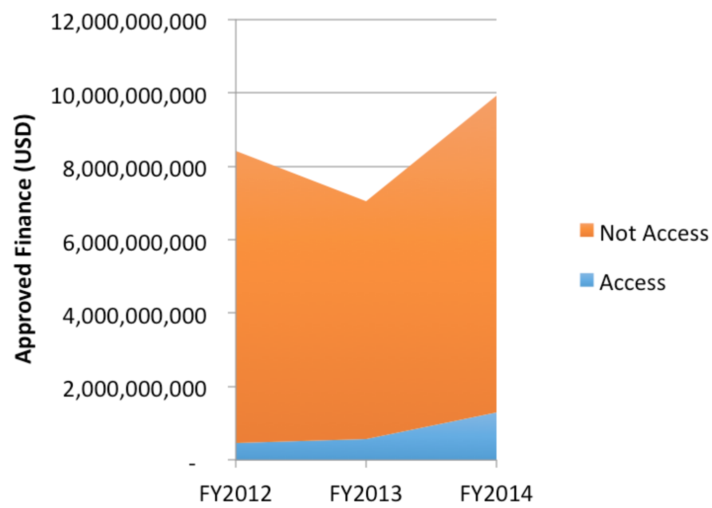
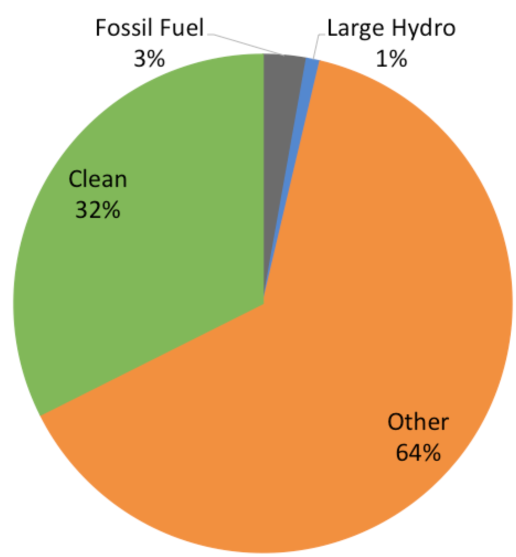


Figure 3. World Bank Group Energy Access Finance by Source, FY 2014



[8] International Finance Corporation (IFC), ACWA Equity, https://ifcndd.ifc.org/ifcext/spiwebsite1.nsf/78e3b305216fcdba85257a8b0075079d/ee61f762e8ce719d85257bec0062766d?opendocument

[9] U.S. Treasury Department, Proposed International Finance Corporation (IFC) Investment in Stora China III, United States Position, February 20, 2014, http://www.treasury.gov/resource-center/international/development-banks/Documents/US%20Position%20-%20Stora%20China%20III%20-%20Feb%2020%202014.pdf

The breakdown of energy access projects by energy source in FY 2014 debunks the common myth that coal and other fossil fuel development is necessary to increase energy access to the poor. Only 3 percent of the World Bank's fossil fuel projects in 2014 had an energy access component (none of these were coal projects), compared to nearly one-third of clean energy projects (See Figure 3). The high share of energy access provided by "Other" energy sources reflects that the majority of the World Bank's energy access projects rely on transmission and distribution grid extensions to underserved communities. The fuel sources for these electricity supplies are often not identified in project documents.

Moving Forward

The World Bank's energy finance practices continue to fall far short of the Bank's core missions of reducing poverty and tackling climate change. The World Bank must restructure its energy portfolio to end all coal support, stop financing the search for unburnable carbon, and prioritize clean renewable energy and energy access. In particular, the Bank should work to build its own capacity to finance decentralized renewable energy projects, shape policies to create an enabling environment for renewable energy investment, and provide loan guarantees and training to demonstrate commercial viability and spur private financing of sustainable energy access.

Cover Photo: Medupi coal-fired power station under construction in Lephalale, northeastern South Africa. (Kyodo via AP Images)

For more information, please contact: Elizabeth Bast at ebast@priceofoil.org