

Position Statement on Phasing Out Fossil Fuels in Direct 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 clients 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 investments¹ across the value chain of liquid or gaseous fossil fuels² 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.

FMO's Vision

FMO believes in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. To [deliver this long-term vision](#), our investments are designed to [contribute to the United Nations Sustainable Development Goals \(SDGs\)](#), specifically to create decent work and economic growth (SDG 8), reduce inequality (SDG 10), and mitigate and adapt to climate change (SDG 13). To contribute to the latter, [we made a pledge to support the Paris Climate Agreement](#) and committed to a portfolio which is aligned with a 1.5-degree Celsius 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).

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 2050.³

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 years⁴, 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*

¹ Direct investments are debt and equity transactions directly made to a corporate in the real sector or a project.

² 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.

³ [The Paris Agreement | UNFCCC](#).

⁴ June 1st, 2026 as end date for the signing of any new direct investments in gas-based power projects that meet the transition criteria.

support the development of the technological solutions that are necessary to complete the transition to a low-carbon system.

FMO’s choices

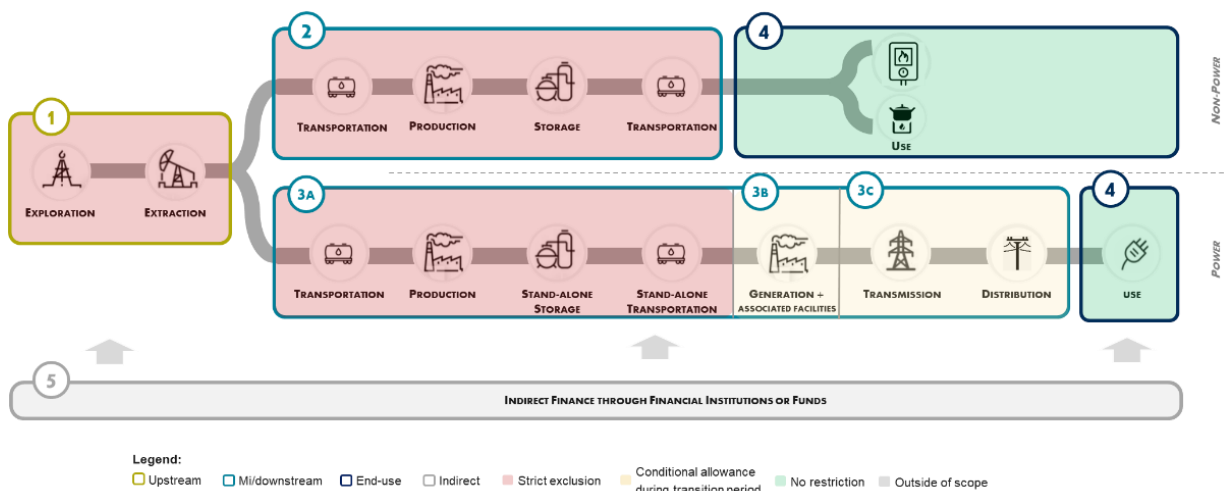
Energy is a driver for development and growth. Currently, over 840 million people across the world do not have access to electricity. Energy is one of the [key sectors for FMO](#), financing long-term projects which power economies (SDG 8), promote the transition to a low-carbon system and safeguard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

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.

Figure 1: FMO’s position on direct 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:

Fossil fuel value chain	#	Type of investment	Description	Investment Restrictions		
Fossil fuels upstream	1	Exploration and Extraction	Direct financing of the exploration and extraction of fossil fuels.	No direct investment allowed		
Fossil fuels mid/downstream	2	Production, Storage and Transportation	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).	No direct investment allowed		
Fossil fuels mid/downstream for power generation	3a	Production, Storage and Transportation	Direct financing of the production, storage, and transportation of fossil fuels for power generation , including transport facilities primarily being built for fossil fuel transportation.	No direct investment allowed		
			Direct financing of the generation of electricity using HFO/LCO , and their associated facilities (including integrated transport and storage).	No direct investment allowed		
			Direct financing of the generation of electricity using Gas , and their associated facilities (including integrated transport and storage).	Must meet Transition Criteria A (see below)		
	3b	Power Generation	Direct financing of Distributed Energy solutions .	Must meet Transition Criteria B (see below)		
			3c	Transmission & Distribution	Direct financing of Transmission infrastructure used to connect new or stranded generating capacity based 100% on HFO/LCO .	No direct investment allowed
					Direct financing of Transmission infrastructure used to connect new generation capacity based 100% on gas .	Must meet Transition Criteria C (see below)
		Direct financing of expansion and/or upgrade of Transmission & Distribution networks (not directly connecting generation capacity to the grid).	No restrictions for direct investments			
Fossil fuel-based energy end-use phase	4	End-use	Direct financing of activities that use fossil fuel-based energy for power generation and non-power applications (i.e., clean cooking and home heating).	No restrictions for direct investments		
Indirect /Intermediary Finance	5	All	Indirect financing of the fossil fuel related activities described above through financial intermediaries such as Financial Institutions and Private Equity Funds .	Indirect investments in fossil fuels are not considered in this Position Statement		

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 (LDCs⁵) or Sub-Saharan African country classified as Low-Income Country (LIC)⁶; 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 country⁷; 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)

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 clients 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)

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 align its portfolio with a 1.5-degree pathway.
- 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.
- 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 programme.
- Engaging with our stakeholders on climate action, access to energy and fossil fuels.
- 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.

Feedback

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

⁵ FMO will follow the [UN classification](#) of Least Developed Countries (LDCs)

⁶ FMO uses the [World Bank classification](#)

⁷ 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.