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FINANCE IN COMMON:
AN OPPORTUNITY TO LEVERAGE LEADERSHIP ON ENDING PUBLIC FINANCE FOR FOSSIL FUELS

OIL CHANGE INTERNATIONAL

Key Messages

- The Finance in Common Summit will bring together 450 public finance institutions that control $2 trillion in public money in November this year. The Summit provides an important opportunity for public finance institutions that are leading on ending fossil fuel finance and supporting a just transition to leverage their leadership towards sector-wide Paris alignment. They can do so through releasing a joint commitment focused on ending fossil fuel finance and supporting a just transition away from fossil fuels, as part of commitments to align with the 1.5°C target of the Paris Agreement.

- To set a gold standard for climate leadership for other public and private finance institutions to follow, such a commitment should meet or exceed the fossil fuel exclusions in the Energy Lending Policy of the European Investment Bank (EIB), which covers all fossil fuels, all fossil fuel infrastructure and direct and indirect finance and through which the EIB is expected to end virtually all its unabated oil and gas financing by 2021. An increasing number of institutions is ending their support for coal, but to stay within climate limits they must go further and also end their support for oil and gas.

- Leadership on this topic is of crucial importance as governments are in the midst of preparing historic levels of public finance in response to COVID-19. Early analysis of recovery finance deployed to date suggests that the trend of public finance propping up the fossil fuel industry is continuing, as fossil fuel intensive industries are receiving an outsized proportion of recovery finance.

- A joint commitment to end fossil fuel finance and increase support for a managed and just transition from oil, gas, and coal towards renewable energy sources would be a concrete, tangible and media-friendly outcome that would be welcomed by the climate movement and help make the Finance in Common Summit a success. It would also send a strong political signal towards the private sector and help build momentum toward a successful COP26 in 2021, for which finance has been identified as a priority topic.

1. About Finance in Common

The Finance in Common Summit is the very first global development bank summit, bringing together 450 public finance institutions that control $2 trillion in public money.[1] It takes place 10-12 November 2020 during the Paris Peace forum, online and in person in Paris, France. It is an event convened by the French development agency, Agence Française de Développement (AFD), and with the support of the United Nations Secretary General (UNSG), President Emmanuel Macron and the COP26 presidency. The Summit is an initiative of the Word Federation of Development Finance Institutions (WFDFI) and the International Development Finance Club (IDFC). It comes at a critical point in time, in the lead up to COP26, for which finance has been identified as one of the priority topics,[2] and as governments prepare to deploy historic levels of additional public finance in response to COVID-19. In this context, the UNSG, António Guterres, has been calling on countries to invest in a clean and green recovery including by ending fossil fuel subsidies. He underlines that "continued support for fossil fuels in so many places around the world is deeply troubling" and "means more deaths and illness and rising health care costs."[3]

The convenors' main objective for the Summit is to get a collective statement from all participating public finance institutions declaring that their contribution to economic recovery from the COVID-19 pandemic will support climate, sustainable development and biodiversity goals. Whilst such a declaration would be welcome, it is not likely that the text, which is to be signed by all participating public finance institutions, will reach the highest level of ambition, given the large diversity of participants and the need to reach consensus. It is therefore encouraging that the Summit also welcomes additional statements from those willing to make commitments beyond the joint declaration.

This creates an opportunity for the Summit to leverage the leadership of those public finance institutions that show high ambition in their efforts to align with Paris goals. This leadership could be leveraged through a joint commitment from these leading public finance institutions on excluding fossil fuels from financing and increasing support for a just and managed transition to clean energy. To build towards such a joint commitment, dedicated stewardship from Summit convenors, governments and public finance institutions that are leading on this topic, such as the EIB, and CSOs must be prioritized in the lead-up to the event.

2. Too much oil, gas and coal in production already

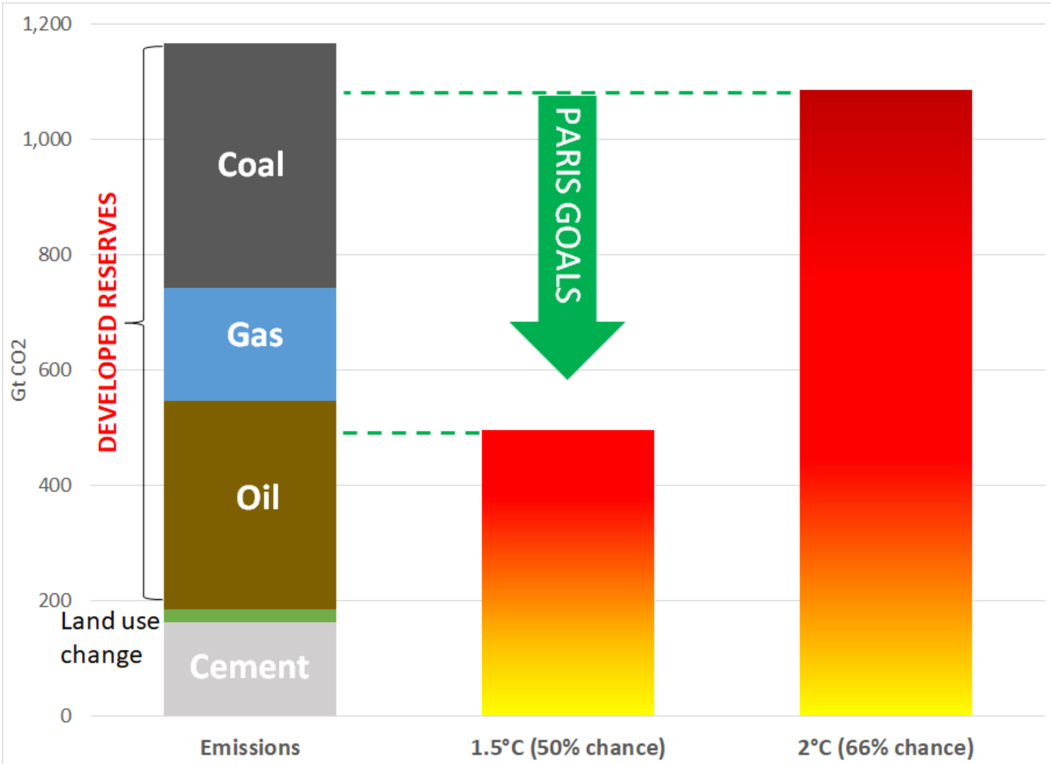
Climate science shows that we need a rapid transition from fossil fuels to renewable energy in order to limit global warming to 1.5ºC. The Intergovernmental Panel on Climate Change's (IPCC's) Special Report on Global Warming of 1.5 °C tells us that to have the best chance of limiting warming to 1.5 °C, greenhouse gas emissions must decline rapidly, falling 45% from 2010 levels by 2030, and reaching net zero by 2050.[4] To achieve these emission reduction targets, we need a rapid reduction in the production and use of fossil fuels, which are the single-biggest source of greenhouse gas emissions. The IPCC's P1 trajectory, which takes a precautionary approach to unproven negative emission technologies, shows that the use of coal, oil and gas needs to drop by 78%, 37% and 25% respectively by 2030 compared to 2010 levels to keep warming limited to 1.5 °C.[5]

However, governments and their public finance institutions are moving in the opposite direction by continuing to prop up oil and gas production. The United Nations Environment Programme (UNEP) Production Gap report (UNEP, 2019) shows that governments worldwide are planning to produce 120% more coal, oil and gas by 2030 than compatible with a 1.5 °C trajectory.[6] In addition, Oil Change International analysis, conducted in 2016 and updated in 2020, shows that the emissions from reserves in already operating oil and gas fields alone, even if coal mining is completely phased out, would take the world beyond 1.5 °C of warming (see the figure 1).

For the electricity sector, peer reviewed research shows that the 2 °C capital stock has already been exceeded. Even if other sectors reduce emissions in line with a 2 °C target, no new fossil-powered electricity infrastructure should have been built after 2017 for this target to be met, unless other electricity infrastructure is retired early.[7]

While gas is promoted by some as a bridge fuel, research has shown that this is far from the case

Figure 1: CO2 emissions from developed fossil fuel reserves compared to carbon budgets (as of January 2020) within range of the Paris goals.



Sources: Oil Change International analysis based on data from Rystad Energy, International Energy Agency, World Energy Council and IPCC.

due to methane leakage, severe limitations on the potential for coal-to-gas switching in emissions reductions, the lower cost of renewable alternatives, and alternative solutions for grid reliability, as well as its incompatibility with the carbon budget (as presented above).[8] For energy access (SDG 7) specifically, the literature is clear that distributed renewable energy (DRE) via off-grid and mini-grid installations are the least-cost solutions for two thirds of those living in electricity poverty.[9] There is currently a global financing gap to reach SDG 7, with only a minimal amount of the (insufficient) current finance going to the DRE and clean cooking solutions needed by people living in energy poverty.[10] Scaled up and more targeted finance is critical to achieve SDG 7, including social protection (energy safety nets) for the poorest.[11]

In sum, today's fossil fuel production and linked infrastructure would take the world beyond the 1.5 °C limit, unless urgent steps are taken to halt fossil fuel expansion, phase-out existing production and retire fossil fuel assets before the end of their lifetime. To stay within climate limits, public finance should support the transition away from fossil fuels including by investing deeply in renewable and efficient energy systems with access for all and a just transition for affected workers and local communities. It is especially important that public finance institutions show leadership on this topic as they play an important role in leveraging private finance by de-risking projects through their involvement.

3. A just and green recovery?

Under the Paris Agreement, governments have committed to making “finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” (Article 2.1.c).[12] Nonetheless, the expansion of fossil fuel infrastructure continues to be backed by staggering sums of both private and public finance. Together, G20 governments and the eight major multilateral development banks (MDBs) provided more than three times as much in public finance for fossil fuels (USD 77 billion) as for renewable energy a year from 2013-2018.[13] This amount has not dropped since the Paris Agreement was adopted at the end of 2015. This public finance is matched by huge sums of private finance for fossil fuels. Since the Paris Agreement was adopted 35 private sector banks funelled USD 2.7 trillion into fossil fuels.[14]

Now, as governments prepare to deploy historic levels of public finance in response to COVID-19, an emphasis on a resilient recovery that will not exacerbate the climate crisis is critical. Over 500 civil society organisations globally have signed up to the Principles for Just Recovery, calling for government responses and the international community to prioritize strong public healthcare, providing economic relief directly to the people rather than letting it exacerbate inequality, creating resilience against climate change, and building solidarity and community across borders.[15] A wide variety of academics, elected officials and other public figures have called for similar action.[16]

However, analysis of recovery finance deployed to date suggests fossil fuel or fossil fuel intensive industries receive an outsized proportion of recovery finance. A Bloomberg New Energy Finance analysis found that of the stimulus measures announced by June 2020, over $500 billion goes to high-carbon industries, without green conditions. This compares to $12.3 billion for low-carbon industries.[17] The Energy Policy Tracker, an initiative of 14 research organisations that tracks stimulus money for the energy sector, finds that, as of 26 August 2020, G20 governments have committed $204 billion supporting fossil fuel energy, compared to $139 billion for renewables.[18]

Canada, already the second-largest financier of fossil fuels in the G20 because of its export credit agency Export Development Canada (per capita, it is the highest), has given EDC a central role in the COVID-19 response, through two major financing programs that specifically prioritise the fossil fuel industry as well as relaxing limits on total financing levels.[19] And while the UK government is allegedly working on a policy to exclude oil and gas from export credit agency financing, the Prime Minister’s office agreed to put UK Export Finance money into an LNG project in Mozambique, spearheaded by France’s Total, undermining the UK’s efforts to position itself as a climate leader in the lead up to COP26.[20] These developments are not just problematic from a climate perspective, but also from a development and economic recovery perspective.

Well before COVID-19, fossil fuels were showing signs of permanent financial decline due to increasing competition from renewables and electric vehicles, opposition, including through litigation, resulting in an accumulation of debt.[21] During eight of the last nine years, oil and gas stocks underperformed the broader market, while last year renewable stocks outperformed the index by 20%.[22] Last year the oil and gas sector placed dead last in Standard & Poor’s 500 index.[23] This all makes fossil fuels a poor bet for economic recovery.[24] Energy efficiency and renewable energy hold better promise. These sectors create more jobs than fossil fuels per dollar spent, they increasingly outcompete fossil fuels on cost, and create healthier, more resilient societies that are less dependent on exports or imports of a volatile commodity.

Whilst some argue that government-backed fossil fuel finance is necessary to spur development and access to electricity, the data shows otherwise. The largest recipients of support for fossil fuels are not the poorest countries, and where fossil fuel finance does flow to lower-income countries, it typically benefits multinational corporations and wealthy "donor" countries over local populations, often while causing human and indigenous peoples' rights violations and displacements, while degrading health and the environment.[25] As above, to achieve universal energy access at the household level, which can enable poverty reduction and also build wider community resilience through access to health services, education and local economic development, DRE energy solutions will often be the least cost.[26]

In addition, the recent crash in oil prices linked to COVID-19 underlines the need for governments to step in and actively manage the decline of the oil and gas industry to prevent a disorderly collapse of the industry from hurting people and planet. [27]The current fall of the industry exposes the risks associated with economic dependence on this declining and volatile sector and shows that a disorderly collapse exacerbates global inequalities. While rich producing countries are bailing out their oil and gas companies (including the United States and Canada), lower-income oil- and gas-producing countries such as Nigeria, Angola, Algeria, Ecuador, Venezuela, and Iraq do not have that option while being less resilient to oil price shocks. They are currently facing massive budget crunches due to the crash in oil prices caused by COVID-19, which impacts their ability to address the pandemic. Iraq, which relies on oil for 90 percent of government revenue, has asked for emergency aid to fund its health system. In Africa, falling oil revenues are stressing budgets in Algeria, Angola, the Congo Republic, and Nigeria.

Now is precisely the time for governments and their public finance institutions to take action to prevent a disorderly collapse of the oil and gas sector, and instead pursue a carefully planned and globally just exit from oil and gas: to systematically disentangle economies from this turbulent industry in a way that lines up with global climate goals, invests deeply in a just transition for workers and local communities, and builds the clean energy sectors that are needed to safeguard future living conditions for life on Earth. The Finance in Common Summit provides an important opportunity to reverse the trend of public finance propping up the fossil fuel industry and help shift the emphasis to a just and green recovery with a sustainable energy transition at its core.

4. Feasibility of a joint announcement around ending fossil fuel finance

A joint announcement from leading public finance institutions around ending fossil fuel finance and increasing just transition support is not only an effective step that civil society and youth climate activists have been calling for,[28] it is also within reach. In response to a letter signed by over 130 NGOs, that among other demands includes a call for the Summit to deliver on ending fossil fuel finance was welcomed by Remy Rioux, the head of AFD, the lead organiser of the Summit. In *Liberation* he says that *"the objective of the summit is to release a joint declaration, with maybe a commitment from all participants to align their activities with the Paris Agreement. And maybe to see a coalition of progressive public DFIs which would go further in some areas, such as putting an*

Table 1: Non-exhaustive list of expected and adopted fossil fuel exclusion policies at public finance institutions

Institution	Type	Fossil fuel exclusions	Date policy adopted
European Investment Bank (EIB)	MDB	End to financing for "unabated" oil and gas projects after 2021. For gas projects a threshold applies of 250gCO2/kWh. There are undefined exceptions for power generation and transport infrastructure that make use of so-called "low-carbon" gases. There is a commitment for all exclusions to include intermediaries, advisory and technical assistance, and associated facilities.	November 2019
Ireland's national investment fund		Exclusions for almost all direct fossil fuel finance to be implemented by 2023.	Announced in 2018
Swedfund	DFI	Exclusions for almost all direct fossil fuel finance.	2017
Swedish export credit agencies EKN and SEK	ECA	Bans export credits to fossil fuel exploration and extraction by 2022. This includes mining and construction machinery where the purpose is to use these for the extraction of coal and oil or gas.	Updated policy expected soon
United Kingdom Export Finance (UKEF)	ECA	Some journalists have reported that the UK is poised to decide on an end to overseas oil and gas finance including through UKEF.	TBC 2020
World Bank	MDB	Ban on finance for upstream oil and gas.	2017
CDC Group	DFI	Ban on finance for upstream oil and gas.	2020
Inter-American Development Bank (IDB)	MDB	Draft revisions of safeguard policy propose a ban on finance for upstream oil and gas.	TBC 2020
Agence France de Développement	DFI	Ban on finance for fossil fuel exploration and production projects, infrastructure directly associated with these fuels, coal-fired, oil and diesel power stations (but there are some loopholes).	December 2019
Bpifrance	ECA	Ban on export credit finance for coal production and coal-fired power, some forms of non-conventional oil and gas, such as shale gas and oil and fossil fuel projects that involve routine flaring.	December 2019
Association of European Development Finance Institutions (EDFI)	DFI	Is working on a joint climate and energy statement that will likely be published before or at the Finance in Common Summit, which is expected to include fossil fuel exclusion policies.	TBC 2020

end to fossil fuel finance."[29] Such a commitment would correspond to the first demand set out in a recent letter to EU officials and global leaders from Luisa Neubauer, Greta Thunberg and other youth climate activists and signed by over 100,000 people, calling on leaders to *"Effective immediately, halt all investments in fossil fuel exploration and extraction, immediately end all fossil fuel subsidies and immediately and completely divest from fossil fuels."*[30] In a communique released in February 2020, African civil society similarly called on leaders to *"reject further financing and support for fossil fuel projects from other governments, multilateral funding sources, and other investors."*[31]

A growing number of public finance institutions recognize that continued financing of fossil fuels is incompatible with limiting global warming to 1.5°C. While many public finance institutions have effectively excluded support for coal in the past decade, a number are taking crucial steps to also limit financing for oil and gas: the European Investment Bank (EIB), Swedfund, Agence France de Développement, CDC Group, and also export credit agencies like BPIfrance and the Swedish SEK and EKN have either fully excluded fossil fuel financing, or have introduced some exclusions (see table below). Such fossil fuel exclusions should be regarded as a necessary (though not sufficient) condition to achieve Paris alignment and a joint announcement at Finance in Common can help normalise this fact. Fossil fuel exclusions are both a challenging and uniquely critical and time-bound (see section 2 of this briefing) aspect of Paris Alignment. It is also an area where global cooperation is necessary to ensure effectiveness. As public finance institutions have a unique signaling and norm-setting role in the world of finance, and their finance leverages private finance, them leading the way on fossil fuel exclusions will have a ripple effect.

A potential joint announcement around ending fossil fuel finance should be ambitious in order to set a gold standard for other public finance institutions to follow. As such, it should cover all fossil fuels, including gas, and not just financing for upstream, but also midstream and downstream fossil fuel projects and it should cover direct and indirect financing.

The European Investment Bank's Energy Lending Policy, adopted in November last year, scores well on these criteria.[32] As the EIB is leading on the high level event on climate of the Summit, it is in a good position to use this opportunity to leverage its leadership by making sure the here proposed joint announcement could land at this high level event and by making sure that it meets or exceeds the fossil fuel exclusions in the Energy Lending Policy of the EIB, whilst also including a commitment to increased support for an internationally just transition away from fossil fuels that protects countries, workers and communities through the transition.

Next to EIB, potential candidates for this high ambition initiative include Swedfund, SEK and EKN (Sweden), Finnfund (Finland), FMO (Netherlands), IFU and EKF (Denmark), OeEB (Austria), UKEF (United Kingdom), BNDES (Brazil), BPDC and IDB. Possible political champions for this initiative include the EIB, UNSG, the European Commission, the COP26 presidency, the French presidency, and AFD.

5. Setting a gold standard for Paris Alignment

For a joint announcement on ending fossil fuel finance and increasing support for a just transition to set a gold standard for Paris Alignment for other public finance institutions to follow it will need to include the following elements:

- **An immediate end to new fossil fuel investments and a phase out of all finance and assistance for fossil fuels, direct and indirect, by the end of 2021.**[33] This should cover associated facilities and include advisory services, technical assistance and lending through financial intermediaries;
- **Increased support for a just transition away from fossil fuels**, including support for the diversification of fossil fuel dependent economies and for workers and communities currently dependent on oil, gas and coal production as well as on other high carbon sectors;

- **Rapidly scale up investments in energy efficiency and renewable energy, and in universal access to affordable, reliable, sustainable and modern energy (SDG 7) by 2030.** At the project level, investments must ensure the free, prior, and informed consent of impacted communities through inclusive and integrated planning. This finance should prioritize 'high-impact' countries, where access rates to electricity and clean cooking remain the lowest, as well as the mainstreaming of energy access, off-grid and mini-grid renewable energy into energy planning and targeted financing approaches;

- **Devote at least 40% of finance to climate by 2020 and at least 50% by 2025** to assist countries in accelerating their chosen low carbon development pathways. This finance should observe the principle of "do no harm" — to the Paris goals, local communities, or local environments;

- **By COP26, the end of 2021, present a detailed roadmap for full Paris Alignment (project and portfolio based) by 2023 based on credible, robust scenarios**, like the P1 pathway from the IPCC SR15 report, that do not depend on future possible negative emission technologies and that target absolute emission reductions rather than carbon intensity reductions. Public finance institutions should demand financial intermediaries and other clients to develop similar roadmaps;

- **A commitment to working with developing countries and local communities, including Indigenous Peoples**, and delivering gender-responsive support, as close as possible to local communities to ensure that support for a just transition away from fossil fuels addresses local development needs and that projects are financially, environmentally and socially equitable and sustainable.

The here proposed high ambition initiative would provide a concrete and tangible outcome for the Summit and would help set a high bar for what climate leadership looks like for public finance institutions. In contrast to announcements that focus only on Paris alignment, an announcement that also includes fossil fuel finance exclusions would be easily understood by a large public audience; celebrated by the climate movement; and help ensure global media coverage of the summit in a way that promotes climate ambition (as was the case when, at the 2017 One Planet Summit, the World Bank announced a ban on upstream oil and gas). This in turn will help build momentum toward a successful COP26 in 2021, for which finance has been identified as one of the priority topics.

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