



# MDB Climate Change Scorecard: Do the MDB's pass the 2 degree test?

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*In order to avoid the worst impacts of climate change, global leaders from developed and developing countries committed in 2009 to the goal of limiting the average global temperature increase to no more than 2°C.<sup>1</sup> Recognizing that the impacts of climate change stand to harm poor and vulnerable communities the most, the multilateral development banks (MDBs) have all committed to foster low-carbon development in order to avoid exceeding a 2°C warmer world. The MDB Climate Change Scorecard (see Table 1) aims to provide initial indicators of progress on this front for seven MDBs, including: World Bank, International Finance Corporation (IFC), Asian Development Bank (ADB), African Development Bank (AfDB), Inter-American Development Bank (IDB), European Bank for Reconstruction and Development (EBRD), and European Investment Bank (EIB).*



Table 1. MDB Climate Change Scorecard

Safeguards / Performance Standards	World Bank	IFC	ADB	AfDB	IDB	EBRD	EIB
Climate Change Objectives & Requirements	limited	moderate	moderate	moderate	limited	moderate	moderate
Adequate Assessment of All Lending Modalities (e.g., policy lending, financial intermediaries, technical assistance)	limited	limited	limited	limited	limited	limited	limited
<b>Greenhouse Gas Emissions (GHG)</b>							
Project-level Accounting and Disclosure	limited	moderate	limited	limited	limited	moderate	limited
MDB Portfolio-wide Accounting and Disclosure	NO	NO	NO	NO	moderate	NO	moderate
MDB Portfolio-wide GHG Target (gross emissions reduction)	NO	NO	NO	NO	NO	NO	NO
<b>Energy Sector</b>							
Energy Portfolio Low Carbon Magnitude	limited	NO*	limited	ROBUST	moderate	limited	limited
Fossil Fuel Exploration Exclusion	NO	NO	ROBUST	NO	limited	NO	NO
Coal Restrictions/Exclusion	moderate	moderate	limited	NO	limited	moderate	moderate
<b>Land Use Change — Protection of Forests</b>							
Forest Safeguards applied across Sectors/ Modalities	limited	limited	limited	limited	limited	limited	limited
Land Use Change GHG Emissions Accounting	limited	moderate	limited	limited	limited	limited	moderate
Lending Exclusions (logging/deforestation)	limited	moderate	moderate	limited	limited	NO	limited

Key: Green indicates the MDB with the strongest policy or performance relative to other MDBs. Red indicates MDB's of concern either because they lag behind other MDBs and/or they provide a high level of funding that is inadequately addressed and represents an elevated level of climate concern.

\*Note: Energy Portfolio data for the IFC also include assistance from the Multilateral Investment Guarantee Agency (MIGA) to account for the energy sector lending stemming from the two divisions of the World Bank Group that fund the private sector.

## Executive Summary

All of the MDBs have commitments to facilitate the transition to a low-carbon economy, to avoid or reduce project-related greenhouse gas (GHG) emissions and to increase support to renewable forms of energy. The question is — how do the MDBs systematically ensure that their activities result in the transition to a low-carbon economy and specifically avoid exceeding a 2°C warmer world?

In an attempt to partially answer this question, the MDB Climate Change Scorecard assesses each MDB against eleven indicators across four themes of measurement (see Table 1 above), including: 1.) climate change objectives/requirements contained in MDB Safeguards and Performance Standards; 2.) Greenhouse gas (GHG) emissions accounting and reporting; 3.) Energy Sector- low carbon performance and fossil fuel restrictions; and 4.) Land Use Change — protection of forests.

### Main Findings

Overall, none of the MDBs received robust markings on how they systematically ensure the transition to a low-carbon economy and avoid exceeding a 2°C warmer world. In fact, only two MDBs received robust markings for one indicator each (see Table 1). Thus, the MDBs do not pass the 2 degree test.

On the positive side, the MDBs are making progress on many fronts which deserve to be commended. Some of this progress is noted below in the list of Climate-Smart Standouts.

### Green Markings — Climate-Smart Standouts

- The share of clean renewable energy and energy efficiency (RE & EE) lending is higher than fossil fuel's share at all but one of the MDBs.
- The AfDB receives the highest marking for its prioritization of clean RE & EE over fossil fuels. From 2011 to 2013, the AfDB provided only 3 percent of its energy portfolio to fossil fuels while dedicating 36 percent to clean RE & EE (note: excludes large hydropower).
- The ADB is the only MDB to specifically exclude finance for oil and gas exploration. The exclusion of fossil fuel exploration is essential to avoid exceeding 2°C warming (for an explanation, see Energy Sector below).
- The IDB and EIB report portfolio-wide gross GHG emissions. Other MDBs only report GHG emissions reductions across the lending portfolio.

### Red Flags of Climate Concern

- None of the MDBs adequately assess or address climate change risks associated with policy-lending, technical assistance, and financial intermediaries. Such assistance often results in undetected promotion of fossil fuel subsidies through support for government guarantees,

infrastructure investment incentives, Public-Private Partnerships, and sub-project finance. Such subsidies are the drivers of investment and a significant barrier to a low-carbon transition.

- None of the MDBs has a portfolio-wide target for reduction of gross GHG emissions associated with their assistance. This target is essential to bring about the transition to a low-carbon economy and to avoid exceeding a 2°C warmer world.
- Most of the MDBs do not report portfolio-wide gross GHG emissions associated with their assistance. It is impossible for the MDBs and the public to evaluate how the MDBs are progressing toward a low-carbon economy without robust portfolio-wide gross GHG emissions reporting.
- None of the MDBs account for Scope 3 GHG emissions, i.e., upstream and downstream emissions such as those associated with the ultimate burning of oil from MDB-funded pipelines. By not including Scope 3 emissions, the public does not get a true picture of the MDBs' climate change impact.
- The World Bank appears to be lagging behind all other MDBs for having no Policy in place that requires a systematic approach for assessing and reporting project-level gross GHG emissions.
- The energy sector lending of the IFC/MIGA and EIB are the most troubling due to their continued high level of support for fossil fuels, including significant funding for exploration projects, which are incompatible with the 2°C target. The IFC/MIGA's share of fossil fuels in its energy portfolio from 2011 to 2013 was by far the worst at 46 percent with clean RE & EE comprising 24 percent. They were also by far the largest contributor to fossil fuel exploration with \$1.4 billion.
- The ADB poses the largest concern regarding continued lending to coal projects. From 2011 to 2013, it provided the most funding, \$900 million, to coal projects. Unlike the EIB, EBRD, and World Bank Group, the ADB still does not have any policy to restrict lending to coal power projects.
- All of the MDBs have substantial gaps in assessing impacts and risks to forests including identifying indirect impacts from the drivers of deforestation (mining, energy, agriculture and transportation) and policy reforms, including land tenure reforms.

## Recommendations

The following recommendations are all considered essential for the MDBs to begin to bring their lending in line with a 2°C limit to avoid the worst impacts of climate change and better safeguard the poor and vulnerable communities:

1. **Robust Climate Change Assessment for All Lending Modalities** — In order to promote the transition to a low-carbon economy, it is critical to fully assess and adequately address the climate risks in all MDB assistance modalities. The MDBs especially need to improve their assessment of risks associated with policy-based lending, technical assistance and financial intermediaries.<sup>ii</sup> Such operations reach far beyond the impacts of project investments and yet they are not adequately assessed by any of the MDBs.

2. **Portfolio-wide Target for Gross GHG Emissions Reductions** — In order to promote the transition to a low-carbon economy, it is essential that the MDB's all have a portfolio-wide GHG gross emissions reduction target. Such a target would have the additional benefit of catalyzing the MDBs to assess and report portfolio-wide GHG emissions.
3. **Scope 3 GHG Emissions Accounting and Reporting** — As recommended by the GHG Protocol of the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), a comprehensive GHG emissions approach needs to include Scope 1 - direct emissions, Scope 2 - indirect emissions from electricity consumed, and Scope 3 - other upstream and downstream emissions. By not including Scope 3, the MDBs are side stepping their role in significant downstream emissions, such as those associated with fossil fuel transport and production projects.
4. **Fossil Fuel Exploration Exclusion** — Given more than three-quarters of existing proven fossil fuel reserves need to be left in the ground unburned in order to hold global warming under 2°C., any activities involved in fossil fuel exploration are incompatible with preventing the worst impacts of climate change. The MDBs should exclude support for all fossil fuel exploration activities.
5. **Comprehensive Coal Exclusion** — The climate crisis dictates that there is no longer any room in the carbon budget for new coal developments. All MDBs need to adopt a comprehensive coal exclusion that covers all forms of assistance and all types of coal projects, including mining, power production, and associated infrastructure.
6. **Robust Assessment and Mitigation of Impacts on Forests** — All MDBs need better criteria for assessing the direct and indirect impacts and risks to forests that in turn lead to the implementation of robust mitigation practices to minimize project impacts on forests and forest-dependent communities—both for projects in the forest sector, and projects outside the forest sector which drive deforestation. Careful attention must be applied to policy reforms and technical assistance involving land tenure/rights and infrastructure investment incentives.

## Introduction to the MDB Climate Change Scorecard

All of the MDBs have commitments to facilitate the transition to a low-carbon economy, to avoid or reduce project-related GHG emissions and to increase support to renewable forms of energy. The question is — how do the MDBs systematically ensure that their activities result in the transition to a low-carbon economy and specifically avoid exceeding a 2°C warmer world?

In an attempt to partially answer this question, the MDB Climate Change Scorecard assesses each MDB against eleven indicators across four themes of measurement (see Table 1 above), including: 1.) climate change objectives/requirements contained in MDB Safeguards and Performance Standards; 2.) GHG emissions accounting and reporting; 3.) Energy Sector- low carbon performance and fossil fuel restrictions; and 4.) Land-Use Change — protection of forests. Details surrounding the eleven indicators and how they were assessed to arrive at a value of NO, limited, moderate, or robust are provided in the text below. Furthermore, each indicator has a corresponding table in the Annex, which provides MDB climate change policy requirements and other MDB relevant measures.

In addition, the MDB Climate Change Scorecard highlights both MDB climate-smart standouts (indicated in green on the scorecard) and red flags of MDB climate change concerns either across the MDBs or related to specific MDBs because they lag behind and/or provide a high level of assistance that is inadequately addressed and represents an elevated level of climate concern (indicated in red on the scorecard).

Given the Scorecard is specifically geared toward the 2°C limit, it focuses on climate change mitigation activities and does not consider how the MDBs address climate change risks, which is an important element of MDB work. This version of the Scorecard aims to provide an initial assessment and does not represent the full breadth of important indicators.

## MDB Safeguards and Performance Standards

The MDB Climate Change Scorecard assessment begins with a look at the MDBs policy objectives and requirements surrounding climate change that systematically apply to projects. These are mainly contained in the various MDBs' Environmental and Social Safeguards or Performance Standards or similarly named policy. This assessment aims to get a general sense of the relevant policy requirements as opposed to stated MDB ambitions. Policy requirements specific to greenhouse gas (GHG) accounting and reporting are discussed in the following section. Please see the tables in the Annex for actual policy language.

**Climate Change Objectives & Requirements** — Many of the MDBs have specific climate change objectives contained within the Safeguards, including IFC, AfDB and EIB. All of the MDBs, with the exception of the World Bank, list greenhouse gas emissions (GHGs) as a standard requirement for environmental assessments and state the objective to reduce project-related anthropogenic GHG

emissions. The World Bank merely lists climate change in a footnote as one of the global environmental issues that should be considered by an environmental assessment.

The EIB stands out with a climate change dedicated chapter in its Environmental and Social Standards - 4. EIB Climate-Related Standards. The AfDB is the only MDB with a specific objective to mainstream climate change into Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs).

None of the MDB policies offer much in the way of specific requirements that would lead to the prioritization of low carbon development with the exception of one requirement of the EIB. In terms of the economic assessment for projects with significant GHG emissions, the EIB incorporates the use of an economic cost of carbon based on the costs of meeting long-term EU emissions targets, which is distinct from the financial price of carbon, such as the spot price on traded markets.

Thus, the EIB is awarded the green star for this indicator but still remains at a moderate level of comprehensiveness. The World Bank gets the red flag as it is lagging behind the other MDBs in its coverage of climate change in its Safeguards. See Table A. MDB Safeguards and Performance Standards in the Annex for more details on the individual MDB policy language.

**Adequate Assessment of All Lending Modalities** — In addition to project lending, MDBs have several other lending modalities. Through policy lending, technical assistance and advisory services, MDBs influence policies, regulations, and institutions. Such lending can often influence the preferences towards either carbon-intensive development or low-carbon development. Policy lending and technical assistance are associated with environmental and social impacts that reach far beyond direct project lending.

In addition, MDBs are increasingly making investments through financial intermediaries (FIs), that on-lend or invest in subprojects. Financial intermediaries are both private and public entities, including banks, insurance, microfinance, private equity funds, investment funds and guarantee funds. The World Bank Group provides around \$8 billion or more annually through FIs and FI operations represent over 40% of the IFC's private sector investments.

Ensuring that all of these lending modalities are adequately assessed for climate change impacts and risks is critical. Most of the MDBs apply the same safeguards to all their lending modalities, while providing specific guidance on how to adjust the manner of assessment to coincide with the lending modality.

For policy lending, the World Bank has a separate operational policy. Even though the World Bank has a separate policy and the ADB applies the same safeguards to all modalities, their approach to assessing and addressing risks associated with policy lending is relatively the same. They both require “evaluation” to identify the potential for significant risks as well as mitigation measures and

determination of the country's capacity to carry them out. The biggest difference between the two approaches is the World Bank is responsible for carrying out the evaluation and for the ADB the borrower is responsible.

For all the MDBs, the guidance/requirements surrounding assessment of policy lending, technical assistance and advisory services is quite weak. There is no assurance that impacts are adequately assessed and even more importantly that mitigation measures are comprehensive (see Box 1). The World Bank represents a red flag because it does the most policy lending and is often the lead partner on other MDB's policy lending.

For lending to financial intermediaries (FI), most MDBs apply the same safeguards as project lending. The FI is responsible for carrying out the appropriate assessment based on the level of risk associated with the individual sub-project. The MDB is responsible for assessing the adequacy of the FI's capacity to manage and assess environmental and social risks. On the FI front, the EIB's requirements seem exceptionally weak (see Table B. Climate Change Coverage across Lending Modalities in the Annex). Given the fact the money is fungible across the portfolio of an FI, it is difficult to determine exactly what the MDB is supporting and thus, raises a climate concern (see Box 2 below).

No MDB stands out as having a stronger, more comprehensive assessment across lending modalities than any other MDB. As such, they all received a limited rating for comprehensiveness.

### Box 1. MDB Policy Lending in Indonesia Reveals Significant Gaps in Risk Assessment

From 2006 to 2010, the World Bank and ADB provided a series of infrastructure policy loans totaling \$1.7 billion<sup>iii</sup> to support policy reforms to help Indonesia implement its infrastructure master plan, which called for 117 new coal-fired power plants. The Public-Private Partnership (PPP) investment framework supported by the MDBs, which the Indonesian government adopted into law, provided a number of government subsidies for power sector projects whether coal-based or renewable.<sup>iv</sup> In addition, the MDBs created and partially funded the Indonesian Infrastructure Guarantee Fund, which approved its first power sector guarantees for three coal power plants — 2,000 MW Central Java Coal Power Plant, 1200 MW South Sumatera 9 — Mine Mouth Coal Power Plant, and 600 MW South Sumatera 10 — Mine Mouth Coal Power Plant. The Central Java Coal Power Plant continues to face massive local resistance from thousands of villagers, fishermen, and farm laborers who fear the plant will severely harm their health, environment and livelihoods.

Even though Indonesia's infrastructure master plan provided a clear indication from the outset that the infrastructure policy loans would involve indirect support for a substantial number of Category A projects, i.e., those with potential significant impacts, the ADB rated its associated policy loans as Category C, i.e., likely to have minimal or no adverse environmental impact and, thus, did not trigger an Environmental Impact Assessment. The World Bank, on the other hand, acknowledged in its

environmental review that the targeted power sector plans involved “a large scale-up in the use of coal...a move that could lead to significant negative environmental impacts...”

However, the World Bank failed to address how Indonesia would mitigate significant increases in pollution and greenhouse gas emissions associated with the master plan. Instead, the World Bank’s review concluded that the policy loans overall would have positive environmental outcomes and that potential negative environmental impacts would be addressed by strengthening the government’s capacity to conduct environmental impact assessments (EIAs).

If the Indonesia infrastructure policy lending case did not trigger a robust assessment and comprehensive revision of planned policy reforms by the MDBs, it is completely unclear what it takes to trigger a robust response from the MDBs. This case demonstrates huge gaps in the MDBs approach to policy lending assessment, which must be rectified in order to protect the climate.

## Greenhouse Gas Emissions (GHG)

Because climate change is a complex and global problem, MDB greenhouse gas (GHG) emissions accounting and reporting need to be based on a comprehensive approach. Otherwise, the MDBs and the public cannot truly understand the overall climate impact of MDB associated activities and thus, cannot gauge progress toward a low-carbon economy or whether overall MDB assistance is in line with the 2°C limit. As recommended by the GHG Protocol of the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), which the MDBs claim to use as a reference, a comprehensive GHG emissions approach would include Scope 1, Scope 2, and Scope 3 GHG emissions measurement. According to the WBCSD/WRI GHG Protocol, direct emissions are termed Scope 1, indirect emissions from electricity used by a project are Scope 2, and other upstream and downstream emissions are Scope 3.

Some of the MDBs require projects expected to emit significant GHG emissions (threshold for significant depends on the given MDB) to report Scope 1 and Scope 2 GHG emissions. However, no MDBs account for Scope 3 emissions. An example of Scope 3 emissions would be the emissions associated with the ultimate burning of oil transported by an MDB-funded pipeline or refined at an MDB-funded refinery. Currently, such Scope 3 emissions are completely unaccounted for by the MDBs even though they are essential to gauging whether MDB assistance is in line with the 2°C limit.

**Project-level GHG Accounting and Disclosure** — The IFC and EBRD require projects expected to emit more than 25,000 t CO<sub>2</sub> eq./yr.<sup>v</sup> to assess and report Scope 1 and Scope 2 emissions. These MDBs received a moderate MDB Scorecard rating and the green MDB distinction for this indicator.

The IDB’s Environment and Safeguards Compliance Policy requires projects, expected to emit greater than 25,000 t CO<sub>2</sub> eq./yr.<sup>vi</sup>, to report direct GHG emissions or Scope 1. It should be noted that the IDB’s GHG Assessment Emissions Methodology (August 2012) states that “Direct emissions from within the

project boundary together with the estimated emissions associated with the generation of grid electricity used by the project are included in the assessment.” The IDB needs to rectify its methodology suggestions with its Policy requirements. The IDB was assigned a limited MDB Scorecard rating.

The EIB and ADB report Scope 1 and Scope 2 GHG emissions for projects emitting more than 100,000 t CO<sub>2</sub> eq./yr. These MDBs received a limited MDB Scorecard rating due to their higher threshold for reporting. The AfDB is piloting a GHG tracking tool and states that it will practice “Graduated reporting, rather than adopting a GHG threshold for reporting the Bank will undertake graduated reporting that is informed by the results of piloting the GHG tracking tool. The Bank will initially report on emissions for Category 1 operations.” The AfDB was assigned a limited MDB Scorecard rating.

The red flag goes to the World Bank. The World Bank may be reporting GHG emissions for selected projects but it does not appear to have a Policy in place that requires a systematic approach across projects and in some sectors it may only be reporting GHG emissions reductions from mitigation projects and not gross emissions from all project types. The World Bank appears to be lagging behind all other MDBs on this policy front.

For more information, see Table C. GHG Emissions in the Annex.

**MDB Portfolio-wide GHG Accounting and Disclosure** — Only the IDB and EIB are reporting portfolio-wide gross GHG emissions and net GHG emissions reductions, which can be found in their respective Sustainability Reports. The IDB’s 2011 Sustainability Report states “In order to reduce GHG emissions in the future and help countries move toward a low-carbon economy, it is essential to know the amount of emissions generated or saved by past projects.” Similarly, the EIB’s 2014 Sustainability Report states “To review the total impact of our lending, we believe it is important to assess significant emissions from all sectors we fund, not only from green sectors.”

The IDB and EIB are commended for leading the MDBs on portfolio-wide GHG reporting. They received a moderate MDB Scorecard rating because of existing gaps that need to be rectified. Gaps include, inter alia: no Scope 3 emissions; no emissions associated with technical assistance, policy lending, or financial intermediaries; emissions only for projects that pass the emissions threshold (see Annex Table C); and only one year of emissions with no accounting for lifetime emissions.

The IDB received the green extinction over the EIB because the EIB has two additional shortcomings to its reporting: 1) inconsistent thresholds for gross emissions versus net emissions reductions - 100,000 t CO<sub>2</sub> eq./yr versus 25,000 t CO<sub>2</sub> eq./yr, which provides misleading results for their total impact of EIB lending; and 2) emissions are prorated in proportion to the volume of EIB funding of each project. For example, if the EIB provided 10 percent of funding for a given project, it would only account 10 percent of the emissions. This seems to be misleading and would corrupt the understanding of the impact of

MDB funding given it is often claimed that a project would not go ahead without the MDB funds. On the other hand, the EIB states that it wants to avoid double counting of emissions reductions that potentially are claimed by other funders.

No other MDBs report portfolio-wide gross emissions. However, the World Bank, IFC and EBRD do report portfolio-wide GHG emissions reductions. Reporting only the reductions of GHG emissions and ignoring the gross emissions fails the 2 degree test. In the end, no matter how many reductions we take credit for, if we are still producing more GHG emissions than the carbon budget can withstand, then we are still going to exceed the 2°C limit. All the MDBs, apart from IDB and EIB, receive a red flag for this indicator on the MDB Scorecard.

It is interesting to note, the IFC's website highlights the fact that its GHG reductions accounting measures real sector investments, advisory services and initiatives through financial intermediaries. It is interesting that the IFC can measure GHG reductions for such operations but none of the MDBs are able to measure gross GHG emissions from advisory services or financial intermediaries.

**MDB Portfolio-wide GHG Target (gross emissions reduction)** — In order to promote the transition to a low-carbon economy and to avoid exceeding a 2°C warmer world, it is essential that the MDB's all have a portfolio-wide GHG gross emissions reduction target. However, none of the MDBs have such a target as such all the MDBs received the red flag for this indicator.

## Energy Sector

In a carbon-constrained world, we cannot afford to develop using the same carbon intensive infrastructure of the past. Such infrastructure locks countries into a carbon intensive existence for 20 to 50 years. In recent years, all of the MDBs have greatly increased their support of clean renewables and energy efficiency (RE & EE).<sup>vii</sup> In most cases, the MDBs are providing more assistance to clean RE and EE than to fossil fuels. However, the increase in climate-smart assistance is only part of the solution. An 'all of the above' approach to development — one that supports both low-carbon and the expansion of carbon intensive projects — will not keep the world below the 2°C target. For the energy sector, this means that the MDBs must ensure clean RE and EE projects are properly prioritized and assistance to fossil fuels is rapidly phased out, starting immediately with coal.

As an indication of how well the MDBs are prioritizing low carbon energy projects, Table 2 and 3 provide a summary of MDB energy sector lending from 2011 to 2013. Please note, for the IFC the two tables include funding from the Multilateral Investment Guarantee Agency (MIGA) to account for the energy sector assistance stemming from the two divisions of the World Bank Group that fund the private sector.

**Table 2. MDB Energy Sector Lending 2011-2013 (million USD)**

	World Bank	IFC & MIGA	ADB	AfDB	IDB	EBRD	EIB
<b>Clean RE &amp; EE</b>	<b>3,229</b>	<b>1,917</b>	<b>2,775</b>	<b>867</b>	<b>887</b>	<b>2,842</b>	<b>14,149</b>
<b>Fossil Fuel</b>	<b>2,473</b>	<b>3,703</b>	<b>1,739</b>	<b>67</b>	<b>246</b>	<b>2,141</b>	<b>8,873</b>
<b>Coal</b>	76	74	901	0	0	283	131
<b>Exploration</b>	60	1,363	0	0	40	88	276
<b>Large Hydro</b>	<b>2,981</b>	<b>1,009</b>	<b>1,643</b>	<b>780</b>	<b>981</b>	<b>882</b>	<b>1,719</b>
<b>Other</b>	<b>6,144</b>	<b>1,337</b>	<b>5,590</b>	<b>694</b>	<b>1,644</b>	<b>2,105</b>	<b>16,797</b>
<b>Total</b>	<b>14,827</b>	<b>7,966</b>	<b>11,746</b>	<b>2,407</b>	<b>3,757</b>	<b>7,970</b>	<b>41,537</b>

Data Source: Oil Change International and CEE Bankwatch<sup>viii</sup>

**Table 3. Share of Energy Type in MDB Energy Portfolio**

	World Bank	IFC & MIGA	ADB	AfDB	EBRD	EIB	IDB
<b>Clean RE &amp; EE</b>	22%	24%	24%	36%	36%	34%	24%
<b>Fossil Fuel</b>	17%	46%	15%	3%	27%	21%	7%
<b>Large Hydro</b>	20%	13%	14%	32%	11%	4%	26%
<b>Other</b>	41%	17%	48%	29%	26%	40%	44%

**Overall Energy Portfolio: Low Carbon Magnitude** — With regards to the overall energy portfolio, the AfDB stands above all other MDBs for its prioritization of clean renewable energy and energy efficiency over fossil fuels. The AfDB had by far the best ratio of 36 percent of its portfolio dedicated to clean RE & EE compared to only 3 percent for fossil fuels. The AfDB is the only MDB from 2011 to 2013 to give \$0 assistance to both coal and fossil fuel exploration. This performance rendered a robust marking for the AfDB on the MDB Climate Change Scorecard — one of only two awarded. It is important to note the MDB scorecard did not consider climate concerns surrounding AfDB's as well as other MDB's support for large hydropower as these operations have the potential for significant GHG emissions, e.g., through deforestation, and may be at risk to significant climate change impacts, e.g. changing precipitation.

The IFC/MIGA and EIB raise red flags for the level of fossil fuel lending and the share fossil fuels represent in the portfolio. From 2011 to 2013, the EIB provided the most funding for fossil fuels at \$8.9 billion followed by the IFC/MIGA with \$3.7 billion. IFC/MIGA stand out as the only institutions that provided more funding to fossil fuels than to clean RE and EE, \$3.7 billion versus \$1.9 billion respectively, and by far the greatest share of the energy portfolio to fossil fuels at 46 percent.

Even though the EIB provided the most funding of the MDBs to clean RE and EE totaling a remarkable \$14.1 billion, unfortunately EIB's lending to fossil fuels continues at such high levels that it threatens the 2°C target. In order to meet the target, MDBs need to specifically and substantially reduce fossil fuel lending, not simply finance more RE and EE. Many of the fossil fuel investments are for large-scale

infrastructure projects that lock countries into carbon intensive economies for 20 to 50 years. This does not promote a low-carbon development future.

**Fossil Fuel Exploration Exclusions** — The International Energy Agency says that more than three-quarters of existing proven reserves of oil, gas and coal need to be left in the ground unburned if global warming is to be held to under 2°C. Thus, any activities involved in fossil fuel exploration are incompatible with preventing the worst impacts of climate change.

On this front, the ADB receives the highest Green Robust ranking in the MDB Climate Change Scorecard because it is the only MDB to exclude finance for oil and gas exploration. ADB also has very little chance of supporting coal exploration because its Energy Policy does not allow any financing of coal mine development except for captive use by power plants (see Table D. Fossil Fuel Restrictions in the Annex). In addition, the IDB has an exclusion, which is limited to financial intermediaries, on “oil and gas exploration development and supporting services.”

In the red flag zone we have the IFC/MIGA and EIB, which provided relatively high levels of funding for projects involving fossil fuel exploration during 2011 to 2013. The IFC/MIGA was by far the biggest fossil fuel exploration supporter lending \$1.4 billion.<sup>ix</sup> The World Bank, EBRD and IDB also provided exploration assistance (see Table 2) and the ADB and AfDB provided none. Any investments for fossil fuel exploration are clearly not in line with limiting global warming to 2°C.

**Coal Restrictions/Exclusion** - In addition to fossil fuel exploration, coal power plants also represent investment in unburnable carbon. During the Warsaw 2013 UNFCCC COP, 27 leading climate and energy scientists from 15 countries issued a joint statement that burning just 26% of the world’s known coal reserves would break the global “carbon budget”, and thereby raise temperatures above the 2°C threshold.<sup>x</sup> In other words, nearly 75% of the world’s coal represents unburnable carbon, which needs to stay in the ground. As such, the scientists further stated: “There is no room in the remaining carbon budget for building new unabated coal power plants, even highly efficient ones, given their long lifetimes.”

In 2013, the World Bank Group, EBRD and EIB all adopted guidelines that restrict lending to coal-fired power plants except in rare circumstances.<sup>xi</sup> Even though this is heralded as a giant climate-smart step forward, these MDBs were still rated at a moderate level of comprehensiveness on the MDB Climate Change Scorecard because of several remaining loopholes. For example, the parameters surrounding what constitutes “rare circumstances” for the World Bank Group and EBRD are somewhat vague. In addition, it is not clear how the restrictions are applied to policy lending (see Box 1 above), financial intermediaries (see Box 2 below), sub-project components, and infrastructure investment frameworks. In the case of the IFC, in 2014 it financed an integrated paper mill in China with a sub-project component that involves a new co-generation plant that will rely on coal for 80 percent of its fuel in the

early phases.<sup>xii</sup> This project did not get rejected by the IFC even with the 2013 coal restrictions. In addition, the coal restrictions at all of the MDBs only apply to coal power plants and not to coal mining or other associated infrastructure.

The EIB received the green extinction for its coal restriction policy because it specifies an Emissions Performance Standard of 550g CO<sub>2</sub>/kWh, basically ruling out investments in coal power plants. The EIB criterion applies to all fossil fuel power plants, but the EPS is mainly aimed at coal power. Going a step further, CEE Bankwatch argues that in order for the EPS to be serious about addressing climate change it needs to be set at 350g CO<sub>2</sub>/kWh, which corresponds to a best-in-class gas plant.<sup>xiii</sup> In addition to the EPS, EIB also specifies relatively stringent requirements on exceptions to the EPS stating “exceptions will be made for projects outside the EU located in the poorest countries where it can be demonstrated that projects with carbon emissions above the threshold will have a significant and material positive impact on poverty alleviation and economic development”<sup>xiv</sup> (for more details, see Table D. Fossil Fuels Restrictions in the Annex).

The red flag goes to the ADB which has no policy restricting coal power plant lending and poses the largest concern for its continued lending to coal. From 2011 to 2013, the ADB represented the largest MDB-supporter of coal with over \$900 million. The ADB does however restrict financing of coal mine development with the only exception given for captive use by power plants.

### Box 2. Ring-Fencing MDB-funding to avoid Coal Associated with Financial Intermediaries

In December 2013, the US government voted against an IFC proposed \$100 million equity investment in a Saudi Arabian corporation, ACWA Power International. According to the IFC’s summary of investment information, the IFC project aims “to support [ACWA’s] growth plan“, including “increasing the share of renewable energy projects to 5-10 per cent of the company’s power generation portfolio.”<sup>xv</sup> Although, the US stated its appreciation of the company’s efforts to expand its renewable energy portfolio, the US argued that it was “troubled by the greenfield coal projects that make up part of the company’s portfolio and proposed pipeline.\* Despite IFC’s efforts to ring-fence its financing, the United States is not convinced that an equity investment can preclude support for specific projects within the company’s portfolio because money is fungible.”<sup>xvi</sup>

The US further stated that “To prevent IFC funds from supporting coal projects, the United States would have preferred that the IFC take a different investment approach to support ACWA’s renewables projects while avoiding the association with the coal projects altogether, perhaps by investing directly in specific [renewable] projects...”<sup>xvii</sup>

Despite the concerns raised by the US, the ACWA project was approved. The IFC’s summary of investment information states that “the company is expected to operate its facilities in accordance with Performance Standards objectives.” However, the World Bank Group’s coal power plant restrictions are not contained in the IFC’s Performance Standards. They are contained in the Energy Directions document.

\* ACWA greenfield coal projects include, inter alia, a 270 MW coal-fired power plant in Mozambique and a 450 MW coal-fired power plant in South Africa.

**Fossil Fuels Do Not Promote Energy Access for the Poor** — There is, at present, a clear lack of any correlation between MDB support for fossil fuel energy projects and targeting poor communities that lack access to energy. An examination of the fossil fuel projects funded by the MDBs from 2011 to 2013 found that only 1 percent of those projects targeted communities without access.<sup>xviii</sup> In order to achieve universal energy access, it is overwhelmingly distributed renewable energy systems — not centralized fossil fuel projects — that are needed to reach those without access, as 84 percent of those people who lack access to electricity are located in rural areas, often far away from the existing power grid.

**MDB Assistance Equals Fossil Fuel Subsidies** — Many of the MDBs, including the World Bank, IFC, and EBRD, state that in order to support the transition to a low carbon economy, we must end fossil fuel subsidies. However, so far the MDBs have taken a very limited approach by targeting mainly only consumer subsidies. The MDBs often do not recognize their own promotion of fossil fuel subsidies through support for government guarantees, infrastructure investment incentives, Public-Private Partnerships, and MDB project finance. Such subsidies are the drivers of investment and a significant barrier to low-carbon development. According to the World Bank, because of MDB's longer-term project loans, MDBs bring down the costs of financing long-term capital intensive projects (e.g., the majority of fossil fuel-based projects), by around 25 percent, even when blended with shorter-term commercial loans.<sup>xix</sup> MDB lending to fossil fuel projects brings down the costs of financing and thus, the MDBs are providing subsidies to the fossil fuel industry.

## Land Use Change — Protection of Forests

According to the United Nation's Food and Agriculture Organization (FAO), "the rate of deforestation shows signs of decreasing — but is still alarmingly high." Currently, the world loses forest cover equal to the area of Costa Rica every year. Reversing forest loss and ensuring forest conservation and restoration is key to remaining below 2°C warming for two reasons. One, reducing deforestation avoids carbon dioxide (CO<sub>2</sub>) emissions. In many countries, including Indonesia and Peru, land use change, often in the form of deforestation, is the largest source of GHG emissions. Two, protecting forests maintains or increases forest carbon sequestration. According to the Intergovernmental Panel on Climate Change (IPCC), as much as 24-30 percent of total climate mitigation potential can be provided by halting and reversing tropical deforestation.<sup>xx</sup> If all deforestation were halted tomorrow, with degraded forests allowed to regenerate and mature forests left undisturbed, the increased carbon sequestration in tropical forests would offset up to 38 percent of total annual greenhouse gas emissions.<sup>xxi</sup>

**Forest Safeguards applied across Sectors and Lending Modalities** — In general, the MDBs safeguards and performance standards require a project to identify whether the project will result in

significant forest or natural habitat conversion or degradation and if so, the project must avoid or mitigate the impacts. Some of the MDBs, such as the World Bank, IFC, and ADB, provide additional language on sustainable management criteria (See Annex Table E for individual MDB details). However, all of the MDBs received a limited rating for their forest safeguard approach because of existing substantial gaps in identifying and mitigating impacts to forests. In addition, all of the MDBs received a red flag of elevated climate concern given the importance that forests have to mitigate climate change and the lacking approach across all of the MDBs.

To begin, comprehensive assessment of forest impacts is inconsistently applied across sectors and lending modalities. For example, the MDBs provide significant support to the sectors widely considered to be drivers of deforestation and land use change — mining, energy (including large hydropower), transportation and agriculture. The MDBs frequently account for direct deforestation from these sectors during project assessment and implementation. However, rarely do the MDBs recognize the typically more significant indirect forest impacts, such as increased access to previously intact forest resources, thereby leading to long-term forest loss well beyond the life of the project.<sup>xxii</sup>

In addition, policy reforms and technical assistance provided by MDB funding most frequently do not adequately assess the impacts on forests or land use change. For example, MDBs often support land tenure/rights reforms and infrastructure investment incentives that result in significant forest impacts (e.g., World Bank land tenure reforms in Peru associated with oil and gas concessions in the Amazon) that are most often not identified ex-ante, or not considered given that the project is outside the forest sector (also see Box 1 on World Bank and ADB policy lending in Indonesia). Lastly, the MDBs should provide clearer and less subjective definitions of what constitutes “significant conversion” and “degradation.”

It is relevant to note that in the ongoing World Bank Safeguard review process, the existing policies on Forests and Natural Habitats are being combined into one policy on Biodiversity. This policy is focused strongly on biodiversity value of natural ecosystems, and removes nearly all specific content and requirements related to forest ecosystems and sustainable forest management, which will likely lead to less specific attention paid to forests, and weaker impact mitigation efforts.

All MDBs need better criteria for assessing the direct and indirect impacts and risks to forests that in turn lead to the implementation of robust mitigation practices to minimize project impacts on forests and forest-dependent communities—both for projects in the forest sector, and projects outside the forest sector which drive deforestation. Careful attention must be applied to policy reforms and technical assistance involving land tenure/rights and infrastructure investment incentives.

**Land Use Change GHG Emissions Accounting** — Only the IFC and EIB specify the accounting of GHG emissions from land use change:

IFC states “Project-induced changes in soil carbon content or above ground biomass, and project-induced decay of organic matter may contribute to direct emissions sources and shall be included in this emissions quantification where such emissions are expected to be significant.”

EIB states “In terms of greenhouse gas emissions including from land use, land-use change and forestry.”

Both institutions were rated as moderate given emissions from land use change will only be recorded if they meet both institutions GHG emissions thresholds (see GHG Emissions section above). The ADB, AfDB and IDB are rated as limited because it is possible land use change emissions could be included if they meet the GHG reporting thresholds but are not specifically noted in these MDB’s policies so there is more of a chance that they could be over looked. The World Bank also gets a limited rating and the red flag distinction because even though the Bank has announced its intention to report GHG emissions for energy, agriculture and forestry — the World Bank does not have a Board approved policy that systematically requires GHG reporting for projects. It is also uncertain whether the World Bank for some sectors is only reporting reduced GHG emissions for mitigation projects in these sectors or gross emissions for all projects.

**Lending Exclusions** — The IFC and ADB both receive a moderate rating for excluding finance for “Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests.” The IFC puts a further exclusion on Financial Intermediary lending: “Production or trade in wood or other forestry products other than from sustainably managed forests.” Although the IDB has the same exclusion on primary tropical moist forests, it is limited to trade finance operations and the Multi-lateral Investment Fund (MIF). The rest of the MDBs have more limited exclusions on deforestation and degradation of critical habitats, etc. with the EBRD receiving the red flag (see Annex Table E).

## Do the MDBs Pass the 2 degree Test?

Overall, none of the MDBs received robust markings on how they systematically ensure the transition to a low-carbon economy and avoid exceeding a 2°C warmer world. In fact, only two MDBs received robust markings for one indicator each — the AfDB for low-carbon priority of its Energy Sector Portfolio and the ADB for its fossil fuel exploration exclusion. Thus, **the MDBs do not pass the 2 degree test.**

On the positive side, the MDBs are making progress on many fronts which deserve to be commended, including inter alia: coal power restrictions at many of the MDBs; clean RE & EE share of energy sector lending is higher than fossil fuel’s share at all but one of the MDBs; and a moderate level of portfolio-wide GHG gross emissions reporting is taking place at the IDB and EIB.

At the same time, there are many red flags of concern, including inter alia: none of the MDBs adequately assess or address climate change risks associated with policy-lending, technical assistance,

and financial intermediaries; none of the MDBs has a portfolio-wide target for reduction of gross GHG emissions; none of the MDBs account for Scope 3 GHG emissions (e.g., associated with fossil fuel production activities); none of the MDBs adequately assess indirect impacts on forests; and there continues to be a high level of funding for fossil fuels including for exploration activities.

## Recommendations

The following recommendations are all considered essential for the MDBs to begin to bring their lending in line with a 2°C limit to avoid the worst impacts of climate change and better safeguard the poor and vulnerable communities:

1. **Robust Climate Change Assessment for All Lending Modalities** — In order to promote the transition to a low-carbon economy, it is critical to fully assess and adequately address the climate risks in all MDB assistance modalities. The MDBs especially need to improve their assessment of risks associated with policy-based lending, technical assistance and financial intermediaries.<sup>xxiii</sup> Such operations reach far beyond the impacts of project investments and yet they are not adequately assessed by any of the MDBs.
2. **Portfolio-wide Target for Gross GHG Emissions Reductions** — In order to promote the transition to a low-carbon economy, it is essential that the MDB's all have a portfolio-wide GHG gross emissions reduction target. Such a target would have the additional benefit of catalyzing the MDBs to assess and report portfolio-wide GHG emissions.
3. **Scope 3 GHG Emissions Accounting and Reporting** — As recommended by the GHG Protocol of the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), a comprehensive GHG emissions approach needs to include Scope 1 - direct emissions, Scope 2 - indirect emissions from electricity consumed, and Scope 3 - other upstream and downstream emissions. By not including Scope 3, the MDBs are side stepping their role in significant downstream emissions, such as those associated with fossil fuel transport and production projects.
4. **Fossil Fuel Exploration Exclusion** — Given more than three-quarters of existing proven fossil fuel reserves need to be left in the ground unburned in order to hold global warming under 2° C., then any activities involved in fossil fuel exploration are incompatible with preventing the worst impacts of climate change. The MDBs should exclude support for all fossil fuel exploration activities.
5. **Comprehensive Coal Exclusion** — The climate crisis dictates that there is no longer any room in the carbon budget for new coal developments. All MDBs need to adopt a comprehensive coal exclusion that covers all forms of assistance and all types of coal projects, including mining, power production, and associated infrastructure.
6. **Robust Assessment and Mitigation of Impacts on Forests and Forest Communities** — All MDBs need better criteria for assessing the direct and indirect impacts and risks to forests that in turn lead to the implementation of robust mitigation practices to minimize project impacts on

forests and forest-dependent communities—both for projects in the forest sector, and projects outside the forest sector which drive deforestation. Careful attention must be applied to policy reforms and technical assistance involving land tenure/rights and infrastructure investment incentives.

See the report Annex here:

<http://www.bankinformationcenter.org/wp-content/uploads/2015/10/MDB-Climate-Change-Scorecard-Annex.pdf>

## End Notes

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<sup>i</sup> The Copenhagen Accord (FCCC/CP/2009/L.7) was noted by Conference of the Parties of the United Nations Framework Convention on Climate Change held in Copenhagen, Denmark in 2009.

<sup>ii</sup> The Bank Information Center worked with many Civil Society Organizations to develop a Safeguard submission for a Climate Change Assessment policy to deal with many of the identified shortcomings and covers all Bank instruments, including *inter alia*: Development Policy Loans, Technical Assistance, Country Partnership Frameworks, and Financial Intermediaries. For more details, please see the submission at: <http://www.bankinformationcenter.org/wp-content/uploads/2014/05/Climate-Change-Safeguard-Model-Policy-for-the-World-Bank.pdf>

<sup>iii</sup> The initiatives were part of the World Bank's \$850 million, four-year (2007-2010) Infrastructure-Development Policy Loan series and the ADB's \$880 million (2006-2010) Infrastructure Reform Sector Development Program series. The Government of Japan, through JBIC, also co-financed the program with \$300 million.

<sup>iv</sup> The Indonesian PPP investment framework includes: VAT tax exemptions, import duty exemptions, income tax rate reductions, accelerated rates of depreciation, land tax exemptions, building tax exemptions, and guarantees.

<sup>v</sup> Carbon dioxide equivalent per year.

<sup>vi</sup> Carbon dioxide equivalent per year.

<sup>vii</sup> Projects classified as clean energy include energy sources that are both low carbon and have low impacts on the local environment and on human populations. Some energy efficiency and some renewable energy—energy coming from naturally replenished resources such as the sun, wind, rain, tides, and geothermal energy, is included as 'Clean' energy.

<sup>viii</sup> EBRD and EIB energy sector lending data were obtained from CEE Bankwatch. ADB, AfDB, IDB, and WBG energy lending data were obtained from Oil Change International (OCI). OCI uses the following classifications for 'Clean RE & EE' and 'Other':

*Clean Energy.* Projects classified as clean energy include energy sources that are both low carbon and have low impacts on the local environment and on human populations. Some energy efficiency and some renewable energy—energy coming from naturally replenished resources such as the sun, wind, rain, tides, and geothermal energy, is included as 'Clean' energy. It also includes any policy reforms that provide incentives for clean energy development and investment.

*Other.* 'Renewable' sources — notably large hydropower, biofuels, and biomass — that can have significant impacts on the local environment and on human populations, along with nuclear power, incineration, and other forms of power that are not fossil fuel but not 'clean,' are included in the 'Other' category. Many transmission/distribution and energy sector policy reforms that are unable to be specifically linked to the source of energy are also classified as "other."

<sup>ix</sup> It deserves to be noted that the EIB most likely has funded more fossil fuel exploration projects than is accounted for here because many of the fossil fuel projects did not have enough information to determine the project-sponsored activities.

<sup>x</sup> Metz, Bert (Dr.), et al, 2013. New unabated coal is not compatible with keeping global warming below 2°C. Coal and 2 degrees C statement. European Climate Foundation, The Netherlands. October 2013.

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- <sup>xi</sup> <http://www.worldbank.org/en/news/feature/2013/07/16/world-bank-group-direction-for-energy-sector>
- <sup>xii</sup> <http://www.treasury.gov/resource-center/international/development-banks/Documents/US%20Position%20-%20Stora%20China%20I%20-%20Feb%2020%202014.pdf>
- <sup>xiii</sup> <http://bankwatch.org/news-media/for-journalists/press-releases/eib-restricts-does-not-eliminate-coal-and-other-fossil-fue>
- <sup>xiv</sup> <http://bankwatch.org/news-media/blog/eib-finally-limits-coal-lending>
- <sup>xv</sup> <https://ifcndd.ifc.org/ifcext/spiwebsite1.nsf/78e3b305216fcd8a85257a8b0075079d/ee61f762e8ce719d85257bec062766d?opendocument>
- <sup>xvi</sup> For more on the US Government's statement see: <http://www.treasury.gov/resource-center/international/development-banks/Documents/ACWA%20US%20Position%20Dec%203%202013.pdf>
- <sup>xvii</sup> <http://www.worldbank.org/en/news/feature/2013/07/16/world-bank-group-direction-for-energy-sector>
- <sup>xviii</sup> [http://priceofoil.org/content/uploads/2014/10/OCI\\_SC\\_Energy\\_Scorecard\\_Oct\\_14.pdf](http://priceofoil.org/content/uploads/2014/10/OCI_SC_Energy_Scorecard_Oct_14.pdf)
- <sup>xix</sup> World Bank, 2010. Peru: Overcoming the Barriers to Hydropower. Energy Sector Management Assistance Programme (ESMAP), May 2010.
- <sup>xx</sup> That is, the amount of carbon dioxide emissions that would be avoided by halting tropical deforestation, *plus* the carbon dioxide that would be removed from the atmosphere by continuing to regrow tropical forests at the current pace. IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland. <http://www.ipcc.ch/report/ar5/syr/>
- <sup>xxi</sup> R Goodman and M. Herold. 2014. "Why Maintaining Tropical Forests is Essential and Urgent for a Stable Climate". CGD Working Paper, Center for Global Development, Washington D.C.
- <sup>xxii</sup> For more information on the impact of World Bank and IFC finance on forests go to: <http://www.bankinformationcenter.org/the-impact-of-world-bank-and-ifc-finance-on-forests-2/>
- <sup>xxiii</sup> The Bank Information Center worked with many Civil Society Organizations to develop a Safeguard submission for a Climate Change Assessment policy to deal with many of the identified shortcomings and covers all Bank instruments, including *inter alia*: Development Policy Loans, Technical Assistance, Country Partnership Frameworks, and Financial Intermediaries. For more details, please see the submission at: <http://www.bankinformationcenter.org/wp-content/uploads/2014/05/Climate-Change-Safeguard-Model-Policy-for-the-World-Bank.pdf>