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To:
FMO consultation team
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From:
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Subject: Input into FMO's public consultation on Climate Action Commitments and Fossil Fuel Statement

Dear FMO consultation team,

We welcome the opportunity presented by FMO to provide feedback on the draft fossil fuel policy. The climate is changing fast. The world needs urgent action on climate change and rising inequality. Leadership from public financial institutions like FMO is required to prevent irreversible change. We look forward to FMO leading by example by setting high ambitions to contribute to achieving one of the three main goals of the Paris Agreement "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.".

In order for the Position Statement to reflect such a long-term vision, we encourage FMO to consider the following:

Include the FMO vision on energy and the transition

FMO focusses its interventions on SDGs 8, 10 and 13. We call on the bank to always consider these three objectives equally relevant in investment decisions. This implies that decisions related to energy in general and fossil fuels in particular, should always consider inclusion as a key element.

As a consequence, investments, while investments in the energy sector need to minimize emissions while enhancing access to clean and affordable energy and contributing to, mitigation or supporting adaptation to climate change, reducing inequality, and promoting green jobs.

Despite the ambition to contribute to inclusion and ultimately reduce inequality and poverty, energy sector investments by development institutions, including FMO, often focus on large-scale infrastructure projects. The reality is that these developments cater more for sectors such as manufacturing, large-scale agriculture and mining, rather than SMEs and households. As such, these investments tend to focus on SDG8 while ignoring the resource depletion, environmental degradation and livelihood impacts brought about by the aforementioned sectors that are supported.

Technologies towards a transition to a green economy play a crucial role in building alternatives, as long as they are sustainable, culturally appropriate and are applied democratically and inclusively with the input, consent and control of women, Indigenous people and local communities.[1] The statement as it is misses clear commitments on upholding and monitoring human rights in all related

[1] Making EU climate policy Paris proof, Ministry of Foreign Affairs, March 2019

projects, on ensuring that communities are fully consulted and their rights protected, and on gender justice.

FMO's vision requires a holistic concept of the kind of investments that benefit households, how these projects need to be designed, and how FMO monitors the contribution of energy investments to reducing inequality.

FMO should recognize that the IPPC indicates that in order to stay below 1,5C degrees of warming, the electricity sector needs to decarbonize rapidly and be emission-free by 2050. Even if methane leakage could be reduced to zero, the climate impact of natural gas would still exceed the carbon budget that is needed to achieve the climate goals.[2]

FMO also needs to recognize that renewable energy produced through off-grid and mini-grid wind and solar installations – called 'distributed renewable energy' – has consistently been identified as the most effective, affordable, and resilient way to deliver electricity services to rural areas without access to the national grid.[3] Leapfrogging in access to energy is an opportunity for developing countries. In the case of energy supply, there is the possibility to skip the step from traditional forms of energy (wood, charcoal, manure) to using fossil energy, and instead switch directly to renewable energy and technologies. Many developing countries, especially in Africa, have much less large-scale infrastructure based on fossil fuels. This reduces the risk of lock-in.[4]

Gas as a transition fuel?

If we understand correctly, FMO is willing to make an exception for gas for electricity generation in very specific circumstances, while the rest of FMO's portfolio is free of fossils. If that is a correct understanding, we ask FMO to clearly state this. In that way, FMO would be showing clear leadership towards the financial sector, in line with the Minister's call[5] on development banks to support low/no carbon-economies.

On those very specific circumstances that would form an exception for FMO to finance gas for electricity generation, FMO needs to clarify the rationale and include an evidence-based explanation as to why investments in those particular and exceptional cases is needed. The statement should also include FMOs methodology on defining technically viable renewable energy alternatives and on defining challenges in terms of access to energy or grid stabilization. FMO should be very clear on how they will investigate and prove that there are no viable renewable alternatives to investments in gas.

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[2] IPCC, 2018: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. In Press., p.95

[3] http://priceofoil.org/2020/07/21/distributed-renewable-2020/

[4] IPCC, 2014a, p. 99. Bron: https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_technical-

[5] https://www.theguardian.com/business/2020/oct/14/world-bank-and-imf-must-spearhead-a-green-and-inclusive-recovery

Likewise, FMO should be more ambitious on its transition criteria. FMO should include at least transition criteria on gas leakage: financing of natural gas infrastructure is conditional upon the application of robust leakage monitoring (including publication of the data) and of cost neutral processes for halting leakage. A transition criterion on the type of gas, and its CO2 intensity in g CO2e/KwH, that FMO is considering in exceptional cases should also be included. One cubic meter of Russian natural gas has a very different CO2 intensity than a cubic meter of gas from Groningen.

FIs & transparency

Ambitious commitments should include all FMOs investments and ensure full transparency on financed projects and investigated alternatives. We invite FMO - similar to ongoing work at the IFC - to clarify in its statement how FMO will approach energy lending strategies and criteria of financial intermediaries. It is important to align both public and private finance flows to the pathways towards low carbon, climate resilient development. [6] Investments through Financial Intermediaries should not be excluded from the statement, especially since FMOs portfolio includes an increasing amount of investments in FIs. Such an exclusion risks policy incoherence, and should be addressed as a matter of urgency. IFC has demonstrated how fossil fuel exposure for both debt and equity clients can be addressed in financial intermediary lending[7] and we urge FMO to adopt these lessons learned and follow best practice. An important step in achieving a low carbon economy, which is FNO's stated goal, is to support FI clients in shifting investments out of fossil fuels and into cleaner and more sustainable choices. FMO could play a critical role in achieving this – something that will not be achieved by merely ignoring this substantial portion of FMO's portfolio.

FMO should be transparent on which of its investments in FIs are exposed to fossil fuel projects, including extraction, transport, infrastructure and storage, and power generation. Likewise, FMO as a financial market participant offering financial products should incorporate disclosures with reference to the EU Taxonomy on sustainable finance, and should apply these for clients, therewith incentivizing countries to implement their NDCs. Additionally, information on how FMO assesses energy projects, including whether and how a real or shadow carbon price is considered, and the potential for economically and technically viable renewable energy alternatives should be disclosed transparently.

Paris Agreement, timelines and monitoring

The Paris Agreements should be the basis of FMO's vision on Climate Action. The current statement does not mention the Paris Agreement, the IPCC reports, or the deadlines to ensure global temperature rise remains under 1.5 degrees. FMOs commitments on Climate Action should commit to the timelines in the Paris Agreement: we only have until 2030 to drastically limit emissions. Any lending to energy projects should be conditional upon the country meeting its NDCs. FMO

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[6] paraphrased EIB Energy Lending Criteria, Public consultation - contribution of The Netherlands.

[7] See IFC's Approach to Greening Equity Investments in Financial Institutions, IFC Financial Institutions Group September 2020. Note, however, that civil society organizations see scope for expanding this policy to include oil & gas. See Submission on the IFC Green Equity Approach to Financial Institutions, 15 May 2019.

should include in its statement clear timelines on its implementation, monitoring and evaluation and ideally include data on the current and target percentage of its portfolio going to fossils and renewables. A useful guide to how financial institutions can align with the Paris Agreement is provided by RAN.[8]

Specific comments on the text

29-31 How are impacts weighed? Do local communities have a say in this? Are consultations meaningful, inclusive and gender responsive?

34 We would welcome references to relevant sections or definitions (such as the section on conditionality).

38-43 What does that mean for indirect investment (such as through financial intermediaries)? Why not also stop with indirect investment, or max 20% of total balance sheet as it is with coal (better to stop completely)? If indirect investment continues, it should be ringfenced for debt investments or have clear targets for reduction of exposure to fossil fuels in the case of equity.

55-62 Since no new infrastructure should be built for gas, FMO should at a minimum exclude direct and indirect investments in its production, storage and transportation for power generation.

64-68 The transition period has no defined timeframe. How long is the transition period?

73-74 There is no specification on how Transition Criteria 2 is established. What is the methodology for determining that "there is no economically and technically viable renewable energy alternative". A methodology on this should be included.

75-76 There is no definition of how challenges are defined, and who determines these challenges exist. An explanation needs to be included.

81 Is a minority share of <50% ambitious enough? Should it be <30% or 20%?

100 Will there be a statement on indirect investments? If not, why? If so, when?

108 How will clients be encouraged to raise their climate ambitions? How will FMO communicate on this? IFC's Green Equity Approach offers a model, though it needs to have oil & gas added to be more effective.

110 Engaging with stakeholders: we understand this to include proactively engaging local stakeholders, communities, affected persons, including women and girls in meaningful and inclusive consultations.

[8] https://www.ran.org/wp-content/uploads/2020/09/RAN_Principles_for_Paris-Aligned_Financial_Institutions.pdf

114 How regularly will the relevance of the statement be reviewed? Reviewed by whom?

Figure 1

- FMO considers transportation of fossil fuels only between storage and generation. However, transportation (and the requisite infrastructure) also takes place between extraction & production. FMO should consider this.
- It is unclear what the box 'finance' in figure 1 means. Since according to the figure, finance feeds into the entire value chain, and the green colour would mean there are no restrictions, it seems as if finance throughout the value chain has no restrictions.

Figure 2

- Should be 'Direct Investment Opportunities' instead of 'Investment Opportunities'
- Why add the stop signs for gas, distributed energy and transmission & distribution? Seems like you only have the route with criteria, or no route at all.

Yours sincerely,

Bank Information Center

Banktrack

Both ENDS

Inclusive Development International

NGO Forum on ADB

Re-course

Urgewald