OIL CHANGE INTERNATIONAL

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FOSSIL FUEL FINANCE AT THE MULTILATERAL DEVELOPMENT BANKS:
THE LOW-HANGING FRUIT OF PARIS COMPLIANCE

KEY FINDINGS AND RECOMMENDATIONS:

- **Six major multilateral development banks – the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, and the World Bank Group – provided over $7 billion in public financing for fossil fuels in 2015, and over $83 billion in financing for fossil fuels from 2008 to 2015.**

- **From 2008 to 2015, 30% of multilateral development bank (MDB) energy financing went to fossil fuels, while just 25% went to clean energy. In 2015, despite increasing awareness and stated concern over climate change, 22% of multilateral development bank energy financing still went to fossil fuels.**

- **Over the time period reviewed, total MDB fossil fuel finance increased from 2008 to 2010, peaked in 2010, declined significantly in 2011, and then trended upward through 2015. Clean energy finance has been inconsistent. It peaked in 2010, followed by two years of decline, another spike upward in 2013, and two more years of moderate investment. Concerningly, there is no clear trajectory in MDB finance for fossil fuels OR clean energy between 2011 and 2015.**

- **The African Development Bank has the strongest skew toward fossil fuel energy finance with 47% of energy finance going to fossil fuels from 2008 to 2015, and only 11% going to clean energy. However, looking only over the most recent five years of data (2011-2015), less than 12% of African Development Bank energy finance supported fossil fuels. Between 2008 and 2015, the World Bank Group provided 35% of its energy finance to fossil fuels compared to 21% for clean energy. At the other end of the spectrum, less than 9% of the Inter-American Development Bank's energy finance went to fossil fuels over this same period, compared to nearly 24% for clean energy.**

- **Some major governments, such as Germany, have called for MDBs to phase out financing for fossil fuel projects. As some governments begin to shy away from climate change commitments, it is even more important that committed governments show leadership. They can signal bold, global action on climate solutions by pushing to end fossil fuel finance at multilateral institutions as well as at their own bilateral public finance institutions.**

Above: The aftermath of an oil spill. ©Minnesota Pollution Control Agency

THE G7 AND PARIS AGREEMENT HAVE CALLED FOR MDBs TO SUPPORT CLIMATE ACTION

In December of 2015, in the Paris Agreement on climate change, governments agreed on the following aim:

> To strengthen the global response to the threat of climate change … by … holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels.[1]

Recent analysis indicates that the potential carbon emissions from reserves of oil, gas, and coal in the world's already-operating fields and mines would take us beyond 2°C of warming. The reserves in already-operating oil and gas fields alone, even with no coal, would take the world beyond 1.5°C.[2]

Governments further included in the Paris Agreement the objective of "[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[3]

Previously, in June 2015, the Group of 7 (G7) governments had highlighted the role of multilateral development banks in delivering climate finance:

> We recognize the potential of multilateral development banks (MDBs) in delivering climate finance and helping countries transition to low carbon economies. We call on MDBs to use to the fullest extent possible their balance sheets and their capacity to mobilize other partners in support of country-led programs to meet this goal.[4]

And in November 2016, the German government stated that, "the Multilateral development banks are key actors when it comes to implementing […] the Paris Agreement. These institutions therefore should clearly commit themselves to ending the financing of fossil fuel projects, especially coal."[5]

But through 2015 – and by all indications into 2016 and 2017 – the major multilateral development banks continued to finance substantial amounts of new fossil fuel infrastructure. MDB finance represents a small but extremely important slice of total global investment, given that concessional finance[6] can provide important signals for the broader investment community and often leverages additional investment.

If there is any hope of meeting the Paris Agreement's objectives to limit global warming to well below 2°C, and to strive for below 1.5°C of warming, MDBs will have to lead investment trends away from fossil fuels and toward clean energy.

Shift the Subsidies Data

This analysis reviews energy finance from six major multilateral development banks – the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, and the World Bank Group – from 2008 to 2015. The data is drawn from Oil Change International's Shift the Subsidies database, which tracks energy projects financed by multilateral development banks, bilateral development finance institutions, export credit agencies, and other state-owned banks. The data includes funding originating from the MDBs' own capital resources and does not include financing from additional funds administered by the banks.

See our downloadable Annex at http://www.priceofoil.org/mdb-energy-finance for the energy projects assessed in this report.

Energy Financing Classification

Fossil Fuel. In this analysis, fossil fuels include any oil, gas, or coal projects, or projects supporting the development or transmission of fossil fuel power.

Clean Energy. Clean energy includes energy that is both low carbon and has negligible impacts on the environment and on human populations. Some energy efficiency and some renewable energy – energy coming from naturally replenished resources such as sunlight, wind, rain, tides, and geothermal heat – is included as clean energy.

Other. The development of some 'renewable' sources – notably large hydropower, biofuels, and biomass – can have significant impacts on the environment and on human populations that make it difficult to consider them totally 'clean.' These energy sources, along with nuclear power, incineration, and other forms of power that are not fossil fuels but also not clean, are included in the 'other' category. See more at: http://www.shiftthesubsidies.org/methodology.

1 United Nations Framework Convention on Climate Change, "Paris Agreement," December 12, 2015. http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf
2 Oil Change International, "The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production," September 2016. http://priceofoil.org/2016/09/22/the-skys-limit-report/
3 United Nations Framework Convention on Climate Change, "Paris Agreement," December 12, 2015. http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf
4 "G-7 Leaders' Declaration," The White House, June 8, 2015. https://obamawhitehouse.archives.gov/the-press-office/2015/06/08/g-7-leaders-declaration
5 Clean Energy Wire, "No funding of fossil fuel projects," December 2, 2016. https://www.cleanenergywire.org/news/germany-ends-coal-funding-wb-gabriel-defends-renewables-support/no-funding-fossil-fuel-projects
6 Concessional loans are "extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have long grace periods." (Source: OECD Glossary of Statistical Terms, "Concessional Loans." https://stats.oecd.org/glossary/detail.asp?ID=5901)

MULTILATERAL DEVELOPMENT BANK ENERGY FINANCE 2008 TO 2015

FOSSIL FUEL INVESTMENT IS DECLINING SLOWLY, BUT CLEAN ENERGY INVESTMENT IS STAGNANT

Across the MDBs, fossil fuel energy finance shows a downward trend from 2008 to 2015. But instead of a converse increase in clean energy, there is more energy finance going to 'other' forms of energy, including large hydropower and other sources that are not fossil fuels but either cannot be classified or cannot be considered 'clean.' (See Figure 1.)

Energy finance across the six MDBs totaled $280 billion from 2008 to 2015, and ranged from $27 to $44 billion annually. Total fossil fuel finance ranged from $6 billion in 2011 to $16 billion in 2010, with over $7 billion going to fossil fuels in 2015. Over the 8 years reviewed, percentages of fossil fuel energy as part of total energy finance ranged from 17% to 38% of all energy finance at the MDBs, with 22% of energy lending going to fossil fuel finance in 2015.

During the same time period, clean energy finance ranged from $5 billion in 2008 to $13 billion in 2010, with just over $8 billion in 2015. Other energy finance, including large hydropower and energy infrastructure where the fuel source could not be identified, received more public MDB finance than either of the other categories, at 45% of finance over the 8 years reviewed, and 53% in 2015.

AFRICAN DEVELOPMENT BANK: DECLINING SUPPORT FOR FOSSIL FUELS, BUT NEGLIGIBLE CLEAN ENERGY INVESTMENT

At the African Development Bank, energy finance over the 8-year period totaled $11 billion, ranging from just under $1 billion to $3.5 billion annually. Fossil fuel finance ranged from less than $100 million in 2011, 2012, and 2013 to $3 billion in 2009. While fossil fuel energy finance trended downward from 2008 to 2015, clean energy finance remained very low throughout the same time period. (See Figure 2.)

Figure 1. Multilateral Development Bank Energy Finance 2008 - 2015

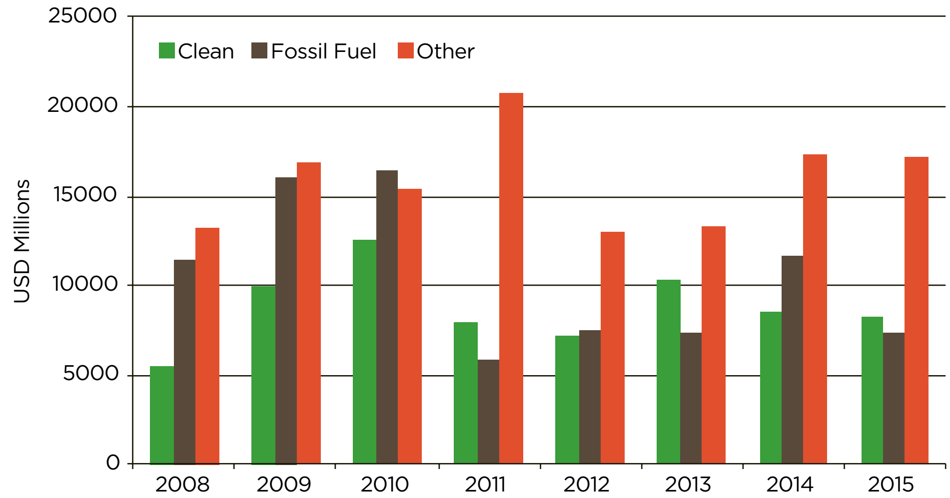
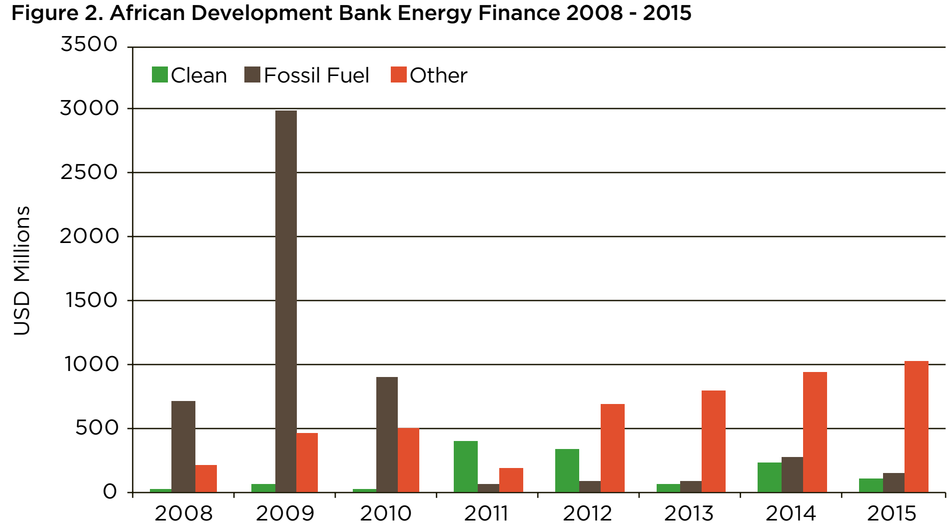


Figure 2. African Development Bank Energy Finance 2008 - 2015



ASIAN DEVELOPMENT BANK: FOSSIL FUEL FINANCE IS SLOWLY DECLINING, BUT CLEAN ENERGY FINANCE REMAINS ERRATIC

Asian Development Bank energy finance over the 8-year period totaled $34 billion, ranging from $3 billion to $5 billion annually. Fossil fuel finance ranged from $300 million in 2015 to $1.2 billion in 2010. While fossil fuel energy finance shows a downward trend from 2008 to 2015, clean energy finance did not show a clear trend in any direction. (See Figure 3.)

INTER-AMERICAN DEVELOPMENT BANK: GROWING CLEAN ENERGY FINANCE WHILE KEEPING FOSSIL FUEL FINANCE LOW

Inter-American Development Bank (IDB) energy finance over the 8-year period totaled $11 billion, ranging from $500 million to $2 billion annually. The IDB had the lowest levels of fossil fuel finance among all of the banks reviewed, providing less than $1 billion in total over the 8-year period – or less than 9% of its total energy portfolio. The IDB also successfully trended upwards in clean energy finance from 2008 to 2015, although much of the bank's finance over this time period was classified as 'other.' (See Figure 4.)

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT: STILL FUNDING FOSSIL FUELS MORE THAN CLEAN ENERGY

Energy finance at the European Bank for Reconstruction and Development (EBRD) totaled $24 billion from 2008 to 2015, ranging from $2 billion to $4 billion annually. Fossil fuel finance ranged from $600 million to $3 billion annually – topping out at 87% of the bank's energy portfolio in 2009. The EBRD continued some investment in clean energy through the 8-year period. However, at $8 billion, total clean energy finance from 2008 to 2015 was less than the $9 billion invested in fossil fuels. (See Figure 5.)

Figure 3. Asian Development Bank Energy Finance 2008 - 2015

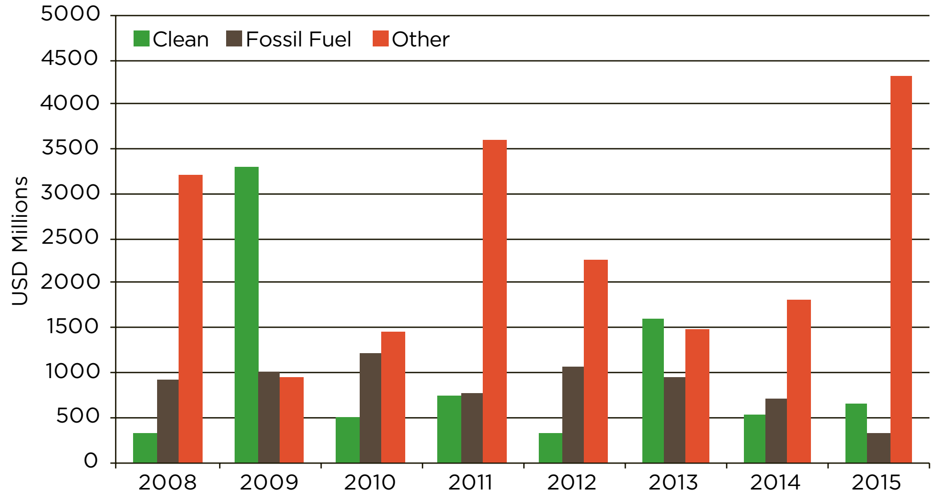


Figure 4. Inter-American Development Bank Energy Finance 2008 - 2015

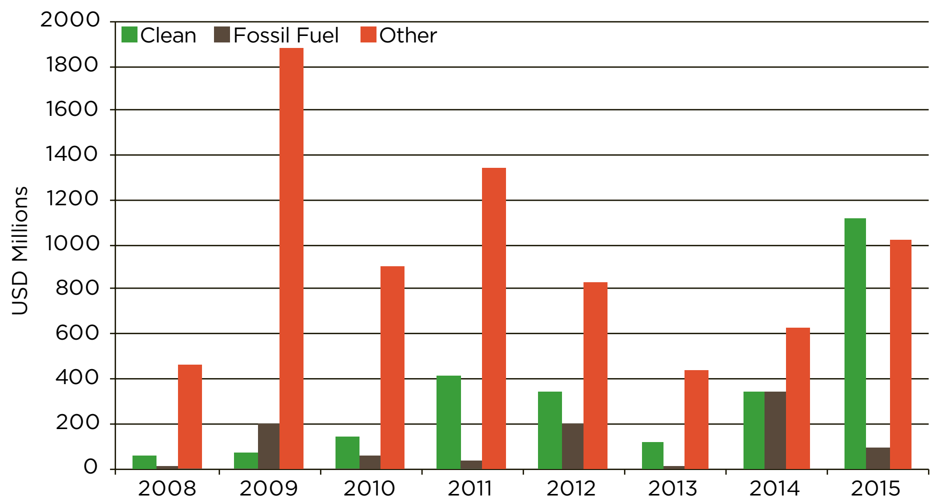
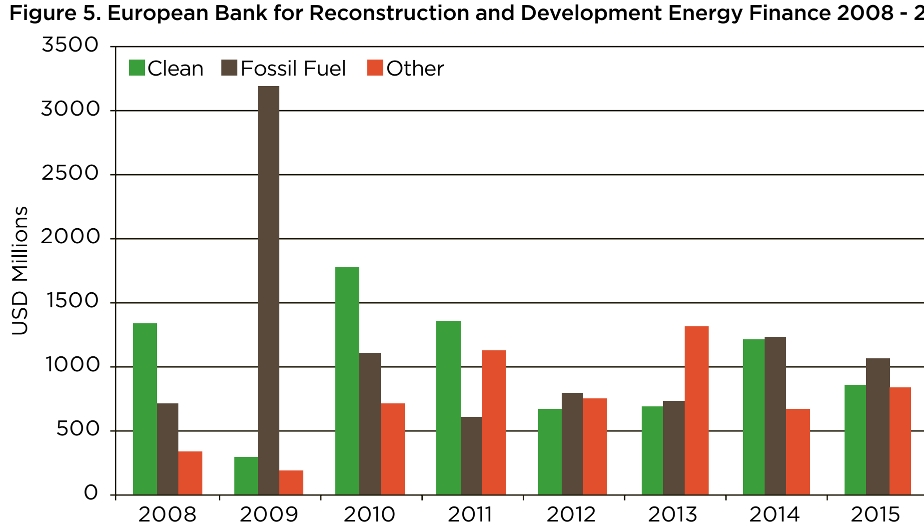


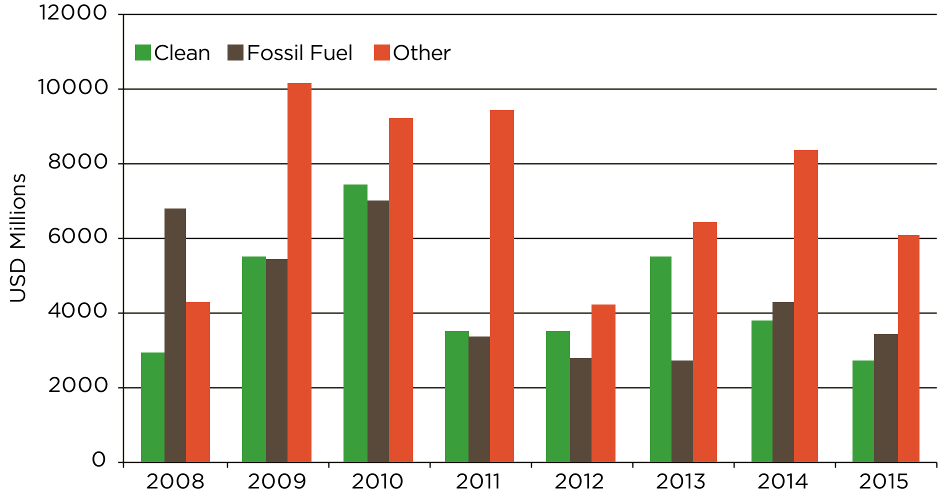
Figure 5. European Bank for Reconstruction and Development Energy Finance 2008 - 2015



EUROPEAN INVESTMENT BANK: MOVING IN THE WRONG DIRECTION – CLEAN ENERGY FINANCE FALLING WHILE FOSSIL FUEL FINANCE INCREASES

The European Investment Bank provided the most energy finance of all of the MDBs from 2008 to 2015, ranging from $11 billion to $24 billion annually and totaling $129 billion over the 8-year period. Fossil fuel finance made up 28% of the total energy finance, and ranged from $3 billion to $7 billion annually. From 2013 to 2015 in particular, the percentage of fossil fuels in the portfolio increased from 18% to 28%, while the percentage of clean energy decreased from 38% to 22%. (See Figure 6.)

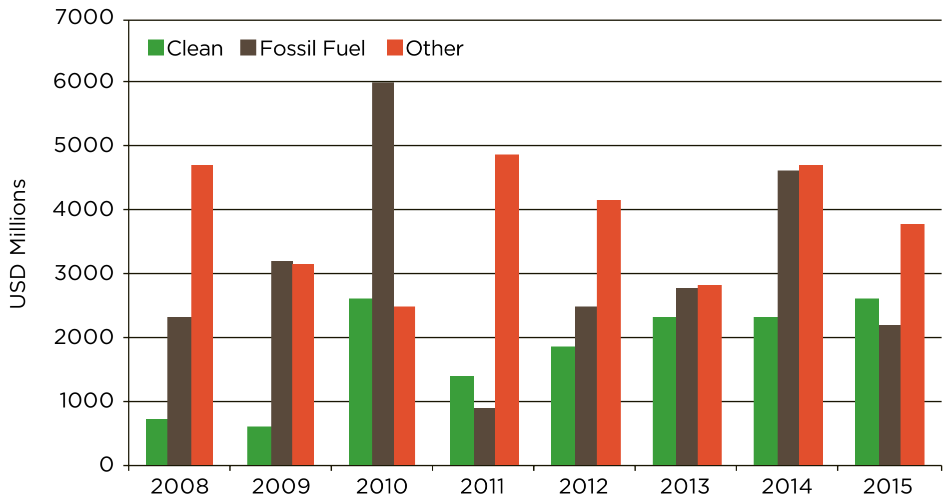
Figure 6. European Investment Bank Energy Finance 2008 - 2015



WORLD BANK GROUP: LARGE VOLUMES OF FOSSIL FUEL FINANCE DESPITE LOFTY CLIMATE RHETORIC

The World Bank Group has perhaps been the most vocal of the MDBs on the impacts of climate change on development, but the institution continues to finance fossil fuels at high rates. Total energy finance from 2008 to 2015 across the World Bank Group was $70 billion, with more than one third – $25 billion – going to fossil fuels during that time. Annual energy finance ranged from $7 billion to $12 billion, while fossil fuel finance ranged from just under $1 billion in 2011 to over $6 billion in 2010. There has been a slow upward trend in financing for clean energy, but the proportion of clean energy finance reached 30% of the total portfolio only once in the 8-year period, in 2015. (See Figure 7.)

Figure 7. World Bank Group Energy Finance 2008 - 2015



Coal mining in East Kalimantan, Indonesia. ©Alex Doukas

RECOMMENDATIONS

When some notable governments are now shying away from climate change commitments, it is even more important that committed governments show leadership on ending fossil fuel finance at multilateral institutions as well as at their own bilateral institutions. Given the importance of MDB financing in setting the direction of energy finance and encouraging energy investment, it is critical that MDBs shift their energy finance as a first step towards implementing the Paris climate targets. MDB energy finance cannot continue to encourage new fossil fuel infrastructure and production.

The MDBs should:

- **Commit to ending all fossil fuel financing by 2020, except for very rare circumstances where no other option is available to support energy access for the poor;**
- **Immediately end all finance for coal projects and for fossil fuel exploration;**
- **Shift internal incentives for staff and change the way projects are evaluated at MDBs to ensure these institutions lead the way in the sustainable energy transition (including prioritizing distributed renewable energy to deliver energy access for the poor).**

OIL CHANGE INTERNATIONAL

Oil Change International is a research, communications, and advocacy organization focused on exposing the true costs of fossil fuels and facilitating the coming transition towards clean energy.
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