Combined Position Statement on Fossil Fuels
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Introduction to the Combined Position Statement on Fossil Fuels

FMO believes in a world, in which by 2050, more than 9 billion people live well and within planetary boundaries. To deliver this long-term vision, we aim to maximize our impact on the SDGs by supporting inclusive and sustainable economic growth and reducing inequalities — both of which are conducive to reducing poverty — while being consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

We made a pledge to support the Paris Climate Agreement and to reach ‘net zero’ portfolio by 2050. Towards 2030, while balancing the need for a just and inclusive transition, and specific circumstances of our countries and sectors, we will support customers’ increased alignment with the Paris goals from both a mitigation and resilience perspective, and strive to align both new transactions and our portfolio with a 1.5°C pathway. At the same time, we have also committed to promote the transition to a low-carbon system and safeguard energy security at affordable prices, in line with SDG 7 (Affordable and Clean Energy).

In support of our longstanding commitment to Climate Action, FMO has developed and published various policy documents to explain FMO’s choices vis-à-vis the phasing out of fossil fuels from our portfolio.

In 2015, FMO announced it would exclude any further investment in coal-based power generation and/or coal mining activities and set a portfolio cap for our indirect activities. In January 2017, FMO published our Position Statement on Coal Power Generation and Mining confirming that commitment. In 2020, FMO committed to the EDFI Climate and Energy statement, which references the EDFI Harmonized Fossil Fuel exclusions. This document lists various fossil fuel related activities which the EDFI members have agreed to exclude from both their direct investments (debt and equity), as well as from indirect investments in Private Equity Funds and dedicated debt in Financial Institutions. Lastly, in 2021, FMO published the Position Statement on Phasing Out Fossil Fuels from Direct investments, which complemented the Position Statement on Coal Power Generation and Coal Mining. Here, we excluded further direct investment in upstream or mid-stream stand-alone fossil fuel related activities beyond Coal. We also committed to phase out direct investments in integrated mid/down-stream fossil fuel activities for power generation. For this, we allowed a transition period of five years, with strict transition criteria for any proposed investment that is critical to safeguard energy security at affordable prices. In 2022, FMO performed a technical update to the two FMO Position Statements to correctly reflect all our commitments to Climate Action (SDG 10). This also resulted in new names for the documents, reflecting the scope expansion.

This document combines the two updated Position Statements (Position Statement on Coal and Position Statement on Phasing Out Fossil Fuels from our Investments) to reflect our comprehensive approach to phase out Fossil Fuels from our portfolio, both direct and indirect.
Feedback

“The Position Statement on Phasing out Fossil Fuels for Direct Investments” has been approved for implementation by FMO’s Management Board on 23 March 2021, is in effect as of June 2021, and has most recently been updated in December 2022. As per December 2022 FMO renamed it to “Position Statement on Phasing Out Fossil Fuel from Our Investments” to reflect the broader scope of application.
Position Statement on Coal

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

This Position Statement is an integral part of the FMO Sustainability Policy framework that steers FMO’s activities. The Position Statements explain FMO’s choices in relation to major global sustainability issues and further explain how we select investments, work with 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.

Scope

For the purpose of this Position Statement, the definition of “Coal” includes both “Thermal Coal” used for power and heat generation and “Metallurgical Coal”, as used for the production of steel. The Position Statement is applicable to FMO’s direct and indirect investments.

Coal applications

Coal is a widely used fuel to produce electricity and heat. On a much smaller scale coal is also used to produce gaseous and liquid fuels, through gasification and liquefaction. Furthermore, coal is used to produce coke (or metallurgical coal), which is an important input to produce steel out of iron ore.

Significant negative impacts are related to various stages in the Coal use value chain, such as:

- Coal-based power and heat production is a significant source of greenhouse gas emissions. Until date there are no realistic commercially available solutions for capture and storage of the released greenhouse gas.
- Because of its carbon-intensity, but also because of all the energy needed for mining, processing and transporting coal, it produces the highest greenhouse gas emission per unit of energy produced, in comparison to other fossil fuels.
- During combustion, but also at other stages in the value chain, coal causes many other significant safety hazards and negative impacts to health and the environment.
- Taking into account the associated costs of these negative impacts and risks, coal cannot be regarded the cheap source of energy it appears to be, but rather a very expensive one. If these costs would be internalized when calculating economic performance, many countries would show a negative growth for many years.
In light of these impacts, the International Energy Agency states that in order to reach Net Zero by 2050, as of 2021, no new coal mines or mine extensions are required and that unabated coal demand should decline by 98% to just less than 1% of total energy use in 2050\(^1\).

**FMO’s choices**

To take on Climate Action (SDG 13), FMO is committed to the goals of the Paris Agreement and to reach Net-Zero by 2050\(^2\) through a just and inclusive transition. We recognize the challenges this poses across sectors and countries, but also see opportunities. We will engage with our customers and help them move towards a sustainable climate pathway. We will build up a portfolio that supports mitigation, adaptation and resilience, and biodiversity to achieve our ambitions.

With regards to Coal specifically, FMO recognizes the negative impacts of Coal-based energy production and Coal mining. FMO believes there is no adequate mitigation for the main negative impacts mentioned above. Furthermore, alternative cost-efficient energy sources are generally available.

**Direct Investments**

Given the above considerations, FMO will not directly finance\(^3\):

- Any upstream Coal activities such as Coal prospection, exploration, mining or processing.
- Any production, storage and transportation activities of Coal (including transport facilities primarily being built for coal transportation).
- Any power generation plant based on Thermal Coal that delivers electricity to the grid\(^4\) (including co-generation and multiple-fuel installations).
- Associated facilities (such as dedicated Transmission and Distribution lines connecting a Coal fired power plant (including cogeneration and multiple fuel installations) to the grid).
- New infrastructure or any business with planned or expected expansion of infrastructure for the use of Coal for captive power and/or heat generation\(^5\).

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\(^2\) Net zero in 2050 means we will aim to reduce our portfolio’s absolute emissions by striving to align our portfolio emissions with 1.5 degree country or sector specific pathways and increasing our carbon removals investment portfolio (primarily forestry) so that at 2050, our portfolio emissions are at net zero. For more information, see our Climate Action Plan.

\(^3\) This is in line with EDFI Harmonized Fossil Fuel Exclusions and maintains and strengthens FMOs commitment to stop financing Coal from 2015.

\(^4\) For the avoidance of doubt, this includes corporates that generate coal-based power to deliver to the grid. We may extend (ringfenced) finance to the corporate’s core activities.

\(^5\) This does not apply to Coal used to initiate chemical reactions (e.g. metallurgical coal mixed with iron ore to produce iron and steel) or as an ingredient mixed with other materials, given the lack of feasible and commercially viable alternatives.
Indirect Investments

With respect to FMO’s indirect financing, FMO can invest in Private Equity Funds or provide loans to banks and non-bank Financial Institutions that provide loans to, or invest in Coal-fired power projects, Coal mines and dedicated Thermal Coal transport/infrastructure, to a maximum threshold of 20% of the Financial Intermediary’s total balance sheet or total investment portfolio. In addition, the following Coal-related activities are excluded from new investments by new FMOs Private Equity Funds and new dedicated lending (with a use of proceeds) through Financial Institutions:

- any upstream Coal activities such as Coal prospection, exploration, mining or processing.
- Transport and related infrastructure primarily used for Thermal Coal for power generation.
- Construction of any new, or refurbishment of any existing, Coal-fired power plant delivering to the grid (including co-generation and multiple-fuel installations).
- Any business with planned expansion of captive Coal infrastructure used for power and/or heat generation.

Implementation

FMO has embedded this Position Statement in its investment process. Furthermore, in our day-to-day activities, we commit to:

- Continuing our focus on low carbon investment opportunities, such as Renewable Energy.
- Supporting the continuous development and innovation of low-carbon technologies.
- Continuing to apply FMO’s Impact and ESG risk management framework, as laid out in our Sustainability Policy and underlying Position Statements, to our investments.
- Ensuring that our investments are in line with FMO’s commitment to reach ‘net zero’ portfolio by 2050.
- Encouraging our customers to raise their climate ambitions, explore alternatives to fossil fuels and plan for the energy transition, this may also include support from our Capacity Development program.
- Supporting our clients in their assessment of climate risk, both physical and transition risk.
- Communicating transparently about our activities and our portfolio’s carbon footprint.

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6 This cap applies to Private Equity Funds only in the case the investments have been made prior to FMOs investment
7 In line with Harmonized EDFI Fossil Fuel Exclusion List, to be fully effective per June 2023.
8 “Primarily” means more than 50% of the infrastructure’s handled tonnage.
9 This does not apply to Coal used to initiate chemical reactions (e.g. metallurgical coal mixed with iron ore to produce iron and steel) or as an ingredient mixed with other materials, given the lack of feasible and commercially viable alternatives.
Position Statement on Phasing Out Fossil Fuels from Our Investments

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

This Position Statement is an integral part of the FMO Sustainability Policy framework that steers FMO’s activities. The Position Statements explain FMO’s choices in relation to major global sustainability issues and further explain how we select investments, work with 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.

Scope

The Position Statement on phasing out Fossil Fuels in Direct Investments is intended to provide a comprehensive overview of FMO’s considerations and criteria for direct\textsuperscript{10} and indirect\textsuperscript{11} investments across the value chain of liquid or gaseous fossil fuels\textsuperscript{12} for energy purposes (see Figure 1). Note that this Position Statement is complementary to our Position Statement on Coal which was first published in 2017.

FMO’s Vision

FMO believes in a world, in which by 2050, more than 9 billion people live well and within planetary boundaries. Our contribution focuses on three SDGs that we can most impact through our financing of the private sector in emerging markets: Decent Jobs and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13). We want to maximize our impact and work closely with our partners to achieve this. We are committed to the goals of the Paris Climate Agreement and to reach ‘net zero’ portfolio by 2050. Towards 2030, while balancing the need for a just and inclusive transition, and specific circumstances of our countries and sectors, we will support customers’ increased alignment with the Paris goals from both a mitigation and resilience perspective and strive to align both new transactions and our portfolio with a 1.5°C pathway. At the same time, we have also committed to promote the transition to a low-carbon system and safeguard energy security at affordable prices, in line with SDG 7 (Affordable and Clean Energy).

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\textsuperscript{10} Direct investments are debt and equity transactions directly made to a corporate in the real sector or a project.

\textsuperscript{11} Indirect investments are debt and equity transactions to Financial Intermediaries who will on-lend or invest FMOs funds into the real sector or a project.

\textsuperscript{12} In this position Statement we refer to Fossil fuels as the liquid or gaseous fossil fuels in various stages: Crude Oil, Light Crude Oil (LCO), Heavy Fuel Oil (HFO), Liquefied Natural Gas (LNG), Liquefied Petroleum Gas (LPG) and Natural Gas. For the avoidance of doubt, Diesel is included in HFO/LCO products. (Thermal) Coal is addressed in a separate Position Statement.
**Fossil Fuels**

The Paris Agreement seeks to strengthen the global response to climate change, reaffirming the goal of limiting global temperature increase to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degrees Celsius. To achieve this temperature goal, the countries that adopted the agreement committed to aim to reach global peaking of greenhouse gas emissions (GHGs) as soon as possible, and to achieve a climate neutral world by 2050.13

This Position Statement on Phasing Out Fossil Fuels in Direct Investments complements our strategy to support the energy transition. To contribute to limit GHG emissions and further reduce fossil fuel investments, *FMO will no longer invest directly in upstream or mid-stream stand-alone fossil fuel related activities. We will phase out direct investments in integrated mid/down-stream fossil fuel activities for power generation. For this, we allow a transition period of five years14, whereby only under exceptional circumstances, we will directly finance gas-based and distributed power projects that are critical to safeguard energy security at affordable prices, and which meet a 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 (see Figure 1). Furthermore, we will actively support the development of the technological solutions that are necessary to complete the transition to a low-carbon system.*

In our indirect activities, FMO aligns its approach with the EDFI Harmonized Fossil Fuel Exclusions and excludes certain specific fossil fuel related activities from new investments by our Private Equity Funds and from on-lending with dedicated debt by Financial Institutions.

**FMO's choices**

Energy is a driver for development and growth. Currently, over 840 million people across the world do not have access to electricity. *Energy is one of the key sectors for FMO, financing long-term projects which power economies (SDG 8), promote the transition to a low-carbon system and safeguard energy security at affordable prices for all (SDG7).*

In recent years, renewable energy technologies have emerged as an economically attractive energy source in most parts of the world. There are also rapid developments in technologies like battery storage, demand side response, and hydrogen, which will eventually allow for the use of green energy alternatives in most applications, and which will largely replace fossil fuels. *As a priority, FMO will continue to actively seek direct and indirect investment opportunities that will support the transition to a low-carbon economy in its countries of operation, focusing on renewable energy and new technological developments.*

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14 June 1st, 2026 as end date for the signing of any new direct investments in gas-based power projects that meet the transition criteria.

Position Statement on Phasing Out Fossil Fuels from Investments: Published in June 2021, latest update in December 2022
Direct Investments

In many markets where FMO operates, as part of the energy transition from fossil fuel to renewable based systems, and due to the lack of economically and technically viable renewable energy alternatives, some fossil fuel investments are still required to ensure flexible, non-intermittent power for the national grid or for distributed energy systems. The purpose of such investments is to build a reliable electricity sector and to improve the access to energy in these countries. However, we believe that it is only a matter of time until technological developments and improved market readiness for renewables and technology enablers (e.g., batteries) will allow a full phase-out of fossil fuels, and therefore, we consider this to be a transition period. *FMO applies a transition period, in which it considers access to reliable energy needs as a legitimate reason to exceptionally allow for direct investments in A) gas-based power generation and their associated facilities (including integrated transport and storage), B) distributed energy solutions, and C) Transmission & Distribution (T&D) directly connecting the new gas generation projects, when a set of transition criteria (set out below) have been met.*

*In the exceptional case that FMO is planning to invest in gas-based power generation directly, FMO will, in line with FMO’s disclosure policy, publicly disclose how the project is assessed against the set of transition criteria.*

Indirect Investments

FMO considers its Financial Intermediary customers and investees key partners to create inclusive and sustainable prosperity. A healthy financial sector and accessible finance are cornerstones of a strong economy and private sector enabling entrepreneurs, stimulating economic growth and job creation. Our Financial Intermediary customers and investees are also instrumental for FMO to reach our Climate ambitions.

FMO seeks to invest in Clean Energy Funds to support the transition to a low-carbon economy and safeguard energy security at affordable prices for all (SDG7).

FMO will increasingly aim to have a ‘transformative’ impact on customers through a strategic approach including the development of product propositions, capabilities, and related financing with the goal of having the same effect on end beneficiaries. FMO supports its Financial Intermediaries customers on their Green Finance journey with both Green credit lines and Green guarantees that contribute to SDG 13 objectives for on-lending towards and risk-sharing of eligible Green clients and investment opportunities. Furthermore, we aim to provide support in the form of dedicated Technical Assistance towards building their Green Finance capacity.

*Moreover, FMO has excluded specific Fossil Fuel related activities (see table 1 below) throughout the full value chain from new investments by Private Equity Funds FMO has*  

15 See our Green Methodology for the Green Eligibility criteria
invested in, and from on-lending by Financial Institutions under FMO credit lines that have a dedicated use of proceeds for on-lending.

For our general debt transactions with Financial Institutions, we do not apply any investment restrictions with respect to Fossil Fuels that go beyond the restrictions formulated in the Position Statement on Coal. In the continuous engagements with our customers, we aim to explore opportunities for collaboration on their Green and Climate Action journey towards Paris alignment.

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

Following the above considerations, we apply the following criteria to investments in liquid and gaseous fossil fuels as described in Figure 1:

<table>
<thead>
<tr>
<th>Fossil fuel value chain</th>
<th>Type of investment</th>
<th>Description</th>
<th>Direct Investments</th>
<th>5) Indirect Investment: Private Equity Funds and dedicated debt in Financial Institutions</th>
<th>6) Indirect Investment: General credit lines in Financial Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fossil fuels upstream</td>
<td>Exploration and Extraction</td>
<td>Direct financing of the exploration and extraction of fossil fuels.</td>
<td>No direct investment allowed</td>
<td>No new investments allowed in: - Oil exploration or production - Standalone fossil gas exploration and/or production</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
<tr>
<td>Fossil fuels mid/downstream</td>
<td>Production, Storage and Transportation</td>
<td>Direct financing of the production, storage, and transportation of fossil fuels for non-power generation (including transport facilities primarily being built for fossil fuel transportation).</td>
<td>No direct investment allowed</td>
<td>No new investments allowed in: - Crude Oil Pipelines - Oil Refineries</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
<tr>
<td>Fossil fuels mid/downstream for power generation</td>
<td>Production, Storage and Transportation</td>
<td>Direct financing of the production, storage, and transportation of fossil fuels for power generation, including transport facilities primarily being built for fossil fuel transportation.</td>
<td>No direct investment allowed</td>
<td>No new investments allowed in: - Crude Oil Pipelines - Oil Refineries</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
<tr>
<td>3a Power Generation</td>
<td>Power Generation</td>
<td>Direct financing of the generation of electricity using HFO/LCO, and their associated facilities (including integrated transport and storage).</td>
<td>No direct investment allowed</td>
<td>No new investments allowed in: - Construction of new or refurbishment of any existing HFO-only or diesel-only power plant producing energy for the public grid and leading to an increase of absolute CO2 emissions</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Direct financing of the generation of electricity using Gas, and their associated facilities (including integrated transport and storage).</td>
<td>Must meet Transition Criteria A (see below)</td>
<td>No restrictions</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
</tbody>
</table>

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16 Gas extraction from limnically active lakes is excepted from this exclusion.

17 For indirect equity through investment funds, investments (up to a maximum of 20% of the fund) in new or existing HFO-only or diesel-only power plants are allowed in countries that face challenges in terms of access to energy and under the condition that there is no economically and technically viable gas or renewable energy alternative.

18 I.e. where energy efficiency measures do not compensate any capacity or load factor increase.
<table>
<thead>
<tr>
<th>3c</th>
<th>Transmission &amp; Distribution</th>
<th>Direct financing of Distributed Energy solutions.</th>
<th>Must meet Transition Criteria B (see below)</th>
<th>No restrictions</th>
<th>For investment restrictions see Position Statement on Coal</th>
</tr>
</thead>
<tbody>
<tr>
<td>3c</td>
<td>Transmission &amp; Distribution</td>
<td>Direct financing of Transmission infrastructure used to connect generating capacity based 100% on HFO/LCO.</td>
<td>No direct investment allowed</td>
<td>No restrictions</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
<tr>
<td>3c</td>
<td>Transmission &amp; Distribution</td>
<td>Direct financing of Transmission infrastructure used to connect generation capacity based 100% on gas.</td>
<td>Must meet Transition Criteria C (see below)</td>
<td>No restrictions</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
<tr>
<td>3c</td>
<td>Transmission &amp; Distribution</td>
<td>Direct financing of expansion and/or upgrade of Transmission &amp; Distribution networks (not directly connecting generation capacity to the grid).</td>
<td>No restrictions for direct investments</td>
<td>No restrictions</td>
<td>For investment restrictions see Position Statement on Coal</td>
</tr>
<tr>
<td>Fossil fuel-based energy end-use phase</td>
<td>4</td>
<td>End-use</td>
<td>Direct financing of activities that use fossil fuel-based energy for power generation and non-power applications (i.e., clean cooking and home heating).</td>
<td>No restrictions for direct investments</td>
<td>No restrictions</td>
</tr>
</tbody>
</table>
A. Transition Criteria for Gas-based power generation (figure 1, section 3b)

A.i. The country of investment faces challenges in terms of access to energy, access reliability or grid stabilisation (e.g., management of demand, intermittent generation, ancillary services, or the peak); AND

A.ii. The country of investment is a Least Developed Country (LDCs\(^{19}\)) or Sub-Saharan African country classified as Low-Income Country (LIC)\(^{20}\); AND

A.iii. There is no economically and technically viable renewable energy alternative to ensure flexible non-intermittent power; AND

A.iv. The investment is consistent with the objectives of the Paris Agreement (“Paris-aligned”) and with the decarbonization trajectory of the sector or country\(^{21}\); AND

A.v. The lowest emission gas generation technology available is to be chosen, considering sector needs and efficiency rates. Note that, when possible, combined cycle gas turbines (CCGTs) will be the preferred option, due to their efficiency.

B. Transition Criteria for Distributed Energy (figure 1, section 3b)

B.i. For direct investments in distributed power generation solutions (off-grid, mini-grid, and commercial & industrial (C&I) hybrid), we require a minority share (<50%) of power generation to be from fossil fuels, the remaining being from renewable energies and batteries. The majority of “expected” generation should come from renewables (i.e., actual wind solar production may differ per year based actual wind and sun hours). We encourage customers to transition to renewable alternatives for direct investments in industrial distributed energy solutions for non-power purposes.

C. Transition Criteria for Transmission & Distribution (T&D) (figure 1, section 3c)

C.i. FMO may invest in new or existing transmission lines that are necessary to link 100% gas-based power generation (which meets the transition criteria A for gas-based power generation, as per above) to the electricity grid.

Implementation

This Position Statement will be reflected in our investment process. In our day-to-day activities, we commit to:

- Continuing our focus on low carbon investment opportunities, such as Renewable Energy.
- Supporting the continuous development and innovation of low-carbon technologies.
- Ensuring that our investments are in line with FMO’s commitment to reach ‘net zero’ portfolio by 2050.
- Continuing to apply FMO’s Impact and ESG risk management framework, as laid out in our Sustainability Policy and underlying Position Statements, to our investments.

\(^{19}\) FMO will follow the UN classification of Least Developed Countries (LDCs)

\(^{20}\) FMO uses the World Bank classification

\(^{21}\) 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.
- Encouraging our customers to raise their climate ambitions, explore alternatives to fossil fuels and plan for the energy transition, including with support from our Capacity Development program.
- Supporting our clients in their assessment of climate risk, both physical and transition risk.
- Communicating transparently about our activities, our planned investments that meet the transition criteria and our portfolio's carbon footprint.
- FMO will closely follow economic development in the countries where we invest and technological developments in the energy sector. We will review the relevance of this Position Statement regularly, including its thresholds and criteria.