February 10, 2023

Subject: World Bank Evolution Roadmap an Expansion of Business as Usual – True Transformation Needed

Dear Secretary Yellen,

(cc. World Bank Group Executive Directors)

The undersigned organizations are writing today regarding your call for an evolution of the World Bank Group (WBG) and of multilateral development banks (MDBs) more broadly to help ensure that the world's development finance system can effectively address the needs of the 21st century. While we agree that fundamental changes are necessary and long overdue, we are concerned that your proposed reforms, and the roadmap that WBG management has prepared in response, fail to address the ways in which the Bank is not fit for purpose and is in fact causing harm by entrenching unfair global power relations; continuing to finance the destruction of our climate, biodiversity and ecosystems; promoting the privatization and financialization of public goods; and more.

Rather than a focus on expanded financing areas and means, we urge you to push for transformational reforms at the WBG (and across MDBs) to address detrimental and disqualifying systemic issues. These reforms – like ending financing for fossil fuels, industrial animal agriculture and activities that harm biodiversity, as well as rejecting misguided approaches to private finance, and regressive policy advice – would in themselves free up significant finance and political space for truly sustainable and just development solutions. The WBG cannot be entrusted with new capital to expand problematic business as usual approaches.

Critically, we are *not* saying that the US Treasury shouldn't be doing more to help countries address global challenges like climate change and to support development. As the largest historic contributor to climate change, and a major contributor to destabilization globally driving poverty and inequality, the US government must stop the harm, step up and do its fair share of the action needed, as well as repair harm done. In addition to pushing for transformational reforms at the WBG and other MDBs, we urge you to advocate for the capitalization of UNFCCC funds, and processes like Financing for Development, a global tax treaty under the UN, a new issuance of IMF Special Drawing Rights, an independent global debt workout mechanism, and other initiatives as developed in inclusive dialogue with civil society and grassroots movements globally as well as vulnerable country governments.

In what follows, we outline fundamental (but not-exhaustive) elements that must be addressed in WBG evolution proposals. These include: the definition of “global public goods” and rationalization of the WBG’s (and MDBs’) role within the broader financial architecture covering these; critical reforms in the areas of governance and consultation; transparency and accountability; financing models; financed activities; debt treatment; diagnostics, policy advice and conditionality; and leadership and personnel.

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Before calling for an expansion in the role of MDBs to take on global challenges and finance “global public goods”, shareholders must first offer a definition of, and rationalize MDBs’ role in the broader financial architecture covering these.

> *The US government’s and other shareholders’ lack of definition of “global challenges” and “global public goods” results in a problematically selective approach to MDB evolution that not only leaves out key challenges, but fails to acknowledge their interconnectedness.*
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> One example, despite a core aim of the WBG evolution roadmap being to address "global cross-border" challenges, including climate change, there is no reference to biodiversity loss. This is a major oversight in the roadmap, considering that climate change and biodiversity loss are two sides of the same coin/twin crises, which cannot be effectively addressed in siloes. The degradation and loss of biodiversity is tragic for climate change, considering many critical ecosystems double as significant carbon sinks. In addition to the climate crisis, the Roadmap sets out to address "the growing crisis of poverty and economic distress."

Biodiversity is also relevant here, considering the global economy largely depends on nature's services. This is why the World Economic Forum considers biodiversity loss and ecosystem collapse to be one of the top five global economic risks in the coming 10 years. In order for the WBG to achieve its organizational mission to "end extreme poverty within a generation and boost shared prosperity," the WBG must understand how biodiversity relates to human prosperity and consider nature-related risks in development/poverty reduction agendas.

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Calls for the WBG to invest more in global challenges willfully overlook the broader architecture of existing financial mechanisms covering these. This results in financial mechanisms competing for scarce funds in a way that entrenches unequal global power relations and makes it harder for developing countries to access and harmonize investments.

In the case of climate change, for example, existing mechanisms remain severely underfunded, like the Green Climate Fund (GCF), Adaptation Fund, and the new Loss and Damage Fund, among others. Indeed, the US government's preference for increased climate financing channeled through MDBs, where it is a dominant shareholder, by way of "financial innovations", is a clear political maneuver to maintain its outsized political control over the deployment of climate finance and to avoid paying its historical fair share in climate finance.

This is reflected, for example, in the troubling emphasis that the US government and WBG management evolution proposals place on investments in climate-related trust funds housed at the WBG, on the de-risking of private finance, and even on the creation of new trust funds open to capitalization by non-shareholders, rather than on addressing the many issues with how climate change is currently approached across the WBG's existing operations.

In your call for MDB evolution, you made a case for greater concessional finance for coal retirement and announced a $1 billion loan to the Clean Technology Fund, part of the Climate Investment Funds (CIFs) housed at the Bank. However, civil society groups have long called for the CIFs to sunset once the United

Nations Framework Convention on Climate Change (UNFCCC) financial architecture was effective, which it is. While admittedly not perfect, UNFCCC funds were set up according to more democratic principles, with a governance structure evenly split between developed and developing countries, founded on a "country-driven approach" accountable to the institutions and people in developing countries, and place a premium on increasing direct access to highly concessional funds by developing country entities.

Concessionality is significantly higher at the GCF than at the WBG and other MDBs, with 41% of its approved funding in the form of grants and 43% in highly concessional loans. According to the most recent UNFCCC report on climate finance flows in 2019-2020, MDBs provided only 15% of their adaptation finance and less than 5% of their mitigation finance as grants (the WBG is also an accredited entity of the GCF, benefitting from its resources). More broadly, multilateral climate funds provided 99% of their adaptation finance and 30% of their mitigation finance as grants. Regarding your call for MDB funding to flow to supra- and sub-national entities, the GCF already does this and allows for direct access of national, regional and sub-national accredited entities from developing countries to its funding.

Critiques of the lack of efficiency of GCF are also not fair: Regarding approvals and disbursements by the CIFs versus GCF, for example, the GCF, which started its funding only in 2015 and thus six years later than the CIFs, is doing comparably well. The WBG itself is currently not set up to lend at a greater volume at the scale as these proposals suggest. Were it to lend at much greater volumes, it is unlikely that this would be through greater project lending; rather, it would likely be in the form of development policy finance (non-earmarked budget support with policy reform conditionalities), an instrument whose flaws we highlight further below in this letter.

Finally, it is concerning that calls for WBG evolution do not include the IMF, whose work supporting countries to address climate-related risks and vulnerabilities, strengthening adaptive capacity, increasing resilience, and ensuring countries have adequate fiscal space to achieve a just transition to alternative sustainable development pathways overlaps significantly with the

WBG's stated goals of "greening entire economies". The US government's approach to development and climate financing through the WBG must consider the broader financial system context, and be rational, harmonized and just.

True evolution must make governance more democratic and consultation more inclusive.

We are disheartened to see no mention of the need for governance reforms in your call for WBG evolution. Civil society organizations from around the world have long pointed out that the WBG's governance structure diminishes this international public institution's legitimacy as well as its effectiveness. The fact that the US government and other large shareholders wield the majority of decision-making power means that low- and middle-income countries suffer inequitable representation and influence. This is especially distorted in the context of a conversation about investing more in global challenges like climate change, to which the US and other dominant shareholders have contributed the most to historically while developing countries are saddled disproportionately with impacts. In order to solve global challenges, progress is needed on issues where the US and other G7 countries have historically balked, including durable solutions to developing country debt sustainability (i.e. an independent debt workout mechanism) and strategies to mobilize *public* financing at scale. A lack of equity at the decision-making table renders these problems largely intractable.

We are also disappointed that the US and G7+ shareholders appear to be pushing for reforms in non-coordinated and selective fashion with the Global South, singling out certain governments and stakeholders at the detriment of a more inclusive and comprehensive engagement, and that no meaningful formal consultation of civil society is being undertaken, early and often, as part of this evolution process. Considering its nature as a public financial institution, it does not bode well for this process that civil society acquired copies of the WBG management's evolution roadmap via leaks rather than publicly.

We urge the US government and other WBG shareholders as well as WBG management to *meaningfully* involve stakeholders, including civil society groups and grassroots movements around the world, expert bodies, indigenous groups, women's rights and LGBTQI groups, faith groups, academics, and vulnerable country governments on evolution-related proposals, roadmaps and implementation plans.

Transparency and accountability are necessary foundations of public finance institutions.

Given that the evolution US Treasury has called for involves increasing the mobilization of capital to address global challenges like climate change, we urge you to insist that WBG provide transparency around its climate finance accounting to ensure that there is accountability in this critical use of public funds. A recent report by Oxfam found that the Bank's declared levels of climate finance cannot be independently verified and could be off by as much as 40%, or $7bn in its fiscal year 2020 - emphasizing the need for routine, sub-project level disclosure of the WBG's climate finance accounting.

The public is not only entitled to know how limited development funds are being applied, but also the real-world impact that they have. Yet shockingly, according to the Center for Global Development, less than 5% of World Bank projects have been subject to formal impact evaluation methods since 2010. The WBG must improve its use of evidence to inform and justify investments.

WBG financing must serve the public interest.

We are concerned about the US government's emphasis on the role that "de-risking" private capital should play in the WBG's evolution and in the provision of climate finance more broadly. Not only does this represent an abdication of responsibility for delivering climate finance by historically high-emitting countries, several reports have found that this de-risking approach has failed to actually raise significant new investments and that it has not satisfactorily proven development impact. Instead, this approach puts financial risk on public balance sheets in World Bank borrowing countries, makes it harder for civil society to monitor and hold private actors accountable to social and environmental safeguards, and distracts from the need for strong public responses to climate change and sustainable development. This approach risks subsidizing abusive, laggard institutional investors like BlackRock, prioritizing shareholder returns ahead of truly inclusive, pro-poor policies that often cannot –and should not– be made profitable.

Case in point, at an event held during the most recent World Bank Annual Meetings in Washington DC, WBG President David Malpass suggested [timestamp 25:50] creating an asset class out of coal plant retirement, bundling together several projects for institutional investors to finance in return for saleable carbon credits. It is unclear how the public interest can be ensured by guaranteeing profits from coal retirement to large institutional investors.

As an alternative to the questionable model of de-risking private investors, academic experts are calling for an *allocative green credit* approach "that is organized around green industrial policy objectives and democratically agreed green missions". Experts are also advocating for approaches that involve the public sector taking an active role in managing and directing capital in the public interest.

WBG financing must *Do No Harm* and not support fossil fuels, industrial animal agriculture, harmful activities in biodiverse areas, market-based false solutions, and more.

As a necessary first step in evolving, we urge the US Treasury to call for the WBG to at a minimum do no harm. The WBG cannot be entrusted to play a greater role in financing global public goods when it continues to actively destroy these, like climate, biodiversity, land and health. Shareholders must insist the WBG stop financing and enabling all fossil fuels, new petrochemical infrastructure, industrial animal agriculture, harmful activities in biodiverse areas, and corporate-friendly false solutions. Continued financing of these damaging activities undermines the WBG evolution agenda in both material and symbolic ways, diverts limited public resources that could support just and sustainable solutions, and sends the wrong signal to other financial institutions that look to the WBG as a global standard-setting institution. Restrictions must also apply to the WBG's indirect and non-transparent financing instruments, like budget support (aka. Development Policy Finance, DPF – nearly 30% of the WB's overall financing), trade finance, and financial intermediary lending, instruments that are growing as a share of the WBG's overall portfolio, and to which even weak existing fossil fuel restrictions, for example, do not currently apply.

This also means rejecting false solutions, including *net zero* targets premised on carbon and biodiversity offsets, as well as Carbon Capture, Utilization and Storage (CCUS), Bioenergy with Carbon Capture and Storage (BECCS), and Nature Based Solutions (NBS). These and other false solutions not only allow extractors to continue extracting but are also costly, unproven at scale, dangerous, and can lead to land grabbing and dispossession of Indigenous People, peasant farmers and other rural communities.

Existing climate finance channeling through the WBG must also be guided by policies—developed in inclusive fashion—that ensure a *just transition* to renewable energy systems, ecologically and socially sustainable food systems, and sustainable economic development pathways, in a gender-responsive and human rights-compatible way. These policies must prevent the WBG from replicating and/or exacerbating harmful practices in the name of a "green transition" or "sustainable development", including business as usual investments in "green" extractive projects, corporation-privileging approaches, and the perpetuation of inequitable development governance models, for example through the privileging of mega energy projects versus more distributed, locally-led projects that focus on addressing energy poverty.

On the matter of a just transition, it is troubling to see the suggestion made in the WBG's roadmap that the Bank should provide greater support to ICSID –The International Center for the Settlement of Disputes. This tribunal housed at the WBG settles investment disputes in which corporations sue governments for "lost future profits" arising from policy changes made by governments, like adopting climate or health regulations. This type of trade and investment pact arbitrated at ICSID has been characterized even by the IMF as a barrier to climate action. A study published in *Science* by a team of researchers at the Boston University Global Development Policy Center, Colorado State University and Queen's University in Canada estimate the unconscionable costs of possible legal claims from oil and gas investors in response to government actions to limit fossil fuels. It is nothing short of incoherent for the same institution to be called on to help governments retire coal early in the global public interest, for example, while also continuing to defend private profits against government actions to retire coal early. The US government must address the long-standing problem of investor-state dispute settlement pacts and the role of ICSID in its negotiation of WBG evolution. Support for corporate champion ICSID, which has no place in a development institution, should be terminated rather than bolstered.

Finally, as we enter an era of increased exploitation of energy transition minerals, an urgent policy framework is needed to govern WBG financing of the extraction, processing, and use of these so as to prevent human rights and FPIC (free prior informed consent) violations, environmental degradation, colonial exploitation, corruption, and other related negative environmental and social risks. Acknowledging that there is no such thing as sustainable mining, such a framework must prioritize alternatives, like investments in public transportation versus private, and circular economy solutions like prioritizing mineral recycling, reuse, and substitution to promote overall demand reduction for new mining, and economic diversification for countries' development.

WBG evolution must address sovereign debt.

Climate justice and debt justice go hand in hand. Not only must MDBs play a role in debt relief, CSOs have long made the case that it is unjust for historically-owed climate finance to be provided in the form of loans. Yet, only $4 billion out of a total $50 billion in climate finance delivered by MDBs to low and middle income countries in 2021 were in the form of grants. While your call for evolution promotes the idea of concessional finance for coal retirement specifically, climate finance must be deployed in grant-based or highly-concessional forms more broadly, in line with fair shares, which means countries' historical responsibility, capacity to act, and justice.

While you acknowledge the debt distress that many countries currently face and suggest bilateral support for debt relief, you have not mentioned the role that MDBs like the WBG should play in debt treatment. The World Bank holds 20% of V20 external debt stocks (the V20 currently comprises 58 climate vulnerable countries), second only to private creditors. Yet the Bank has failed to participate in debt relief initiatives, owing to its preferred creditor status. Countries need fiscal space to be able to weather overlapping crises of poverty, inequality, and climate and environmental breakdown. Despite the World Bank's claims that it cannot participate in debt relief because this will hinder its ability to provide *positive net flows* to countries, one analysis finds that many countries are in fact paying *more* to the Bank in debt than they are receiving in support. Exorbitant levels of external debt servicing often impact women and LGBTQI people disproportionately when public services and safety nets are cut or nonexistent as a result. It is critical that any WBG evolution roadmap does not leave out the Bank's necessary role in debt relief.

In addition, an important WBG diagnostic tool, the Debt Sustainability Analyses (DSA) conducted jointly with the IMF, continues to focus only on countries' ability to pay back creditors, not their ability to meet the Sustainable Development and Paris Agreement goals. These analyses—which are used not only by the World Bank and IMF but also by other lenders—often rely on overly optimistic projections about expected windfall revenues from extractive projects, send a false signal regarding these projects' vulnerability to climate "transition risks", and encourage reckless lending. The US Treasury should call for an urgent review of the DSA.

WBG evolution must involve a critical look at diagnostics, policy advice and use of conditionality.

In your call for evolution, you highlight the role that conditionality and policy advice can play to encourage countries to direct funding "towards investments with broader benefits". However, it is not enough for the WBG to shift from pushing dirty conditionalities to pushing "green conditionalities," for example. The WBG's use of conditionality and policy advice must be scrutinized and overhauled altogether.

As civil society groups pointed out in a joint comment letter assessing one of the WBG's policy-based lending instruments, Development Policy Finance (DPF) as it currently operates undermines countries' policy space and democratic ownership, promotes a harmful understanding of the role of the private sector in the economy, continues to be a gateway to austerity, undermines gender equality, and is characterized by weak transparency and accountability relative to other WBG instruments. Additionally, even existing WBG fossil fuel restrictions and other safeguards do not currently apply to DPFs, representing a significant loophole. Among several detailed recommendations made in the comment letter, we urge the US Treasury to push the WBG to undertake a robust review of the way in which the Bank conducts research and translates it into country policy advice, including the use of policy conditionality and paid and unpaid technical assistance.

We are concerned, for example, that the WB does not consider how its financing may actually be driving poverty, inequality and the destruction of global public goods. The WBG needs to better analyze how its supported activities and policy prescriptions may create winners and losers, especially since many of the environmental, social, climate, and biodiversity risks are often ignored or downplayed in favor of "creating wealth" or improving GDP, when in actuality environmental, social, climate and biodiversity risks directly or indirectly create and deepen poverty among the most at-risk communities. There is an assumption in the roadmap that all WBG activities improve and address the WBG's twin goals; this is unfounded.

Relatedly, we welcome calls made in the WBG's roadmap to review poverty and shared prosperity metrics and the basis on which concessionality should be granted, like climate vulnerability.

Evolution cannot occur without credible leadership and appropriately qualified and incentivized personnel.

Personnel is policy. In order to build confidence in the institution, long-time climate denier and discredited Wall Street veteran David Malpass must not remain at the helm of the WBG, as CSOs have said for years. Together with supporting calls for his removal, the US government must support an end to the historic "gentleman's agreement" that has ensured that it always nominates World Bank presidents, and instead, support an open, democratic, merit-based process.

Issues related to personnel do not end with the President. While the WBG management's roadmap calls for more staff/capacity, nothing is said about changes that are needed to ensure that the WBG is staffed with appropriately qualified individuals, from more diverse formative backgrounds to address long-standing bias in economic policy approaches, guided by incentives to deliver demonstrable development impact, and not just greater/faster disbursement. Matters of capacity must be addressed not only quantitatively, but qualitatively.

We thank you for your efforts and look forward to working with you to ensure this opening for WBG evolution is truly inclusive, just and transformational.

Sincerely,

US groups

ActionAid USA

Friends of the Earth US

Gender Action

Institute for Agriculture and Trade Policy

Institute for Policy Studies Climate Policy Program

Oil Change International

Women's Environment and Development Organization (WEDO)

Non-US groups

Abibinsroma Foundation-Ghana

Alliance for Climate Justice and Clean Energy (ACJCE)

Alternative Law Collective (ALC)

Bretton Woods Project

Don’t Gas Africa

Fundación Ambiente y Recursos Naturales (FARN)

GROW Green Network (25 CBOs of Pakistan)

Indus Consortium (64 CSOs of Pakistan)

NGO Forum on ADB

Philippine Movement for Climate Justice (PMCJ)

Recourse

Sinergia Animal

Trend Asia

Urgewald