Fossil Fuel Finance at International Financial Institutions

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Oil Change International
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Fossil fuel financing

- International financial institutions continue to fund fossil fuel projects, including exploration for more resources

- Climate science now says we need to keep the majority of fossil fuel carbon we know about in the ground

- Universal energy access for the poor is a critical component of achieving development goals

- Shifting IFI energy portfolios to focus on access for the poor, and particularly distributed renewables, can help with both the climate and the access problems
## MDB fossil fuel finance 2008-2013

<table>
<thead>
<tr>
<th>Institution</th>
<th>Fossil Fuels (billion USD)</th>
<th>%</th>
<th>Total Energy Finance (billion USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Investment Bank (2008-2012)</td>
<td>25.4</td>
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<tr>
<td>World Bank Group</td>
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<td>European Bank for Reconstruction and Development (2008-2012)</td>
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<td>Asian Development Bank</td>
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<td>Inter-American Development Bank</td>
<td>0.6</td>
<td>10%</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Source: Oil Change International “Shift the Subsidies Database.”
# MDB fossil fuel finance 2012

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<td>26%</td>
<td>10.5</td>
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<tr>
<td>World Bank Group</td>
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<tr>
<td>European Bank for Reconstruction and Development</td>
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<td>African Development Bank</td>
<td>0</td>
<td>0%</td>
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<tr>
<td>Inter-American Development Bank</td>
<td>.2</td>
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<td>1.3</td>
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Source: Oil Change International “Shift the Subsidies Database.”
Public finance context: coal

• Limits on coal finance
  • World Bank Energy Directions Paper
  • European Bank for Reconstruction and Development
  • European Investment Bank
  • United States, United Kingdom, Denmark, Finland, Iceland, Norway and Sweden, and the Netherlands limit international coal financing

• Still need to look out for:
  • Types of projects that could be funded (brownfield, mining, etc)
  • Financial intermediaries
  • Policy loans

• Also:
  • Significant international coal financing from other countries (Japan, China, South Korea, Russia)
Public finance context: gas

- Increased interest in natural gas
  - World Bank Energy Directions Paper indicates that the bank will move into financing more natural gas
  - EBRD will help countries switch from coal to gas
  - EIB will continue financing for fossil fuel extraction, refining, etc.
  - AfDB looking into shale gas
  - ADB restricts oil and coal exploration but not gas
  - U.S. Power Africa initiative includes substantial focus on natural gas
Natural gas

- Huge upswing in natural gas development and reserves
- In spite of claims that natural gas is a “low-carbon” option, depending on the leakage rates of methane, natural gas can in fact be a worse greenhouse gas emitter than coal.
- The International Energy Agency’s World Energy Outlook states: “Different assumptions about the level and impact of methane emissions can have a profound effect on the perception of gas as a ‘cleaner’ fossil fuel.”
Climate change and unburnable carbon

• “A 4 degree warmer world can, and must be, avoided – we need to hold warming below 2 degrees.” - World Bank President Kim

• The International Energy Agency warns that “no more than one-third of proven reserves of fossil fuels can be consumed prior to 2050 if the world is to achieve the 2°C goal.”

• In a climate-constrained world, 2/3 of current reserves (and any new reserves) would be unburnable – these resources must stay in the ground.

• Yet – $129 billion spent on fossil fuel exploration last year; $674 spent finding and developing fossil fuels that will need to be left in the ground in a 2°C scenario.
Carbon bubble

• Oil, gas and coal reserves are currently overvalued. Continued exploration for fossil fuels should not be considered financially viable in the context of staying below 2 degrees warming.

• Support from international financial institutions may cause fossil fuel exploration and development projects that are financially risky in the long term because of climate change to become viable in the short term.

• Support for exploration risks locking developing countries into financing commitments for resources that will likely become stranded assets if policies are implemented to reduce fossil fuel use and meet the 2-degree goal.

• IFIs can instead use their leverage and influence to point energy development away from fossil fuel exploration, which should now be considered both financially risky and risky for the climate.
Finance for exploration at IFIs

<table>
<thead>
<tr>
<th>Year</th>
<th>ADB</th>
<th>EIB</th>
<th>EBRD</th>
<th>IDA</th>
<th>MIGA</th>
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<tr>
<td>FY11</td>
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<td>$400,000,000</td>
<td>$600,000,000</td>
<td>$800,000,000</td>
<td>$1,000,000,000</td>
<td>$1,200,000,000</td>
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<tr>
<td>FY12</td>
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<td>$400,000,000</td>
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Exploration

- $1 billion of WBG financing out of the $2.6 billion fossil fuel financing in FY2013 had an exploration component

- Over $3 billion in WBG financing for projects with exploration components since 2008; $2.3 billion from IFC

- Nearly $4.5 billion in financing for projects that include exploration at major MDBs since 2008

- Will this change with new policies?
Exploration policies

- **World Bank:** Mentions stranded assets due to carbon pricing but does not exclude exploration; Activities in energy sector include oil, gas, and coal development and production; IFC investments across the entire gas exploration, production, and downstream supply chain.

- **European Bank for Reconstruction and Development:** Will support exploration and production of oil and gas

- **European Investment Bank:** Will finance the extraction of hydrocarbons if opportunities arise; considering unconventional hydrocarbons (although likely not exploration)

- **Asian Development Bank:** Will not finance coal and oil exploration but has not excluded natural gas

- **African Development Bank:** Considering whether to support shale gas development – would likely include exploration
What are the alternatives?

- Increasing clean renewables and energy efficiency
  - Significant advances in renewable energy and costs are becoming increasingly competitive
  - Recognition by banks that this is the direction to move in
  - Need to be aware of impacts of certain types of renewable energy – not everything is ‘clean’
  - Certain types of energy efficiency can perpetuate fossil fuels
- Increasing energy access for the poor
Energy access for the poor

• 1.2 billion without electricity access, about 85% in rural areas (2011)

• IEA estimates that only 30% of rural populations will gain access through connections to the grid

• In total, to achieve universal access, the IEA estimates that 40% of those without energy gain access through grid, 45% mini-grid, and 15% off-grid.
## Financing for Energy Access for the Poor 2008-2013

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<tr>
<td>World Bank Group</td>
<td>4</td>
<td>8%</td>
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<td>3.7</td>
<td>26%</td>
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Energy access policies

- WBG Energy Directions Paper:
  - Goal is to achieve universal access
  - Grounded in WBG goal of reducing global rate of extreme poverty to 3% and fostering income growth of bottom 40 percent in every country

- ADB aims to provide energy access to 100 million people in Asia and the Pacific Region by 2015

- AfDB and IDB devoting additional resources to access
Recommendations

• Stop MDB finance for projects with fossil fuel exploration components immediately, continue downward trend and financing for fossil fuels across the board

• Greater portion of energy portfolios of MDBs should focus on providing energy to the poorest, MDBs should increase amount of financing for decentralized renewables (mini-grid and off-grid) in order to achieve universal access