WORLD BANK GROUP’S CLIMATE COMMITMENTS AND ITS INVESTMENTS IN FOSSIL FUELS

Fundación Ambiente y Recursos Naturales
Bank Information Center
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INTRODUCTION

The World Bank Group (WBG) is an international financial institution that, like many others in the last few years, has begun working toward improving the environmental situation of the world. The WBG acknowledges climate change as a threat to global development that increases instability and contributes to poverty, fragility and migration. This is why, through different statements, it reaffirms its commitment to tackle climate change and help countries reach their climate goals.

In response to this issue, in 2016 the WBG launched the Climate Change Action Plan. This document was developed jointly and fully by the institutions that make up the WBG and its Climate Change Cross-Cutting Solutions Area.

The WBG consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Other institutions that make it up are the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

This publication analyzes the commitments made in the Climate Change Action Plan by the World Bank Group and its specific investments in Argentina.
1. PRIORITIES OF THE CLIMATE CHANGE ACTION PLAN

The Climate Change Action Plan, outlined by the WBG in April 2016, set general targets for 2020 in order to contribute to the alleviation of poverty by creating policies, fostering resilience before climate change impacts and promoting decarbonization. In Table I, its priorities and targets are presented.

Table I. Priorities and targets of the Climate Change Action Plan

<table>
<thead>
<tr>
<th>Priority</th>
<th>Targets for 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Support transformational policies and institutions</td>
<td>The WBG expects to have supported new policies and institutional changes in member countries, integrating the development and climate change agendas, with an emphasis on the poorest and most vulnerable.</td>
</tr>
<tr>
<td>2. Leverage resources</td>
<td>The WBG expects to have facilitated greater private capital flows toward resilient and low-carbon projects in member countries, using climate resources in the best possible way. It expects to have mobilized at least USD13 billion per year in private sector investments.</td>
</tr>
<tr>
<td>3. Scale up climate action</td>
<td>The WBG expects to have scaled up significantly its activities with climate co-benefits in multiple sectors and to increase its impact through direct investments and the creation of innovative solutions.</td>
</tr>
<tr>
<td>4. Align internal processes and work with others</td>
<td>The WBG expects to have tested innovative solutions linked to NDC. The WBG’s Country Partnerships take into account climate targets, opportunities and risks. The World Bank will assess every project in order to screen climate risks and will take into account the social cost of the carbon emissions when assessing projects; the IFC expects to have moved forward toward accounting for climate and carbon risks in its operations.</td>
</tr>
</tbody>
</table>

Source: Compilation based on World Bank, IFC and MIGA, 2016.

Additionally, as part of the plan, member institutions make different commitments. The main agreements and some others related to fossil fuels are summarized in Table II next to their progress by year 2018.

Table II. Commitments and progress in relation to the Climate Change Action Plan

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Progress by 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Support countries to transform their NDCs into climate action and subsequently into policies that are reflected in the budgets.</td>
<td>Development of the “NDC Partnership” programs (more than 100 member countries); “Support NDCs” (26 countries, projects in 17 of them); creation of the Invest4Climate platform.</td>
</tr>
</tbody>
</table>

¹ Acronym for Nationally Determined Contributions.
2. Scale up the World Bank’s portfolio share in climate from 21% to 28%.

32.1% of funding and 70% of the WBG’s projects had climate co-benefits.

3. Boost support to member countries and global defense to provide appropriate price signals when reducing damaging fossil fuel subsidies, putting a price on carbon, deepening market-based instruments and reforming other distorting subsidies.


4. Increase IFC investments with climate co-benefits alongside a parallel commitment to MIGA.

60% of MIGA’s funding and 36% of IFC’s funding had climate co-benefits. The WBG mobilized USD10 billion to fund clean energy.

5. Deepen and scale up its action in six high-impact areas: (i) renewable energy and energy efficiency; (ii) sustainable mobility; (iii) sustainable and resilient cities; (iv) climate-smart land use, water and food security; (v) green competitiveness; and (vi) leaving no one behind.

There were projects, but with limited data in each area.

6. Limit fossil fuel investments, as guided by the WBG’s Energy Sector Directions Paper, to those justified by emergency situations, strong cases for development impacts, or when they support a transition to a cleaner energy mix.

There were World Bank restrictions to the funding of carbon-based projects (only in rare circumstances) and it was not possible to fund more upstream oil and gas projects after 2019.

7. Help countries deliver affordable and reliable energy services in a manner that is consistent with their NDCs.

Information is limited, but the WBG committed to contribute 50% of its portfolio to climate change adaptation. Out of 17 active projects, 5 concern hydropower and can be adapted (as regards security and modernization).

8. Ensure that 100% of investments are adapted to climate change and create financial mechanisms to encourage resilient hydropower infrastructure.

Information is limited, but the WBG committed to contribute 50% of its portfolio to climate change adaptation.

9. Increase the share of the transport portfolio that contributes to climate mitigation and resilience.

Source: Compilation based on WB data.

The Directions for the WBG’s Energy Sector indicate that the Group’s energy practice should support the overarching objectives of reducing poverty and contributing to the achievement of the three global goals under the UN Sustainable Energy for All Initiative. This strategy plans to achieve, by 2030, universal access to modern energy services and double both the energy efficiency rate and the renewable energy share on a global level.
However, in the report published in 2017 by the International Energy Agency (IEA) and the WBG it is estimated that, by 2030, population with access to electricity will be at 91%, access to clean energy for cooking will be at 72% and the renewable energy share will be at 21% (almost 3% more than the initial rate). If the data persists, it will not be possible to achieve the objectives established by the initiative (World Bank, IEA, 2017). Therefore, the report indicates that the progress so far in terms of energy is not enough to achieve the goals.

On another note, diversifying the energy matrix toward renewable sources is an answer to supply disruptions and fossil fuel prices volatility, as a tool to minimize climate, social and economic risks. To achieve this, the WBG plans on providing guarantees and financial solutions for renewable sources such as solar and wind power. Support also includes; helping governments to create regulatory and contractual policy frameworks; strengthening of institutions to monitor and regulate the sector; and collaboration to ensure public services. Additionally, the WBG intends to continue being a partner in innovation and technology transfer through demonstration projects that promote new clean energy technologies, innovative policy tools, market mechanisms and capacity building.

According to the WBG itself, the organization strives to increase the efficiency of the existing energy infrastructure through adaptive recovery, modernization and management as profitable ways of delivering more energy, while at the same time reducing fuel consumption and Greenhouse Gas (GHG) emissions. Moreover, the Directions for the WBG’s Energy sector mention it will offer financial support to coal power generation projects only in rare circumstances in countries where there are no feasible alternatives to meet basic energy needs (World Bank, 2013).

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2 UN initiative to achieve SDG 7 (universal access to sustainable energy by 2030) more quickly. Nowadays, it is an international organization consisting of the public and private sector. https://www.seforall.org/
2. WBG’S INVESTMENTS IN ARGENTINA

Before engaging with borrowing countries, the WBG runs a Systematic Country Diagnostic (SCD) through which it tries to identify key challenges and opportunities to reduce poverty. At the same time, it prepares a Country Partnership Framework (CPF), which consists of a strategy document that is updated every four to six years and which helps to orient the WBG’s projects and operations. In Argentina’s case, the CPF approved for 2019-22 indicates that the WBG commits to support the country in reducing poverty through private sector-led sustainable growth.

The strategy estimates an annual lending of USD1 billion for the public sector and of USD500 million for the private sector. The main focus areas are:

1. Supporting the country in securing access to long-term private financing.
2. Contributing to improve governance and public service delivery.
3. Promoting actions that reduce the country’s vulnerability to climate change and mitigating the country’s global environmental footprint.

As regards the last pillar, the specific objective is to adopt a cleaner energy matrix, in order to increase the generation capacity of renewable energy and, by adopting it, reducing GHG emissions.

According to the WBG’s own data, Argentina is among the most vulnerable countries to climate change. Its economy relies on natural resources (particularly the agricultural sector) and because of this, it is much more sensitive to droughts and floods. This is why it is necessary to adopt other development models in order to diversify the economy.

In the CPF, when it comes to the energy sector, the WBG hopes that, by 2022, Argentina has a generation capacity of renewable energy of 4,466 MW and that annual avoided GHG emissions are 2.02 million tons of CO2. Another objective is to implement an automatic generation control system (AGC²) for the Wholesale Electricity Market Management Company (CAMMESA) and that the regulation to allow individual low-scale electricity consumers to produce renewable energy and sell back excess production to the electricity grid is approved (2020) (World Bank, 2019).

According to data by CAMMESA (2020), in 2019 the installed capacity of renewables was 3,001 MW, which should be increased by 50% in the next two years. On its part, in 2018 CAMMESA started working on the installation of the AGC system and, in December 2017, Act 27,424, which establishes the System to Promote the Distributed Generation of Renewable Energy integrated to the Public Electricity Grid, was published.

Investments from the WBG reach Argentina through its different institutions, in particular the IFC and the IBRD. Therefore, the energy project planning matrix funded in Argentina by the institutions of the WBG will be reviewed. The goal is to find out whether they are aligned (or not) with the WBG’s general commitments to climate made in the Climate Change Action Plan.

² Automatic Generation Control
2.1 IFC’S PROJECT PLANNING MATRIX

With regards to IFC’s investments in energy in Argentina, up to February 2020 there were eleven fossil fuel and renewable energy projects. All of them, channeled through private actors in Argentine economy, go back—according to IFC’s data—to the period between 1996 and 2019 (although not all of them were implemented). The total investment in fossil fuels reached USD574 million during that period, while investment in renewable energy reached USD87 million (Graph 1 and Annex). That means that IFC’s project planning matrix allocates six times more money to issues that could be said to go against the Climate Change Action Plan than to supporting clean energy and energy efficiency.

Graph 1. IFC’s investments in energy in Argentina between 1996 and 2019

Investment in fossil fuels

The general objective of investments in fossil fuels is increasing extraction through exploration, expansion (of processing or storage) or evaluating gas and oil reserves.

The companies that receive investments linked to fossil fuels (USD574 million) are Pan American Energy (PAE), CAPEX SA and Medanito SA.

PAE has several active projects: “PAE Campana Refinery” (2019) and “Axion” (one of PAE brands, in 2016), both located in the city of Campana, Buenos Aires province, and in the refineries sector (categorized by the IFC as manufacturing industry).

Three are categorized by the IFC as oil and gas production: “Pan American Energy LLC - Argentine Branch” (2005), “Pan American Energy 2015” (2015), in the San Jorge Gulf basin, and “Neuquén Basin”, from CAPEX SA, located in the Neuquén Basin (this project dates back to 1996, although it has never reached open status).

The company Medanito SA has two projects, both in Neuquén: “Medanito SA” (2011) and “Medanito” (2008, on standby).
“Pecomfianza SME Line” (2003, from PROPYME SGR, a mutual guarantee society subsidiary of Petrobras Energía SA) is a project that has the objective of guaranteeing loans to SMEs (nevertheless, it falls under the category of oil, gas and mining).

Even though all these projects are in effect, they date back to before the WBG’s Climate Change Action Plan, except for the refinery planned in 2019 by PAE (the projects’ dates of establishment appear between brackets)

In accordance with the IFC’s Policy on Environmental and Social Sustainability, most fossil fuel projects are classified based on their environmental and social impact as category B. This category includes “business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” (IFC, 2012). This includes their performance capacity during the construction and operation of the project (health and safety of the employees and community, waste and emissions management).

Only the project “Pecomfianza SME Line” is considered to fall under category FI-2, a category used for projects with investments involving financial intermediaries. This category includes activities to finance other “activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented” (IFC, op. cit.).

Investment in renewable energy

IFC’s investments in renewable energy amount to USD87 million and are channeled through the wind power development and operation projects by company Central Puerto: “CP Achiras SA” (2017) in Achiras, Córdoba province, and “La Castellana” (2017) and “La Genoveva” (2018), both in Bahía Blanca, Buenos Aires province.

Financing targets the construction and operation of the generation and transformation plants, and of transmission lines to the national grid in the case of “CP Achiras” and “La Castellana”. In the case of “La Genoveva”, it also includes maintenance. The projects were financed with USD20 million, USD37 million and USD30 million respectively.

The Achiras project falls under category B, described as “business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” (IFC, op. cit.), as it was mentioned before.

Whereas the “La Castellana” and “La Genoveva” projects fall under category A, which groups “business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented” (IFC, op. cit.). This is because the former has turbines located within a key biodiversity area for a bird species classified as “endangered” by the International Union for Conservation of Nature (IUCN), Aves Argentinas and the former Secretariat for the Environment and Sustainable Development of the Nation (Aves Argentinas, 2016), while the latter includes a park located in an endangered bird species nesting area⁴.
2.2 IBRD’S PROJECT PLANNING MATRIX

The projects analyzed are presented in more detail in the Annex, which includes a table with more information. Notably, there are no fossil fuel projects financed by the IBRD.

Energy investments by the WBG carried out through the IBRD are for the development of renewable energy and are channeled mostly through the public sector. If the period between 2009-2019 is analyzed, there are registers of projects with approvals dated between 2015 and 2018. Three projects stand out, with commitments amounting to USD930 million.

• “Renewable Energy in Rural Markets Project” (PERMER, approved in 2015). The total cost is USD240 million, of which the IBRD will invest a total USD200 million and out of which it has already disbursed, up to March 31, 2020, USD43.94 million. The other USD40 million are commitments made by local governments, national financing sources and loan recipients. This project falls under category B, since its potential environmental impacts may be adverse for human populations or environmentally important areas, including wetlands, woodlands, prairies and other natural habitats.

• “Argentina Renewable Fund Guarantee” (FODER, approved in 2017). Its goal is to increase the generation capacity of electricity that comes from renewable energy through private investment in the energy sector. In this case, the IBRD committed a guarantee for USD480 million.

• “Renewable Energy Guarantee Program” (2018). It has the same objectives (increasing the renewable energy generation capacity) because it is an additional guarantee for the FODER, and has the intention of scaling up the impact of the RenovAR program (World Bank, 2018). It has a guarantee budget of USD250 million.

The last two projects mentioned are classified, when it comes to their environmental impact, under Category FI, according to the Environmental and Social Safeguard Policies of the World Bank, since the institution will act as an intermediary.

4. https://disclosures.ifc.org/#/projectDetail/ESRS/41190
7. According to the “Environmental and Social Risk Management Framework” of both projects.
3. FINAL CONSIDERATIONS

Despite the commitments made by the WBG in order to accelerate and intensify actions to tackle the challenges of climate change, the amount destined to fossil fuels is superior to that allotted to renewable energy: USD541 million and USD287 million respectively. That is, 65% for fossil fuels and 35% for renewable energy (without taking into account projects on standby). Most of these investments are made by the IFC to private companies.

Therefore, environment-friendly investments correspond to public projects mostly and funding comes from WBG’s IBRD and totals USD930 million. From this amount, USD200 million are allotted to direct investments and USD730 million, to guarantees (see table in the Annex). Meanwhile, those projects with serious impacts on climate are funded by the IFC, the WBG entity that exclusively finances private companies. The public branch of the institution supports activities focused on reducing GHG emissions in line with its commitments, while the private branch promotes investments in dirty energy, backing loans for oil and gas production and extraction that are not aligned with the commitments made by the WBG in the Climate Change Action Plan.

Among the projects with an approval date within the period of the Climate Change Action Plan (since 2016), the contribution to fossil fuels is greater than that to renewable energy. Although it should be said that, if the amounts invested through intermediaries or guarantees in renewable energy are put in (including USD250 million for the Renewable Energy Guarantee Program and USD480 million for the FODER), the equation is more favorable for clean alternatives.

Nevertheless, as opposed to the direct financing of projects, investments through financial intermediaries are quite opaque. They are carried out through third-parties, such as equity funds or commercial banks, which receive the money and then loan it to other clients or subprojects, with an unknown destination. Even though the projects of financial intermediaries should comply with the WBG’s environmental and social standards, the entity is only accountable for its direct client (the intermediary financial entity) and has no control over the subprojects, which means that it cannot guarantee the fulfillment of the safeguards in those cases.

Another point that should be highlighted is that among the IFC’s investments in renewable energies, two Category A projects can be found. This is considered to be the riskiest category by the Policy on Environmental and Social Sustainability and it determines that despite their being clean energies, they involve a higher risk than projects from the hydrocarbon sector. To conclude, it seems that the WBG is saying that the hydrocarbon sector is less risky than the renewable energy sector.

Even so, the hydrocarbon sector tends to be riskier than the renewable energy sector, in light of the contamination resulting from the extraction and use of hydrocarbons; the decreasing cost of renewable energy against the increasing cost of fossil fuel extraction; and private, national and international commitments with renewable technologies and climate change.

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7. Investments in fossil fuel extraction represent 67% (USD574 million), while investments in renewable energy represent 33% (USD287 million), if projects on standby are included.
4. RECOMMENDATIONS TO PROMOTE INVESTMENTS IN ENERGY ALIGNED WITH THE PARIS AGREEMENT

• Expand exclusions to upstream oil and gas projects and other projects that indirectly demand fossil fuels, in order to accelerate the transition toward supporting clean energy technologies.

• Promote the development of renewable energy policy within the context of the private sector and not only within the scope of the States.

• Halt financing of physical and financial infrastructure that supports fossil fuel energy generation.

• Broaden access to energy through renewable energy programs, based on the generation potential of each area.

• Leverage the context to avoid financing, subsidizing or using fossil fuels, in order to promote a clean, fair and distributed energy transition process.

• Finance only those projects targeted at the promotion of an energy matrix that complies with the commitments made in the context of the Paris Agreement, which respects the environment and communities.


IFC (2020). Projects. La Genoveva. Available at: https://disclosures.ifc.org/#/projectDetail/ESRS/41190


Sustainable energy for all (2020). Available at: https://www.seforall.org/


## ANNEX I

**Open energy projects funded by the IFC and the IBRD between 1996-2019**

<table>
<thead>
<tr>
<th>Project</th>
<th>Year</th>
<th>Status</th>
<th>Funding institution</th>
<th>WBG’s contributions (data in USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAE Campana Refinery</td>
<td>2019</td>
<td>Active</td>
<td>IFC</td>
<td>150</td>
</tr>
<tr>
<td>Renewable Energy Guarantee Program</td>
<td>2018</td>
<td>Active</td>
<td>IBRD</td>
<td><strong>250</strong>*</td>
</tr>
<tr>
<td>La Genoveva</td>
<td>2018</td>
<td>Active</td>
<td>IFC</td>
<td>30</td>
</tr>
<tr>
<td>FODER – Argentina Renewable Fund Guarantee</td>
<td>2017</td>
<td>Active</td>
<td>IBRD</td>
<td><strong>480</strong>*</td>
</tr>
<tr>
<td>La Castellana</td>
<td>2017</td>
<td>Active</td>
<td>IFC</td>
<td>37</td>
</tr>
<tr>
<td>CP Achiras SA</td>
<td>2017</td>
<td>Active</td>
<td>IFC</td>
<td>20</td>
</tr>
<tr>
<td>Axion</td>
<td>2016</td>
<td>Active</td>
<td>IFC</td>
<td>95</td>
</tr>
<tr>
<td>Renewable Energy in Rural Markets Project (PERMER)</td>
<td>2015</td>
<td>Active</td>
<td>IBRD</td>
<td>200</td>
</tr>
<tr>
<td>Pan American Energy 2015</td>
<td>2015</td>
<td>Active</td>
<td>IFC</td>
<td>120</td>
</tr>
<tr>
<td>Medanito SA</td>
<td>2011</td>
<td>Active</td>
<td>IFC</td>
<td>25</td>
</tr>
<tr>
<td>Medanito</td>
<td>2008</td>
<td>On standby</td>
<td>IFC</td>
<td>33</td>
</tr>
<tr>
<td>Pan American Energy LLC - Argentine Branch</td>
<td>2005</td>
<td>Active</td>
<td>IFC</td>
<td>125</td>
</tr>
<tr>
<td>Pecom chanting SME Line</td>
<td>2003</td>
<td>On standby</td>
<td>IFC</td>
<td>20</td>
</tr>
<tr>
<td>Neuquén Basin</td>
<td>1996</td>
<td>Active</td>
<td>IFC</td>
<td>26</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>574 287 750</strong></td>
</tr>
</tbody>
</table>

Source: Compilation based on public information from the WBG.

*Projects that consist of providing guarantees.*