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Loan Reform Update

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During COP28, the UN climate change conference held in early December of 2023, the World Bank announced a new Climate and Health Program to respond to the impacts of climate change in low- and middle- income countries. The institution has committed to helping countries assess climate and health vulnerabilities, increase investments in adapted health systems, and work with partners to mobilize additional financing and collective action to mitigate the effects of climate change (The World Bank, 2023). Action is necessary as the World Bank also estimates that by 2030 the impacts of climate change on health will force 44 million more people into extreme poverty, and the warmer climate could lead to at least 21 million additional deaths by 2050 solely from health risks (The World Bank, 2023).

Additionally, the World Bank announced its intent to launch at least 15 country-led programs in the next 18 months to address methane emissions. The programs will aim to slash 10 million tons of methane over investment lifespans. The programs will build on pilots that have brought new solutions for rice production, livestock operations, and waste management, to increase efficiency and promote sustainability. They predict that methane emissions from rice production can be reduced up to 40%, livestock up to 30%, and waste up to 80%. Between 2024 and 2030, the institution expects to boost its financing for methane reduction through public and private sector channels (The World Bank, 2023).

Furthermore, the institution committed to allocating 45% of its annual financing to “climate-related” projects beginning in fiscal year 2025. Still, many criticize that these “commitments” are no more than weak promises likely to be unfulfilled. The 45% target simply incentivizes the false tagging of financing with climate benefits which has already begun. A study from earlier this year by the Center for Global Development looked into over 2,500 projects in the World Bank’s climate portfolio, and found hundreds of climate-tagged projects that had little to do with mitigation or adaptation, this included 142 education projects without any climate specific objectives at all (Mathiesan, 2023). In response to the study, the World Bank agreed to introduce a “climate outcome platform" to track and report climate outcomes for both mitigation and adaptation goals as well as to collaborate on methodologies. Though, there was no timetable provided for meeting these commitments.

The "climate outcome platform" is reminiscent of World Bank President Ajay Banga's goal to shift the institution's incentives from inputs (e.g. loan approvals) to outcomes (e.g. the practical impact on developing countries). Banga noted that despite prior attempts to reform loans, the institution as a whole is still designed to measure dollars or projects rather than outcomes (Echebarria, 2023). This is clear when assessing the institution's recent climate-related developments. The World Bank would like to pursue climate initiatives so long as it does not cost more than they have already raised or jeopardize their credit rating (Dissanayake and Hares, 2023). When announcing the projects listed above, the institution made sure to note that they are seeking cost-effective ways to reduce the rise in global temperatures. Critics state that this is delaying response to a crisis that needs to be addressed now, and prevents more effective solutions from being implemented. Not to mention, while developing countries are not the cause of climate change, they are its main victim. According to the World Bank's Climate Change Action Plan, the 75 countries eligible for concessional financing from the International Development Association (IDA) account for only 3.6% of global emissions.

Despite the institution's supposed commitment to climate change initiatives, a recent study estimates that the World Bank spent billions of dollars backing fossil fuels in 2022. Through trade finance transactions, which lack transparency, it is estimated that $3.7 billion were supplied to fund oil and gas developments (Harvey, 2023). Moreover, the severe debt and high interest rates that developing countries are currently experiencing further thwarts climate efforts. The worry is that these countries will default, not only leaving no room for climate initiatives, but also thrusting thousands into poverty. A report from Debt Service Watch said the outlook for developing countries is worse than during the Latin American debt crisis of the 1980s. Across all continents, 35 countries are paying more than half their revenue servicing debts, and 54 over one-third, crowding out spending on education, health, and climate. The report called for a major round of debt cancellation. In response to the debt crisis Banga stated "I wish there was a magic wand and I could say abracadabra but I don't think there is" (Elliott, 2023). While the World Bank's intended reforms show promise, they also require accountability and consistency measures to ensure that they are effectively implemented and leave a positive—and sustainable—impact on the countries they are affecting.

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