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RECOMMENDATIONS FOR POLICYMAKERS:

ENSURING PUBLIC FINANCE ACCELERATES A JUST ENERGY TRANSITION



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At the global climate conference in Glasgow in November 2021, 34 countries and 5 public finance institutions* signed a [joint commitment](#) to end international public finance for fossil fuels by the end of 2022 and instead prioritize public finance for clean energy. After a series of commitments to end finance for coal, this is the first international political commitment that also addresses public finance for oil and gas. With some of the largest historic providers of fossil fuel finance joining the commitment, including Canada, the United States and Germany, the initiative sets a historic precedent. It has the potential to directly shift at least USD 28 billion a year in international public finance from fossil fuels to clean energy, which would help shift even larger sums of private finance. In May 2022, G7 Environment, Climate and Energy Ministers made a near-identical commitment in their Communiqué. This means that in addition to the other G7 countries reaffirming their COP26 commitment, Japan, the world's second largest provider of public finance for fossil fuels, has now also committed to shift its finance to clean energy. This further increases the potential public finance shift from fossil fuels to clean energy to \$39 billion a year.

In addition to the Intergovernmental Panel on Climate Change's (IPCC) [warning](#) that the "window to secure a livable future" is "rapidly closing", the war in Ukraine creates another imperative to reduce dependency on fossil fuels and avoid funding petro-states. The conflict has contributed to a surge of coal and gas prices, and oil price and supply volatility, with the burden of energy bills growing for the most marginalized households. Through public finance for fossil fuels, the richest G20 countries have effectively been subsidizing Putin's regime and the war against Ukraine. Russia was the [second biggest recipient](#) of G20 international public finance for fossil fuel projects between 2018 and 2020 after Mozambique. Increasing public finance for energy efficiency, renewable energy, economic diversification and just transition measures to reduce dependency on fossil fuels, whether produced in Russia or elsewhere in the world, needs to be a critical element of the international response to the Ukraine war, the unreliability of fossil fuel markets and the climate crisis.

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Rather than donor countries backsliding on their commitments or doubling down on public finance for liquefied natural gas (LNG) or other new fossil fuel infrastructure, they must prioritize shifting public financing to clean energy solutions that reduce the global economy's dependence on fossil fuels. They can do so by cementing recent pledges into robust, standard-setting policies and engaging in diplomacy to ensure other countries, public finance institutions, and multilateral fora such as the OECD and the G20 follow suit.

This briefing recommends actions that governments can take at both a domestic and international level to align international public energy finance with the 1.5 degrees Celsius (°C) warming limit.

CONTEXT: TRANSITIONING AWAY FROM FOSSIL FUELS FOR ENERGY SECURITY, DEVELOPMENT AND A LIVEABLE PLANET

Climate science shows that we need a rapid transition from fossil fuels, the single biggest source of global greenhouse gas emissions, to renewable energy, in order to limit global warming to 1.5°C. In its [April 2022 report](#), the IPCC concluded that existing fossil fuel infrastructure, if operated as planned, would already push the world far beyond 1.5°C. To keep the Paris goals in reach, some of the oil and gas fields, coal mines, and fossil fuel-burning power plants already built will need to be decommissioned and retired early, as shown by analysis published in [Nature](#) and by [Oil Change International](#). The International Energy Agency (IEA) is also clear that there are no investments in coal, in new oil or gas supply, or LNG infrastructure in its net-zero [scenario](#) that maintains a 50% chance of limiting global warming to 1.5°C. At the same time, clean energy and energy efficiency infrastructure will need to grow exponentially.

This shift is not just critical for reaching climate goals, but also for economic stability. While oil and gas are known for their boom and bust cycles, renewables, as well as low-carbon energy systems' flexibility options such as energy storage and efficiency solutions are only becoming cheaper. The best way to reduce economic and social vulnerability to the inherent volatility of oil and gas markets is to [reduce the share of oil and gas](#) in the energy system. Solar is now the cheapest form of electricity and [for most gas uses](#), renewable-based alternatives are either already cheaper or are expected to be within a few years. According to the IPCC, renewable alternatives like solar, wind and battery storage can rapidly replace fossil fuels this decade, generally provide cheaper sources of electricity and have many development benefits.

They generate more jobs and less air pollution, and they can be deployed faster, with greater efficiency and flexibility. Furthermore, they can be community-led and owned and are a [key element](#) for a just and equitable transition of emerging markets and developing economies.

However, the world is underinvesting in these solutions. To stay below 1.5°C, annual clean energy investments need to [more than triple](#) by 2030 to around \$4 trillion according to the IEA. According to the IPCC, public finance plays a key role in unlocking these levels of investment. In addition, high-income countries need to deliver their fair share of climate finance. The African Group of Negotiators and 24 other "like-minded" developing nations have [called](#) on high-income nations to mobilize at least \$1.3 trillion per year by 2030, and academic estimates of a fair target range from [\\$400 billion a year to \\$2 trillion a year](#) starting in 2025 (African Group, 2021; Pauw et al., 2016; Bowen et al. 2015). There is also a need for donor countries to provide loss and damage support - the costs for which are [estimated](#) to reach \$290-580 billion by 2030, rising to between \$1-1.8 trillion by 2050. Beyond this, there is a need for governments and the multilateral institutions to effectively respond to the rising debt levels of low-income countries, which rose to a record [\\$860 billion](#) in the face of the pandemic. Climate finance is currently adding to these debt burdens: in 2019, [71%](#) of climate finance provided was in the form of loans. The United Nations Conference on Trade and Development has called for a debt jubilee for the Global South of [\\$100 billion a year](#) over the next decade.



PUBLIC FINANCE COULD ACCELERATE THE TRANSITION BUT IS STILL SKEWED TOWARDS FOSSIL FUELS

According to the IPCC's latest report, international public finance plays a critical role in closing the mitigation finance gap, enabling emission reductions and a just transition. Public finance signals government priorities, can help reduce inequities in access to finance, and reduces risks for private investors – leveraging large sums of private money.

However, today public finance remains skewed towards fossil fuel energy, acting as an obstacle rather than a catalyst of the transition. Between 2018 and 2020, the G20 countries provided at least [\\$63 billion per year](#) (\$188 billion in total) for oil, gas, and coal projects through their development finance institutions, export credit agencies (ECAs) and the multilateral development banks (MDBs). This preferential, government-backed fossil fuel financing was 2.5 times more than their support for renewable energy, which averaged \$26 billion per year. Despite the significant renewable energy investment needs discussed in the previous section, public finance for clean energy has largely stagnated since 2014.

Korea, and China – which were absent from the aforementioned Glasgow commitment to end international public finance for fossil fuels by the end of 2022 – are some of the largest providers of public finance for fossil fuels. Together they account for 29% of the MDB and G20 fossil fuel finance between 2018 and 2020. Across G20 countries, ECAs have been the largest source of fossil fuel finance. From 2018 to 2020, they provided 11 times more support for fossil fuels than renewable energy, with \$40 billion per year flowing to fossil fuel projects compared to just \$3.5 billion for renewable energy.

Despite claims that investments in fossil fuels are needed to support development or energy access, most international public finance [flows to wealthier countries](#) rather than low-income countries. Of the top 20 recipients of public finance for fossil fuels between 2018 and 2020, only one is low-income. Where fossil fuel finance does flow to lower-income countries, it often [crowds out](#) renewable alternatives and benefits multinational corporations and the wealthy countries providing finance over local populations.

Clean energy solutions are already more effective in delivering on energy access and development needs. They are the cheapest source of electricity in most parts of the world, are better suited to provide energy access in remote, rural areas, generate more jobs, avoid technological lock-in – and can be community-led and owned. The UN Sustainable Energy for All initiative includes as a [core recommendation](#) that “financing of fossil fuel projects as a means of closing the energy access gap should be terminated,” as they are no longer the most cost-effective means of providing electricity and poorly suited to most rural areas or off-grid urban areas. A recent [opinion piece](#) in Foreign Affairs from African civil society leaders Nnimmo Bassey and Anabela Lemos states that “decades of fossil fuel development have failed to deliver energy to much of the [African] continent and have built economic models dependent on extraction that have deepened inequality, caused environmental damage, stoked corruption, and encouraged political repression.”

AFTER EXITING INTERNATIONAL PUBLIC FINANCE FOR COAL, OIL AND GAS ARE NEXT

The global exodus from international public finance for coal can provide a blueprint for the transition off oil and gas. The wave of commitments on ending international coal finance, with large financiers including the [G7](#), [G20](#) and [China](#) committing last year to end such finance by the end of 2021, can be traced back to a small group of countries taking unilateral action in 2013. They subsequently led efforts to negotiate an OECD agreement on ending export finance for coal-fired power in 2015. As a result, international public finance for coal dropped to \$8 billion a year between 2018 and 2020, and this trend is poised to continue as the largest remaining financiers' policies come into effect.

The current moment for shifting oil and gas finance looks much like it did a few

years ago for coal. Most public finance for energy ([51%](#)) now flows to gas. This \$32 billion a year in gas support is more than any other energy type, and greater than all renewable energy finance combined. The majority of this support goes to LNG projects and gas-fired power plants, both of which are linked to [high climate, transition and lock-in risks](#). The trend of increased public finance for gas should rapidly reverse if signatories of the Glasgow Statement implement their commitment to end fossil fuel finance by the end of 2022 “except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit”. Investments in new long-lived gas infrastructure are not consistent with 1.5°C, nor, as explained below, are they needed to meet energy security needs in the current context of the war in Ukraine.

SHIFTING PUBLIC FINANCE OUT OF FOSSIL FUELS AND INTO CLEAN ENERGY IS THE ONLY EFFECTIVE RESPONSE TO PUTIN'S FOSSIL-FUELED WAR

The current war in Ukraine and the high energy prices linked to it add an urgent imperative to accelerate the shift of public finance away from fossil fuels, to swiftly reduce dependency on them and avoid funding petro-states. Shifting public finance to energy efficiency, renewable energy and just transition solutions, thereby reducing dependency on large fossil fuel producing countries like Russia, Saudi Arabia, China and the United States, is critical for both energy and economic security.

Despite increased military aggression by Putin-led Russia, including the annexation of the Crimea in 2014, Russia was the [second biggest recipient](#) of G20 and MDB international public finance for fossil fuel projects between 2018 and 2020 after Mozambique. Over this period, it received \$14.4 billion in fossil fuel finance from Japan (\$4.8 bn), China (\$3.5 bn), Germany (\$3.4 bn), Italy (\$1.6 bn), France (\$700 million) and the United Kingdom (\$67 million). With oil and gas revenues accounting for [36%](#) of Russia's budget in 2021, listed G20 countries have effectively been subsidizing Russia's war through propping up Russian oil and gas projects with public money. G20 countries in the European Union (EU) are further doing so through buying significant sums of Russian oil and gas, with Russian gas accounting for 40% of the EU's gas consumption in 2021. With the current high energy prices these sales are especially lucrative to Russia. The EU has imported an estimated [\\$23 billion](#) of fossil fuels per month from Russia since the start of the war. This compares to an average of \$12.5 billion per month in 2021.

Some countries have suspended public finance to Russia in reaction to the war in Ukraine. The EU, for example, has adopted legislation that [prohibits](#) “public financing or financial assistance for trade with, or investment in, Russia.” Unlike some of the other sanctions imposed on Russia,

Unlike some of the other sanctions imposed on Russia, this prohibition does not exempt the energy sector. However, at the same time, the war also creates risks of countries backsliding on their commitments to end international public finance for fossil fuels by the end of this year and encouraging investments in new fossil fuel infrastructure, particularly for fossil gas and LNG, arguing that this is needed to replace Russian exports. The EU-US energy security task force [announcement](#) that the EU Commission will work with Member States to accelerate their regulatory procedures to review and determine approvals for LNG import infrastructure and the G7 Energy Ministers' [statement](#) saying that investments in the LNG sector are needed due to the current crisis provide recent examples. The United States [is planning to boost](#) domestic LNG infrastructure with financing from the US export credit agency, US EXIM. The German Chancellor Sholz [has been recorded](#) calling on the European Investment Bank to invest in LNG infrastructure and has expressed interest in [pursuing gas projects in Senegal](#).

The global fossil gas supply- and price crisis, exacerbated by the war in Ukraine, has hit the gas-importing countries in the Global South the hardest. Unable to compete with the European and Northeast Asian LNG markets, countries like Pakistan, Thailand, Bangladesh and others are left with long-term prospects of sustained high LNG prices, limited supply and restricted fiscal ability to cushion the shocks for their most vulnerable population groups. Exacerbating these countries' exposure to the highly volatile global LNG market would not only be incompatible with the net-zero development roadmap, but also [economically harmful](#). At the same time, the renewable energy potential to displace most of these countries' existing and future gas demand is significant, and can be implemented within a shorter timeframe than investments in any new large-scale gas infrastructure.

As stated above, according to the IEA, expanding LNG capacity is not consistent with the goal to limit global warming to 1.5°C. [Additional research](#) indicates it is not necessary in order to phase out reliance on Russian supply: the EU can end its dependency on Russian fossil fuels by 2025 by replacing two-thirds of its fossil fuel imports with renewable energy and energy efficiency, without a need for investments in new fossil gas infrastructure. The EU is currently underutilizing its existing LNG capacity. Other [research](#) shows that the United States can increase LNG exports to Europe without expanding existing infrastructure and that there is [no need](#) for new LNG terminals in Asia to replace Russian imports. IRENA director-general Francesco La Camera states agrees that the answer rather lies in accelerating the transition. At the launch of [IRENA's 2022 outlook](#) he [said](#): "investing in new fossil fuel infrastructure will only lock-in uneconomic practices, perpetuate existing risks and increase the threats of climate change." To mark 100 days of Russia's full-scale invasion of Ukraine, Ukrainian groups and allies have [called for](#) a complete embargo on Russian coal, oil and gas. They also say this war should not trigger new fossil fuel infrastructure anywhere nor a new wave of fossil-fueled colonialism and oil and gas industry expansion in the Global South.

Next to shifting international public finance, governments have an important opportunity to introduce a [windfall tax](#) on the fossil fuel industry. Oil and gas companies' profits are soaring because of the high global oil and gas prices caused by the war in Ukraine. The revenue raised through a windfall tax, if well-designed, could be used to alleviate energy poverty and invest in energy efficiency and clean energy. Italy, Spain, Romania and Bulgaria have already introduced such a windfall tax.



RECOMMENDATIONS FOR POLICYMAKERS



The rightfully ambitious timeframe for ending international public finance for fossil fuels by the end of 2022, as agreed in the joint statement launched at COP26, means that signatories have only a few months left to turn their commitments into policy. Signatories also have an opportunity to leverage this initiative at the international level this year through cementing their commitments within multilateral initiatives. The G7 Environment, Climate and Energy Ministers Communiqué provides evidence of this precedent setting impact, meaning that Japan is now also signed onto a near-identical commitment to shift its finance. Wealthy signatories must also implement concrete plans to fulfill their commitment to prioritize clean energy and deliver the climate finance, loss and damage support, and debt relief that they owe to the low-income countries that have not caused the climate crisis but are facing the brunt of its impacts.

Below are steps governments can take in 2022 to accelerate the progress made in shifting public money out of fossil fuels and into clean energy and climate action.

RECOMMENDED STEPS AT THE COUNTRY AND INSTITUTIONAL LEVEL:

- **Immediately suspend any public finance for new Russian fossil fuel projects and divest from existing ones:** The [EU](#) and Canada have issued legislation prohibiting new public financing or financial assistance for trade with, or investment in, Russia. Unlike some of the other sanctions imposed on Russia, these prohibitions do not exempt the energy sector. This coverage of the energy sector is particularly relevant given the role of oil and gas in funding Russia's war machine. It is unclear whether Japan and China, which provided the largest share of international public finance to Russian fossil fuel projects, have taken similar steps. If they have not done so, these countries should be encouraged to urgently follow suit. Research shows that with enough investments in energy efficiency and clean energy and a better use of existing LNG infrastructure, there is no need for investments in any new LNG infrastructure to replace supply from Russia.

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- **Glasgow statement signatories need to implement their commitments with integrity:** Japan and the 39 governments and institutions that committed to end international public finance for fossil fuels by the end of 2022 and shift this finance to clean have just a few months left to turn their commitments into strong policy. In doing so they can build on best practices highlighted in the [OCI public finance policy tracker](#) and the [E3G public bank climate tracker matrix](#). Doing so with integrity means:
 - **Avoid a dash for gas, anywhere in the world:** Along with being inconsistent with meeting climate goals, [research shows](#) that public finance for gas is not needed as, for most of its uses, renewable-based alternatives are either already cheaper or are expected to be within a few years. High levels of gas support mean public finance is currently locking out these alternatives, while it should instead play an important role in enabling them. National policies that implement the Glasgow statement should exclude all financing for upstream and midstream fossil fuel projects and associated infrastructure, including: LNG infrastructure, gas-fired power plants and other long-lived gas infrastructure. Policies should rule out loopholes for continued support for a build-out of such infrastructure in low-income countries where renewables-based alternatives are readily available or can be deployed within the same timeframe. Exceptions for liquefied petroleum gas canisters for cooking or heating and fossil fuel generators in emergency response settings are acceptable where renewable alternatives are not viable.
 - **Use a narrow and precise interpretation of the term “unabated”:** The best way to limit emissions is to avoid creating them in the first place. Only gas-fired power already equipped with proven Carbon Capture and Storage (CCS) should be classified as “abated” (not CCS-ready), and only if these technologies are not combined with Enhanced Oil Recovery (EOR) or Enhanced Gas Recovery (EGR). Given the limitations, environmental health risks, and high costs associated with equipping power plants with CCS or CCUS, we expect signatories to have virtually ended all new direct overseas support for fossil fuels by the end of next year. Any abated fossil fuel projects should undergo a publicly available alternatives assessment to rule out feasible renewable options before receiving financing. While some suggest that fossil fuel infrastructure built today can be repurposed for clean fuels later, doing so is costly, risky, and would only delay the energy transition while renewable alternatives are largely available and affordable.
 - **Deliver on clean energy, climate finance, and debt sustainability:** To facilitate a just transition off of fossil fuels, efforts to phase out fossil fuel finance need to be matched with significant increases in support for clean energy and climate finance. Annual clean energy investments need to [more than triple](#) by 2030 to around \$4 trillion according to the IEA. According to the IPCC, public finance plays a key role in unlocking these levels of investment. To avoid deepening inequalities, clean energy projects must be implemented with strong human rights due diligence and have planning that is inclusive of and takes leadership from local governments, workers, communities, civil society organizations, and trade unions. This financing should not add to already significant debt burdens, and efforts need to be undertaken to alleviate those.
 - **Signatories should engage civil society representatives in the implementation process** and regularly report publicly on the progress they are making on this agenda.
 - **Grow the list of signatories of the Glasgow statement:** Countries and public finance institutions that did not sign the joint statement on shifting public finance in Glasgow have an opportunity to engage with the UK government to do so in 2022. Some of the largest and most influential providers of public finance for fossil fuels, including Korea and China, Australia, the World Bank (WBG), the European Bank for Reconstruction and Development (EBRD), and the African Development Bank (AfDB) should be encouraged to join the

commitment. It is equally critical that countries on the receiving end of international public finance for the energy sector join the initiative so that they can help shape the donor signatories' efforts to phase out public finance for fossil fuels and prioritize clean energy finance solutions. There are currently nine low-income signatories to the Glasgow statement (Burkina Faso, East African Development Bank, El Salvador, Ethiopia, The Gambia, Mali, South Sudan, Sri Lanka and Zambia). Through their support for the statement these countries signal that they need clean energy finance rather than fossil fuel finance to advance their climate-resilient development objectives.

- **Ensure policy coherence by matching international action with domestic action to align public finance with climate goals:** Countries can do so by ending domestic fossil fuel subsidies (including domestic public finance) and banning licensing for new fossil fuel exploration and extraction. Showing this ambition in phasing out fossil fuels at the domestic level is also an important tool to unlock roadblocks in diplomatic efforts to grow the list of signatories to the Glasgow statement. Countries have an opportunity to coordinate efforts on these agendas with diplomatic initiatives such as Friends of Fossil Fuel Subsidy Reform and the Beyond Oil and Gas Alliance.

RECOMMENDED STEPS AT THE MULTILATERAL LEVEL:

- **G7:** The G7 Environment, Climate and Energy Ministers Communiqué included a near-identical commitment to the Glasgow commitment to end international public finance for fossil fuels and shift it to clean. This means that in addition to the other G7 countries reaffirming their COP26 commitment, Japan, the world's second largest provider of public finance for fossil fuels, has now also committed to shift its finance to clean. At the G7 Summit at the end of June, G7 countries have an important opportunity to include this commitment in the Summit's leader's Communiqué.
- **G20:** Seven out of 20 G20 members and the EU have signed onto the Glasgow Statement and the G7 Communiqué making a near-identical commitment. These G20 members should work together to advance the discussion on the need to phase out not just public finance for coal, but also for oil and gas, and to increase clean energy finance at this year's G20. They can best do so through implementing their own commitments with integrity and promoting their public finance policies as examples of best practice.
- **OECD:** With 20 OECD members (52%) signed onto the Glasgow Statement and the G7 Communiqué making a near-identical commitment, there is a real opportunity for negotiating oil and gas export finance restrictions at the OECD and moving beyond the already adopted restrictions for coal-fired power. The EU Council has already [called on the EU Commission](#) to start such negotiations. However, the proposed approach leaves space for Member States to define their own phase-out deadlines by 2023. The collective and near-term end of 2022 deadline in the Glasgow Statement was

adopted to reflect the urgency of shifting away from fossil fuels. The Glasgow Statement should be used as the foundation for negotiations at the OECD, given it already has support from 52% of OECD members and includes a clear deadline for ending oil and gas finance.

- **MDBs:** The signatories of the Glasgow Statement collectively account for a significant [share of the votes](#) at all major MDBs*. As shareholders, signatories should vote against new financing for fossil fuel projects and use their collective influence to ensure the MDBs adopt policies to end direct and indirect support for fossil fuels. In 2022, the WBG, AfDB, AIIB, and EBRD in particular are undergoing policy processes that provide an opening to do so. Shareholders should also emphasize the unique role MDBs can play in supporting countries to develop strategies for successful, just transitions and long-term deep decarbonisation.

* 67% at EBRD, 51% at IADB, 45% at World Bank, 38% at AfDB, 35% at ADB and 22% at AIIB.

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