From Glasgow to Guiding Action

Ruling out Fossil Fuels at the Multilateral Development Banks - Implications of the Glasgow Statement for the Clean Energy Transition

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Imprint

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December 2022

This publication can be downloaded at:
www.germanwatch.org/en/87614
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1 Background

As a result of the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) 26 in Glasgow, 34 countries and 5 public finance institutions have pledged to end international public finance for the unabated fossil fuel energy sector by the end of 2022.\(^1\) As the first international commitment to include not only coal, but also oil and gas, the Glasgow Statement explicitly extends to signatories’ capital invested in multilateral development banks (MDBs).\(^2\) The potential and goal of the Glasgow Statement is to redirect $28 billion towards a clean and just energy transition every year if the commitments are met.\(^3\) In this policy brief, we assess the current state of implementation by the signatories with regards to their financing via MDBs in the context of COP27 in Sharm-el Sheikh – which also represents the deadline for additional pledges to be made under the Glasgow Statement.

In 2017, MDBs committed to align their financial flows with the Paris Agreement. In 2018, they identified six building blocks as core areas for alignment, among them “Alignment with mitigation goals.”\(^4\) Ending support for fossil fuels is one of the most important aspects of mitigation. But an analysis of nine major MDBs shows that, apart from the European Investment Bank (EIB), MDBs have not aligned their fossil fuel exclusion policies to the Paris Agreement.\(^5\) With a few limited exceptions, the EIB has been phasing out unabated fossil fuel investments since the end of 2021. It fully excludes coal and upstream oil and gas. The Asian Development Bank (ADB), African Development Bank (AFDB), European Bank for Reconstruction and Development (EBRD), the World Bank Group (WBG), and the Inter-American Development Bank (IDB) show some progress in terms of Paris alignment; they have exclusion policies on (almost) all coal financing and upstream oil and gas investments, but not on downstream oil and gas investments. The Asian Infrastructure Investment Bank (AIIB) and the Islamic Development Bank (IsDB) are completely unaligned, given that both lack comprehensive exclusion policies for coal as well as upstream and downstream oil and gas investments. With the exception of the EIB, no major MDB has signed the Glasgow Statement.

Between 2019 and 2021, MDBs provided an average of $4.6 billion annually for fossil fuel projects, with the biggest investor being the WBG with $1.4 billion annually.\(^6\) Although this was a significant decrease compared to the average of $11.4 billion per year between 2013 and 2018,\(^7\) multilateral investment in fossil fuel energy projects will remain a problem given the absence of effective and comprehensive fossil fuel exclusion policies.

The continued aggravation of the climate crisis by MDBs highlights the importance of ambitious shareholder action to hold MDBs accountable for their Paris alignment commitments. The signatories to the Glasgow Statement have not only pledged to encourage other governments and institutions to join; by acknowledging that their Glasgow commitment “will also guide our approach on the boards of multilateral development banks”, they have committed to use their voice and vote as shareholders to prevent further MDB investments in the unabated fossil fuel energy sector from 2023 onwards.\(^8\) The fact that (as of November 2022) signatories hold more than half of the votes at the EBRD, 45% at the WBG and 38% at the AfDB means that effective implementation by signatory shareholders has great potential to turn the tide on MDB fossil fuel financing.

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1 See UN Climate Change Conference UK 2021 (2021).
2 “For government signatories, this will also guide our approach on the boards of multilateral development banks”, ibid.
3 See Dufour et al. (2022).
4 See World Bank (2019).
5 See E3G (n.d.).
7 ibid.
8 See UN Climate Change Conference UK 2021 (2021).
To enable this, it is now up to the signatories to specify clear criteria to encourage their representatives on MDB executive boards to vote in line with the Glasgow Statement. In the following, we give a short overview of current levels of implementation by screening existing relevant policies and guidelines and their distinguishing features. Subsequently, we provide some suggestions for governments that have yet to deliver on their commitments.

2 Glasgow Statement implementation by MDB shareholders – State of Play

The overall state of implementation of the Glasgow Statement differs between countries and institutions. A recent analysis by the International Institute for Sustainable Development (IISD) of 30 institutions in 18 signatory states and the EIB showed that a third (six of them Export Credit Agencies (ECAs)) do not have a publicly available fossil fuel exclusion policy. The majority of fossil fuel exclusion policies published by ECAs and bilateral Development Finance Institutions (DFIs) have not (yet) been updated to match the ambitions set out in the Glasgow Statement. “Exemptions” and gas loopholes within pre-existing policies were the most frequent reason for misalignment with the Glasgow Statement. The report only identified the whole-of-government policies by Denmark and the United Kingdom (UK) as being collectively Glasgow compatible for their national DFIs, ECAs and MDBs. None of the remaining countries had Glasgow-compatible ECA policies, and only three countries had Glasgow-compatible DFI policies.

Our analysis of the implementation of the Glasgow Statement by fifteen high-income signatory states focuses on their MDB-relevant fossil fuel policies (see annex A for details). Our research shows that, for the majority of countries, a guidance document with effective implications for MDB board voting either does not exist or has not been published. The United States (US) is the only signatory to have published official guidance specifically for MDB voting (by the beginning of COP27), while it has been shown that Switzerland, the Netherlands, and Belgium have unpublished guidance. With a whole-of-government approach, the UK, Denmark and Canada have overarching fossil fuel exclusion policies that explicitly also include financing via MDBs. For the other countries considered, no public policy or strategy could be identified that would cover fossil fuel investments at MDBs.

This shortcoming supports the continued funding of fossil fuel projects by MDBs. Governors and their Executive Directors at MDBs require clear instructions to prevent investments that are not Paris-aligned. The two case studies presented below illustrate prevalent issues that need to be addressed in order to improve the adherence of MDB financing to the Glasgow Statement.

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9 See Dufour et al. (2022), pp. 20-21.
10 ibid., p. 22
11 Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden, Switzerland, UK, United States (US)
12 These countries provide different levels of detail about their existing internal policies. Our information on the Belgian guidance is based on an interview with a person familiar with the content. For all other identified documents see Danish Ministry of Climate, Energy and Utilities (2021), Dutch Ministry of Finance (2021a, 2021b), Federal Department of Economic Affairs, Education and Research (EAER), Federal Department of the Environment, Transport, Energy and Communication (DETEC), Federal Department of Foreign Affairs (FDFA) (2022), Natural Resources Canada (2022), UK Department for Business, Energy & Industrial Strategy (2021) and U.S. Department of the Treasury (2021).
13 On average $4.6 billion annually between 2019 and 2021, see O’Manique et al. (2022).
Low quality of guidance on fossil fuel financing

Switzerland is one example of a state with relatively weak voting guidance that still leaves plenty of room for fossil fuel exemptions. On the one hand, the guidance states that Switzerland rejects any coal financing, upstream oil and gas investments and mid-stream oil projects. Oil and diesel power plants are not supported, unless needed as emergency power capacities. On the other hand, the guidance allows for the financing of gas power plants, mid- and downstream gas and downstream oil projects in exceptional circumstances – provided that a list of four well-defined criteria is fulfilled, including the project’s alignment with the 1.5-degree temperature goal specified in the Paris Agreement and the prevention of lock-in effects. In addition to that, Switzerland also supports non-coal fossil fuel projects that meet only “the majority” of the criteria if they serve Swiss interests in terms of supply security and employment in Switzerland.

Including potential funding of mid- and down-stream oil and gas power projects is generally problematic given that new infrastructure for the processing and transport of fossil fuels is fundamentally incompatible with the Glasgow Statement. Emissions need to be reduced immediately to limit global warming to 1.5 degrees. New fossil fuel infrastructure increases emissions and bears considerable risks of carbon lock-in beyond the time at which fossil fuels should leave the energy mix. If such investments are generally still allowed, respective funding decisions will depend heavily on how the criteria are interpreted, and on the quality and rigor applied when assessing the defined exceptional circumstances, e.g., by checking against a scientifically based 1.5°C-compatible country scenario. Allowing exceptions based on Swiss national interests in turn renders the criteria ineffective and opens up an array of non-Paris-aligned loopholes.

Ineffectiveness of guidance on fossil fuel financing

Comprehensive guidance on voting is only effective if the shareholders adhere to it. The US voting guidance states, for example, that the US will oppose oil-based energy projects but that limited exceptions include projects such as oil-based power generation in crisis situations or ensuring a backup for off-grid clean energy, provided that no cleaner energy option is feasible. On the IDB’s executive board, however, disregarding its voting guidance, the US abstained instead of voting “no” when the board voted on providing international public finance for an oil port facility in Suriname. While a number of other countries besides the US also abstained in this vote, countries from the region voted yes, resulting in approval of the project. The financial support provided in this case facilitates the development of new offshore oil fields in the country rather than helping Suriname to pursue a just transition away from fossil fuels. The project clearly does not match the description of “exceptional circumstances” as outlined in the US voting guidance. Opposing fossil fuel projects means voting against them on MDB boards instead of just abstaining. When a country like the US disregards its own voting guidance, this renders the guidance ineffective and its contents irrelevant. The US also missed out on the opportunity to convey the signaling power that a firm position in this regard might have on both the bank and on other shareholders.

15 See Bouckaert et al. (2021).
16 See U.S. Department of the Treasury (n.d.).
17 See Friends of the Earth (2021).
18 See Mainhardt, Heike (2022).
While these two cases highlight the importance of both ambition and rigorous application, the following example demonstrates that more consistency in ending financial support for unabated fossil fuels is possible.

**Good practice**

One example of relatively good practice is the Danish government’s decision (effective as of early 2022) to end Danish public support and export finance for fossil fuels in the energy sector abroad. The whole-of-government approach fully excludes financing for coal and oil and allows limited exceptions for mid- and downstream gas only until 2025, making Denmark the only country that states a clear end date for fossil fuel exceptions. Exceptions include gas-fired power in the poorest developing countries, gas for “clean cooking and heating”, and export-related projects that support climate neutrality by 2050. While the latter in particular have the potential to weaken the policy’s ambitiousness, at least LNG terminals for export are explicitly not supported. Apart from gas for cooking and heating\(^{19}\), exceptions are checked against a list of well-defined criteria such as contributing to increased NDC ambition and climate neutrality, avoiding lock-in, stranded assets and transition risks. If rigorously applied, the exception criteria are so strict that they come close to a full exclusion of all fossil fuel financing.

\(^{19}\) Ideally, before supporting gas for cooking and heating, it should be assessed whether renewables combined with electrification could be an alternative. See Gebel et al. (2022).
### Scope

<table>
<thead>
<tr>
<th>Country</th>
<th>Coal Downstream</th>
<th>Coal Midstream</th>
<th>Coal Total</th>
<th>Oil Downstream</th>
<th>Oil Midstream</th>
<th>Oil Total</th>
<th>Gas Downstream</th>
<th>Gas Midstream</th>
<th>Gas Total</th>
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</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Full exclusion for coal</td>
<td>Full exclusion for up- and midstream gas for downstream oil</td>
<td>Full exclusion for up- and midstream gas for downstream oil</td>
<td>Full exclusion for up- and midstream gas for downstream oil</td>
<td>Full exclusion for up- and midstream gas for downstream oil</td>
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<td>Netherlands</td>
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<td>Partial exclusion</td>
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<tr>
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<td>Full exclusion for coal</td>
<td>Partial exclusion</td>
<td>Partial exclusion</td>
<td>Partial exclusion</td>
<td>Partial exclusion</td>
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<td></td>
<td></td>
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<tr>
<td>United Kingdom</td>
<td>Full exclusion for coal</td>
<td>Exclusion with very limited exceptions</td>
<td>Full exclusion for up-and midstream gas</td>
<td>Full exclusion for up-and midstream gas</td>
<td>Full exclusion for up-and midstream gas</td>
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<tr>
<td>United States</td>
<td>Full exclusion for coal</td>
<td>Partial exclusion</td>
<td>Partial exclusion</td>
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<td>Partial exclusion</td>
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### Timeline

<table>
<thead>
<tr>
<th>Policy tools</th>
<th>Exemptions</th>
<th>Rating overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpublished guidance enforced</td>
<td>An exclusion list and screening criteria are in place.</td>
<td></td>
</tr>
<tr>
<td>Effective from January 1, 2023</td>
<td>A list of exceptions (mitigation technologies and projects, decommissioning and conversion, transitioning existing non-power infrastructure, nuclear power generation, production, distribution and use of low carbon intensity fuels, adaptation, technical assistance; national security; climate security; security or the security of an ally or a recipient country.) is included in the policy, as well as general screening criteria and additional screening criteria specifically for natural gas power generation. However, Switzerland supports fossil fuel projects that do not meet the screening criteria if they serve Swiss interests regarding national security or the security of an ally or a recipient country.</td>
<td></td>
</tr>
<tr>
<td>Entry into force in 2022</td>
<td>An exclusion list, exemption list, and screening criteria are in place.</td>
<td></td>
</tr>
<tr>
<td>Transition period with exceptions for mid- and downstream gas remains until 2025.</td>
<td>The exemption list includes well-defined criteria such as geographic restrictions, contribution to enhanced NDCs and carbon neutrality, lock-in and transition risks, absence of alternatives, applications of environmental safeguards. LNG terminals for export are not supported.</td>
<td></td>
</tr>
</tbody>
</table>

### Implementation Tools

| Exemptions | Screening criteria include energy shortage or energy access in low income countries with extreme energy poverty and other relevant criteria for transitioning towards sustainable energy systems and systems transition policies. Some specific exemptions (domestic use, decommissioning) are named and screening criteria for additional project exemptions are included. However, Switzerland also supports non-coal fossil fuel projects if they only meet most of the screening criteria but serve Swiss interests regarding security of supply and employment. Screening criteria the four so-called “MITT” criteria, taking into consideration the specific circumstances of the country, in particular: financial support and targeted support; efficient energy; fixed energy; and foreign technology. In addition to financial support and targeted support, the list includes support for technology development and deployment. The total amount of support provided to a single project does not exceed the amount of the project’s investment. | |
| Policy tools | Published in May 2022 | |
| Exemptions | A list of exemptions (enhanced efficiency, decommissioning of existing assets, gas power plants, LP gas for cooking and heating, carbon capture and storage (CCS) and carbon capture, utilization, and storage (CCUS)) is included in the policy, as well as general screening criteria and additional screening criteria specifically for natural gas power generation. However, Switzerland supports fossil fuel projects that do not meet the screening criteria if they serve Swiss interests regarding national security or the security of an ally or a recipient country. | |
| Screening criteria include a detailed list of funding conditions, as well as examples of allowed and prohibited projects and additional criteria. LNG terminals for export are excluded. | |

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*publicly available documents
3 Making Glasgow work at the MDBs

Implementing the Glasgow Statement requires actions both from the MDBs and their shareholders.

The MDBs’ responsibility

MDBs need to expand their joint fossil fuel exclusion list for Paris alignment to include all fossil fuel investments. If exceptions are to be applied, these should be extremely limited and MDBs should publish clear 1.5-degree-compatible Paris alignment criteria and any respective assessments. Standardized practices on the exclusion of coal, oil and gas projects are an important market signal for the limited future of fossil fuels. Ultimately, MDBs should direct all energy funding towards renewable energies. To demonstrate their commitment, all MDBs should follow the example of the European Investment Bank (EIB) and sign the Glasgow Statement.

The shareholders’ responsibility

To implement their Glasgow commitments and facilitate the Paris alignment of MDBs, signatory states need to publish Glasgow-compatible policies which cover their position as shareholders vis-à-vis the boards of MDBs and become valid by the end of 2022. These can either take the form of overarching policies covering international public support and export finance, or the form of specific voting guidance to reject fossil fuel investments on MDB boards. In either case, it is important that clear criteria be provided, and that any exceptions be extremely limited, precisely defined, temporary, and compatible with a 1.5-degrees pathway. It is crucial that governments adhere to their policies and defend their positions on MDB boards. Publishing MDB board votes, which is practiced by the US, can support accountability.

It should be noted that, even before being actively applied in board voting, the existence of ambitious guidance can have important signaling effects to bank staff. Considering the amount of time and effort it takes to prepare a project for board voting, staff are likely to abstain from preparing projects that are to be rejected.
Exceptions for gas projects

Coal, upstream oil and gas investments, and investments in new midstream oil and gas infrastructure are completely ruled out under a 1.5-degree-compatible scenario; thus, one can expect signatories to make exceptions mainly for downstream oil and gas investments. For these cases, the following criteria provide an overview of relevant elements to include:

1 Country context:
(a) Does the investment take place in a setting with particularly low energy access rates?
(b) Does the investment take place in a country with a Paris-compatible national climate strategy? (Is the strategy already anchored in legislation or agreed upon in the context of the investment?)

2 Principle needs and alternatives assessment:
(a) Has the exact scope of energy supply needed in the partner country been assessed?
(b) Have alternative renewable energy solutions been thoroughly examined and found technically or economically infeasible to meet these needs?
(c) Can the alternatives assessment be accessed and is it convincing and transparent?

3 Project-specific assessment:
(a) Is the project in question required to meet the principle need defined above and is it capable of doing so within a reasonable time frame?
(b) Does the project contribute to generating affordable energy access for local population segments most in need of it?
(c) Is the project in question compatible with a 1.5°C pathway and the respective CO2 budget of the country if checked against a scientifically based 1.5°C-compatible country scenario?
(d) Is it compatible with national climate targets (NDC/LTS) as well as with the enhanced ambition to be expected in future NDCs?
(e) Is the project compatible with the country’s necessary and timely transition to renewable energy?
(f) Has the project’s risk of lock-in to fossil fuels been assessed (incl. considering potential shifts in demand and their consequences) and has this been credibly shown to be minimal? Will lock-in potential be regularly assessed and have measures been identified to mitigate eventual lock-in risk in the future?
(g) For investments in new fossil infrastructure: Have alternative investment options in existing fossil infrastructure been assessed and prioritized?
(h) Does the project use the best available technology (BAT)
(i) Does the project support energy efficiency?
(j) Does the project follow best environmental and social standards and practices, including precautionary measures to minimize methane leakage?
(k) Has the financial profitability of the overall investment been demonstrated, i.e. has the assessment shown that the investment is not at risk of becoming a stranded asset? (incl. applying shadow carbon pricing)
(l) Does the project’s results matrix include at least one climate-related results indicator?

See Bouckaert et al. (2021), p. 154.
(m) Will any potential revenues from the project by the partner country be used to secure clean/renewable and affordable energy?

(n) If gas infrastructure: Is a transition to green hydrogen (or derivatives) secured in the project contracts?

(o) Has it been verified that the project does not cause any harm to other SDG targets, human rights or biodiversity? Is the application of strong governance criteria (SDG 16) ensured in project contracts?

(p) Does the project align with a just transition and is this transition effectively supported by the banks (financially/technically)?

It should be noted that, under the 1.5°C criterion alone, a range of downstream oil and gas investments are definitely already excluded, for example oil for heating, new gas power plants that are not primarily used to meet peak load and stabilize grid frequency, and also gas for cooking and heating when renewables combined with electrification are possible as an alternative. An ambitious MDB-relevant policy compatible with the Glasgow Statement criterion to make any exception compatible with a 1.5-degree warming limit should therefore exclude these things.

Effective application and accountability

Compliance with the guidance and appropriate accountability are critical. When going through their checklists, it is important for Executive Directors’ offices to make sure that all assessments have been carried out transparently and made available to them in due time before board voting. Shareholder countries should report on respective votes and the compliance of projects with their respective checklist. They should seek to build alliances with both ambitious capital owners and ambitious recipient countries. Recipient countries are free to do so themselves, but without international public financial support. Short-term energy shortages due to the Russian war on Ukraine should not distract from long-term climate goals. All investments need to be directed to sustainable forms of energy now in order to avoid similar future crises anywhere in the world.

Expanding on the Glasgow Benchmark criteria

Shareholders wanting to go a step further in implementing their Paris commitments could include additional important criteria and elements in their respective voting guidance. First, they can expand to Paris-compatible voting guidance by also covering exclusions for climate-problematic investments in other sectors (apart from energy) or by including criteria for just transition and adaptation. Covering wider themes of the Paris Agreement in voting guidance creates additional levers to hold MDBs accountable to their Paris alignment commitments. Second, shareholders can explicitly state their intention to convince other members within their constituencies of their positioning against fossil fuel support.

Switzerland already includes such a comment in its voting guidance. This approach encourages dialogue with non-Glasgow signatories about the need to phase out fossil fuels and increases the chances of turning around constituency votes. Third, signatory shareholders can limit the time period during which exemptions can be applied, following the Danish example. From 2025 onwards, Denmark will not provide any support for the unabated fossil fuel energy sector. Finally, shareholders could develop a trust fund to cover the costs for independent assessments of MDB analyses of fossil fuel energy projects and potentially also Paris alignment assessments. This would support shareholders in holding the banks accountable.

21 See Bouckaert et al. (2021), Fyson et al. (2022), IEA (2022), Gebel et al. (2022).

4 Literature


Fekete, Hanna, Anja Gebel and Aki Kachi (2022). German support for gas investments abroad is mostly not compatible with the Paris Agreement, Blogpost, Germanwatch e.V. Retrieved from https://www.germanwatch.org/en/87544


### Guidance Assessment Framework

Based on Dufour et al. (2022), pp. 68-69 and Fekete et al. (2022))

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Beyond Glasgow</th>
<th>Glasgow Benchmark</th>
<th>Below Glasgow</th>
<th>Absence of policy element / off track</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal exclusion</td>
<td>Full exclusion for coal finance, including associated infrastructure</td>
<td>Partial exclusion for coal finance.</td>
<td>No coal finance exclusion policy.</td>
<td></td>
</tr>
<tr>
<td>Oil exclusion</td>
<td>Full exclusion for oil, with no exceptions.</td>
<td>Full exclusion for upstream oil support. No or partial exclusion for midstream and downstream oil.</td>
<td>No oil exclusion policy, or partial exclusion for upstream oil.</td>
<td></td>
</tr>
<tr>
<td>Gas exclusion</td>
<td>Full exclusion for gas, with no exceptions.</td>
<td>Full exclusion for upstream gas. Full exclusion for unabated mid- and downstream gas, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit.</td>
<td>Full exclusion for upstream gas support. No or partial exclusion for midstream and downstream gas.</td>
<td>No gas exclusion policy, or partial exclusion for upstream gas.</td>
</tr>
<tr>
<td>Direct/indirect support *</td>
<td>The policy covers direct and indirect support.</td>
<td>The policy covers direct support.</td>
<td>Not specified.</td>
<td></td>
</tr>
<tr>
<td>Entry into force</td>
<td>The policy is enforced before 2022.</td>
<td>The policy is enforced by the end of 2022.</td>
<td>The policy is enforced between 2023 and 2024.</td>
<td></td>
</tr>
</tbody>
</table>

### Policy tools

Reference to and quality of policy tools (exclusion list/emissions benchmarks/capping or reduction targets at the portfolio level/screening criteria).

### Definition of “exemptions”

Elements of definition.

* (via financial intermediaries and policy-based lending in MDBs)

**Ranking for the Overall Assessment:**
- **Green** All the assessment criteria (coal, oil, and gas restrictions, coverage [direct/indirect support] and timeline) are ranked as Glasgow beyond
- **Yellow** All the assessment criteria (coal, oil, and gas restrictions, coverage [direct/indirect support] and timeline) are ranked as Glasgow benchmark
- **Orange** At least one assessment criterion is ranked as “below Glasgow”. One criterion maximum is ranked as “off-track”.
- **Red** At least two assessment criteria are ranked as “off-track”.

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From Glasgow to Guiding Action  
GERMANWATCH

13
Germanwatch

Following the motto of Observing. Analysing. Acting. Germanwatch has been actively promoting global equity and livelihood preservation since 1991. We focus on the politics and economics of the Global North and their world-wide consequences. The situation of marginalised people in the Global South is the starting point for our work. Together with our members and supporters, and with other actors in civil society, we strive to serve as a strong lobbying force for sustainable development. We aim at our goals by advocating for prevention of dangerous climate change and its negative impacts, for guaranteeing food security, and for corporate compliance with human rights standards.

Germanwatch is funded by membership fees, donations, programme funding from Stiftung Zukunftsfähigkeit (Foundation for Sustainability), and grants from public and private donors.

You can also help us to achieve our goals by becoming a member or by making a donation via the following account:

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