



# UNACCOUNTABLE ACCOUNTING

The World Bank's unreliable climate finance reporting

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Despite being the largest multilateral provider of climate finance, the World Bank supplies very little evidence to support its claims about the amount of climate finance it provides. Oxfam has attempted to recreate the Bank's reported climate finance figures using public information for projects in the Bank's FY2020.

Oxfam found that the Bank's current climate finance reporting processes are such that its claimed levels of climate finance cannot be independently verified and could be off by as much as \$7bn, or 40%.

Without better disclosure practices, the World Bank is asking us to take much on faith. Climate finance funding is too important for us to do that. The World Bank must be more transparent in its reporting so that it can be held to account.

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Cover photo: Mareya Ibrahim stands among the carcasses of her livestock in Wajir County, Kenya. Of the fifty animals she owned, she now has 7 remaining. Credit: Khadija Farah / Oxfam.

# SUMMARY

Climate finance is critical to protecting the world's poorest people on the frontlines of the climate crisis. Despite a great need for climate finance, the amount reported each year remains woefully inadequate. To make matters worse, the public is often provided little information on how this climate finance is used and how the amounts claimed are determined. The World Bank, despite being the largest multilateral provider of climate finance, provides little to support its own claims. Without better disclosure practices, the World Bank is asking us to take much on faith, but these funds are too important for that.

Climate finance refers to 'local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change,' according to the United Nations Framework Convention on Climate Change (UNFCCC). The provision of climate finance is a critical way for the richest countries—and the greatest historical emitters to provide financing needed by low- and middle-income countries least responsible for the crisis to adapt and develop on low-carbon pathways.

Climate finance is a much needed yet scarce resource, and Multilateral Development Banks (MDBs), like the World Bank, are responsible for a large portion of all climate finance provided to low- and middle-income countries globally. In 2020, the World Bank Group (WBG) alone claimed to have delivered USD 21.3bn in climate finance (56% of all MDBs), with USD 17.2bn contributed by the Bank's main lending arms, the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD), hereafter referred to as 'the Bank'.

Considering the central importance of climate finance as well as the outsized role played by the Bank in its provision, Oxfam examined how exactly the Bank's reported climate finance is being calculated according to its own methodology. Finding a lack of reporting on the Bank's climate finance assessments in project documentation, Oxfam sought to estimate the size of the reporting problem at the Bank. To do so, Oxfam developed an approach that attempted to estimate the degree to which the Bank's climate finance reporting could be recreated based on public information through an 'audit' of the Bank's climate finance reported for fiscal year 2020.

We found that the Bank's current climate finance reporting processes are such that the Bank's claimed levels of climate finance cannot be independently verified. Oxfam's audit found that the Bank's claims could be off by as much as \$7bn, or 40%, based on publicly available information.

The only way to have confidence in the Bank's climate finance accounting is through public disclosure of documentation that shows how climate finance assessments are made for these projects. Having this information will allow stakeholders to hold the Bank and recipient governments accountable—something made more important given that so much of what

*Oxfam's audit found that the Bank's claims could be off by as much as \$7bn, or 40%, based on publicly available information.*

is currently claimed as climate finance is provided through debt instruments that will require repayment, which can strain limited public resources needed to fund public services. This increased transparency will also help safeguard against the possibility that climate finance claimed is simply greenwashing. Otherwise, there is a real risk of overreporting and/or underinvesting in mitigation and adaptation, which could lead to dire consequences.

The Bank is uniquely important among the providers of climate finance in that its practices often set standards for other institutions. For better or worse, its influence goes beyond financing decisions but also into knowledge generation and adherence to global norms and standards (for example, on environmental and social risk management, issues of procurement, anti-corruption, etc.), and other development finance institutions look to the Bank as a leader in policies and practices. The Bank must set a high bar for other climate financiers by clearly demonstrating how it plans to deliver climate finance and whether its efforts are having positive impacts on adaptation and mitigation goals. To do this, the Bank should take the following actions:

- Disclose its detailed climate finance assessments, including the evidence and justifications in support of its calculations for all projects which are reported to have climate finance in a way that allows for independent verification of its claims.
- Report and disclose the incremental costs (costs for activities that specifically address vulnerability to climate change) and calculations for each project component/sub-component/activity (as relevant to the project reporting) considered eligible to be counted as adaptation finance.
- Report and disclose the cost estimates for the specific and disaggregated activities considered eligible to be counted as mitigation finance.
- Standardize how it reports on climate finance in projects by providing detailed climate finance assessments for all projects consistently.
- Create a public climate finance database to track climate finance reported at the level of individual investment activity for each World Bank Group arm.
- Assess and report its climate finance expenditures within its project implementation and completion reports.
- Disclose its internal methodology for calculating climate finance and explain its processes and practices for making these assessments.
- Propose amendments to the methodology for tracking climate finance used by many of the MDBs (termed hereafter the 'Joint Methodology') to create clear distinctions between emergency assistance, adaptation finance, and loss and damage finance.
- Propose amendments to the MDB Joint Methodology for tracking climate finance to include an intersectional framing of gender and other drivers of inequality in relation to the potential impact of climate disasters in project areas where mitigation and/or adaptation efforts take place.

- Coordinate with other climate finance providers and consult with civil society on any future updates to methods for assessing mitigation and adaptation finance.

# INTRODUCTION

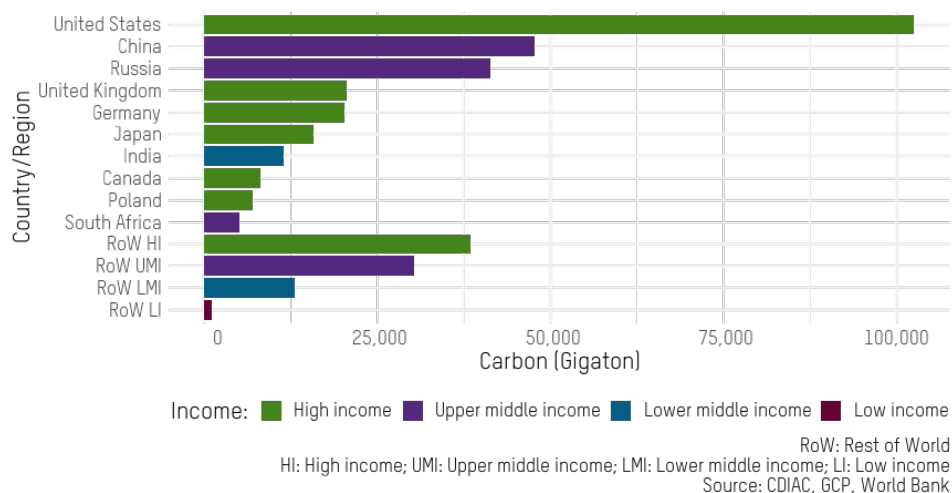
The World Bank's (hereinafter 'the Bank')<sup>1</sup> climate finance reporting practices make it impossible to independently verify their climate finance claims. Oxfam attempted to audit the Bank's climate finance reported for fiscal year 2020 and found that the Bank's claims could be off by as much as \$7bn, or 40%, based on publicly available information.<sup>2</sup> It is alarming that we know so little about what is being categorized as climate finance by the Bank—the largest multilateral provider of climate finance for low- and middle-income countries—given the urgent need to massively scale up this finance.<sup>3</sup>

Climate finance is a much needed yet scarce resource, and Multilateral Development Banks (MDBs), like the World Bank, are responsible for a large portion of all climate finance provided to low- and middle-income countries globally. MDBs are also important vehicles through which countries that provide climate finance channel funds. As shareholders of these institutions, they count a portion of their contributions to the MDBs towards their global annual climate finance contributions.<sup>4</sup> In the 2020 Joint Report on MDB Climate Finance, MDBs claimed to have committed \$38bn in climate finance for low- and middle-income countries, with the World Bank Group (WBG) alone claiming to have delivered \$21.3bn (56% of all MDBs).<sup>5</sup> The World Bank remains under pressure to grow the amount of climate finance it currently provides, recently setting a new target that, on average, 35% of its lending be climate-related (climate finance) between 2021–2025.<sup>6</sup> While we welcome the Bank's new target, based on current reporting, there is no way for the public to audit the Bank's progress toward achieving this target. For recipient governments and people ultimately relying on this finance to support their countries to be more resilient and adapt to the impacts of climate change, it is imperative that stakeholders can assess the proper quantity and quality of such climate finance to ensure the Bank is not grossly over-reporting climate finance and determine whether their needs are being met. In order to hold the Bank and its shareholders accountable for the Bank's climate finance claims, the Bank must improve its reporting practices and disclose far greater detail about how it accounts for climate finance at the project level. Notably, with the Bank under such pressure to increase its climate finance, the risk of over-reporting is real.

# THE STATUS OF CLIMATE FINANCE

Climate finance, as defined by the United Nations Framework Convention on Climate Change (UNFCCC), refers to ‘local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.’<sup>7</sup> Financial support for both adaptation and mitigation is an essential part of global efforts to address the climate crisis, so as to galvanize action, prevent the worst impacts of changing weather and ensuring international equity. Illustrative examples of the urgent need for action abound in 2022: Pakistan and India saw their hottest March and April temperatures ever recorded—with attribution science suggesting these temperatures were 30 times more likely because of climate change.<sup>8</sup> The Horn of Africa has experienced its worst drought in 40 years, contributing to a crisis leaving millions hungry, facing a risk of famine.<sup>9</sup> Wildfires rage around the world.<sup>10</sup> And water rationing was introduced in central Chile in partial response to the mega-drought in the region.<sup>11</sup> The list goes on, and no region of the world has been spared. But as challenging as these impacts are for even wealthy industrialized countries to cope with, the climate crisis has had a disproportionate impact on low- and middle-income countries. What is worse is that these countries have done little to contribute to the state of the climate today. In fact, just 16 high- and upper-middle income countries are responsible for more than 80% of cumulative historical emissions, and just nine high-income countries are responsible for more than half of all cumulative historic emissions.<sup>12</sup> According to the World Bank, over 130 million people may be pushed into poverty by 2030 and over 200 million people will be forced to migrate by 2050 due to climate change.<sup>13</sup>

The provision of climate finance is a critical way for the richest countries—and the greatest historical emitters (see Figure 1)—to provide financing needed by low- and middle-income countries least responsible for the crisis to adapt and develop on low-carbon pathways. In 2010, “developed” countries (Annex II countries under the UNFCCC<sup>14</sup>) committed to mobilizing USD 100bn annually in climate finance by the year 2020—a target they fell short of by \$16.7bn in 2020 according to the OECD. Furthermore, 71% of what was provided in 2020 was in the form of loans and thus contributed to recipients’ debt burdens.<sup>15</sup> Even if the \$100bn target were met, a huge gap would remain to reach the amount of finance needed. The UN Environment Program estimates that for “developing” countries (non-Annex I countries as categorized by UNFCCC) to meet their adaptation targets, 5 to 10 times the amount of adaptation finance currently provided is needed, and the total annual need increases to \$140–300bn in 2030 and \$280–500bn in 2050.<sup>16</sup> A recent report from the Climate Policy Initiative analyzing African Nationally Determined Contributions to the Paris Agreement (NDCs) estimates that meeting their current targets will require \$1.6 trillion for mitigation and \$579bn for adaptation in total from 2020–2030.<sup>17</sup>



**Figure 1: Comparing cumulative emissions (1751–2020) across different countries and regions.** Image shows the ten countries with the largest cumulative emissions as well as the cumulative emissions from regions, classified by the World Bank’s income levels (based on 2020 data). Most notably the combined cumulative emissions of 30 Low-income countries (RoW LI) represents the smallest portion of emissions.<sup>18</sup>

Not only is the amount of climate finance reported failing to meet the estimated need, but it also heavily relies on loans and non-grant instruments that recipient countries will eventually have to pay back. This runs contrary to the ‘polluter pays’ principle, ultimately saddling these countries with the cost of climate change adaptation and mitigation.

Further to issues of sufficiency, previous Oxfam research has shown that, when looking at only the concessional elements of climate finance lending and correcting for ways in which donor reporting to the OECD can systematically result in overreporting, climate finance in 2017–2018 was approximately between \$19bn and \$22.5bn per year respectively—far lower than the officially reported figures of \$56bn and \$63bn.<sup>19</sup>

## WHY TRANSPARENCY MATTERS FOR CLIMATE FINANCE

According to World Bank reporting, it is the largest multilateral provider of climate finance to low- and middle-income countries, and it has set important targets to further increase the climate finance it provides.<sup>20</sup> The only way to have confidence in the Bank’s climate finance accounting is through public disclosure of documentation that shows how climate finance assessments are made for these projects.

Having this information is important because climate finance is essential for low- and middle-income countries to achieve their adaptation and mitigation objectives, and people in countries said to be receiving this climate finance have a right to know how the Bank and their governments plan to use the finance the Bank provides toward achieving these objectives, as do people of countries that are shareholders in the Bank. Having this information will allow stakeholders to hold the Bank and recipient governments accountable—something made more important given

that so much of what is currently reported as climate finance is provided through debt instruments that will require repayment, which can place a strain on limited public resources needed to fund public services. Because so much of the climate finance promised by 'developed' countries is being channelled through the World Bank, this matters for holding them accountable for meeting their commitments to 'developing' countries as well.

This increased transparency will also help safeguard against the possibility that climate finance reported is simply greenwashing. In recent years, many in civil society pushed the Bank to move away from financing fossil fuel development and to invest more in renewable energy. It has countered with claims that it has ramped up renewable energy financing and climate finance more broadly; however, for this to be credible, the public needs to be able to verify climate finance claims and clearly identify what is being funded. Otherwise, there is a real risk of underinvesting in mitigation and adaptation, which could lead to dire consequences.

Finally, the Bank's taking steps to improve its reporting matters because it is uniquely important among providers of climate finance in that its practices often set standards for other institutions. For better or worse, its influence stretches beyond financing decisions into knowledge generation and adherence to global norms and standards (for example, on environmental and social risk management, issues of procurement, anti-corruption, etc.). Other development finance institutions look to the Bank as a leader in policies and practices. The Bank must set a high bar for other climate financiers by clearly demonstrating how it plans to deliver climate finance and whether its efforts are having positive impacts on adaptation and mitigation goals.

As will be discussed below, this report is focused on the Bank's climate finance reporting. It should be noted at the outset that this entire project is constrained by the fact that such reporting only takes place around what projects intend to fund. What actually gets funded can change, and there is no climate finance reporting done on the actual expenditures. This issue is discussed in greater detail below, but for now it should be noted, as it significantly hampers efforts at transparency and accountability.

# ANALYSIS: WORLD BANK'S BLACK BOX OF CLIMATE FINANCE

Considering the central importance of climate finance as well as the outsized role played by the WBG in its provision, Oxfam decided to look into how exactly the World Bank's reported climate finance is being calculated and allocated according to its own methodology. What we found is that the Bank's current climate finance reporting processes are such that the Bank's claimed levels of climate finance cannot be independently verified. Based on this, Oxfam sought to estimate the size of the reporting problem at the Bank. To do so Oxfam developed an approach that attempted to estimate the degree to which the Bank's climate finance reporting could be recreated based on public information. This is interpreted to be the amount by which the bank could be over- or under-reporting its climate finance.

It should be noted at the outset that issues with the Bank's reporting are distinct from issues with the Bank's methodology for determining climate finance. The latter pertains to guidance the multilateral development banks have agreed to (known as the 'Joint Methodology'), to determine what counts as climate finance (for a detailed account see the methodological annex). The former pertains to the level of detail with which the application of that method is reported. While the recommendations of this report describe problems with the Joint Methodology (including those identified by other NGOs), this analysis (and the methodology that underpins it) is focused solely on problems with the reporting.

In brief, identifying the scale of the problem in the World Bank's reporting involved the creation of a systematic methodology to account for cases of weak reporting by the Bank (see Text Box 1 for details on the specific nature of such weak reporting and see annex 1 for a full account of the method). The method relies on the use of a set of assumptions that would be systematically invoked every time the Bank's reporting was found to be inadequate. The application of these assumptions causes Oxfam's estimate of a project's climate finance to diverge from the Bank's official reporting. In general, the worse the reporting, the greater the use of assumptions and the greater the difference between Oxfam's estimate and the Bank's formal reporting. This difference is conceived as a potential error in reporting, which was calculated as a proportion of the value of each World Bank project.

## **Box 1: What is lacking in the World Bank's current reporting**

When arguing that the World Bank's current reporting of its climate finance is inadequate, it is important to be clear about what this means. In general Oxfam would classify adequate reporting as that which allows for the full recreation of the World Bank's climate finance figures through the application

of their method ('The Joint Methodology'). This would include the ability to identify the specific costs of implementing climate finance qualifying actions and/or evidence for claims that climate finance is justified by having achieved specific motivations or objectives.

While there are some exceptions, the Bank's current reporting tends to describe broad expense lines, either at the level of the project component or sub-component. Components/sub-components frequently include multiple actions, motivations, and objectives, and it is further common for only some of these to qualify for climate finance. Despite this, climate finance amounts do not tend to be described as they pertain to each action, motivation or objective. Rather they are simply published at the project-wide level – either as a percentage (on the project website) or dollar amount (in the annual summary PDF – below it is pointed out that these numbers differ from one another). At best, the actions, motivations and objectives that qualify for climate finance are listed, along with a full account of the non-qualifying items, however it can be the case that only partial lists of items in a component/sub-component are described. Further, while the Bank frequently has requirements for qualifying an item as climate finance – such as undertaking greenhouse gas accounting for certain mitigation activities – this sometimes fails to be included in the reporting on the project. All of these reporting failures make it impossible to recreate the process of applying the Bank's methodology, and to identify the exact costs of specific climate finance qualifying actions, motivations, and objectives. As such the method Oxfam developed for assessing this reporting invoked assumptions wherever reporting was inadequate. For example, if the total value of a sub-component was stated, along with an exhaustive list of actions, some of which qualified as climate finance, but with no specific value attached to each action; we assumed an equal split of the sub-component costs across all the actions, and then only counted the proportion of climate qualifying actions. We did this for all failings in a project's reporting and then calculated our estimate for the climate finance for the project.

As a concrete example of how this plays out consider the Odisha Integrated Irrigation Project for Climate Resilient Agriculture – P163533 – which is intended to intensify and diversify agricultural production, and enhance climate resilience in selected districts of Odisha, India. The total project value is \$235.13m, comprising five components. Climate finance for the project is reported at \$119m for adaptation and \$6.4m for mitigation. The first challenge in auditing this reporting is that the World Bank does not consistently indicate whether co-financing is used to cover specific component or sub-component costs in a project. In this instance the Bank states that 70% of project costs are the responsibility of the Bank, so we assume this applies consistently to each sub-component.

If we take the specific example of component 1 (total value \$74.6m) - selected in this instance for illustrative purposes - and look at sub-component 3 (total value \$36.8m) we see a description of nine activities that the project will support.<sup>21</sup> The report fails to mention which of these qualify for climate finance and offers no detail on the costs of implementing the different activities. Thus, Oxfam's method is left to make the following assumptions when calculating climate finance.

First, we identify that *four* of the nine listed activities refer to advancing crop diversification and/or to climate resilience and adaptation, which are identified as addressing the vulnerability context described in the project. Since we have no information on the cost of each activity, we assume the cost is split equally between all of them. Thus, we first multiply the total value of

the sub-component by 0.7 (to get the Bank's share) and then by four-ninths, generating \$11.45m in adaptation finance. None of the activities are considered qualifying for mitigation finance (based on the Joint MDB methodology). Thus, we estimate climate finance for the subcomponent of \$11.45m. We acknowledge that this amount is likely incorrect, as specific objectives would have different costs associated with them and there could be a specific split between Bank and non-Bank finance. However, the lack of reporting details forces us to make these assumptions in order to attempt an audit.

Note that the Bank's reporting does not provide climate finance for each sub-component (or even component). Instead, it only publishes such values at the project level. We therefore cannot compare our estimate of the sub-component's climate finance to that of the Bank. Rather we have to apply our method to all of the sub-components in the project, sum the adaptation and mitigation finance amounts, and compare those to the total level of climate finance that the Bank reports for the project. The difference between our estimate of climate finance and the Bank's reported climate finance is what we refer to as the 'error,' in that it represents the error with which we are able to accurately audit the Bank, due to the assumptions we have to make. This is therefore the potential error in the Bank's reporting.

While there are many sources of potential error – see the methods appendix for a full account of all assumptions Oxfam had to make and that might cause our estimate to differ from the Bank's - the above example hopefully makes a few things clear. First, our use of assumptions to deal with a lack of detailed reporting from the Bank gives us no indication of whether the Bank might be over- or under-reporting on its climate finance. Rather the difference between our estimate and the Bank's should be viewed as a potential error (i.e., that which the public could not account for) in reporting. Second, it should be clear that we are not disputing what qualifies as climate finance and what does not. We are simply trying to recreate the Bank's numbers, using the Bank's methodology for determining climate finance, and invoking a systematic set of assumptions to deal with cases in which reporting detail is lacking.

The general idea behind the approach was that where reporting was good the number of assumptions invoked would be small and the difference between Oxfam's estimate and the Bank's reporting would likely be small. Where the Bank's reporting was weak, the number of assumptions would be large and the difference between Oxfam's and the Bank's numbers would thus be large – indicating less accuracy with which the public could verify the Bank's climate finance reporting.

This methodology was applied to a random sample of 78 World Bank projects from FY2020, all of which identified some amount of climate finance.<sup>22</sup> Based on this, the mean proportional error for the sample was calculated and used to estimate the mean proportional error for the entire FY2020 portfolio of 348 projects, that claimed some level of climate finance. This mean provides an estimate of the degree to which the public can scrutinize the Bank's climate finance reporting and thus the degree to which the Bank could be over- or under-reporting its climate finance.

The results of our analysis indicate that the Banks' reported climate finance in fiscal year 2020 could over- or under-estimate climate finance by as much as 40.8%. Another way to think of this is that, on average, any World Bank project claiming climate finance published only enough information to

account for 60.2% of its climate finance. Thus, for all the public can verify, the Bank could be over- or under-reporting its climate finance by 40.8%. Applying this average to the total value of the Bank's FY2020 climate finance (\$17.2bn) translates into a potential reporting error of approximately \$7bn.<sup>23</sup> Notably an error of this scale calls into question the Bank's claim that it met its goal of ensuring 28% of its total commitments in FY2020 were climate finance. The maximum potential error from our assessment would reduce this number to just 19.4% of the Bank's commitments that year.

# DISCUSSION

Based on these results, it is clear the World Bank provides too little public information regarding its climate finance. The public cannot determine whether the Bank's climate finance accounting is credible, and calls into question whether the Bank has met its climate finance goals.<sup>24</sup> It is thus impossible to determine both whether the Bank is effectively increasing its climate finance at the rate it deems necessary and has committed to, and whether the loans and grants taken by low- and middle-income country governments are contributing to avoiding the climate catastrophe. Leaders, decision-makers, and the public need assurance that such resources are effectively used, and that the Bank's claims of climate finance amount to more than greenwashing. The only way to ensure proper accountability and the effective use of needed climate finance is through increased transparency and improved reporting.

It is notable that the analysis done here required the examination of individual narrative project documents. As mentioned in text box 1, project reports lack systematic detail. Qualitative justifications for climate finance occur with varying levels of detail and are scattered throughout the project documents. This analysis therefore entailed a painstaking approach, which was enormously time and resource intensive. Despite this, the error revealed by the overall analysis was large. In effect the Bank's reporting is currently so inadequate it does not allow an on-the-ground audit, with information on climate finance accounting missing on approximately 40% of the portfolio's value. Oxfam and partners have approached the Bank and requested detailed climate finance assessments for projects, as well as information on the accounting procedures by which they operationalize their methodology for determining climate finance. While some additional information regarding the Bank's climate finance practices was shared, detailed assessments for each project with detailed accounting procedures have not been provided, and the Bank has made no commitment to systematically provide them in the future.

In addition to our finding that the Bank's reporting could be off by as much as \$7bn in FY2020, our analysis uncovered a number of concerns falling into two categories. In the next section we discuss these two issues. The first category relates to how the Bank is reporting its climate finance and what it is disclosing. The second set of concerns regard the methodology for assessing what qualifies as climate finance itself.

## FAILINGS IN THE BANK'S REPORTING AND METHODOLOGY

There are currently clear failings in the degree to which the Bank reports on its climate finance. Reporting lacks detail, it is not systematic, and it is not

provided in a manner that allows for easy examination by the public. Below we detail specific failings in reporting. Further, in the course of trying to reproduce the Bank's numbers using the MDB Joint Methodology, we have identified a number of issues with the methodology. We describe these in brief below, though they did not contribute to the analysis that generated the \$7bn figure cited above.

Reporting issues:

- **Appraisal documents do not consistently provide information on how the climate finance element of projects has been calculated.** Many project documents say nothing at all about climate finance, while some projects provide several paragraphs that point to certain activities within project components that the Bank considers eligible to be counted as mitigation or adaptation finance. In cases where information is provided, rarely are specific cost estimates mentioned. The information is almost always purely qualitative.
- **Incrementality is rarely reported in Bank documentation.** Incrementality is intended to ensure that general development finance is not counted as climate finance—it only takes into account those activities that specifically address vulnerability to climate change and their associated costs. Despite the emphasis on incrementality in the MDB Joint Methodology, of the 53 projects reviewed with adaptation finance delivered via investment projects, just three included incremental adaptation costs.
- **Reporting lacks granularity.** Granularity is key to the MDB Joint Methodology for assessing mitigation finance. A granular approach requires disaggregating mitigation activities from non-mitigation activities, for example, estimating the costs of mitigation-relevant technologies such as energy-efficient materials or solar panels to be included in climate finance assessments. This cost information is rarely provided in discussions of climate finance in the documents reviewed.
- **Climate finance data is not provided systematically and in a way that is easily accessible.** When information on climate finance qualifying investments is provided, it is embedded in long narrative documents, the analysis of which is enormously time-consuming. Analysis of these investments is effectively not possible except for highly specialized civil society that can muster the necessary resources.

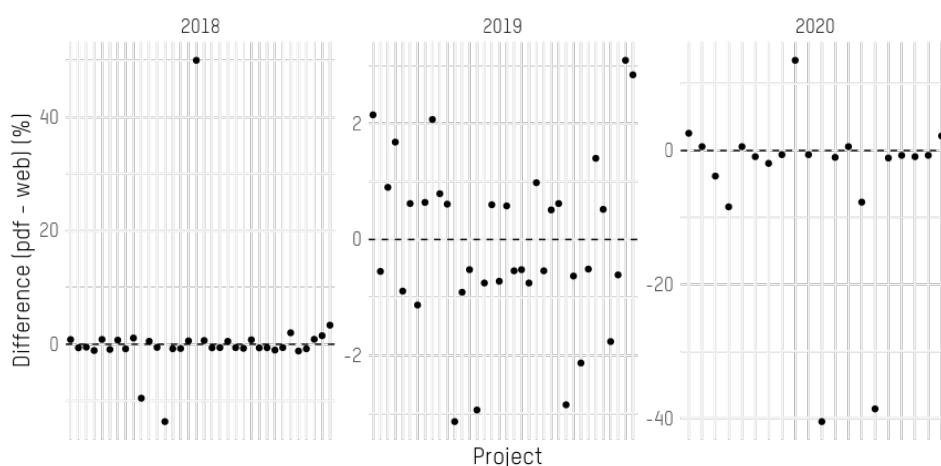
Methodological issues:

*[A number of the issues mentioned below pertain to failings of the Bank's current method. For readers unfamiliar with the existing method, it is outlined in greater detail in the methodological annex.]*

- **The Bank's detailed internal methodology, including the accounting practices it used to determine climate finance in projects, is not publicly available.** In response to our requests for the method, the Bank has responded by pointing to the methodologies described in the annexes of the joint MDB report on climate finance released annually, but these annexes are brief and lacking in detail.
- **Adaptation finance can be reported for activities which simply create a link between themselves and vulnerability to climate change.** This

means that adaptation finance can be reported in association with activities which restore or attempt to restore to past levels following a climate-related disaster rather than finance which supports adaptation and/or increases resilience. This means that portions of finance currently being reported as adaptation finance are better described as finance for loss and damage or short-term emergency assistance.

- **There are discrepancies in the climate finance data published by the Bank.** One source for climate finance lies in the annually published summary of climate finance,<sup>25</sup> and another appears on the specific project website. The percentage of a project that qualifies as climate finance that is reported on the website can differ from that reported in the summary. The Bank indicates that numbers determined at board approval stage are final and should not change. Despite this, discrepancies remain (some being as large as 50%) – see Figure 2.<sup>26</sup> Notably, the summary pdf and website use different values for adaptation and mitigation – US dollars in the case of the PDF and percentage of total commitment on the website. As such, it is impossible to know what discrepancies in the climate finance (reported in percent of total commitment in both places) mean for adaptation and mitigation estimates. In making the Bank aware of this, the Bank has indicated that there are errors on the project websites and that they intend to address this issue. For the purposes of our assessment, we use the values from the summary PDF that are considered formal and accurate.<sup>27</sup>



Note: All differences less than  $\pm 0.5\%$  excluded to avoid reporting rounding errors.

**Figure 2: Discrepancies in reporting between the Bank’s summary of climate finance (PDF) and amounts published on the project website.** Each dot reflects a project (excluding those with differences of less than  $\pm 0.5$ , to avoid reporting rounding errors). Positive values show web values greater than those reported in the summary and vice versa. Data is broken out by years and scales vary by year to highlight readability. These differences are for climate finance which the Bank says do not change after Board approval. Note that climate finance is reported as a percentage of the total Bank commitment in both documents and therefore only it can be used for direct comparison. The implications for mitigation and adaptation amounts are unclear.

**There is no requirement to document and report on how much climate finance is delivered by project closure.** Under the current joint methodology MDBs conduct assessments at the design stage of the project. Under this system, the public not only has little information about how MDBs plan to use climate finance, but also no means for determining whether it was ever delivered and had its intended impact. This is significant, given the historic discrepancy between World Bank commitments and ultimate disbursements.

- **For Development Policy Lending (DPLs), all prior actions are considered to be of equal value, regardless of the scale of their impact.** As per the methodological annex, some climate finance is contingent upon the implementation of other policies. The Bank's approach is to allocate climate finance proportionally to the number of contingent policies (prior actions) that are deemed climate relevant. At the moment, there is no weighting in this process, despite some policies having much larger impacts than others. This makes climate finance estimates for DPLs particularly problematic. This issue is of growing concern, given the Bank's desire to see DPLs used more widely.
- **The methodology is completely blind in terms of addressing the interconnections between climate change and gender.** Climate change exacerbates poverty and inequality through loss of livelihoods, it can lead to forced migration or resettlement, and it exacerbates food insecurity and landlessness in many parts of the world.<sup>28</sup> These impacts disproportionately fall on women and girls, particularly women whose livelihoods depend on natural resources.<sup>29</sup> Having some means to determine the degree to which the World Bank's climate finance is responsive to the needs of the most marginalized should be a priority in the context of climate justice concerns.

# RECOMMENDATIONS

Having described above the concerns with current climate finance reporting practices uncovered by our analysis of the Bank's reporting including the concerns on the MDB Joint Methodology, Oxfam has identified several recommendations for how the Bank can better report on their climate finance and how their approach can be improved.

Recommendations for reporting:

- **The Bank should disclose its detailed climate finance assessments, including the evidence and justifications in support of its calculations for all projects which are reported to involve climate finance in a way that allows for independent verification of its claims.** This documentation should be included in appraisal documents and provided at the lowest level of granularity possible, which in most cases will mean disclosing/sharing the cost estimates for the specific activities in a project considered eligible to be counted as climate finance in the MDB's joint methodology.
- **In the case of adaptation finance reporting, the Bank should report and disclose the incremental costs and calculations for each project component and activity considered eligible to be counted as climate finance.** Under the Joint Methodology, adaptation finance, whenever possible,<sup>30</sup> takes into account the estimated incremental costs associated with project components or elements of a project that 'address risks and vulnerabilities under conditions of current and future climate change, and compares these with a project design that does not consider such conditions'. These estimates should be reported for all projects and in a systematic manner.
- **In the case of mitigation finance reporting, the Bank should report and disclose the cost estimates for the specific and disaggregated activities considered eligible to be counted as mitigation finance.** The costs of mitigation-relevant technologies such as energy-efficient materials, LEDs, and solar panels are known, and likely included in the Bank's budgeting. This information should be systematically reported in climate finance assessments.
- **The Bank should standardize how it reports on climate finance in projects.** Detailed climate finance assessments should be provided for all projects consistently, instead of the current haphazard approach to disclosure that provides varying levels of information on climate finance for different projects.
- **The Bank should create a climate finance database.** The database should track climate finance claimed at the level of individual investment activity. This climate finance database should be publicly available with sufficient meta-data, that is searchable, downloadable and machine-readable. This climate finance database should be also linked to the Bank's annual summary report of climate finance providing a comprehensive summary for each Work Bank Group arm. As per Oxfam's previous advocacy, this database should clearly indicate the financing

mechanism invoked, either grant or loan, and in the case of the later, the grant equivalence.<sup>31</sup>

Recommendations concerning the methodology:

- **The Bank should disclose its internal methodology for calculating climate finance and explain its processes and practices for making these assessments.** The MDB joint climate finance reports provide annexes with guidelines for assessing climate finance, but this lacks detail and the MDBs have their own ways of applying this guidance. These internal detailed methodologies should be made public by the Bank and the other MDBs.
- **The MDB Joint Methodology should be updated to create clear distinctions between emergency assistance, adaptation finance, and loss and damage finance.** The Bank should ensure that adaptation finance is reported when an activity: (1) creates a link to a project's vulnerability context *and* (2) enhances resilience to those vulnerabilities beyond previous levels (the levels which existed prior to exposure to a climate-induced impact). Currently adaptation finance can be reported for activities which simply create a link between themselves and the vulnerability to climate change. This means that adaptation finance can be reported in association with activities which restore, or attempt to restore, resilience to past levels. As a result, much of the finance currently being reported as adaptation finance could be better described as finance for loss and damage or short-term humanitarian assistance.
- **The Bank should assess and report its climate finance expenditures within its project implementation and completion reports.** While the *ex-ante* approach is common for bilateral and multilateral climate finance assessments, assessments should be conducted and disclosed at mid-term reporting and the close of a project. This is the only way to document the actual amount of climate finance being delivered. The Bank's current approach to climate finance accounting determines the *ex-ante* assessment for climate finance in a project and identifies what percentage of the project costs are climate finance. When a project is modified in a way that increases or decreases the total cost of the project, this same percentage for climate finance is applied to the revised total cost (though note discrepancies in reporting identified above). This would mean, for example, that the climate finance activities in the project could be removed or revised, yet the project would still claim the same percentage of climate finance out of the total project costs. When a project is modified, the Bank should confirm and report whether the climate finance components remain and make necessary adjustments to the climate finance claimed. All such changes should be reported in a comprehensive database, meeting the requirements laid out in the 'reporting recommendation' section.
- **The methodology needs to be reviewed to render it capable of reflecting distributional impacts.** This needs to include an intersectional framing of gender and other drivers of inequality. For example, the climate finance methodology needs to reflect a gender-sensitive approach and provide guidance on mainstreaming gender equity within climate finance eligible activities in a manner that ensures they do not exacerbate gender inequality but strives for an equitable distribution of benefits. Climate

finance assessments must not be blind to the unequal impacts of climate change when considering the vulnerabilities of a project to climate change. Furthermore, data collected on impacts of climate finance in projects should be disaggregated by gender and complemented by other intersectional markers. Plans for climate finance investments should incorporate gender-sensitive assessments in relation to the potential impact of climate disasters in project areas where mitigation and/or adaptation efforts take place.

- **Any future updates to methods for assessing mitigation or adaptation finance must be done in coordination with other climate finance providers, and in consultation with civil society.**

# CONCLUSION

The public's ability to audit the Bank's climate finance is severely constrained, such that it is impossible to verify whether the Bank is meeting its stated climate finance goals. Little is publicly disclosed to support what is claimed and the information that is provided lacks consistency. Beyond this, there is no systematic reporting of what climate finance is *delivered* and what impacts that finance is having, due to the ex-ante nature of climate finance assessments. Our analysis shows that, based on what is disclosed in appraisal documents, the real amount of climate finance provided might differ from what the Bank reports by as much as \$7bn. For recipient governments and people ultimately relying on this finance to support their countries to be more resilient and adapt to the devastating impacts of climate change, it is imperative that stakeholders be able to assess the proper quantity and quality of such climate finance to determine whether their needs are being met and to hold the Bank accountable. Because so much of the climate finance being reported by 'developed' countries is channelled through the Bank, this matters for holding those governments accountable for their commitments to provide climate finance as well.

People in countries receiving this climate finance currently have no way of knowing how their governments and the Bank plan to use the climate finance assessed during project design, and more importantly, no way of knowing whether it was delivered and achieved positive mitigation and adaptation impacts. Nor do we know if the Bank is truly meeting its climate finance targets or if there are potential cases of greenwashing. By taking the steps Oxfam is calling for to improve these reporting practices, the Bank can both demonstrate clearly how climate finance is being used and set a much-needed higher standard for all climate finance reporting.

Climate finance is critical to protecting the world's poorest people on the frontlines of the climate crisis. Every dollar counts, and every dollar should be properly counted. Without better disclosure practices, the Bank is asking us to take much on faith, but these funds are too important for that.

# ANNEX 1: METHODOLOGY

## OVERVIEW

The World Bank's current climate finance reporting is of insufficient quality to allow for public verification of the Bank's claims. This research sought to estimate the magnitude of such failings in reporting. In order to achieve this, Oxfam sought to calculate the potential error in the Bank's reporting, based on the degree to which the public can(not) effectively audit the Bank, using their current reporting.

At the highest level the approach in this work was to examine a random sample of World Bank (specifically International Development Association and International Bank for Reconstruction and Development) projects, which reported some level of climate finance in FY2020. Using a systematic methodology, which invoked systematic assumptions to resolve inadequacies in reporting detail (see below for details), the research generated its own estimate of climate finance for each of the projects in the sample. Every time reporting was inadequate, an assumption had to be made that would cause the Oxfam estimate to deviate from the Bank's reporting – we term this deviation the potential 'error' in World Bank reporting. The mean of these errors (represented in absolute proportional terms) from the sample, was used to estimate the mean for the entire portfolio of climate finance projects. The result is a claim about the anticipated average reporting error for the Bank's climate finance portfolio, and therefore the degree to which the Bank could (to the best of the public's knowledge) be over- or under-reporting its climate finance.

The topline result is that our sample had a mean cumulative absolute proportional error of 0.354. For the Bank's portfolio, which reported \$17.229bn in climate finance in FY2020, this translates into the Bank potentially over- or under-reporting its climate finance by \$6.097bn. Our sample size results in a confidence interval for this proportional error of 0.058, which translates into  $\pm$  \$1.001bn. As a result, given the inability of the public to scrutinize the Bank's climate finance reporting, the Bank's climate finance for FY2020 could be as little as \$12.133bn or as much as \$24.328bn. On the low end, this translates into the Bank only providing 19.38% of its lending to climate-related finance. This is notably short of its 28% goal (for FY2020). Finally, we note that, due to limitations of our method (see below), we anticipate this is an underestimate of the potential error generated by inadequate reporting.

# METHODOLOGY

Prior to describing the methodology by which the research handled inadequate reporting from the Bank, it is first necessary to understand how the Bank currently calculates climate finance and the inadequacies of this process.

## WORLD BANK CLIMATE FINANCE REPORTING

Climate finance reporting at the World Bank breaks along two axes. The first pertains to the type of financial instrument that delivers the finance: a) investment project financing or b) policy/results financing. The second axis pertains to what is being financed: a) adaptation or b) mitigation. Each of these is briefly outlined below:

### 1. Axis 1: Type of financing instrument

- a) Investment Project Financing: Refers to cases in which discrete investments are made in specific pieces of social or physical infrastructure.
- b) Development Policy Financing and Program for Results Financing (collectively 'DPL/P4R finance'): Refers to investments that are made contingent upon whether other policies or results are implemented and/or achieved in a territory.

### 2. Axis 2: What is being financed

- a) Adaptation finance: Refers to finance that supports actions that alleviate vulnerability to climate change. What qualifies as adaptation finance is described in the *Reference Guide on Adaptation Co-Benefits and Common Principles for Climate Change Adaptation Finance Tracking*.<sup>32,33</sup> Because adaptation can be difficult to distinguish from general development support, adaptation finance is the most difficult to audit.
- b) Mitigation finance: Refers to finance that supports outcomes that reduce GHG emissions – either absolutely or against some counterfactual case – or that enhances GHG sinks. What qualifies as mitigation finance is described in *The Common Principles for Climate Mitigation Finance Tracking*.<sup>34</sup>

Regarding Axis 1, the different types of financing, the following logic applies. For Investment Project Financing, the approach for reporting climate finance is to look at whether the proposed physical and social infrastructure effectively advances climate adaptation or mitigation (see below for details). For DPL/P4R finance, the approach is to evenly apportion total project finance between the required policies or results (collectively termed 'Prior Actions' in the case of Development Policy Financing and 'Disbursement Linked Indicators' for Program for Results Financing), and then assess all required policies and results for their relevance to adaptation and mitigation.

Regarding Axis 2, the two documents described in bullets 2a) and 2b) above are centrally important and known collectively as the 'Joint Methodology'. For adaptation (2a), classification as climate finance relies on the project document to effectively:

1. Describe the project's climate change vulnerability context
2. Articulate an intent to address that vulnerability
3. Establish a link between that intent and project activities

These are known as the 'three steps' in the Bank's documentation of its method. Classification is further guided by three overarching principles:

- **Context and Location-Specific Focus:** For a project to be considered as one that contributes to adaptation, the project document must clearly provide *three steps* specific to its location and context.
- **Granularity:** Climate adaptation finance, as defined by the methodology, is not intended to capture the value of the entire project or investment that may increase resilience because of specific adaptation activities within the project. Only the incremental cost, or proportion of the project component that addresses climate change vulnerability can be counted toward adaptation co-benefits.
- **Conservativeness:** When an estimate of the incremental cost for adaptation is not available, co-benefits will be assigned by taking a conservative percentage of the total financing for a component/activity. This is based on the notion that it is preferable to under-report climate co-benefits rather than to over-report them.

For mitigation (2b above) classification is based on:

- 1) A set of definitions and guidelines
- 2) A list of eligible activities that allow for consistent accounting and reporting of financial flows for climate change mitigation finance.

As with adaptation, the following principles further guide classification:

- **Conservativeness:** Where data are unavailable or uncertainties about the data exist, the principle of conservativeness, where it is preferable to under-report rather than over-report climate change mitigation finance, should be followed. To avoid double-counting, where the same project, subproject or project component contributes to both climate change mitigation and climate change adaptation, the tracking institution's individual processes will determine what proportion is identified as climate change mitigation or climate change adaptation finance.
- **Granularity:** The Common Principles require mitigation activities to be disaggregated from non-mitigation activities as far as reasonably possible so that a clear correlation between financial flows and the actual mitigation activity can be established. When disaggregation is needed but not possible using project-specific data, a more qualitative assessment, experience-based assessment, or both can be used to identify the proportion of the project finance that covers climate change mitigation activities, consistent with the conservativeness principle.

- **Complementarity:** Reporting institutions should seek to ensure that only climate change mitigation activities that neither conflict with nor undermine the wider objectives of the Sustainable Development Goals be considered and reported.

It should be noted that some projects receive finance from the Bank as well as other actors. In such cases the Bank counts as finance only that part of the project it is financing. This applies across all financing types described above.

While this guidance and the existence of the Joint Methodology might seem to constitute a robust reporting framework, the Bank's reporting on the implementation of this framework remains inadequate. The granularity of reporting is not such that specific claims of climate finance can be linked with the costs of achieving certain objectives or motivations, or undertaking certain actions. Rather reporting tends to include broad expense lines, articulated at the level of project components or sub-components with motivations for climate finance articulated to different degrees in the documentation. Climate finance figures are reported at only the project level, either in dollar amounts in the annual report summarizing climate finance,<sup>35</sup> or as percentages on the project's specific website. The Bank provides no further detail on how it estimated these numbers. As a result, the public has no way of discerning what exactly the reported amounts of climate finance were spent on.

To address this, Oxfam developed a methodology that would seek to recreate the application of the Bank's methodology, based on the available reporting and project documentation. The general principle is that wherever the information required to recreate the Bank's reporting was not available, Oxfam applied different coefficients to the stated amount of climate finance being assessed. As will be shown below, the application of these coefficients causes Oxfam's estimate of a project's climate finance to diverge from the Bank's reported figures. This difference is eventually used to estimate the Bank's potential over- and under-reporting, across its entire portfolio. Below is an account of the systematic process by which Oxfam applied these coefficients when seeking to recreate the Bank's climate finance reporting.

## **OXFAM AUDIT METHODOLOGY**

Oxfam's audit methodology sought to follow the Bank's approach to as great an extent as their reporting allowed. In this respect, Investment Project Financing and DPL/P4R finance were treated as the Bank treats them. In the case of the former, that meant identifying which activities, motivations, aims or objectives were climate-relevant, and counting the costs of these as climate finance. For DPL/P4R finance this meant identifying which Prior Actions or Disbursement-Linked Indicators were climate-relevant and apportioning the project's total finance accordingly.

Like the Bank, Oxfam invoked distinct approaches to reporting adaptation and mitigation finance. Each of these is discussed below. Prior to discussing the details, as a topline, the general approach was to try to link specific activities, motivations, aims or objectives of a project with the

exact cost of their implementation. Where such costs were not stated explicitly, the method assumed an equal split of the most granular level of climate finance reporting across the relevant listed activities. For example, if a project's most granular level of financial reporting listed a component cost of \$10,000, and then described four activities falling under that component, with only one of those activities qualifying as climate finance, 25% of the component cost would be allocated to climate finance.

Where reporting was so inadequate so as to not allow the linking of the activities, motivations, aims or objectives of a project, with the exact cost of their implementation – for example in cases where proportionality at the lowest level of granularity could not be estimated because not all activities, motivations, aims or objectives were described – Oxfam invoked a standard coefficient of 0.5 of the value of the most granular level of reporting. In cases where there was sufficient evidence to report climate finance under the Bank's stated methodology, but where that evidence created substantial uncertainty due to its lack of granularity (i.e., the most transparent requirements for reporting were not met), a further coefficient of 0.5 was also invoked by the audit. In effect, this coefficient operationalizes the Bank's stated 'principle of conservativeness', which states that where uncertainty persists, climate finance should be under-reported, rather than over-reported (Shenvi, Weigum, and Gu 2021; European Investment Bank 2021).

In all cases the method sought to only count the portion of finance provided to a project by the Bank. This however was not reported in a systematic manner. Where amounts were delineated at the sub-component level, it was applied as such. Where general statements about responsibilities for different costs of different elements of a project were stated explicitly, these were used (for example, if it was stated at the outset that the Bank is responsible for 70% of each sub-component's cost). Should the breakdown be unclear at the level for which costs were otherwise reported (e.g., component/sub-component), the ratio of financing for the project as a whole was assumed to apply throughout the project. For example, if an overall project indicated that \$120m was from the Bank, and \$40m was from a non-Bank source, with no further details provided, it was assumed that this ratio  $120/(120 + 40)$  applied to all subsequently reported costs.

In all cases Oxfam uses the Project or Program Appraisal Documents as the basis for this assessment of the Bank's climate finance. In cases where this document has not been published, a Project or Program Concept Note; Program Document, or Project Paper was used.

The general idea behind this method is that where reporting is sufficiently granular to identify the cost of each climate finance qualifying activity, motivation, aim or objective, Oxfam's method would generate the same value as the Bank's reporting. Wherever the reporting was inadequate, Oxfam's use of standard assumptions informed by the Bank's method would cause our estimate to deviate from the Bank's reporting.

## ADAPTATION

*The Reference Guide on Adaptation Co-Benefits and Common Principles for Climate Change Adaptation Finance Tracking* describes what qualifies as climate adaptation. Oxfam's methodology seeks to use the exact same approach. Based on this, Oxfam adopts the following steps, taken from efforts to recreate the method used by the Bank, (see Figure A1, below):

- 1) Determine whether the activities, motivations, aims or objectives described in the project document evidence of an intent to address the provided climate vulnerability context – as described in the three steps above.
  - a) If no such activities or motivation can be identified, apply a coefficient of 0.
- 2) If the entire component or sub-component is designed in response to climate change impacts, apply a coefficient of 1.
- 3) If the entire component/sub-component is not designed in response to climate change impacts, yet the incremental costs of incorporating adaptation measures are stated explicitly, use the cost of those incremental costs as the estimate of adaptation finance.
- 4) If the incremental costs are not stated explicitly, but the project provides a comprehensive list of activities that qualify as adaptation-relevant (i.e., those activities that meet the three steps laid out above), apportion the share of climate finance according to those activities.
  - a) If the activities are not clearly linked to specific costs, assume an even split of the component/sub-component cost among all activities and report the proportion that qualify as climate finance.
  - b) If the list is not comprehensive, apply a coefficient of 0.5 to the component/sub-component value, and count this as climate finance.
- 5) If the incremental costs are not stated, and no list of activities is provided, but a list of aims or objectives of the component/sub-component are articulated, with some of those objectives linking to the stated vulnerability context, assume an even split of the value of the component/sub-component between those aims/objectives, and report the proportion that qualify as adaptation finance.
  - a) If the list is not comprehensive, apply a coefficient of 0.5 to the component/sub-component value and count this as climate finance.
- 6) If the explicitly stated motivations for the component/sub-component can be linked to the overall intent to address the vulnerability context, report the proportion that qualify as climate finance.
  - a) If the list is not comprehensive, apply a coefficient of 0.5 to the component/sub-component value and count this as climate finance.

- 7) In cases 4, 5 and 6, if the respective activities, aims and objectives, or motivations are only partially related to addressing the vulnerability context, apply a further coefficient of 0.5 to the assessed value of that item.
- 8) In cases where reporting is so weak as to create significant uncertainty regarding both the adaptation-relevance of a given activity, aim, objective or motivation as well as what funding supports it, apply a further 0.5 coefficient to attempt to adhere to the principle of conservativeness. Note this last point was an entirely subjective judgement.<sup>36</sup>

Note that the application of coefficients can stack on top of one another. Thus, in a case where the list of activities is incomplete, and those listed activities are only partially relevant to addressing vulnerability, we would apply a coefficient of 0.5 in each case, resulting in an overall coefficient of 0.25 (0.5 x 0.5). This process of stacking coefficients also applies in cases where assumptions had to be made regarding the proportional allocation of component/sub-component financing.

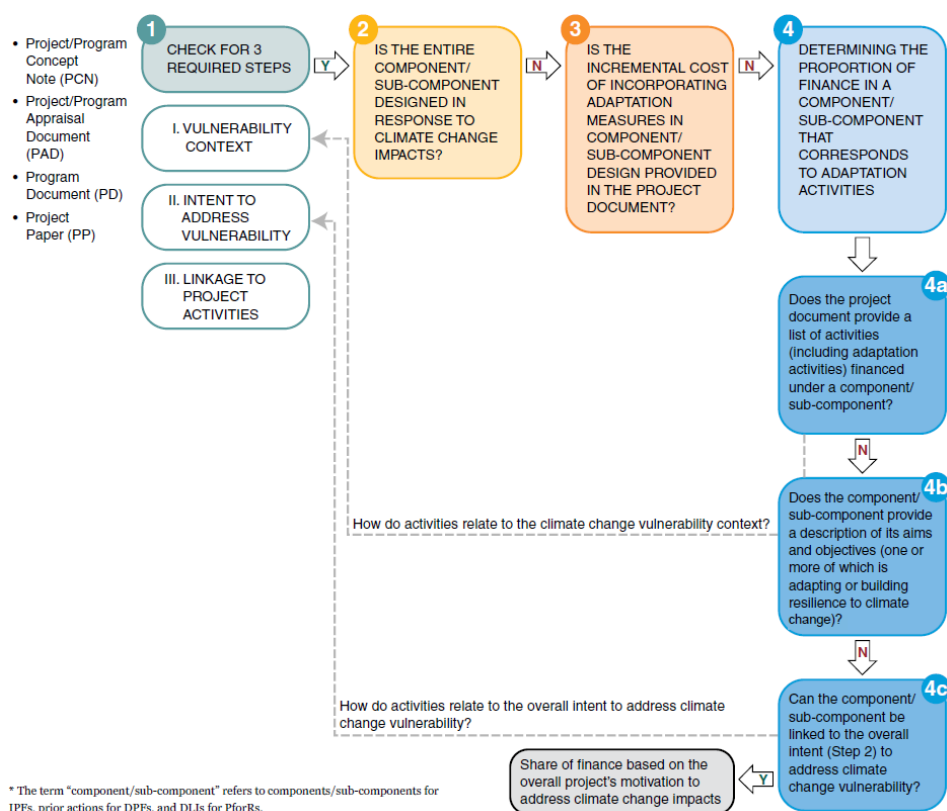


Figure A1: The World Bank's approach to calculating adaptation co-benefits, as per the Joint Methodology.

Source: Shenvi, Weigum, and Gu (2021).

## MITIGATION

The *Common Principles for Climate Mitigation Finance Tracking* (2021) contains a list of activities that qualify as climate mitigation. Oxfam's methodology used the exact same approach to tracking eligible activities,

applying it at the lowest level of granularity possible. Based on this, Oxfam adopts the following steps:

- 1) Identify whether any of the actions or objectives mentioned in the project represents an eligible activity that qualifies for mitigation finance.
- 2) If all the actions or objectives in a sub-component qualify for mitigation finance, apply a coefficient of 1.
- 3) If multiple actions or objectives are mentioned under a single component/sub-component, with some qualifying as climate finance, and the granular cost of the specific qualifying actions or objectives stated explicitly, record the sum of this figure as the mitigation finance amount.<sup>37</sup>
- 4) If multiple actions or objectives are mentioned under a single component/sub-component, with some qualifying as climate finance, and the costs of these actions are not made explicit, assume an equal split of the component/sub-component cost among all actions/motivations and count only those activities that qualify.
- 5) If an activity or objective contains an eligible activity, yet the granularity of reporting is so low as to prevent mitigation actions from being fully distinguished from non-mitigation actions, apply a coefficient of 0.5.
- 6) In cases where an eligible activity is observed, but where significant uncertainty is created surrounding the finance in support of that eligible activity (e.g., in cases where the bank has only reported at the component-level, and an eligible activity is seen to be only a minor element of a large component), apply a coefficient of 0.5. As above, this approach recognizes the Bank's principle of conservativeness so as to not over-report mitigation finance. Again, the application of this coefficient was based on entirely subjective judgements (see endnote 36).
- 7) Different types of mitigation activity have different reporting requirements. In each case, should the requirements not be fully met – for example, if greenhouse gas accounting is required yet not provided – a coefficient of 0 was applied.

As with adaptation finance estimates, the coefficients described above can be cumulatively applied.

## **ESTIMATING THE ERROR ON THE WORLD BANK 2020 PORTFOLIO**

The above approach was applied to a random sample of World Bank projects that identified any climate finance for the financial year 2020 (n = 349). The list of projects was from the World Bank climate finance reporting 2020.<sup>38</sup> These projects were imported into Excel via Tabula.<sup>39</sup> The entire population of projects was randomized by generating a column of random numbers and sorting the sheet of World Bank projects by this column. The top 78 projects were then chosen as the sample. This sample size was a compromise that

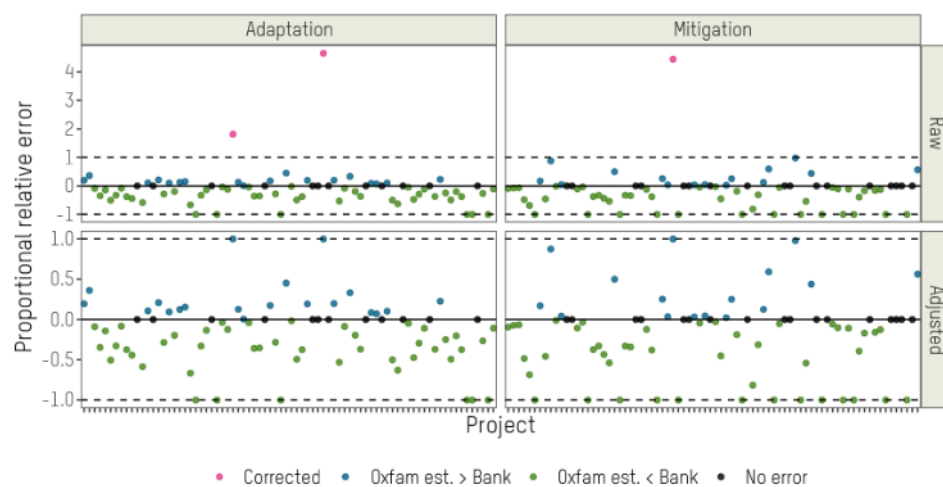
sought to simultaneously minimize the confidence interval on the estimated population mean (see below) and manage the resource constraint around the number of projects that could be audited. The method above was applied by consultants at INKA Consult.

The result is a dataset of 78 projects containing: 1) World Bank reported climate finance, for mitigation and adaptation, 2) Oxfam’s audit estimate of climate finance for adaptation and mitigation.<sup>40</sup> Our approach is to calculate the difference between the Oxfam and World Bank values, for every project (conceiving of this difference as the ‘error’). We take the absolute value of these errors (for adaptation and mitigation finance) and sum them to get the cumulative absolute error for each project. We then calculate the absolute cumulative error as a proportion of the Bank’s reported climate finance for each project and take the mean of these cumulative proportional errors across the entire sample. This gives the mean cumulative absolute proportional error (MCAPE) which applies to the entire World Bank portfolio of projects that identify some level of climate finance for FY2020.

Prior to undertaking this analysis, we should note that for some projects the absolute cumulative proportional error is greater than 1. In such cases we are essentially saying that we know nothing about the World Bank’s reporting. Since we are seeking a plausible estimate of World Bank’s climate finance error, we address this by simply reducing all absolute proportional errors greater than 1 to 1. While this ensures final results are meaningful, it also means that they underestimate the total potential error. The impacts are not large in this case as out of 78 projects only 2 showed absolute cumulative proportional errors > 1 (specific values were 1.44 and 1.86).

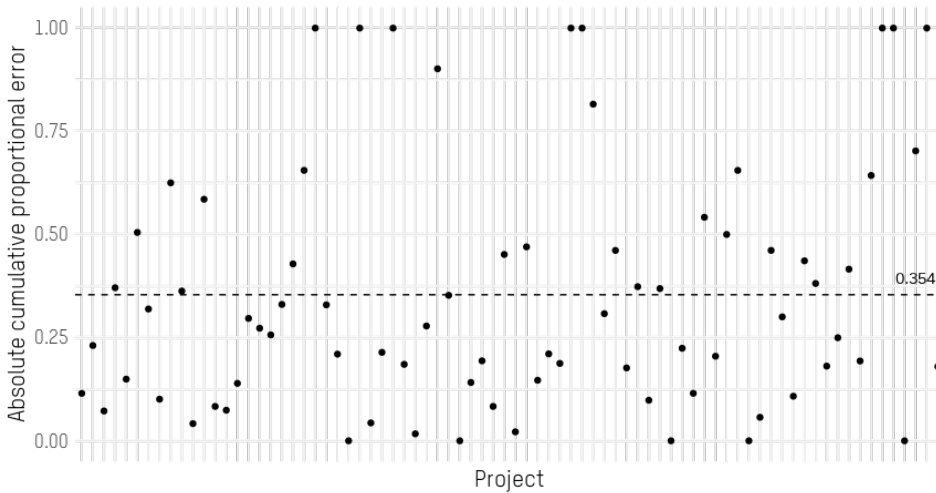
## RESULTS

Below you can see the distribution of the relative errors for the before and after correction across adaptation and mitigation projects.



**Figure A2: The distribution of relative errors across adaptation and mitigation projects, before and after correction for proportional errors > 1.** Each dot represents a project in the sample. Positive values reflect cases where Oxfam’s estimate exceeds the Bank’s reporting and vice versa. Note this data is not directly used in the calculation of the MCAPE, but instead provides the reader with a view of the raw outputs of the analysis. See Figure A3 for the MCAPE visualization.

The data displayed in Figure A2 is designed only to give the reader insight into the raw outcomes of the analysis. This data is not directly used to calculate the MCAPE, which instead takes the cumulative *absolute* proportional errors – the spread of which can be seen in Figure A3. The portfolio of climate finance projects reported by the Bank for FY2020 was worth \$17.229bn. The calculated mean absolute proportional error for the sample was 0.354. When applied to the portfolio of FY2020 projects, this yields an error of \$6.097bn.



**Figure A3: Showing the distribution of cumulative absolute proportional errors for the sample.** Each dot represents the cumulative absolute proportional error for a project in the sample. The dashed line indicates the mean of 0.349. Note that two cumulative absolute proportional errors (1.44 and 1.86) were scaled to a value of 1.

In calculating the confidence interval (CI) for the estimated mean, we must apply the correction for finite populations ( $n = 349$ ), with unknown population standard deviation, such that:

$$CI = Z_{\alpha/2} \frac{s}{\sqrt{n}} \sqrt{\frac{N-n}{N-1}}$$

For a 95% confidence level, this gives:

$$CI = 1.96 \times \frac{0.2967 \dots}{\sqrt{78}} \times \sqrt{\frac{349 - 78}{349 - 1}}$$

Therefore, our MCAPE, at a 95% confidence level, is  $0.354 \pm 0.058$ . This gives an error estimate of \$6.097bn  $\pm$  \$1.001bn. Thus, considering the public’s capacity to audit the Bank, we conclude that the Bank’s climate finance for 2020 could be as little as \$12.133bn or as much as \$24.328bn. Regarding the low estimate this would mean that in FY2020, only 19.38% of the Bank’s lending was climate-related, notably short of its 28% goal for the period.<sup>41</sup> Results of the analysis are summarized in Table 1. Notably, due to the limitations of our method (see below), we anticipate this is an underestimate of the error generated by inadequate reporting.

Institution	Source	Statistic	Unit	Value
Bank	Population	Climate Finance	\$ billion	17.229
Oxfam	Sample	MCAPE	NA	0.354

Oxfam	Sample	Standard deviation	NA	0.297
Oxfam	Sample	CI	NA	0.058
Oxfam	Population <sup>1</sup>	Climate Finance Error	\$ billion	6.097
Oxfam	Population <sup>2</sup>	CI	\$ billion	1.001
Oxfam	Population <sup>3</sup>	Climate Finance	\$ billion (high est.)	24.328
Oxfam	Population <sup>3</sup>	Climate Finance	\$ billion (low est.)	12.133
<sup>1</sup> Calculated by applying the MCAPE to the reported population climate finance <sup>2</sup> Calculated by applying the CI to the reported population climate finance <sup>3</sup> Calculated by applying MCAPE with CI to the Bank reported population climate finance				

**Table 1: Summarizing the results from the analysis**

One important caveat for our method is that this approach assumes that our method provides consistent accounts of the reporting error across different types of projects. For example, reporting errors don't systematically get larger for different investment approaches, or for larger (or smaller) projects, and thus, we can assume the sample standard deviation is an approximation of the population standard deviation. We are unable to fully test this owing to the weak reporting of the World Bank's climate finance and limitations of our model. For this reason, the mean and confidence interval here should only be seen as indicative. Despite this limitation, it is clear that the Bank's reporting of its climate finance is inadequate to allow for the public to verify whether it is meeting its climate finance goals.

## LIMITATIONS

As noted, the results represent a likely underestimate of the total error due to scaling the absolute cumulative proportional errors that were greater than 1 to 1.

The underestimate just described is compounded by the generous nature of our methodology. In many cases reporting requirements were not met. Rather than saying projects lacking such reporting don't count as climate finance – i.e., 100% error using our correction – we tended to apply a coefficient of 0.5. This more generous account further renders our estimate likely on the low end.

While our method appeals to the central limit theorem, we rely on the assumption that our audit model provides consistent estimates of the reporting error for each project. This assumption necessitates that we exercise some caution in our confidence in our estimate of the population mean. Nonetheless, the fact that our estimate is likely on the low end, means that even with this caveat in mind, it is clear that the Bank's reporting is not good enough to allow the public to verify whether the Bank is meeting its climate finance goals.

On top of reporting problems, an array of different civil society groups have identified problems with the World Bank's method of calculating its climate finance (i.e., how it determines what should be counted), which is distinct from how it reports what it counts). For now, however, it should be noted that this methodology is focused solely on the quality of the World Bank's reporting. It engages in no way with the validity of the methodology for determining what should, and what should not, qualify as climate finance. It

simply applies this method, noting failings in the degree to which reporting allows anyone outside the Bank to determine whether this methodology has been reported accurately.

# NOTES

<sup>1</sup> The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)

<sup>2</sup> This audit was focused on the quality of the Bank's reporting, not on the validity of the Bank's methodology [The Joint MDB Methodology, see below for more information].

<sup>3</sup> Multilateral Development Banks. (2021). *2020 Joint Report on Multilateral Development Banks' Climate Finance*. Retrieved 21 Sept. 2022, from <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8df1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf>

<sup>4</sup> OECD Development Assistance Committee. (2020). *Climate-related Development Finance Data*. Retrieved 21 Sept. 2022, from <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/Climate-related-development-finance-in-2018.pdf>

<sup>5</sup> Multilateral Development Banks. (2021). *2020 Joint Report*.

<sup>6</sup> The World Bank. (2021). *What You Need to Know About the World Bank Group's 2<sup>nd</sup> Climate Change Action Plan*. Retrieved 21 Sept. 2022 from <https://www.worldbank.org/en/news/feature/2021/06/22/what-you-need-to-know-about-the-world-bank-group-2nd-climate-change-action-plan>

<sup>7</sup> United Nations Climate Change. (n.d.). *Introduction to Climate Finance*. Retrieved 21 Sept. 2022, from <https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance>

<sup>8</sup> K. Patel. (2022, May 23). *Climate Change Boosted Odds of Record Heat in Pakistan and India*. *The Washington Post*. Retrieved 21 Sept. 2022 from <https://www.washingtonpost.com/weather/2022/05/23/india-pakistan-heat-climate-change/>

<sup>9</sup> S. Ellerbeck. (2022). *The Horn of Africa is Facing an Unprecedented Drought. What is the World Doing to Help Solve It?* Retrieved 21 Sept. 2022 from World Economic Forum blog: <https://www.weforum.org/agenda/2022/07/africa-drought-food-starvation/>

<sup>10</sup> 'Avalanche of Fires': *What the Front Pages Around the World Say*. (2022). The Guardian, 18 July. Retrieved 21 Sept. 2022 from <https://www.theguardian.com/media/2022/jul/17/wildfires-worldwide-what-the-front-pages-say>

<sup>11</sup> *Chile Announces Unprecedented Water Rationing Plan as Drought Enters 13<sup>th</sup> Year*. (2022). *Reuters*, 12 April. Retrieved 21 Sept. 2022, from <https://www.reuters.com/business/environment/chile-announces-unprecedented-water-rationing-plan-drought-enters-13th-year-2022-04-11/>; and C. Garrison. (2021, Aug. 26). *Climate Change Fueling Warm Ocean 'Blob' Causing Chile Megadrought – Study*. *Reuters*. Retrieved 21 Sept. 2022, from <https://www.reuters.com/world/americas/climate-change-fueling-warm-ocean-blob-causing-chile-megadrought-study-2021-08-26/>

<sup>12</sup> Author calculations. Note this is for the period 1751 – 2020. Source: Carbon Dioxide Information Analysis Center (CDIAC) and Global Carbon Project (GCP)

<sup>13</sup> D. Malpass. (2021). *Taking Action: The World Bank Group's Climate Priorities*. David Malpass. Retrieved 21 Sept. 2022 from Voices blog: <https://blogs.worldbank.org/voices/taking-action-world-bank-groups-climate-priorities>

<sup>14</sup> United Nations Climate Change. (n.d.). *Parties & Observers*. Retrieved 21 Sept. 2022 from <https://unfccc.int/parties-observers>

<sup>15</sup> OECD. (2022). *Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013 – 2020*. Retrieved 21 Sept. 2022 from <https://www.oecd.org/climate-change/finance-usd-100-billion-goal/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020.pdf>

<sup>16</sup> United Nations Environment Programme. (2021). *Adaptation Gap Report 2021 : The Gathering Storm—Adapting to Climate Change in a Post-Pandemic World*. Retrieved 21 Sept. 2022 from <https://wedocs.unep.org/bitstream/handle/20.500.11822/37284/AGR21.pdf>

<sup>17</sup> This report notes 'Adaptation needs are likely to be underestimated due to a lack of data and technical expertise to estimate the true cost of adaptation measures.' Find the report here: S. Guzman, G. Dobrovich, A. Balm, and C. Meattle. (2022). *The State of Climate Finance in Africa: Climate Finance Needs of African Countries*. Retrieved 21 Sept. 2022 from <https://www.climatepolicyinitiative.org/wp-content/uploads/2022/06/Climate-Finance-Needs-of-African-Countries.pdf>

<sup>18</sup> Author calculations.

<sup>19</sup> The method used determines the amount of 'climate-specific net assistance'. You can find more on CSNA and these findings here: <https://www.oxfam.org/en/research/climate-finance-shadow-report-2020>

<sup>20</sup> In communication with the Bank via email on September 3, 2022, they mentioned that the Bank now has a 'corporate commitment in place to better track climate impact: all projects with 20% or more climate finance have a climate indicator which ensures that climate impact is assessed at Board, and tracked through implementation (as part of the projects results framework).'

<sup>21</sup> As follows: (1) increasing farmer awareness of diversification opportunities; (2i) continuous identification of competitive value chains as well as potential off-takers – leveraging the potential agribusiness investment leads identified through IFC's Odisha Inclusive Partnership Program; (3) organizing or strengthening already existing farmer groups for effective participation in productive alliances; (4) farmer experimentation with new crops and training/demonstration of relevant climate resilient production technologies; (5) training farmers on production and marketing skills (including on input sourcing, production, aggregation, and new technologies, among others); (6) climate-informed business plan development; (7) fostering linkages with the financial sector or other government programs for access to credit; (8) financing – on a cost-sharing basis – of selected productive investments identified in the business plans (with a focus on productive investments that equally promote resilience to climate change, e.g., warehouses); and (9) leveraging private capital into competitive value chains, e.g., through blended financing to maximize finance for development.

<sup>22</sup>Inka Consult. (2022). *Raw Project Assessment*. Oxfam. [https://webassets.oxfamamerica.org/media/documents/raw\\_project\\_assessment.pdf?\\_gl=1\\*de1cwg\\*\\_ga\\*MTIzNzM4NzAyMC4xNjE00TAzMzk3\\*\\_ga\\_R58YETD6XK\\*MTY2Mzg3NTM2MS4yMjkuMC4xNjYzODc1MzYxLjYwLjAuMA](https://webassets.oxfamamerica.org/media/documents/raw_project_assessment.pdf?_gl=1*de1cwg*_ga*MTIzNzM4NzAyMC4xNjE00TAzMzk3*_ga_R58YETD6XK*MTY2Mzg3NTM2MS4yMjkuMC4xNjYzODc1MzYxLjYwLjAuMA)

<sup>23</sup> Oxfam reviewed the appraisal documents that are submitted to the Bank's board for approval for 78 projects. For more on the Bank's project cycle and these documents, see: World Bank. (n.d.). *World Bank Project Cycle*. Retrieved 21 Sept. 2022 from <https://projects.worldbank.org/en/projects-operations/products-and-services/brief/projectcycle>

<sup>24</sup> The World Bank Group recently has published its new Climate Change Action Plan in which the WBG committed to increase its climate finance target to 35% of its total portfolio over five years until 2025, align its portfolio to the Paris Agreement, and achieve results that integrate climate and development. The World Bank Group. (2021). *Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development*. Retrieved 21 Sept. 2022 from <https://openknowledge.worldbank.org/bitstream/handle/10986/35799/CCAP-2021-25.pdf?sequence=2&isAllowed=y>

<sup>25</sup> World Bank. (2020). *World Bank Climate Finance 2020*. Retrieved 21 Sept. 2022 from <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8df1b881-0020012021/related/WorldBankFY20-CCBdata.pdf>;

World Bank. (2019). *World Bank Climate Finance 2019*. Retrieved 21 Sept. 2022 from <https://thedocs.worldbank.org/en/doc/592361596711415924-0020022020/original/WorldBankFY19CFData0803.pdf>;

World Bank. (2018). *World Bank Climate Finance 2018*. Retrieved 21 Sept. 2022 from <https://thedocs.worldbank.org/en/doc/744511553696049991-0020022019/original/WorldBank2018CFData.pdf>

<sup>26</sup>J. Morrissey. (2022). *PDF Web Comparison 6*. Oxfam. [https://webassets.oxfamamerica.org/media/documents/pdf\\_web\\_comparison\\_6.csv?\\_gl=1\\*8fr8ig\\*\\_ga\\*MTIzNzM4NzAyMC4xNjE00TAzMzk3\\*\\_ga\\_R58YETD6XK\\*MTY2Mzg3NTM2MS4yMjkuMS4xNjYzODc1NjE3LjYwLjAuMA](https://webassets.oxfamamerica.org/media/documents/pdf_web_comparison_6.csv?_gl=1*8fr8ig*_ga*MTIzNzM4NzAyMC4xNjE00TAzMzk3*_ga_R58YETD6XK*MTY2Mzg3NTM2MS4yMjkuMS4xNjYzODc1NjE3LjYwLjAuMA)

<sup>27</sup> F.V. Banaji. (2022). Email with authors.

<sup>28</sup> Intergovernmental Panel on Climate Change (IPCC). (2022). *Summary for Policymakers*. Cambridge and New York: Cambridge University Press. Retrieved 21 Sept. 2022 from [https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC\\_AR6\\_WGII\\_SummaryForPolicymakers.pdf](https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf)

<sup>29</sup> B. Osman-Elasha. (n.d.). *Women ... In the Shadow of Climate Change*. Retrieved 21 Sept. 2022 from UN Chronicle blog: <https://www.un.org/en/chronicle/article/women-in-shadow-climate-change#:~:text=Women%20are%20increasingly%20being%20seen,dependent%20on%20the%20natural%20resources>

<sup>30</sup> The Joint Methodology makes the following exception to the incremental cost approach: 'When it is not possible to estimate incremental cost or investment directly from project

budgets – for example, when using policy instruments or balance-sheet lending, equity investments or credit-line lending through financial intermediaries – a proportion of the project cost or investment corresponding to adaptation activities may be used to represent the incremental amount'. See: Multilateral Development Banks. (2021). *2020 Joint Report*.

<sup>31</sup> Oxfam. (2020). *Climate Finance Shadow Report 2020*. Retrieved 21 Sept. 2022 from <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/621066/bp-climate-finance-shadow-report-2020-201020-en.pdf>

<sup>32</sup> A. Shenvi, N. Weigum, and S. Gu. (2021). *Reference Guide on Adaptation Co-Benefits: A Comprehensive Guide to Capturing Climate Change Adaptation Co-Benefits Generated by World Bank Projects*. Retrieved 21 Sept. 2022 from <https://thedocs.worldbank.org/en/doc/6f438059fcd67d697592f0dd3e2ed151-0090012021/original/1-Reference-Guide-on-Adaptation-Co-Benefits.pdf>; and

<sup>33</sup> European Investment Bank. (n.d.). *Common Principles for Climate Change Adaptation Finance Tracking*. Retrieved 21 Sept. 2022 from [https://www.eib.org/attachments/documents/mdb\\_idfc\\_adaptation\\_common\\_principles\\_en.pdf](https://www.eib.org/attachments/documents/mdb_idfc_adaptation_common_principles_en.pdf)

<sup>34</sup> European Investment Bank. (2021). *Common Principles for Climate Change Mitigation Finance Tracking*. Retrieved 21 Sept. 2022 from [https://www.eib.org/attachments/documents/mdb\\_idfc\\_mitigation\\_common\\_principles\\_en.pdf](https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf)

<sup>35</sup> See: World Bank. (2020). *World Bank Climate Finance 2020*.

<sup>36</sup> Note that this was undertaken in a good faith manner, and we intend to publish the justifications for all the projects assessed as part of this audit.

<sup>37</sup> Note that this was extremely rare, effectively the case when the entire component was identified as climate finance. This speaks to how rarely we saw values broken down for individual climate finance-qualifying items.

<sup>38</sup> See: World Bank. (2020). *World Bank Climate Finance 2020*.

<sup>39</sup> We used Tabula software (V20) to extract the data from the World Bank and convert them into a database that could be processed.

<sup>40</sup> J. Morrissey. (2022). *Summary of Results*. Oxfam. [https://webassets.oxfamamerica.org/media/documents/summary\\_of\\_results.csv?\\_gl=1\\*4t8hf9\\*\\_ga\\*MTIzNzM4NzAyMC4xNjE0OTAzMzk3\\*\\_ga\\_R58YETD6XK\\*MTY2Mzg3NTM2MS4yMjkuMC4xNjYzODc1NDIzLjYwLjAuMA](https://webassets.oxfamamerica.org/media/documents/summary_of_results.csv?_gl=1*4t8hf9*_ga*MTIzNzM4NzAyMC4xNjE0OTAzMzk3*_ga_R58YETD6XK*MTY2Mzg3NTM2MS4yMjkuMC4xNjYzODc1NDIzLjYwLjAuMA)

<sup>41</sup> Estimated based on the Bank's claim that \$21.4bn constituted 29% of their total lending for climate-related investments. See World Bank. (2020). *World Bank Group Exceeds 2020 Climate Finance Target for 3rd Consecutive Year - \$21.4 Billion in Funding for Climate Action*. Retrieved 21 Sept. 2022 from <https://www.worldbank.org/en/news/feature/2020/08/30/world-bank-group-exceeds-2020-climate-finance-target-for-3rd-consecutive-year-214-billion-in-funding-for-climate-action>

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Oxfam Québec ([www.oxfam.qc.ca](http://www.oxfam.qc.ca))

Oxfam South Africa ([www.oxfam.org.za](http://www.oxfam.org.za))

KEDV ([www.kedv.org.tr](http://www.kedv.org.tr))