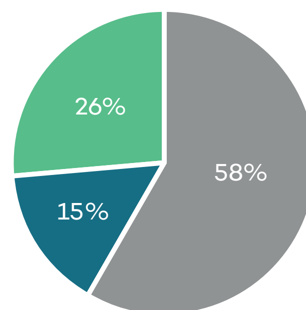
STORY 5

# Reducing Public Finance for Fossil Fuels

Phase out public finance for fossil fuel production

Public finance for energy from G20 countries and MDBs, by energy type, annual coverage 2013–2015




Source: Oil Change International Shift the Subsidies Database

## Featured countries

Countries that have instituted at least some restrictions on their bilateral public finance for coal, oil or gas include:

- **In the G20:** Brazil, Canada, France, Germany, the United Kingdom, the United States
- **Outside of the G20:** Denmark, Finland, Iceland, the Netherlands, Norway, Sweden

With some overlaps in membership with the above-mentioned countries:

- **The Export Credit Agencies** of Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland and the United States are subject to the Organisation for Economic Co-operation and Development (OECD) Arrangement on Officially Supported Export Credits, which has agreed to restrictions on export credits for certain categories of coal-fired power plants.
- **29 country governments** are party to the Powering Past Coal Alliance (Government of Canada, 2018), which commits them to ending their public finance for coal-fired power plants without carbon capture and storage.

## Key numbers

### USD 72 billion globally

This is the annual average of public finance flowing to fossil fuels from G20-controlled public finance institutions, including multilateral development banks (MDBs), development finance institutions and export credit agencies over 2013–2015 (Doukas, DeAngelis, & Ghio, 2017).

### Nearly 200 member countries

Nearly 200 member countries are affected, either as donors or as recipients by the World Bank Group's restrictions of not just coal finance, but also finance for upstream oil and gas.

### FEATURED REFORMS AND THEIR PERIOD

- In 2013 several MDBs and national governments began to adopt significant restrictions on international public financing of coal, mainly due to climate change-related concerns. These institutions include the World Bank Group, the European Bank for Reconstruction and Development, the European Investment Bank, and the governments of the United States (building on prior restrictions established in 2009), the United Kingdom, the Netherlands and several Nordic countries. In 2014 France and Germany both announced policies to limit coal finance.
- Building on the momentum established in prior years, in November 2015, 29 OECD export credit agencies entered into an agreement to restrict financing for coal-fired power plants, which entered into force in January 2017.
- A number of additional governments committed to ending public finance for coal-fired power plants without carbon capture and storage as part of the Powering Past Coal Alliance declaration, which was announced at the United Nations Framework Convention on Climate Change 23rd Conference of the Parties (UNFCCC COP 23) in 2017 (Government of Canada, 2018).
- In December 2017, at the One Planet Summit in Paris, the World Bank Group announced a commitment to end financing for upstream oil and gas activities after 2019 (World Bank Group, 2017). During this same event, the International Development Finance Club and the MDBs established a joint commitment to align their financing with the aims of the Paris Agreement on climate change (African Development Bank, 2017) (though the implications of this latter commitment remain ill-defined).

### STAGES OF FOSSIL FUEL LIFE CYCLE

- Coal-Fired Power
- Thermal Coal Mining
- Upstream Oil and Gas

## Context

Under Article 2.1(c) of the Paris Agreement on Climate Change, its parties committed to “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” (UNFCCC, 2015). The commitment applies not just to private finance but also to public finance provided via bilateral export credit, national and bilateral development finance as well as G20 and other countries’ contributions to MDBs. Public finance is a relatively scarce resource, requiring each dollar to be used effectively to achieve multiple sustainable development objectives. However, from 2013 to 2015, national and international public finance institutions controlled by G20 governments provided, on average, USD 72 billion per year in support for oil, gas and coal (Doukas, DeAngelis, & Ghio, 2017). Continued investment in long-lived fossil fuel infrastructure leads to carbon and political lock-in; it risks committing to a high-emissions future while entrenching the political interests most likely to resist climate regulations that could result in assets being stranded or devalued.

### Change in the mechanisms of government support to fossil fuels

- The types of coal finance restrictions vary across institutions—some differentiate based on technology (e.g., no financing for coal-fired power plants without carbon capture and storage), while others rely on emission performance standards. Many of the policies include exemptions that allow for coal finance in rare circumstances, usually for the poorest countries. Most of the policies apply only to coal-fired power plants and not other coal-related infrastructure, with some exceptions: the World Bank Group restrictions on coal finance apply to thermal coal mining, and the Dutch development finance institution FMO has also implemented a policy to end support for thermal coal mining in addition to coal plants.
- Of the countries instituting coal finance restrictions, some applied them only to development finance, while others opted to apply the restrictions to their export credits as well.
- The World Bank Group is the first public finance institution to announce a substantial restriction on financing for upstream oil and gas as a result of concerns linked to climate change (World Bank Group, 2017). Some other institutions (including the Asian Development Bank and African Development Bank) have policies that restrict financing for certain types of oil and gas activity related to financial risk and non-climate environmental risk.

### Drivers of reform

- Public finance institutions are thought leaders and many place some value on this reputation. They play a central role in supporting and de-risking large fossil fuel infrastructure projects, and many recognize their role in influencing broader financial flows.
- Declining markets for coal-fired power plants and the increasing affordability of alternatives have increased the financial risks of these projects (e.g., the risk of stranding).
- In the lead-up to and the aftermath of the Paris Agreement's establishment in 2015, a number of governments and public finance institutions felt the need to demonstrate leadership on climate action, which likely influenced some of the decisions to restrict public finance for fossil fuels.
- Considerable civil society pressure played a role in public finance restrictions on coal from 2013 through 2015, as well as in new restrictions on oil and gas finance in 2017.

## Did the reform generate fiscal or financial space? How was it used?

In view of the reforms, public finance supporting coal has declined significantly in recent years, allowing institutions to pursue alternative investments.

## Wider benefits of the reforms

**Environmentally**, reducing public finance for fossil fuels (much of which is to some degree concessional) will improve the relative competitiveness of alternatives and disincentivize fossil fuel energy production and consumption. This will therefore reduce greenhouse gas emissions as well as local pollution associated with coal-fired electricity generation and fossil fuel production.

**Socially**, alternatives to additional fossil fuel development may present better avenues for delivering access to energy for those who currently do not have it. For coal-fired power in particular, analysis suggests that more coal will not end energy poverty and that better options exist to lift people out of income and energy poverty (Granoff, Hogarth, Wykes, & Doig, 2016). While reduced public finance for fossil fuels may not translate directly into increased finance for alternative energy solutions, at a minimum there will be less opportunity for public finance in fossil fuels to crowd out investment in alternatives.

## Watching brief

**Missed opportunity:** Relatively few of the institutions that have announced restrictions on coal finance have announced restrictions on oil and gas finance, despite the shared concerns that exist across these resources.

**Risk of backsliding:** Political dynamics have shifted globally, as the United States has gone from a leader on restricting coal finance to promoting new government support for fossil fuels (Overseas Development Institute, Natural Resources Defense Council, International Institute for Sustainable Development, & Oil Change International, 2018).

## Other institutions that implemented similar reforms

MDBs that have implemented some restrictions on public finance for coal, oil or gas include:

- World Bank Group
- European Investment Bank
- European Bank for Reconstruction and Development
- Asian Development Bank (mining only)

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