Friends of the Earth's analysis of the U.S. Treasury's "Guidance on Fossil Fuel Energy at the Multilateral Development Banks"

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- The guidance allows for continued US support for **midstream (e.g. transportation) and downstream (e.g. power plants) gas** investments in International Development Association (IDA) countries (currently 74 of the world's poorest countries), Small Island Developing States, and Fragile and Conflict-Affected States, in cases where there are no feasible alternatives through renewable energy/energy efficiency, where it has positive impact on energy security, access or development, and where such lending is "aligned with the Paris Agreement". By failing to set criteria for the required rigor of these analyses, the US could effectively largely be supporting business as usual.

    1. Most of MDB financing currently goes to gas (over 75% in 2020, for example). Without further details being made public and the possibility for alternatives assessment and Paris Alignment criteria to be applied non-rigorously, Oil Change International data shows that up to **40%** of the total fossil fuel finance from MDBs from 2018 to 2020 could continue to be supported by the United States under these new guidelines. This USD 1.6 billion in a year is the amount that went to midstream and downstream gas projects in the "poor and vulnerable developing countries" the U.S. Guidance states they may continue to vote in favour of.
    2. It is worth noting that UN Sustainable Energy for All, an international organization that works to drive faster action towards the achievement of Sustainable Development Goal 7, recommends that "financing of fossil fuel projects as a means of closing the energy access gap should be terminated." The US' own energy research agency, the Energy Information Administration, found that distributed renewable energy systems in rural areas--where most unmet need for energy is-- are more economically viable than building out the transmission systems for fossil power including gas.
    3. The guidance could also conceivably allow for continued US support for **gas exports**, which is mostly in the form of LNG. According to research by the African Development Bank and the IMF, fossil fuel-based economies have been associated with a lower likelihood of democratization and slower growth. Most gas for exports is LNG, and the climate impacts of natural gas get even worse when it is turned into liquefied natural gas (LNG). Gas must be cooled to incredibly low temperatures of about -162 degrees Celsius in order to turn it into a liquid. Ten percent of the natural gas being exported must be used just to power the liquefaction process. The entire process of production, transport, liquefaction, shipping, re-gasification, and power plant combustion is highly

energy – and thus carbon – intensive. The upstream greenhouse gas emissions from LNG are almost double the greenhouse gas emissions of conventional natural gas (even that is probably an underestimate). The liquefaction, transport, and re-gasification process increases the total lifecycle of greenhouse gas emissions from the natural gas industry by 15 percent. The farther the destination is from the source of the natural gas, the higher the emissions, as the gas must be kept cold and shipped for longer distances.

- The guidance FAQ also refers to the possibility of **gas serving as a transition fuel** away from coal in market access countries, despite the science. Gas generates significant life-cycle emissions that make it only marginally less polluting than a coal plant or equally polluting depending on the location. Since methane is a greenhouse gas that is 87 times as potent as carbon dioxide over a 20-year timeframe, methane emissions make both conventional and shale gas worse for the climate than coal. Methane from oil and gas have been underestimated by 25 to 40 percent with satellite observations showing methane leaks to be far more widespread than thought.

- The guidance calls for MDBs to accelerate **coal decommissioning** around the world, but fails to lay out clear principles to avoid new risks and harms that could arise from this process, for example by moving to gas, or by serving to bail out polluters.

- While the guidance calls on the US to oppose **policy-based operations** when policy reforms are targeted towards or are likely to expand fossil fuels, it does not provide details on how this screening will be done. More often than not, proposed policy reforms pushed by MDBs do not explicitly reference fossil fuels, but are more broadly framed as creating enabling investment environments (which often ends up serving fossil fuel development, if these are not explicitly restricted). If screening is not carried out rigorously, the US could conceivably still vote for policy-based operations that enable fossil fuels through reduced tax obligations, higher energy tariffs, expedited permitting, and more.
  Additionally, because the guidance allows the US to vote for MDB budget support operations without any fossil fuel restrictions attached on a "case by case" basis,, the US is leaving intact a massive loophole for fossil fuel financing in the form of non earmarked budget support to countries that can continue to be freely spent on fossil fuels. The World Bank alone spends $10-$20 billion annually on budget support, in other words, up to 40% of its annual spending. This guidance will effectively allow support for harmful projects like mega-LNG development in Mozambique, and oil and gas development in Guyana.

- Another significant loophole, the guidance stipulates that the US will determine its voting position on **financial intermediary (FI) investments** based on how likely FIs are to use

MDB finance towards fossil fuels. However, the lack of disclosure of FI subprojects and investments at MDBs remains a key issue. As an example, the first FI client to pilot the IFC's Green Equity Approach in 2019, Hana Bank Indonesia, went on to finance two of the world's largest new coal power plants without the IFC's awareness. It took civil society discovering this and raising the issue for the IFC to learn about this. The Biden Administration is lobbying hard for MDBs to mobilize private finance for climate action, and the growth of FI portfolios across MDBs reflects this trend. By failing to explicitly oppose investments in FIs that don't disclose all subprojects, have credible fossil fuel phase out plans, and financial agreements that contain an exclusion list including coal, oil and gas, this will remain an ever-growing loophole for continued fossil fuel financing at the MDBs.

- Treasury guidance will allow US support for some **carbon capture utilization and storage** (CCUS). CCUS technology remains costly and unproven at scale, nor is there any internationally agreed safe carbon storage depository with legal liability requirements.

- Missing from this guidance is how the US will use its "voice and vote" in the **International Monetary Fund (IMF)** to ensure its activities are aligned with the Paris Agreement, as Treasury was instructed to do in the January 27 Executive Order on Tackling the Climate Crisis at Home and Abroad. Despite the rhetoric by the IMF in support of a green recovery, the IMF's COVID-19 era loans have failed to boost green recovery policies, and have also called for austerity measures to be implemented once the pandemic crisis subsides, limiting the resources that countries will have to spend on a just and green recovery. In addition, the IMF's policy advice during the Covid-19 pandemic recovery continues to include public incentives for fossil fuel investments. This is a continuation of a troubling history of the IMF propping up fossil fuel expansion and dependency around the world through its lending, surveillance, and capacity building activities. As the largest shareholder in the IMF, the United States government should use its "voice and vote" to move the institution to at a minimum "do no harm", and to help countries transition to renewable, just and prosperous development pathways – not continue to finance and enable harmful, risky and unjust fossil fuel dependency.