

**FMO'S POSITION STATEMENT ON PHASING OUT
FOSSIL FUELS IN DIRECT INVESTMENTS**

STAKEHOLDER CONSULTATION REPORT

June 2021

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1. Introduction

In FMO's strategy, climate action has been identified as one of the three top-line Sustainable Development Goals (SDGs) to which FMO can particularly contribute. Focusing on climate is in line with FMO's Sustainability Policy, containing FMO's aim to contribute to financing the transition to a green economy in line with the climate goals agreed to in Paris. As climate change affects developing countries most, FMO works towards a portfolio that is aligned with the 1.5°C pathway of the Paris Climate Agreement.

Energy security is a critical driver for development and growth. Still more than 840 million people across the globe lack access to energy. Therefore, FMO invests in creating access to affordable, reliable, and low-carbon energy for all. Our Position Statement for Phasing Out Fossil Fuels from Direct Investments (Position Statement) can be considered FMO's next step in our climate action commitment as it sets out FMO's firm commitment to phase out fossil fuels from its direct investments in the energy sector.

Position Statements are an integral part of the FMO Sustainability Policy Framework that is steering FMO's activities. They explain FMO's choices in relation to societal challenges we operate in and describe how we select investments, work with our customers and other stakeholders, and monitor performance. They reflect our objective to apply the highest possible standard of ethics and integrity to our business activities. Position Statements are reviewed regularly to decide on revisions or updates. Throughout the development, revision, and implementation of our Position Statements, FMO engages in constructive dialogue with our stakeholders to collect valuable input and feedback and to explain our choices. With regard to the draft Position Statement, we conducted a formal stakeholder consultation between October and November 2020.

FMO would like to thank all stakeholders who have participated in the consultation process and who have provided us with their feedback. The feedback received during the stakeholder consultation process triggered both informed and strategic discussions and contributed to the further balancing of the final wording of the Position Statement.

This Consultation Report aims to provide for a summary of the main elements of the feedback received during the stakeholder consultation and FMO's findings on, and response to, this feedback. Where applicable, the report explains how the submissions have been addressed in the revision of the final Position Statement.



2. The stakeholder consultation process

2.1. Objective

FMO aims to be open, proactive and transparent to all stakeholders. Through external stakeholder consultations, FMO engages proactively in an open dialogue with interested stakeholders. Consultations allow us to benefit from external expertise and knowledge in order to receive valuable input during the process of policymaking. In addition, consultations enable FMO to further enhance transparency and accountability around the decisions we make.

In order to reach these objectives, we designed the external stakeholder consultation for the draft Position Statement through two channels: the i) targeted consultation sessions with a group of relevant stakeholders soliciting specific feedback and the ii) public consultation, allowing anyone interested in FMO's approach and investments, to share their point of view and expertise on this topic.

2.2. Public consultation

On October 8th, 2020, FMO launched the public consultation¹ on its website and through its own social media channels². All stakeholders and interested parties were invited to submit written contributions until 9 November 2020. FMO has received a total of 20 written contributions from various stakeholders, such as Non-Governmental Organizations (14), business and industry associations (3), academia (1) DFIs (1), and interested individuals (1).

2.3. Targeted stakeholder consultation

FMO also conducted several consultation sessions with targeted stakeholders to strengthen our process of drafting FMO's Position Statement. Stakeholders were invited to provide their comments, suggestions, and feedback on the draft Position Statement. These sessions allowed FMO to explain choices made. The consultation sessions took place between 23 October 2020 and 16 November 2020 and were attended by 32 participants from 19 organizations, including representatives from Non-Governmental Organizations (7), banks (4), IFIs and (E)DFIs (4), knowledge institutes (1), and Dutch government (3).

¹ [Public consultation announcement](#), 8 October 2020, FMO

² Twitter: https://twitter.com/fmo_development LinkedIn: <https://nl.linkedin.com/company/fmo>



2.4. Review process

FMO has reviewed all questions and comments received from stakeholders in both sessions and categorized each of these contributions according to topic. We have closely evaluated all comments and considered if and how to integrate these contributions or feedback into our final Position Statement. In the remainder of this report, we will provide more detail on the feedback received and our response.

2.5. Outcomes to the final Position Statement

Our stakeholders have indicated that they appreciated the opportunity to provide feedback to the draft Position Statement. Overall, the conversations during the consultation sessions were open and constructive, allowing FMO to provide more clarity about our position and discuss different perspectives. The sessions and written feedback provided us with many useful suggestions to provide clarity and refine our position vis-à-vis the direct financing of fossil fuels.

In general, stakeholders welcomed our commitment to phase out fossil fuels from our direct investments and consider it a step into the right direction. They confirmed that our proposal for a transition period reflects a balanced view to our commitment to contribute to SDG 8, SDG 10 and SDG 13. It recognizes the negative environmental impacts of fossil fuels and at the same time the need for access to energy to stimulate economic development and social inclusion in the regions where FMO operates in. Whilst acknowledging that to contribute to global decarbonization, we must consider our involvement in high-emitting industries, like the energy sector, we also need to weigh the impact on the other SDGs to ensure that we strike the right balance in our strategy and investment decisions.

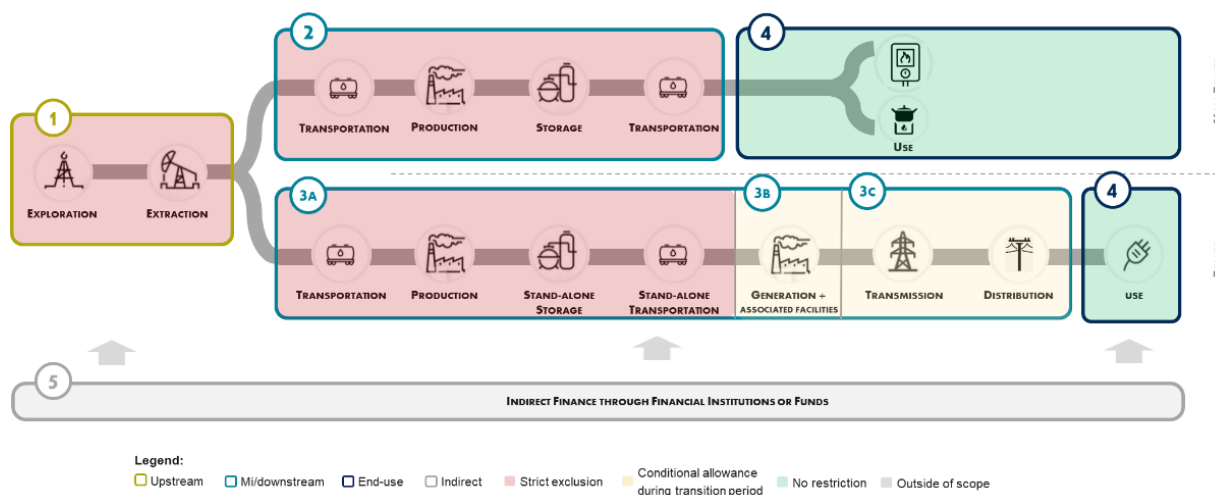
Secondly, our stakeholders indicated that it would be helpful to have more clarity still on how the commitment to phase out fossil fuels relates to FMO's vision, strategy and impact ambitions and how the commitment is positioned within the broader Sustainability Policy. In the final Position Statement, we have taken this on board by specially elaborating how our commitment links to our broader impact vision, ambitions, policies and investment strategy. For example, we clarify that FMO has committed to the Energy sector as a [key sector for FMO](#): Financing long-term projects that power economies (SDG 8), promote the transition to a low-carbon system and safeguard energy security at affordable prices for all (SDG7). We acknowledge that renewable alternatives are in many cases the preferred option and that we strive to leapfrog fossil fuels to the use of sustainable energy. To that end, FMO will continue to actively seek direct investment opportunities that support the transition to a low-carbon economy in our countries of operation, focusing on renewable energy and new technological developments. Furthermore, we have strengthened the relationship between fossil fuels and alignment with our

commitments to the Paris Agreement both in the context of the Position Statement and the transition criteria.

FMO has developed a Position Statement vis-à-vis fossil fuels within the boundaries of its existing investment strategy, business model and risk appetite. The Position Statement contains a balanced approach with regards to fossil fuels for energy purposes. Important note here is that this does not imply that we are pursuing new investment strategies, reviewing our risk appetite or business models to investments in sectors and segments already excluded from our investment strategy to maximize our impact.

FMO has further clarified the scope of the final Position Statement on Phasing Out Fossil fuels from Direct investments to provide a comprehensive overview of FMO's considerations and criteria for direct investments³ across the value chain of liquid or gaseous fossil fuels⁴ for energy purposes (see Figure 1). Note that this Position Statement is complementary to our [Position Statement on Coal Power Generation and Coal Mining](#) which was published in 2016.

Figure 1: FMO's position on direct investments in the value chain of liquid and gaseous fossil fuels for energy purposes



Most stakeholders encouraged FMO to take its climate action commitment beyond direct investments by applying fossil fuel exclusions to **indirect investments** through financial intermediaries as well. FMO is currently developing a policy on the financing of fossil fuels through its financial intermediaries (Financial Institutions and Private Equity Funds) and industrial use of fossil fuels.

³ Direct investments are debt and equity transactions directly made to a corporate in the real sector or a project.

⁴ In this position Statement we refer to Fossil fuels as the liquid or gaseous fossil fuels: Heavy Fuel Oil (HFO), Life Cycle Oil (LCO), Liquefied Natural Gas (LNG), Liquefied Petroleum Gas (LPG) and Natural Gas. Coal is addressed in a separate Position Statement.

2.6. Main changes to the final Position Statement

Following the stakeholder consultations, FMO has decided to make the following key changes to the final Position statement:

a) Transition period is limited to five years after publication of the Position Statement

To emphasize FMO's strong commitment to the Paris Agreement and the 1.5-degree pathway and to phase out fossil fuel from its direct investments, we have decided to limit the transition period to five (5) years from the publication date of the Position Statement (e.g. June 1st, 2026 as end date for the signing of any new direct investments in gas-based power projects that meet the transition criteria) to conditionally allow for direct investments in gas-based power generation that meet the set of transition criteria. After this transition period, we will no longer invest in gas-based power generation and review the relevance of the transition criteria for Distributed Energy solutions.

b) Refinement of transition criteria: Further restriction of the country list for allowance of direct investments in gas-based power to low income countries by removing LMICs from the country eligibility list (transition criteria A.II.)

To ensure policy alignment with other Dutch (Multilateral) Development Banking finance and aiming to limit the number of countries where an exception is allowed, we limit the conditional allowance of direct investment in gas-based power to Low Income Countries (LIC) ⁵ and Least Developed Countries (LDC)⁶.

c) Adoption of new transition criteria: Project Paris alignment


To support FMO's alignment with the Paris Agreement, we have included in our transition criteria for gas-based power generation that the *"investment is consistent with the objectives of the Paris Agreement ("Paris-aligned") and with the decarbonization trajectory of the sector or country"* (transition criteria A.IV). FMO will consult publicly available information to consider the role of the investment in relation to national, and if relevant, regional energy transition and decarbonization planning, including government as well as reputable third-party research and opinions.

d) Public disclosure of proposed gas-based power investments under the transition period, including how the transition criteria are met.

In the exceptional case that FMO is planning to invest in gas-based power generation directly during the transition period, FMO will, in line with FMO's client disclosure policy, publicly disclose how the

⁵ FMO uses the [World Bank classification](#)

⁶ FMO will follow the [UN classification](#) of LDCs



project is assessed against the set of transition criteria. This will increase transparency and accountability on the investments FMO is pursuing under the transition period.

2.7. The Position Statement on Phasing out Fossil Fuels in Direct Investments

The Position Statement on Phasing out Fossil Fuels in Direct Investments has been approved for implementation by FMO's Management Board and is published on the website on 1 June 2021⁷.

3. Summary of contributions received

A further elaboration on the key feedback raised by our stakeholders in the consultation together with FMO's response is presented per topic below. We include only those contributions that relate specifically to the scope of this Position Statement in relation to FMO's general investment strategy. Specific questions for clarification and suggestions on the structure, wording and visuals have been considered for an overall review of the final position Statement and will not be discussed in further detail.

3.1. General contributions


Governance of Position Statement

A number of questions have been submitted with regards to the governance of the reviewing process of the Position Statement on phasing out fossil fuels in Direct Investments. As part of the larger Sustainability Policy and Climate Action agenda, FMO will review the relevance of the Position Statement and the criteria regularly. The Position Statement will be updated after the transition period has ended after five years, to reflect that we will no longer invest in gas-based power generation. Furthermore, we will review the relevance of the transition criteria for Distributed Energy solutions and update the Position Statement accordingly.

Ambition

Whilst few stakeholders are asking FMO to raise the ambition level and exclude all fossil fuels (including gas) from its finance immediately, FMO's commitment to phase out fossil fuels from direct investments, and temporarily allowing some exceptions with regards to gas power plants that meet certain criteria, is generally accepted and supported by our stakeholders. We therefore uphold the transition period,

⁷ FMO Position Statements, [Position Statement on Phasing out Fossil Fuels in Direct Investments](#)



considering the environmental impacts of fossil fuels and the impacts on our Paris pathway alignment as well as the need for access to energy to stimulate economic and social development in the regions where we operate. It was indicated by stakeholders that the transition from fossil fuel to electric power/energy should be smoother. FMO therefore puts an emphasis on the support of technological developments. In support of our commitment to the Paris Agreement, we have decided to limit the transition period to five (5) years from the approval date of the Position Statement (e.g. until June 2026).

ESG, Human Rights and community engagement

Some stakeholders have requested FMO to have a clear commitment to deliver on the needs of local communities and to deliver gender-responsive finance as close as possible to local communities as well as a clear commitment to protecting human rights, economic equality, and ensuring that communities are fully consulted. The Position Statement on Phasing Out fossil fuels from Direct Investment is an integral part of FMO's Sustainability Policy Universe. The commitments sought in these comments are addressed by other parts of our Sustainability Policy framework, notably the Sustainability Policy, the Position Statements on Gender, Land Rights and Human Rights that apply to all FMO activities.

Biomass

Some contributors have requested FMO to clearly define FMO's view on **biomass** in this Position Statement. Biomass is one of the elements in our Renewable Energy (RE) Strategy and part of the implementation of our Climate Agenda. It is not included in the scope of this Position Statement on Phasing out Fossil Fuels in Direct Investments. The use of biomass as a fuel is always subject to robust E&S risk management as described in Sustainability Policy. We take a holistic, context specific view to best solution with regards to the supply of sustainable biomass fuels, including, but not limited to, the aspects of deforestation, land use change and competing uses. Where biomass relates to clean cooking, we look at highly efficient cookstoves. However, it must be noted that clean cooking is not a strategic focus for FMO.

Within the further implementation of our climate action agenda, FMO will be exploring opportunities to decarbonize our portfolio. We will explore how we can work with our customers to further limit the end use of fossil fuels within our portfolio. This is likely to cover the large-scale usage of fossil fuel-based electricity, the captive use of fossil fuels by companies and other (industrial) applications of fossil fuels in our portfolio.

3.2. Contributions on transition criteria gas-based power generation



General

Some stakeholders stated that the gas criteria should be applied to all gas investments. We have further clarified in the final Position Statement that FMO will not invest in upstream and mid/downstream gas related activities in the value chain, like exploration, extraction, stand-alone transportation, and stand-alone storage of gas. FMO would only invest in the transport and storage of gas if these involve integrated facilities to a gas-based power plant that meets the transition criteria. In case FMO invests in a T&D project to connect a gas-based power plant to the grid, this plant should meet our transition criteria as well.

It was requested to expand the transition criteria to only invest in gas-based power generation if the natural gas can be sourced domestically, so that the project operators, utilities and states are not locked-in into importing costly LNG. Whilst this is not a hard requirement for FMO, given the higher cost of imported liquified natural gas (LNG) compared to domestic natural gas, unless there is already some infrastructure in place or gas nearby this would not be a realistic scenario.


Country eligibility

To ensure policy alignment with other Dutch (Multilateral) Development Banking finance, aiming to limit the number of countries where an exception is allowed, we further limit the conditional allowance of direct investments in gas-based power generation to low income and least developed countries.

Disclosure of the assessment of the transition criteria

Several stakeholders request FMO to be clear and transparent about the rationale as to why particular investments in gas-based power under the transition criteria would be needed to overcome challenges in terms of access to energy or grid stabilization. They ask FMO to apply a transparent and evidence-based methodology on defining technically and economically viable renewable energy alternatives, better define challenges in terms of access to energy or grid stabilization and take a broader approach to the assessment of alternatives, for example by including upstream emissions and methane leakage considerations and declining costs curves of renewable energy.

To enhance transparency to FMO's stakeholders, FMO will improve its disclosure on gas investments and the underlying investment rationale and transition criteria assessment, in line with FMO's disclosure policy. FMO will include assessments on the available sources that can provide 24 hours of reliable power. Furthermore, FMO will consult publicly available information to consider the role of the investment in relation to the national energy plans, and if relevant, regional energy transition and decarbonization planning, including government as well as reputable third-party research and opinions. We do not look at the full cycle in the alternative assessment. Similarly, we do not consider the emissions in manufacturing batteries or solar panels. This is in line with other (development) investors.



In relation to the cost of renewable energy, we cannot only consider the costs of the renewable energy technology but consider costs of like for like projects. This assessment, in many instances, is part of the integrated resource planning (IRP) and integrated study which it is part of a country energy development plans. When FMO does choose to make an exception for gas this should always be presented with a clear vision of how to transition to renewables in the future. FMO has decided to emphasize the link to Paris Agreement also in the transition criteria, by including the requirement to ensure that a project is Paris-aligned and consistent with the decarbonization trajectory of the sector or country.

Preferred technology


Various stakeholders were under the impression that FMO's Position Statement only proposed combined cycle gas turbines (CCGT) as the allowable technology to ensure flexible, non-intermittent power and requested FMO to extend the means of grid stabilization. It was indicated that given the ramp-up time, the technology is not always suitable or the least emitting technology for rapidly balancing electricity supply and demand. To address these considerations, FMO has added to the criterion A.V.: *"the lowest emission gas generation available is to be chosen, considering sector needs and efficiency rates."* However, should there be a situation where there is a possibility to use combined cycle gas turbines (CCGT), it should be noted that CCGT will remain to be the preferred option to select due to its efficiency and lower emissions.

CO2 intensity

Some stakeholders suggested FMO to adopt a general CO2 intensity threshold in its transition criteria. Technology providers provide emissions for their technology based on a series of specific conditions. Plant emissions can vary depending on the conditions that the plant is working on. FMO has decided to maintain its context-specific approach and focus on the best available technology for the context of that investment.

3.3. Contributions on transition criteria for distributed energy

Fossil fuel share in hybrid solutions: FMO received a few comments on Distributed Energy and its criteria. Stakeholders indicated that the (partial) use of fossil fuels (transition criterion B), including gas is not the best solution for the climate and fails to grasp the opportunity of leapfrogging to new and sustainable energy resources. In addition, some of the stakeholders questioned the level of ambitiousness when maintaining a minority share of <50% and suggested a lower threshold for fossil fuel allowance. FMO has decided to maintain the threshold of <50% use of fossil fuels in hybrid power solutions. We believe that in many instances such as in retrofitting of renewable energy to existing



Distributed Energy systems, we will be contributing to the decarbonization of the sector as well as the displacement of more dangerous fossil fuels. Another important aspect behind this decision is that, as of today, in many instances we cannot provide a 24-hour renewable energy plus battery solution due to different factors (such as available area, solar radiation) and diesel back-up is needed. However, FMO continues exploring the best available technology to decarbonise the sector and will work with its partners to develop the best possible solution.

3.4. Implementation of the Position Statement

Some stakeholders asked for more clarity on how clients will be encouraged to raise their climate ambitions and how FMO will communicate on this Position Statement going forward. The Position Statement will be reflected in our investment process. Where possible, FMO will actively engage with and advise our clients to reduce their exposure to fossil fuel related investments. Through our Capacity Development programme, we can provide technical assistance to explore the potential to reduce the use of fossil fuel in their operations.

Disclosure

Some stakeholder requested clarity about FMO's plans with regards to disclosure of our carbon footprint and action plans. FMO has signed the Dutch Climate Accord. In line with this commitment, we have reported on the carbon footprint of our investments using the Joint Impact Model in the most recent Annual Report over 2020 (published end of March 2021). FMO will announce its climate action plans in line with the Dutch climate agreement and along with the reporting guidelines that will be followed by the Dutch financial sector for this purpose.

4. Annexes

4.1. List of stakeholders

FMO POSITION STATEMENT ON PHASING OUT FOSSIL FUELS FROM DIRECT INVESTMENTS: CONSULTATION CONTRIBUTIONS

Organization	Country	Stakeholder contribution: Consultation / written submission
Karmo Group of Industries	India	Written submission
Individual	The Netherlands	Written submission
Christian Aid	United Kingdom	Written submission
African Clean Energy	The Netherlands	Written submission
Oil Change International	The Netherlands	Consultation of 11 November 2020 Written submission
Finnfund	Finland	Written submission
Van Oord	The Netherlands	Written submission
ActionAid	The Netherlands	Consultation of 6 November 2020 Written submission
Both ENDS	The Netherlands	Consultation of 11 November 2020 Written submission
Bank Information Center	United States of America	Written submission
BankTrack	The Netherlands	Consultation of 11 November 2020 Written submission
Inclusive Development International	United States of America	Written submission
NGO Forum on ADB	Philippines	Written submission
Re-course	United Kingdom	Written submission
Urgewald	Germany	Written submission
Milieudefensie	The Netherlands	Written submission
WO=MEN	The Netherlands	Consultation of 6 November 2020 Written submission
E3G	United Kingdom	Written submission
Lumiere Synergie Pour le Developpement	Senegal	Written submission
Ministry of Foreign Affairs	The Netherlands	Consultation of 16 November 2020
Ministry of Finance	The Netherlands	Consultation of 16 November 2020



Ministry of Economic Affairs	The Netherlands	Consultation of 16 November 2020
European Investment Bank	Luxembourg	Consultation of 23 October 2020
International Finance Corporation	United States of America	Consultation of 23 October 2020
BIO	Belgium	Consultation of 23 October 2020
Atradius	The Netherlands	Consultation of 30 October 2020
Triodos	The Netherlands	Consultation of 30 October 2020
ING Bank	The Netherlands	Consultation of 30 October 2020
Clingendael Energy	The Netherlands	Consultation of 6 November 2020
IUCN NL	The Netherlands	Consultation of 11 November 2020
WWF	The Netherlands	Consultation of 11 November 2020
Swedwatch	Sweden	Written submission
CDC Group	United Kingdom	Individual call
Rabobank	The Netherlands	Individual call