

1 Position Statement on Phasing Out Fossil Fuels in Direct 2 Investments

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4 FMO (the Netherlands Development Finance Company) is the Dutch entrepreneurial development
5 bank. Since 1970 we have been a driving force behind investments empowering entrepreneurs in
6 emerging markets. It is our role and mandate to create local prosperity in some of the world's most
7 challenging economies.

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9 This Position Statement is an integral part of the FMO Sustainability Policy framework that steers FMO's
10 activities. The Position Statements explain FMO's choices in relation to major global sustainability
11 issues and further explain how we select investments, work with clients and other stakeholders, and
12 monitor performance. They reflect our objective to apply the highest possible standard of ethics and
13 integrity to our business activities.

14 Fossil fuels

15 We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the
16 planet's resources. To deliver this vision, our investments are designed to create decent work and
17 economic growth (SDG 8), reduce inequality (SDG 10) and mitigate and adapt to climate change (SDG
18 13).

19 Energy is a driver for development and growth. Currently, over 840 million people across the world do
20 not have access to electricity. In line with our ambition to have a portfolio that is aligned with a 1.5-
21 degree pathway, FMO's goal is to support access to affordable, reliable, and low-carbon energy for all.
22 However, insufficient technological development and high costs might hinder the penetration of
23 renewable energy in some developing countries. Fossil fuels are sometimes the only economically and
24 technically viable option to provide affordable and reliable access to energy.

25 Our commitment to SDG 8, SDG 10 and SDG 13 pose dilemmas relevant to our position for direct
26 investment in fossil fuels. We recognize the negative environmental impacts of fossil fuels and at the
27 same time the need for access to energy to stimulate economic development and social inclusion in the
28 regions where we operate. We acknowledge that to contribute to global decarbonization, we must
29 consider our involvement in high-emitting industries, like the energy sector. However, in our strategy
30 and investment decisions, we also need to weigh the impact on the various SDGs to ensure that we
31 strike the right balance.

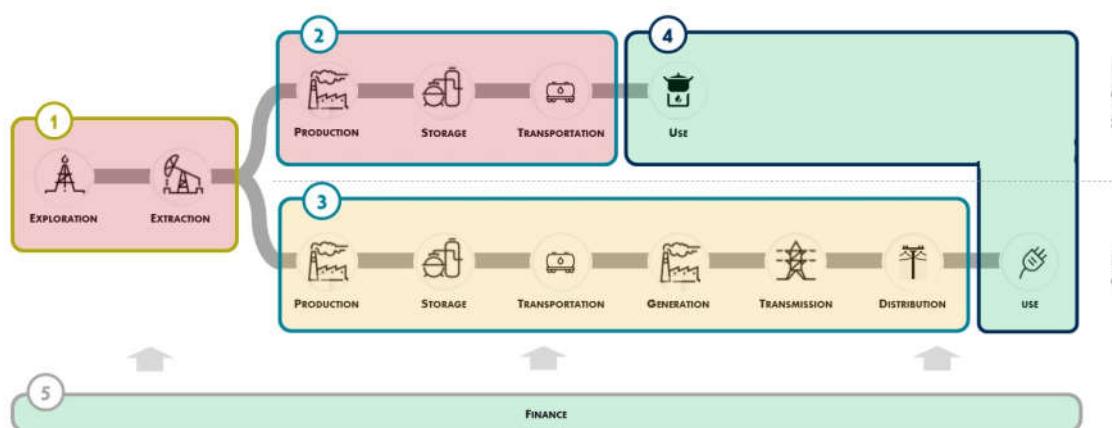
32 This Position Statement on Fossil Fuels in Direct Investments sets out FMO's firm commitment to phase
33 out fossil fuels in direct investments from its portfolio. We will stop with direct investments in upstream
34 fossil fuel activities, fossil fuel powered energy and only conditionally allow for new direct investments
35 in gas-based power generation and distributed energy under restrictive transition conditions. The
36 Position Statement is intended to provide a comprehensive overview of FMO's considerations and
37 investment criteria in liquid or gaseous fossil fuels¹ across the value chain (see Figure 1).

38 Note that this Position Statement on Fossil Fuels in Direct Investments is complementary to our Position
39 Statement on Coal Power Generation and Coal Mining which was published in 2016. That document
40 states that FMO excludes direct investments in coal power generation and coal mining, and limits
41 indirect financing to financial institutions that provide loans to coal-fired power projects, coal mines and
42 dedicated thermal coal transport/infrastructure to a maximum threshold of 20% of their total balance
43 sheet or total investment portfolio. For this Position Statement, references to "fossil fuels" exclude coal.

¹ Fossil fuels include Heavy Fuel Oil (HFO), Life Cycle Oil (LCO), Liquefied Natural Gas (LNG), Liquefied Petroleum Gas (LPG) and Natural Gas.

44 FMO's choices

45 *Figure 1: Fossil fuels value chain and FMO's position on liquid and gaseous fossil fuels in direct*
46 *investments*



Legend:

47 ■ Upstream ■ Mid/downstream ■ End-use ■ Indirect ■ Strict exclusion ■ Phased approach ■ No restriction yet

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49 Following the above considerations, we apply the following investment criteria to investments in the
50 fossil fuels value chain as described in Figure 1:

51 1) *Fossil fuels upstream*: direct financing of the exploration and extraction of fossil fuels. **No direct**
52 **investment allowed.**

53 2) *Fossil fuels mid/downstream for non-power generation*: direct financing of the production, storage
54 and transportation of fossil fuels for non-power generation. **No direct investment allowed.**

55 3) *Fossil fuels mid/downstream for power generation*: direct financing of the production, storage,
56 transportation of fossil fuels, and of the generation, transmission and distribution (T&D) of electricity
57 using these fossil fuels (see Figure 2).

- 58 • **No direct investment allowed in HFO/LCO projects allowed.**
- 59 • **No direct investments in transmission used to connect new or stranded HFO/LCO**
- 60 **generating capacity allowed.**
- 61 • **FMO allows conditional investment in gas-based power generation, distributed**
- 62 **energy, and T&D during a transition period.**

63

64 Transition period: In many developing countries there is no economically and technically viable
65 renewable energy alternative to ensure flexible non-intermittent power. We believe that fossil fuels
66 are at times required to build a reliable electricity sector and to improve the access to energy in
67 these countries. A transition period allows for technological developments and improved market
68 readiness for renewables and technology enablers (e.g. batteries).

69

70 **Gas-based power generation**

71 Transition criteria 1: The country of investment is a Least Developed Countries (LDCs²) or Sub
72 Saharan African countries classified as LIC or LMIC³; and

73 Transition criteria 2: There is no economically and technically viable renewable energy alternative
74 to ensure flexible non-intermittent power; and

75 Transition criteria 3: The country of investment faces challenges in terms of access to energy or
76 grid stabilisation (management of demand, intermittent generation, and the peak); and

² FMO will follow the [UN classification](#) of LDCs

³ FMO uses the [World Bank classification](#)

77 Transition criteria 4: Combined cycle gas turbines (CCGTs) are the only technological option
78 allowed.

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80 **Distributed energy**

81 Transition criteria 5: We require a minority share (<50%) of power generation from fossil fuels in
82 hybrid systems (the remaining being from renewable energies and batteries) for direct investment
83 in distributed energy (off grid, mini grid, and C&I hybrid solutions). The majority of “expected”
84 generation should come from renewables (i.e. actual wind solar production may differ per year
85 based actual wind and sun hours).

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87 **Transmission and distribution (T&D)**

88 Transition criteria 6: No direct investments in transmission used to connect new or stranded
89 generating capacity based 100% on HFO/LCO.

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91 NB. FMO can invest in new or existing T&D or T&D linked to 100% gas-based power generation.
92 In the countries where we operate, investment in T&D will make the grid more stable and efficient,
93 reducing losses and contributing to less greenhouse gas (GHG) per distributed KWh.

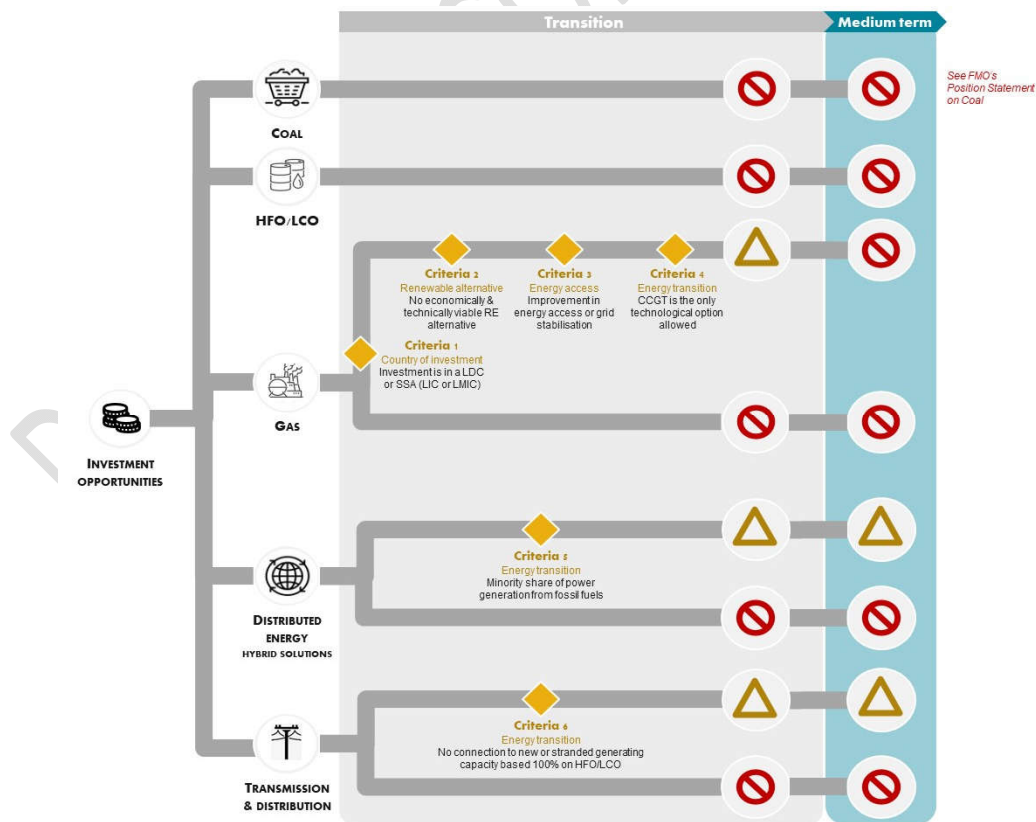
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95 4) *Fossil fuel-based energy end-use phase*: direct financing of the activities that involve the use of
96 fossil fuel-based energy (power generation and non-power generation (i.e. cooking)). **No**
97 **restrictions apply.**

98 5) *Indirect investments in fossil fuel for power generation*: indirect financing of the fossil fuel related
99 activities described above through financial intermediaries such as banks and private equity funds.
100 **Indirect investments in fossil fuels are not considered in this Position Statement.**

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102 *Figure 2: FMO's investment criteria for fossil fuel-based power generation*



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104

105 Implementation

106 This Position Statement will be reflected in our Exclusion List and Investment Criteria.

107 In our day-to-day activities, we commit to:

- 108 — Encouraging clients to raise their climate ambitions, explore alternatives to fossil fuels and plan
- 109 for the energy transition.
- 110 — Engaging with our stakeholders on climate action, access to energy and fossil fuels.
- 111 — Supporting continuous improvement in low-carbon technology development.
- 112 — Communicating transparently about our activities and our portfolio's carbon footprint.

113 FMO will closely follow economic development in the countries where we invest and technological
114 developments in the energy sector. We will review the relevance of this Position Statement regularly,
115 including its thresholds and criteria.

116 Feedback

117 We welcome feedback on our Position Statements. Please contact us at consultation@fmo.nl

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