RECOURSE EUROTOUR 2024

ADVOCACY BRIEFER
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INTRODUCTION

Recourse is an international civil society organisation, working for a world where people and the planet are at the heart of development. We campaign to redirect international financial flows away from dirty, harmful investments, towards greener and more inclusive development, working with partners around the world to hold financial institutions accountable. From February 18 to March 2, 2024, Recourse is facilitating an advocacy tour across European capitals together with the following global south partner organisations:

- The **Philippine Movement for Climate Justice (PMCJ)**, established in 2009, serves as a pivotal coalition advocating for climate justice in the Philippines. It emerged from the critical need to address the disproportionate impact of climate change on vulnerable communities, advocating for significant social, economic, and political transformations.
- The **Indus Consortium** is a collaborative umbrella organisation comprising 64 civil society organisations in Pakistan, focusing on humanitarian, environmental, and development initiatives. The consortium is dedicated to promoting collaboration by sharing ideas, resources, and amplifying the advocacy for communities vulnerable to disasters.
- The **Centre for Financial Accountability (CFA)** is dedicated to enhancing financial accountability within India, scrutinising the operations of both national and international financial institutions and their impact on development, human rights, and the environment.

During our Eurotour 2024, we are hosting partners from these organisations to engage with European decision-makers regarding World Bank Group (WBG) investments and in the broader context of the Multilateral Development Bank (MDB) reform agenda.

MAIN OBJECTIVES

Eurotour 2024 aims to facilitate direct dialogue between Global South partners and influential stakeholders involved in shaping the MDB reform agenda. We recognize the pivotal role of MDBs in fostering a just global energy transition that addresses both climate and development needs in the Global South. Along these lines, we aim to discuss the following agenda items:

- Phasing out Fossil Fuel Finance and Promoting Renewable Energy Investments
- Accountability Issues
- IDA21 Replenishment Cycle and other Debt-related issues

DISCUSSION POINTS

For the first time, a draft political decision published at COP27 in 2022 called on multilateral development banks (MDBs) and international financial institutions (IFIs) to be reformed and align their spending with climate goals. This conversation around the MDB reform agenda has evolved in the past year with the G20 publishing multiple reports pushing MDBs to be Bigger and Better Banks. Echoing this, World Bank President Ajay Banga at the Marrakech Annual Meetings called for a 'better' and 'bigger' WBG to tackle climate change, poverty, and pandemics.

Proposals for a “bigger” bank are interpreted as the MDBs undertaking concerted efforts to boost their lending by leveraging private capital at the expense of public development outcomes, exemplified by the International Development Association’s (IDA) hybrid finance model. The push for a “better” bank emphasises a nimbler and faster disbursement of loans, with the risk of exacerbating existing accountability deficits of MDBs and a race to the bottom in terms of transparency standards.

MDBs need to prioritise investments that simultaneously tackle development and climate issues. The “bigger” and “better” bank framework must shape conversations of how MDBs should address the demand for deep and systemic reforms to how they operate.

1 PHASING OUT FOSSIL FUEL FINANCE AND PROMOTING RENEWABLE ENERGY

The WBG's Paris alignment sector and instrument notes published in April 2023, alongside the Joint MDB Paris Alignment Approach to align investments with the Paris agreement, do not adequately address the climate crisis or the imperative of rapidly phasing out finance and support for all fossil fuels and dangerous distractions such as CCUS and co-firing of power stations. Analysis from Recourse shows loopholes in the Joint MDB Paris alignment approach that are allowing funds to leak to coal power and fossil gas projects via financial intermediaries. These loopholes should be closed urgently, with full and fair remedy provided for affected communities.

Box 1. India and the urgency to support energy transition

"The ongoing climate crisis will have a huge effect on India and it is imperative that we take action towards climate mitigation and adaptation. There is a need for an increased push towards just energy transition. However, while continuing the push towards phasing out fossil fuels, we need to ensure investments for Climate Finance coming into India are critically monitored and evaluated for the effectiveness of impact. So far, most green financing is focused towards privately owned, large, utility-scale renewable energy projects in ecologically sensitive regions and false solutions such as carbon trading and green hydrogen. These projects cause severe land conflicts, water shortages, and ecological devastation. The proposed solutions to climate change by the World Bank Group and other IFIs have further exacerbated climate issues and related conflicts in India. Therefore, the IFIs must engage with communities and civil society to identify appropriate solutions."

- Anitha Sampath, Centre for Financial Accountability (CFA)

World Bank technical assistance is continuing to flow into gas expansion, which is leading countries into fossil fuel dependency. The World Bank Group should repurpose its technical assistance for the sustainable, renewable energy transition. Women living in communities near MDB-funded fossil gas projects have experienced environmental and health problems. Instead of funding fossil gas, the WBG should support sustainable renewable energy projects that enable energy access for women and their communities.

So far, the WBG's Evolution Roadmap has focused on scaling its operations to be bigger, faster, and with heavy reliance on the private sector. MDB reform must result in a more just and equitable public finance system, that not only supports a complete phase out of support for fossil fuels and mechanisms for tackling the climate crisis including Paris alignment, but also fundamentally rebalances power relations in favour of the global south through governance reform, and advances the role of the WBG/IMF in upholding the rights of women and sexual minorities around the world.

The WBG must shift its finance from fossil fuels to renewable energy but at the same time ensure its investments are not replicating the same mistakes of the fossil fuel past. This shift also requires the WBG to strengthen its environmental and social standards and reorient its Country Partnership Frameworks (CPFs) to ensure a just transition to renewables. This must include incentivising clean energy access for all, especially in Africa where 600 million people still lack access to electricity.

Box 2. Ramping up renewables in Pakistan to address loss and damage

"Non- Economic loss and damage in Pakistan during floods 2022 necessitate a bold stance from International Financial Institutions (IFIs). It's imperative for IFIs to realign their investment priorities, shifting focus towards community-oriented projects that bolster resilience and sustainability. This demands a significant reduction in investments in fossil fuels, recognizing their detrimental impact on the environment, biodiversity and the lives of vulnerable segments of the society. Instead, IFIs must ramp up investments in renewable energy sources, which not only mitigate climate change but also foster long-term economic and environmental sustainability."

- Fiza Qureshi, Advisor, Indus Consortium

Research from Recourse reveals that the decrease in MDB fossil fuel investments is not translating to a corresponding increase in clean energy finance. The increased share of renewables should be at least commensurate with the phase-out of fossil fuel investments. The majority of the WB's clean energy investments are in the form of debt-creating loans. Highly concessional and targeted financing are required to avoid entrenching indebtedness in the name of climate action. WBG-supported 'renewable energy' projects in Chile, Indonesia, and Senegal demonstrate the risk of replicating extractivist models of growth, with impacts on land rights, environment and indigenous communities. Renewable energy investments must support the green transition while responding to community rights, and providing remedy for damage done.

We urge European governments to **facilitate a swift, equitable shift from fossil fuels (including fossil gas) to renewable energy sources. This can be achieved by:**

- Reviewing the WB Paris Alignment methodologies and sector notes to close loopholes that still allow fossil fuel financing (i.e., fossil gas) including through technical assistance and financial intermediary transactions.
- Ensuring a shift from fossil fuel investments to truly sustainable renewable energy solutions. The increased share of renewables should be at least commensurate with the phase out of fossil fuel investments.
- Supporting CSO calls to strengthen the WBG's environmental and social standards and reorient its CPFs to ensure a just transition to renewables including a focus on incentivising clean energy access for all, especially in Africa where 600 million people still lack access to electricity.

2 ACCOUNTABILITY ISSUES AND STRUCTURAL REFORMS

Recourse, together with 22 other civil society organisations, has called upon the WBG to confront the crisis of impunity posed by the environmental, social, and human risks of its private sector centred scaled operations and the accountability deficit in its accountability mechanisms processes, and its historic refusal and neglect to provide remedy for harm. The International Finance Corporation's (IFC) draft remedy and responsible exit frameworks fall woefully short of ensuring communities achieve redress for harms suffered. Communities in the Philippines, affected by coal plants built with IFC support via RCBC bank, are still waiting for remedy after a decade of suffering. Recourse is also calling for justice for communities affected by the Java 9 & 10 coal plants in Indonesia.We urge European governments to advocate for enhancing the WBG's accountability measures and transparency reforms within the IFC in particular and other IFIs as part of its endeavour to be a "better" bank. This can be achieved by:

- Addressing past harms and the calls for remedy and reparations for communities affected by fossil fuel projects including those financed through FIs. To address these issues, the IFC should commit to work with their clients to ensure remedies, redress and reparations are provided and future harms are prevented in consultation with affected communities, particularly addressing issues raised by women as well as other marginalised groups.
- Closing loopholes in financial intermediary lending, including through underwriting and trade finance, that allow continued financing for coal, fossil gas and oil projects.
- Ensuring transparency and full, prior public disclosure of all energy projects funded by MDBs through financial intermediaries. MDBs should disclose the name, sector and location of these subprojects on their websites as well as clients' websites.

Box 3. Philippines and holding IFIs accountable for harms and damage to communities
"The Philippines being a country in the frontlines of the climate crisis as manifested in increasing vulnerability to sea-level rise, floods, droughts, and weather extremes, resources must be allotted in ensuring and enhancing communities' adaptive capacity to climate impacts. Fossil fuel finance from IFIs undermine these efforts while exacerbating pre-existing conditions of environmental degradation, poverty, and human rights violations. The mad rush for coal and gas is fueled by funds coming in whether directly or indirectly from IFIs. Pulling the plug at the source would provide the necessary impetus to veer dependence away from fossil fuel burning for the country's energy requirements. This is, however, not a simple way out as IFIs must be held to account for the harms and damage caused to host and adjacent communities in the form of remedy. It is this motivation which drives us to bring the fight to the European Capitals."

– Aaron Pedrosa, Philippine Movement for Climate Justice (PMCJ)

3 IDA21 REPLENISHMENT AND DEBT-RELATED ISSUES

In 2020, IDA, the World Bank's low-income-country lending arm provided under a quarter of its country policy-based allocation (PBA) as grants. But debt dynamics continued to worsen during the global pandemic, so that by 2022, the share of IDA's core finance provided as grants increased to over a third. In IDA20 (July 1, 2022-June 30, 2025), IDA donors adopted stricter rules for grants, which could bring the grant-share back down to a quarter of the PBA. But as debt dynamics continue to worsen, the claim on grants will grow, placing a strain on IDA's finances. It raises difficult questions around who will bear the burden: donors or the poorest?

For countries at moderate risk, IDA recently switched from providing a mix of credits and grants to providing 50-year credits with no service charge or interest rate. "Gap" and "Blend" countries, (ie countries currently above the IDA operational threshold of GNI per capita of $1,315 but not creditworthy enough to access the International Bank of REconstruction and Development (IBRD), or countries that are "creditworthy but do not meet the income threshold") are only eligible for loans, regardless of their risk of debt distress.

Measures to further contain the growth in grants, like restricting their eligibility to an even narrower subset of IDA countries, are likely to be hotly debated in the IDA21 replenishment negotiations. We urge donors committed to preserving IDA's ability to respond to tackling poverty and addressing the debt crisis to substantially finance grant programmes, whatever it takes.

We urge European governments to at the minimum sustain its current level of support for IDA which remains a crucial source of funding for low-income countries. This can be achieved through:

- Ensuring IDA prioritises grants-based financing to address both climate and development needs of low-income countries as opposed to debt-creating loans.
- Pushing for a strong policy package that centres on the quality of IDA financing while at the same time reviewing its private sector window and its impact.
- Preserving IDA's ability to respond to tackling poverty, the debt and climate crises by committing to a substantial level of public finance that will guarantee more highly concessional funding for low-income countries.

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