Extraneous frameworks for decent commitments:
GHG mitigation in the export insurance industry.

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Extraneous frameworks for decent commitments: GHG mitigation in the export insurance industry.

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Article 2.1c of the Paris Agreement (PA) cites that UNFCCC party members should make “finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” to stay under the 2°C degree limit as urged by the IPCC. Export Credit Agencies (ECAs) are major contributors to the successful development of supply chain operations for fossil fuel (FF) projects. ECAs provide insurance, guarantees, and loans to corporations working internationally for projects that private insurers may find too risk-prone to support, often to middle- and low-income countries. Between 2013-2015, G20 ECAs financed over €34B worth of FF-related projects, annually, compared to €3B towards clean energy projects. The influence of financial institutions (FIs) in carbon-intensive industries is best measured via Scope III emissions, and not Scope I or II (direct/indirect operational), as defined by the GHG Protocol. The relevance of understanding these financed emissions is significant for international climate change commitments as well middle and low-income country economies.

This research examines the GHG mitigation plans for financed emissions of three ECAs; Atradius Dutch State Business (ADSB), Export Development Canada (EDC), and UK Export Finance (UKEF). Combined, these three ECAs have supported an estimated €7B worth of FF-related projects between 2016 and 2018, annually. As agencies under the direct supervision of governments that have ratified the PA, it is imperative to understand how they plan to mitigate their Scope III emissions to align their portfolios with PA 2.1c. Phase I of this research assesses 19 relevant ESG, sustainability, and project-review policy documents of the three ECAs. Phase II assesses 17 (10 in-depth) ESG and climate-related frameworks and guidance protocols that are referred to throughout the policy documents, for language relevant to ECAs, international project finance, and Scope III emissions. Phase III assesses the barriers and responsibilities associated with the findings of Phase I and II, by interviewing and surveying ECA stakeholders and experts.

The research concludes that despite all three ECAs committing to numerous ESG and climate-related frameworks, none of these frameworks provide robust enough guidance nor implementation measures relevant for ECAs to mitigate their financed emissions. Furthermore, the findings reaffirm an expected nascent regulatory landscape for GHG mitigation in this industry, resulting in minimal accountability measures. Finally, the consequences of this negligence is addressed through the lens of carbon asset risks. The study suggests that, left unchecked, the costs associated with these risks may be shifted onto foreign buyers and debtors, as well as public coffers. The study calls for stronger Fiscal Carbon Governance, a term distinguishable from Carbon or Climate Finance, as the latter implies mitigation and adaptation activities such as renewable energy financing and emissions trading, but often still overlooks absolute capital flows towards carbon-intensive industries.

Keywords: Export Credit Agencies; Climate Change; GHG Mitigation; Emissions; Scope III; ESG; CSR; Project Finance; Energy Transition; Netherlands; UK; Canada; ADSB; EDC; UKEF.
Thank you to all the individuals who agreed to be interviewed or gave their time to this research, especially those within the ECA-Watch network. Special gratitude to Wiert Wiertsema and Niels Hazekamp of Both ENDS for their knowledge and guidance. Thank you also to Joyeeta Gupta and Courtney Vegelin, whose endless support and patience allowed me to address the issues I felt needed most attention.

My intention for this research was to be as relevant as possible to current debates on ECAs and climate change, and be able to contribute beyond academic literature. In the hope that this is achieved, this research is dedicated to the ECA-Watch network.
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1. INTRODUCTION

According to Richard Dawkins, middle world is “the narrow range of reality which we judge to be normal as opposed to the queerness of the very small, the very large, and the very fast.”\(^1\) In other words, humans are generally only capable of fathoming space and time within the limits of our observations. This reality, based on certain scales appropriate to our understanding, helps us navigate through just about every decision-making process, whether as individuals or societies. The problem of course is our inability to fathom the evolution of mega- or micro-level changes, especially beyond the temporal scales most familiar to us. One of the most fascinating examples of how the magnitude of these scales manifests itself subtly into our reality is in the difference in DNA between chimpanzees and humans; a mere 1%. With a 99% DNA similarity, chimpanzees and humans would be considered just about identical to quantitative analysts. Yet within this 1% lies a world of difference between two species; from ancient civilizations and thousands of spoken languages to the propagation of artificial intelligence. At the micro-level and beyond the scope of our middle-world realities, this begs the questions: just how gigantic is this 1% difference?

In 2018, the Intergovernmental Panel on Climate Change (IPCC) reiterated that limiting global warming to 1.5°C above pre-industrial levels would help prevent catastrophic damages to our ecological and social systems alike. The seminal report, respected across the international scientific community, forecasts the difference in damages to our biosphere via a 1.5°C vs. 2°C scenario, for once making palpable the magnitude of impact that a 0.5°C difference can have. Our ability to understand the immensity of this difference, and what determines it, is inevitably what will define human security in the 21st century.

As part United Nations Framework Convention on Climate Change (UNFCCC), the 2015 Paris Agreement (PA) historically spearheaded an international commitment to stay below 2°C, from pre-industrial levels, by limiting global GHG emissions. With the CO2 (burning of fossil fuels for electricity, heat, and transportation) considered the largest contributor to GHG emissions,\(^2\) decarbonising the energy sector is more important than ever.

1.1 CLIMATE CHANGE & ECAs

At over $25 trillion, the fossil fuel industry’s asset infrastructure is estimated to be the largest in the world.\(^3\) In international project finance, these assets require financial backing throughout their development process in the case of damages or loss. Export Credit Agencies (ECAs) are the quiet giants of international project financing. These are government-backed agencies offering commercial and political risk insurance to exporters, usually from a high- or middle-income country (MIC) to a middle- or low-income country (LIC). ECA loans, credits and guarantees are assigned via various mechanisms such as direct lending, financial intermediary loans, and interest-rate equalization.\(^4\) In 2010, it was estimated that ECAs facilitated about $430 billion worth of international project support for

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4 Oil Change International, (2017). Financing Climate Disaster
businesses worldwide, with the figure likely to be much higher today. These guarantees are directed towards energy and non-energy sectors alike. ECAs provide these insurances and guarantees to corporations working internationally for projects that private insurers may find too risk-prone to support. Indeed, they are ideal agencies in providing risk insurance due to the structure of their insurance mechanisms, the lack of project financing transparency and accountability, the fact that most ECAs are government-backed, and the fact they provide pure cover often in tandem with a commercial bank or other financial intermediaries. In essence, they are the private financial arm of sovereign states in global project finance markets. Most upper income countries have one (possibly two) ECA, legitimized through government mandates. Given that no sovereign state is identical in form and process, so too do ECAs vary in organizational diversity, with some states even dividing the role of ECAs into two separate agencies. Indeed, although there is some level of conformity as established by the OECD, in 2015, 29 different agencies were responsible for officially managing the export programmes of 21 EU member states. Given that this is only at the EU level, this makes it incredibly difficult to organize data on or standardize regulations for global ECA operations. The figure below serves as an example of the role of ECAs in facilitating an international export deal, with chronological processes varying dependent on the ECA structure and on provisions within the deal itself.

Figure 1: Typical ECA Export Deal Procedure

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7 EKN & SEK, (no date). A Guide to the Swedish Export Credit System.
9 Source: Author

- Timelines not always this chronological, and usually defined per the export deal.
- 7.3* In the case of losses or damages to the Exporter/ECI Applicant, the exporting government (through the ECA), pays compensation by covering the loss, which it can retrieve from foreign partner/buyer/bank. This is especially significant for low- and middle-income countries in the case of heightened climate risks, as these additional risks can mean additional costs for the foreign government/buyer/bank.
There is very little academic knowledge on ECAs in the context of climate change (sec. 2.2). However, the influence of financial institutions (FIs) on carbon-intensive industries can be best assessed by understanding their financed emissions, which is simply an institution’s capital flows through various segments of a carbon-related supply chain. These financed emissions have been categorized as Scope III emissions (indirect downstream/upstream), as defined by the GHG Protocol, and have little to do with Scope I or II (direct/indirect operational) (sec. 3.3.3). The concern for Scope III emissions accounting in international project finance is rather straightforward - by the same token that the impact of a development project’s success is measured by its indirect impacts (i.e. increasing access to a medical facility or school, or improving maritime navigation, etc.), assessing a project’s financed emission means measuring the project’s indirect emissions impact (i.e. processing or use of sold products, vehicular emissions, etc.).

Article 2.1c of the PA cites that UNFCCC party members should make “finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”¹⁰ in order to stay well under the 2°C limit. Naturally, governments are expected to take the necessary steps to ensure that public finance and FI portfolios align with PA 2.1c, especially government-backed institutions such as ECAs.

Unbeknownst to many in the international development and climate policy fields, ECAs are major contributors to the successful development of supply chain operations for fossil fuel (FF) projects. As shown in Figure 2, between 2013-2015, G20 ECAs financed over €34B worth of FF-related projects, annually, compared to €3B towards clean energy projects.¹¹ A similar study on the state of all energy sector financing originating from G20-country ECAs also confirmed this figure, citing that 88% of their financing portfolios supported oil and gas projects, during the same period.¹² This enormous influence in capital towards fossil fuel (FF) projects therefore calls attention to ECA- emissions mitigation practices. Indeed, the concern for ECA GHG mitigation planning is a logical next step if states are committed to aligning their overseas activities with the PA.

  - Data only includes largest G20 energy sector financiers.
  - Conversions from USD to EUR at $1: €0.91. Rounded to closest billion.
  - *FF = oil, gas, coal. Differences between existing support vs. new exploration not specified.
¹² Friends of the Earth. (2017). Financing Climate Disaster: How Export Credit Agencies Are a Boon for Oil and Gas.
1.2 PROBLEM STATEMENT

The scale and speed of Paris alignment for FIs is directly tied to shareholder/stakeholder mandates as well as a general political willingness for ambitious target-setting to low-GHG finance models.\textsuperscript{13} Over the past thirty years, ECAs and their governments have increasingly adopted environmental and social governance (ESG) safeguards as recommended by various international frameworks and guidance protocols (\textit{Annex XII}). Most notably, the OECD, which sets the level playing field for ECAs and determines export credit responsibilities, is often tasked with ensuring that ECAs meet these recognized ESG standards. However, while total FF financing from all OECD countries is unknown, the figures on G20 ECA financed emissions from above suggest two potential problems; 1) ECAs are not adhering to these ESG frameworks and guidelines, in which case the call for legal action is relevant; and/or 2) these ESG frameworks and guidelines are not actually suited for ECA-type financed emissions, in which case the call for relevant guidance becomes urgent. Indeed, this problem is evidenced by a lack of coherence between states’ commitments to climate change targets, and the reality of their financed emissions overseas via ECAs, otherwise known as carbon leakage.

With ECA financing heading mainly towards MICs and LICs, the relevance of this incoherence for the field of development studies is twofold. The first is that, according to the OECD, MIC and LIC economies are expected to be the most negatively affected by the costs associated with climate change.\textsuperscript{14} The second is that contrary to popular belief; over ⅔ of LIC debt towards the EU is tied to export credits, and not development loans.\textsuperscript{15} Consequently, these economies risk aggravating their capacity to respond to climate change impacts by being on the receiving end of unaccountable and/or misunderstood FF-related ECA financing.

1.2 GAP IN ACADEMIC LITERATURE

In a google scholar search from 2000 - 2019 for articles/books containing the full phrase “export credit agencies” as well as all of the following keywords: “climate; change; emissions; scope; GHG; protocol; IFC; equator; OECD”, anywhere in its text, only 61 articles appeared. Of these 61 articles, 54 barely (i.e. a few paragraphs) or did not mention ECAs in the context of mitigating their financed emissions. Of the remaining seven items, five were public reports/articles by research institutes, with only two being academic articles, published in 2009 and 2007. The relevance of this research is therefore very significant for academic literature as well as policy makers, not only due to the lack of awareness but also because the research from the only existing academic articles is now over ten years old. It’s worth noting that there are indeed reports and articles on fossil fuel financing from ECAs.\textsuperscript{16} While these reports and articles are relevant to the research, they do not address the issue of GHG emissions accounting and mitigation for ECAs, or the relevance of ESG frameworks for ECA-type financing, but instead mostly shed light on existing data regarding actual financing towards projects. The seven relevant results from the search including the terms mentioned above are:

\textsuperscript{13} Institute for Climate Economics, (2019). A Framework for Alignment with the Paris Agreement: Why, What and How for Financial Institutions?
\textsuperscript{14} OECD, (2015). The Economic Consequences of Climate Change
\textsuperscript{15} Eurodad, (2011). Exporting goods or exporting debts? Export Credit Agencies and the roots of developing country debt.
\textsuperscript{16} Including amongst others \textit{Oil Change International’s Financing Climate Disaster: How Export Credit Agencies Are a Boon for Oil and Gas; Both ENDS’ Paris Proof Export Support; or Jubilee Foundation’s Risky Business: Shining a Spotlight on Australia’s Export Credit Agency}
Academic Literature:


“Non-Academic” Research Articles:


1.3 CASE STUDIES

For ECA sampling, see sec. 2.6.1

1.4.1 Atradius Dutch State Business (ADSB)\textsuperscript{17}

The mandate of ADSB is to provide export insurance to Dutch companies exporting goods and services. Although ADSB is a legally wholly-owned subsidiary of Atradius Group, the Ministry of Finance and Ministry of Foreign Affairs are responsible for overseeing the policy and operations of ADSB.\textsuperscript{18} Under ADSB’s mandate from the Dutch state, the government acts as an insurer with ADSB being responsible for managing these insurance policies on behalf of the state. Between 2012-2018, the Netherlands insured 524 transactions at a maximum insured value of €17.7 billion, with €11.1 headed towards the energy projects, and 98% of this related to fossil fuel projects.\textsuperscript{19} In 2018, ADSB provided €1.76 billion in support for FF-related projects, and €50 million towards clean energy.\textsuperscript{20} Indeed, between 2012-2015, more than 98% of ADSB’s energy financing portfolio was also directed towards fossil fuel projects, with 97% headed towards the oil and gas sectors, according to Both ENDS.\textsuperscript{21} By direct oversight of the Dutch government, ADSB is committed to the Paris Agreement, the SDGs, and OECD conditions on export credits.

1.4.2 Export Development Canada (EDC)\textsuperscript{22}

EDC is Canada’s ECA, offering project finance and ECI services to Canadian companies. EDC is a state-owned enterprise, also known as crown corporation in the Canadian context. The Export Development Act “grants EDC discretion in determining the composition of its business portfolio,”\textsuperscript{23} but its mandate is under the direct responsibility of the Minister of International Trade.\textsuperscript{24} In 2018, EDC financed projects for over 13,000 Canadian firms.\textsuperscript{25} Between 2012-2017, EDC provided CAD $10 billion per year towards oil and

\textsuperscript{17} See Annex VIII.C
\textsuperscript{19} Ibid
\textsuperscript{20} Both ENDS, (2017). Towards Paris Proof Export Support. Why and how the Dutch government must exclude export credit support for fossil fuels
\textsuperscript{21} Ibid
\textsuperscript{22} See Annex VIII.C (data converted to EUR)
\textsuperscript{24} Minister of International Trade, Gov. of CA. Organizational Profile: Export Development Canada.
\textsuperscript{25} EDC, (no date). About us. (accessed June 2019).
gas financing (CAD $62 billion total), the equivalent of 12 times more than it did for clean technologies. During this period, more than 90% of its financing portfolio was in support of fossil fuels. However, in 2017, its cleantech financing hit a record high level of CAD $1.5 billion, hence Figure 4 above. ECA-Watch CSOs have determined that EDC’s financing in the oil and gas sector puts Canada among the top four FF financing ECAs across G20 countries. Unlike the other two cases studies, Canada’s Development Finance Institution (also known as FinDev), which is responsible for sustainable development cooperation operations, is housed within EDC. By direct oversight of the Canadian government, EDC is committed to the Paris Agreement, the SDGs, and relevant OECD conditions on export credits, either through Canadian law equivalents, or directly.

1.4.3 UK Export Finance (UKEF)

UKEF is the operational name used for the UK’s Export Credit Guarantee Department. Its statutory powers are determined by the Export and Investment Guarantees Act, and its activities are managed by the Executive Committee, the UK Export Finance Board, and the Export Guarantees Advisory Council. UKEF has the responsibility of informing various teams within the Department for International Trade of its activities and working closely with them, in order to be directly aligned with its strategy, including the Trade Industry sector team and the Foreign and Commonwealth Office. Through its Overseas Investment Insurance product, UKEF provides political risk insurance cover to UK companies seeking to conduct business abroad. Between 2013-2018, UKEF provided £2.5 billion for export transactions on fossil fuel projects towards LICs and MICs, the equivalent of 96% of its total energy sector financing during this period, with £104 million headed towards the renewables sector. In 2017/2018, within this 4% of renewables financing, 96% went towards high-income countries, with a less than 5% of renewable energy support for LICs and MICs. By direct oversight of the UK government, UKEF is committed to the Paris Agreement, the SDGs, and OECD conditions on export credits.

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27 Ibid
29 EDC, (no date). Development Finance Institution: FinDev.
30 See Annex VIII.C (data converted to EUR)
32 UKEF, (no date). Our governance: Details of UK Export Finance’s Organization and Management Structure.
33 Ibid
1.5 RESEARCH QUESTION(S)

What type of GHG mitigation plans have ADSB, EDC, and UKEF implemented to align their operations with their governments’ commitments to the Paris Agreement?

**Sub questions** *(sec. 2.7.1 Q&A flowchart)*

1. What do ECA policy documents indicate about mitigating financed emissions to align their actions with PA 2.1c?

2. Do the referenced ESG and GHG mitigation frameworks sufficiently align ECAs with PA 2.1c?

3. What are potential reasons, barriers, and consequences for non-alignment?

1.6 FOCUS AND LIMITATIONS

This research assesses the policy documents of three ECAs, along with the frameworks that have been cited across these documents. While the research does include occasional policy information from the ministries or departments overseeing the ECAs, it does not conduct an in-depth assessment of these departments and ministries, and focuses strictly on ECA policy documents. The scope of the study is to highlight potential GHG mitigation plans that have been established by these ECAs, or any climate action strategy within policy documents that comes remotely close to meaningful reductions in financed emissions. While interviews and communications do address strategic and leadership-level decision-making or future plans, the policy document and ESG frameworks assessments focus only on the language as evidenced in each document. GHG accounting and mitigation is the main lens through which the documents are assessed, with concern for climate and carbon risks in mind. The issues concerning this research is growing rapidly, so it is possible that most recent developments may have been missed. Finally, the thesis does not shed additional light on existing data regarding financed emissions, but instead uses already analyzed data by CSOs and research institutes to address the issue of mitigation. For limitations regarding data collection see *(2.7.6)*.

1.7 ASSUMPTIONS

There are various substantive assumptions driving this research.

1. Sustainable Development is a process and goal that low, middle, and upper income countries understand the need to achieve, as it is in their interests.
2. The IPCC and the UNFCCC via the PA have accurately established global targets and goals in order for human security to remain stable with regards to climate change.
3. Non-market ready carbon-reduction technology such as carbon capture and storage cannot currently be considered in order to meet these targets.
4. Existing figures from CSOs or think tanks on ECA FF financing have been accurately analyzed.
5. ECAs and the ministries overseeing them will likely continue referencing existing international ESG standards when asked about their climate change efforts, hence the need for this research.
2. METHODOLOGY

2.1 INTRODUCTION

This chapter outlines the methodology used for the research. It first does so by highlighting the extensive literature review necessary to form a theoretical understanding of the topic. It then provides an overview of the conceptual themes driving this research, along with the operationalization of these themes. Finally, it covers the full extent of data collection units, sampling, and analysis for each phase of the research.

2.2 LITERATURE REVIEW

While there is literature that bring up export credit agencies within the context of environmental and human rights due diligence (see Annex VI), only two academic papers have focused specifically on the topic of ECA-related financed emissions in the last 20 years, both of which were written over 10 years ago. The past 10 years have also been the period during which most emissions reporting methodologies have been adopted by multinational institutions, and only has the latter part of these 10 years seen any discussion on emissions reporting specifically for financial institutions. For example, one of the most relevant guidance frameworks, the GHG Protocol, expanded its 2001 Corporate Value Chain Standard (Scope III) in 2011, and has made very minor edits to this standard since this update.

Consequently, it was important to get as good an understanding as possible on the subject matter, before establishing a methodology. Furthermore, the complexities of export insurance combined with climate change mitigation strategies means that many approaches could be considered for the research. To this end, the study collected as much literature on the following themes (see Annex VI): export credit agencies/export insurance, carbon asset risk, project finance, energy transition and banks/the financial sector, ECA’s in bilateral trade agreements, climate change, and GHG accounting and mitigation methodologies. In doing so, the author reviewed 140 items, including 26 academic papers, 26 web articles, 2 books, 66 reports, and 20 others (including data sources, presentations, application forms, policy briefs).

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2.3 CONCEPTUAL FRAMEWORK

This research is concerned with how ESG guidance, either from government or international organizations, are driving ECAs towards strong Fiscal Carbon Governance (sec. 4.4), with the goal of strong FCG to lead to successful PA and SDG implementation. In the context of mitigating emissions in the export insurance industry, good FCG is a combination of strong project finance governance, strong climate change mitigation mechanisms, and strong policy coherence.

![Conceptual Framework Diagram](image)

**Figure 6**: Conceptual Framework

2.4 OPERATIONALIZATION

The purpose of operationalization is to define relevant indicators and sub-questions generated from the core concepts of the research so as to help determine everything from the scope of the study to the units of analysis. The concepts are broken down into various dimensions, which then help define the variables for each dimension, and the indicators or sub-questions which help determine the validity of a variable. The major concepts in this case are; climate change mitigation, policy coherence, and project finance.

Operationalization table
<table>
<thead>
<tr>
<th>Concept</th>
<th>Dimension</th>
<th>Variable</th>
<th>Sub-Qs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Coherence</td>
<td>International</td>
<td>International commitments</td>
<td>What are public officials doing to acknowledge or address the Paris Agreement in government-related export finance decisions?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>How does demand-side policy affect fossil-fuel usage forecasts?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Do governments with major ECAs consider the contradictory influence of their agencies in international climate commitments and targets. If yes, what’s being done? If no, why?</td>
</tr>
<tr>
<td>International actions</td>
<td></td>
<td></td>
<td>How do export credits towards the FF industry contribute to the Paris Agreement?</td>
</tr>
<tr>
<td></td>
<td>Internal / ECA-level</td>
<td>Internal policies</td>
<td>As state-backed agencies, what policies do ECAs have in place to align with their government’s commitment to the Paris Agreement?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal actions</td>
<td>As state-backed agencies, what are ECAs doing to acknowledge or respect the Paris Agreement?</td>
</tr>
<tr>
<td>Political Will</td>
<td>State/Public Officials</td>
<td></td>
<td>What kind of public officials engage on the matter of ECA energy sector divestment?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Is the Dutch gov. concerned with the amount of fossil-fuel related insurances it is backing, given its international commitments?</td>
</tr>
<tr>
<td></td>
<td>ECAs</td>
<td></td>
<td>Is ADSB concerned with carbon asset-related risk? If no, what are the reasons? If yes, does it consider carbon disclosures a mechanism to address this?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>To what extent can increased premiums mitigate against financial risks associated with fossil fuel-related insurances?</td>
</tr>
<tr>
<td>Climate Change &amp; Project Finance</td>
<td>Disclosure &amp; Mitigation</td>
<td>Scope III emissions</td>
<td>Are ECAs including Scope III emissions in their carbon disclosure efforts? Do ECAs consider a lack of Scope III carbon disclosure efforts a negligence on their behalf, and therefore a potential liability? Have ECAs committed to including GHG accounting efforts in their ESG assessments? Do documents released by ECAs indicate any plans to disclose Scope I, II, and III emissions? Can the ECA Watch Network or ECA-connected individuals indicate any plans to do so? Do documents released by ECAs or international due diligence organizations indicant any sign of considering carbon asset risk as a problem for ECAs or the stakeholders that are part of their insurance schemes?</td>
</tr>
</tbody>
</table>
Responsibility | Guidance Documents | Is the gov planning to enforce carbon-asset related risks for ECAs? If so, does it consider carbon disclosures a mechanism to do so? Do ESG frameworks properly address Scope III emissions accounting for ECAs? Does OECD give guidance enough for ECAs to be able to be considered responsible?

2.5 UNITS OF ANALYSIS

i) Policy & Document Analysis

(1) Primary: ECA Documents Environmental & CSR Document

Part one: assessing language on measures taken to mitigate financed emissions.
Part two: tracking referenced ESG frameworks and policies (external or internal).

See Annex IV full list & search terms used.

1. ADSB (Netherlands)
   1. Corporate Social Responsibility and Export Credit Insurance Policy
   2. Atradius Group Corporate Responsibility Statement
   3. Atradius Group UN Global Compact Communication on Progress 2019
   4. Environmental and Social Policy Document
   5. Information Disclosure Policy
   6. Policy Statement Corporate Social Responsibility
   7. Sustainability Report 2017

2. UKEF (UK)
   1. Categorization for Cases Issued 2018-2019
   2. External Process (Common Approaches & Equator Principles)
   3. Note on Human Rights and Social Risks and Impacts
   4. Policy and practice on Environmental, Social and Human Rights due diligence and monitoring
   5. UKEF’s Implementation of the Equator Principles 2018
   6. UKEF’s Implementation of the Equator Principles 2016

3. EDC (Canada)
   1. EDC Climate Change Policy
   2. EDC Disclosure Policy
   3. EDC Environmental and Social Risk Management Policy
   4. EDC Project Review Process
   5. Environmental and Social Risk Management Review Guideline

38 While these form the core of the ECA document assessment, in various cases, additional documents from these ECAs or their stakeholders were also assessed and considered.
(2) Primary & Secondary: ESG/environmental and climate-related guidelines and frameworks. Guidelines focusing on human rights or non-climate CSR topics were omitted.

1. Equator Principles (EPs)
3. Global Reporting Initiative (GRI)
4. International Finance Corporation Performance Standards (IFC)
5. Task Force on Climate-related Financial Disclosures (TCFD)
6. OECD Arrangement on Officially Supported Export Credits
7. OECD Common Approaches
8. OECD Guidelines for MNEs
9. UN Global Compact (UNGC)
10. World Bank EHS

Additional frameworks were assessed and included in the frameworks summary table, but were not included in sec. 4.3 as these were not referenced in the ECA policy documents. The purpose of including them was to assess as many climate frameworks relevant to FIs as possible. These are:

11. Extractive Industries Transparency Initiative (EITI)
12. Carbon Disclosure Project (CDP)
13. Platform Carbon Accounting Financials (PCAF)
14. Science Based Targets (SBT)
15. Portfolio Decarbonisation Coalition (PDC)
16. UN Principles for Responsible Investment (UNPRI)
17. UNEP Finance Initiative (UNEP-Fi)

ii) **Semi-structured interviews & unstructured communications** (physical, phone, skype, e-mail).
   1. Interviews, Communications, E-mails (See Annex I)
   2. CSO Perception Survey & Questionnaire (See Annex I)

2.6 SAMPLING STRATEGY

The study's sampling strategy can be divided into four different phases; 1) ECA selection; 2) policy document selection; 3) ESG Framework selection, and; 4) Interviewee selection.

In the order listed below, the resulting selection for the first category (ECA selection) was the most significant and affected the selection strategy for the following units of analysis. The method used to select the ECAs was critical case sampling, as part of a purposive sampling approach. Critical case sampling\(^\text{39}\) can be used to use a finding to form a generalization for other similar agents. Simply put, the strategy presumes that "if it doesn't happen there, it won't happen anywhere."\(^\text{40}\) While the research does not intend to generalize, it is important to have a reference point from countries considered to have strong environmental institutions (sec. 2.6.1), due to the lack of knowledge on the issue, and as well to be relevant for current discussions across the ECA-Watch network, a network of CSOs concerned with the negative social, environmental, and economic

\(^{40}\) Ibid
externalities of export insurance. With regards to this research, the potential generalization using critical case sampling is that if the ECAs of countries with the strongest environmental institutions are failing to implement certain environmental safeguards which would meet Paris Agreement policy commitments, it may be assumed that ECAs of countries with poor environmental institutions are also not doing so. To this end, critical case sampling also serves to establish a hypothesis for further research.

2.6.1 ECA & Policy Doc. Selection

**ECA selection:** In its ECA decarbonisation strategy, the ECA Watch Network has identified several governments that have shown both a higher level of transparency with regards to ECA activities, as well as a willingness to discuss those activities by the department or ministry supervising the ECA. These countries are considered potential climate change leaders and include Sweden, France, Netherlands, UK, New Zealand, Canada, Denmark, and Norway. These are also countries deemed “to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment.” Of the eight countries, the researcher considered a combination of factors upon narrowing down to the three; 1) CSOs with existing research on the ECA and responsiveness of CSO staff; 2) ECA document accessibility (language, public availability, etc.); and 3) relevance of research based on current ECA news or discussions. The resulting choices were the UK, Netherlands, and Canada.

**Policy Document selection:** The selection strategy for ECA policy documents was to look at policy documents with language on ESG and corporate sustainability. The initial part of this phase consisted of reading through nearly every policy document for the first ECA. The latter part of this phase was to actively search for CSR and ESG tailored documents, as most of the information which was in these documents was often repeated in the more general documents. Therefore, all ECA documents or publications with the following words in their titles were selected: *environmental, CSR, corporate responsible/responsibility, sustainability report, human rights, implementation process, environmental & social governance (ESG), ethics/ethical, project review process, risk management, climate change, disclosure.* If these documents referenced other internal documents that were considered research-worthy, these were also included. Examples of such documents that may not come up in the initial search, but were still relevant include ADSB’s UN Global Compact Communication on Progress for 2019, and UKEF’s Implementation of the Equator Principles 2016. See Annex IV for full list of searched terms.

2.6.2 GHG Mitigation Frameworks

**ESG Framework selection:** ESG Frameworks were identified in ECA documents and across FI-related climate change news. These frameworks, including the Equator Principles, UN Guiding Principles, or IFC Performance Standards, formed the core of relevant frameworks for the research. Additional frameworks or guidelines were also considered, such as the GHG Protocol, Carbon Disclosure Project (CDP), or Science-Based Targets (SBT), given their significance to FI carbon disclosure. Other ESG frameworks were selected based on research outside the scope of the policy documents. Namely, from

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42 In several cases, annual reports and documents used to report on ESG requirements were also considered.
communication with CSOs, or desk research. The purpose of considering additional frameworks, especially those recognized in the financial industry but not necessarily used by the ECAs in the study, was to expand the scope of the study so as to assess the widest possible available climate related frameworks. See Annex XV for full list of searched frameworks.

2.6.3 Interviews

The selection strategy for interviewees was less linear in causality compared to the previous strategies. The method used was purposive confirming sampling,\(^{43}\) which allowed me to reach out to a diverse range of interviewees, all of whom could provide me with valuable insight on the subject matter of ECAs, climate change, and export finance. It was important to gain the perspective not only of CSOs, but also ECAs, if possible, policy-makers, financial, and climate change experts. See Annex I for list of interviews.

2.6.4 Survey

The CSO survey was designed specifically for CSOs within the ECA-Watch network. The purpose of the survey was to streamline and quantify feedback which had been received informally from various communications with CSOs. The ECA-Watch network consists of over 15 international organizations and active researchers with knowledge on the mechanisms of ECAs and the effects of their activities on human, social, and environmental conditions. (See Annex I for survey respondents and Annex II for survey questions).

2.7 DATA ANALYSIS

The study was conducted using various data sources: ECA Policy Document Analysis, ESG Framework Analysis, semi-structured stakeholder interviews and communications, and CSO Perception Survey. Methodological triangulation was the main form for analysis. Given that there were four main sources of data, it was possible to regularly triangulate between three or more varying data sources. This does not include grey literature, which was used otherwise in forming theoretical foundations and in support of the data analysis phase. A ‘what works’ framework was also at the core of the decision-making process, which offers flexibility upon choosing data collection and methods of analysis, allowing for as relevant of an analysis as possible.\(^{44}\) Coding was possible for both primary and secondary data, yet secondary data offered a broader foundation for which the primary data could be checked against.\(^{45}\) Coding data via excel from multiple sources was then grouped together to create broader concepts, allowing not only for patterns to be identified but also improving the validity and reliability of each data point.\(^{46}\)

1) ECA Policy Documents (qual.)
2) ESG frameworks (qual.)
3) Stakeholder interviews & communications (qual.)
4) CSO Survey (quant.)


2.7.1 ECA Documents

Qualitative document analysis\(^{47}\) was used to assess all policy documents. In the context of policy or political science, this can be done through the following steps “(a) setting inclusion criteria for documents; (b) collecting documents; (c) articulating key areas of analysis; (d) document coding; (e) verification; and (f) analysis.”\(^{48}\) The analysis was conducted by coding quotes selected from each ECA document into an excel database and organizing these codes through emerging themes. When searching for specific ESG frameworks or guidelines, keyword searches\(^{49}\) sufficed as a more quantitative approach and were then included in the database. For ESG framework and guidelines, keyword or keyword combinations that were not mentioned were officially considered omitted from the ECA’s CSR strategy and policy documents – although if the ESG guideline had its own publicly available database of “signatories”, for example, this would be cross-referenced. The omission and low presence of those keywords plays a significant role in the data analysis phase. Substantive policy document quotes were then coded by themes, while mention ESG or climate mitigation framework was simply recorded numerically, by document.

On substantive language, the distinction between commitment, disclosure, implementation, and monitoring is made. While these phases are necessary linear steps for any fossil fuel phase out,\(^{50}\) the emphasis of this research is on assessing the gap between a stated commitment and disclosures relevant to that commitment, and/or if applicable, between said disclosures and evidence of implementation. To this end, commitments and disclosures still serve as good stepping stones for implementing an FF phase out, but likely do not qualify as being PA aligned if not supported by monitoring or implementation language.

To summarize the ECA to ESG document assessment process:

\(^{50}\) OECD-CDSB (2015) Climate change disclosure in G20 countries: Stocktaking of corporate reporting schemes.
2.7.2 ESG & GHG Mitigation Frameworks

Seventeen GHG mitigation and ESG frameworks and guidelines were assessed. The assessment was conducted by reading through framework and guideline documents to find language specifically directed towards ECAs and/or development banks. Keyword analysis was instrumental in assessing the presence or absence of proper guidance for ECAs. Without over complicating this step, omission of specific keywords was considered a significant finding during the analysis, despite not being able to code or categorize such finding. The analysis was therefore very linear, where keyword omission equals key concept omission. For example, the omission of the following keywords: Export Credit Agency/Agencies, Export Insurance, ECA, Export Credits, Project Finance - in an ESG framework or guideline, could mean that ECAs are not the targeted audience for that ESG framework. The mention of investment banks, insurance firms, and development banks, would be considered, but if international project finance emissions accounting did not play a significant role in the guidance for these institutions, the frameworks were not considered suitable for ECAs. See Annex XV.

2.7.3 Interviews

This research is inductive and therefore interviews were semi-structured, allowing for flexibility while remaining relevant to the purpose of the research questions. This format allows for structured conversations while preventing the “fixed-choice alternatives with which respondents are provided in the kind of closed question that is typical of the structured interview.”

Interviews were conducted throughout the majority of the research phase, with the more significant interviews occurring towards the end of the data collection phase as the topic narrowed. Interviews were conducted in person, via skype, or

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by telephone and recorded by note-taking. Descriptive information was the immediate form of responses recorded by the interviewee.53

2.7.4 Survey

Of the 15+ organizations within the ECA Watch Network, thirteen were able to complete the CSO Survey. The nature of this specific topic meant that some CSOs would not or could not participate with a common response being that they did not think they knew enough about the topic to provide meaningful feedback. The survey was sent via SurveyMonkey, and completed by the most knowledgeable staff of the CSO on the topic, with the option of full confidentiality. The CSO Survey was the main point during which any quantitative analysis was used. Basic analysis tools within Microsoft Excel or Google Sheets served enough to make the analysis relevant to the research.

2.7.5 Epistemology

The nature of mixed methods research demands a slight flexibility in the researcher’s definition of reality and meaning and how he/she makes sense of this meaning.54 During the data-collection phase, epistemological positionality is based off the objective realities of a Euro- and techno-centric capitalist society in the 21st century. As a member of its structure, studying within its structure, the researcher responds to the context of the research in order to get the most relevant results for these structures, but does try maintaining an epistemic vigilance to the best extent possible.55 As such, the research uses pragmatism,56 to the extent that the assumptions made in sec. 1.7 are correct. Pragmatism allows the researcher to place more emphasis on the “problem being studied and the questions asked about this problem”, rather than the methodologies used to address this problem.57 Given that some of the interviewees had limited useful feedback, the approach of the research regularly switches to an ethnomethodological one as coined by Harold Garfinkel, which serves to understand how/why individuals or structures define the patterns of their behavior as the norm within a certain context.58 Simply, most qualitative research follow-up questions revolve around the “why/how”, resulting in questions on barriers, limitations, and responsibilities. Throughout the analytical process, the researcher brings in a critical realist perspective as this allows for a more relevant understanding of the findings in the context of IDS, and places them within the context of the institutions that shape our world.59

2.7.6 Limitations

_Lack of available expertise:_ a limitation coming from the climate change and finance sector experts, especially, was a serious lack of knowledge on this issue. While this lack of understanding towards the complexities of ECA energy sector financing is a significant

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57 Ibid
finding in and of itself, the absence of knowledge nonetheless caused various setbacks in interview and data collection periods, such as the inability to provide significant or relevant feedback, or the distraction from otherwise irrelevant information. The lack of expertise also redefined many research questions and redirected the research in order to address the issue from a different angle, such as through the collection of secondary data.

Survey design: the CSO observation survey unfortunately did not achieve its full potential. While key questions were certainly answered and while it provided significant feedback, the survey was unable to provide more in-depth feedback on the questions (how, why, etc.). This was due to the formulation of the survey in an attempt to guarantee survey responses from the participants. In doing so, only 10 questions were asked to keep the survey as straightforward and simple as possible. However, when given the choice to go in more depth, some survey participants did not feel compelled to do so. Therefore, survey data was used to formalize and streamline existing knowledge from the research, as opposed to providing a more in-depth observation of the issues, with the exception of three questions.

Interviews: Only seven official interviews were conducted. The breadth and depth of the research meant that interviews were not transcribed, but instead reflective information was gathered from each set of notes as quotes were written verbatim. The interviewer requested interviewees to repeat a sentence if it was relevant enough. Furthermore, use of text and quotes within the thesis was requested from every interviewee, and interviewees that have requested to approve certain quotes before publication have been contacted. The remaining majority of other data input comes from e-mails and survey/questionnaire.

Timing: The need for ECA decarbonisation is gaining significant traction especially in the EU. This is a rapidly evolving subject as policies are being pushed and questioned regularly by the ECA Watch Network and other stakeholders. While this has been positive in many regards, findings and discussions relevant to the study may also be temporal and no longer relevant in a few years, or even months.

2.7.7 Ethical Considerations

Sensitivity: the reality of climate change is complicated to acknowledge or discuss especially for those who work in carbon-intensive industries. While the research attempted to reach out to as wide a range of interviewees as possible, it was limited to only one ECA, while being able to speak to CSOs or other financial or climate experts. An optimal research methodology would have included interviews with the key ECAs involved in this study, or department heads overseeing them, but due to delicate discussions between some of these ECAs and the ECA-Watch Network CSOs, the researcher decided not to do so.

Subconscious Bias: Objectivity was sought out throughout the entirety of this research. However, the nature of having academic training in political economy and work experience in GHG mitigation and environmental justice means that there is an inevitable underlying inclination towards environmental wellbeing and inclusive sustainable development.

Confidentiality: Confidentiality was guaranteed for each interviewee, with all interviewees being listed as anonymous in the data analysis phase. Selected quotes for anonymous or non-anonymous use were sent out to relevant interviewees for approval. Survey responses are also confidential, and survey respondents were given the choice of anonymity in the
survey form. Any specific information that may hint to the identity of a particular respondent has also been omitted from the analysis section.

2.8 CONCLUSION

This chapter highlights the approach and methodologies used for the research. Concepts used are policy coherence, climate change mitigation, both of which will be assessed in the context of financial institutions and international project finance. Critical case sampling was used to select three ECAs for the policy document analysis; ADSB, EDC, and UKEF, for their relevance to the research and the availability of their documents. These documents guide the next phase of the research, which is to assess the ESG frameworks and climate-related guidance protocols referred to in each of them. Purposive confirming sampling was used for interviews, while survey respondents were specifically targeted through their association with the ECA-Watch network. In all cases, a combination of qualitative and quantitative analysis was used, by first coding themes for ECA and ESG documents, as well as interviews and communications, and simultaneously quantifying results of the survey and of existing data for each ECA.

3. THEORETICAL FRAMEWORK

3.1 INTRODUCTION

Due to the enormous gap in knowledge on the role of ECAs in climate coherence as required by PA 2.1c, the study focuses more heavily on empirics than theory. However, the theoretical framework for the research is through policy coherence and climate change mitigation in the context of financial institutions and international project finance. This section highlights the relevance of these themes for the research.

3.2 POLICY COHERENCE

Policy coherence is “the systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the defined objective.” In the context of sustainable development, it is “a policy tool to integrate economic, social, environmental and governance dimensions of sustainable development at all stages of domestic and international policy making.” Policy Coherence for Sustainable Development (PCSD) has played an important role in determining the direction of new policies under the umbrella of meeting the SDGs, particularly.

3.2.1 PA, SDGs, & OECD

The Lisbon Treaty makes clear the obligation for EU member states to commit to PCSD, while the EU as a whole is also expected to pursue PCSD in its European Consensus on Development. Indeed, this means EU member states need to consider the objectives of

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development cooperation when dealing with policies or processes that may affect developing countries. Furthermore, the UNGC’s declaration of the SDGs states that climate change “calls for the widest possible international cooperation aimed at accelerating the reduction of global greenhouse gas emissions and addressing adaptation to the adverse impacts of climate change...[recognizing] the need to assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief, debt restructuring and sound debt management.”

In the context of export insurance, the OECD's Common Approaches note that “OECD Ministers in 2001 have recognized that export credit policy can contribute positively to sustainable development and should be coherent with its objectives,” citing in its Objective 3 the need to “promote coherence between adherents' policies regarding officially supported export credits, their international environmental, climate change, social and human rights policies, and their commitments under relevant international agreements and conventions, thereby contributing towards sustainable development.” Furthermore, the EU has transposed the OECD's Arrangement on Officially Supported Export Credits (the 'Arrangement') to EU regulation (1233/2011), meaning member states are required to apply the practices cited in the Arrangement, including provisions on “respect for human rights and policy coherence for development, and the fight against climate change, when establishing, developing and implementing their national export credit systems and when carrying out their supervision of officially supported export credit activities.”

The OECD’s Principles and Guidelines for ECI sustainable lending practices further recognizes that export credits can play a role in facilitating unsustainable debt levels, stating the need for ECAs not to aggravate LIC debt and ensure that lending practices are coherent with sustainable development goals, citing good governance as a key ingredient for success. Indeed, committing to PCSD and the PA means aligning policies across sectors, institutions, and levels of governance. Beyond the usual suspects, this is also recognized across the private sector, as 477 investors worth over USD $34 trillion in assets urged G20 leaders to “incorporate Paris-aligned climate scenarios into all relevant policy frameworks and energy transition pathways.” For ECAs, the quest for PCSD and PA alignment means ambitiously reassessing every policy that shapes export finance today. Consequently, the scale and speed of the PCSD and PA alignment is directly tied to shareholder (or in the case of ECAs, state) mandates as well as a general political willingness for ambitious target-setting to low-GHG finance models.

However, commitments unfortunately do not always imply implementation. ECA-Watch CSOs have stated that voluntary commitments such as the OECD Common Approaches “fails to address member states’ compliance with EU objectives and obligations, as required

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64 OECD, (2016). Working Party on Export Credits and Credit Guarantees Recommendations of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches)
67 The Investor Agenda, (2019). 477 investors with USD $34 trillion in assets urge G20 leaders to keep global temperature rise to 1.5 degrees Celsius.
by EU Regulation No. 1233/2011." More recent ECA case studies by CSOs have also cited a “lack of policy coherence towards sustainable development or for example the European Union’s general provisions on external action (e.g. consolidating democracy, respect for human rights and policy coherence for development, and the fight against climate change), as referred to in the EU ECA Regulation.” A general barrier to policy coherence is the fragmentation of policy systems including the diverse range of stakeholders and interests affected by a policy making process. Indeed, this can cause three recognized types of incoherence. Taking the EU as context:

- Horizontal policy incoherence occurs when different EU institutions pursue contradictory goals;
- Vertical policy incoherence occurs when EU states pursue policies contradictory to those agreed upon by the EU;
- Institutional policy incoherence is the result of contradictory procedures and practices by two different institutions sharing the same policy sector.

3.3 CLIMATE CHANGE & FIs

3.3.1 Energy Transition

The United Nations Framework Convention on Climate Change (UNFCCC) has historically spearheaded global efforts to address the task of GHG mitigation and adaptation; from the Kyoto Protocol and Copenhagen Accord to the most recent 2015 Paris Agreement. The latter lays the groundwork for the most ambitious climate change mitigation targets to date. Under the agreement, 195 countries have committed to GHG mitigation targets through Nationally Determined Contributions (NDCs). The EU’s NDC is to reduce its GHG emissions by at least 40% by 2030, compared to 1990 levels.

Accordingly, governments around the world are beginning to acknowledge a low-carbon energy future, and taking action to decarbonize. Between 2004-2014, the number of countries that have implemented renewable energy policy support has risen from 48 to 140. Indeed, examples include Canada, France, Belize, Costa Rica, and Ireland all enforces various types of bans on further fossil fuel exploration, on the basis of meeting climate targets. In many regions of the world, this is also facilitated by the fact that solar PV and onshore wind are within sight of economic competitiveness, making renewable energy investments more appealing to the private sector. In 2017, data from the International Renewable Energy Agency (IRENA) indicated that by 2020, renewables would be cheaper than fossil fuels in most major economic regions of the world.

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69 Halifax Initiative, Both ENDS, CounterCurrent, Forum Suape and Rios Vivos (2015). Export Credit Agencies and Human Rights: Failure to Protect
70 Finance and Trade Watch, (2017) ECAs go to market: A critical review of transparency and sustainability at seven export credit agencies in Central and Eastern Europe
72 Ibid
fossil-fuel-generated electricity hitting its peak in 2007, the fossil fuel industry is faced with no choice but to acknowledge the transition, albeit at its own pace. In 2017, Shell’s CEO publicly stated that climate change was the “the biggest challenge we have at the moment as a company.” In the finance sector, coalitions like Climate Action 100+, a network of international investors worth over $32 trillion in assets under management (AUM), are negotiating with the largest carbon emitters to start disclosing and taking ownership of their GHG emissions impact. Taking these realities into consideration, the private financial sector has made massive strides in recent years to face decarbonisation, for environmental, social, political, and financial reasons.

3.3.2 Carbon Asset Risks

In 2013, it was estimated that 60-80% of existing oil, gas, and coal reserves were unburnable in order to remain below the 2°C scenario (assuming that carbon capture and storage isn’t feasible). Since fossil-fuel company shares are valued under the assumption that their existing oil and gas reserves are actually burnable, international GHG mitigation targets would create a gap in carbon-heavy asset and resource valuation, also known as the carbon bubble. Given that the fossil fuel industry’s asset infrastructure is estimated to be worth $25 trillion (the largest in the world), carbon asset operators and the financial intermediaries that back them are increasingly considered at risk of some type of financial loss, otherwise known as carbon asset risk (CAR). This is also further exacerbated by investor behavior, which is generally to react well before a sector or company experiences peak demand, as studied with peak coal and the EU electricity transition. As the University of Oxford indicates, “‘stranded assets’ are assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities. They can be caused by a range of environment-related risks and these risks are poorly understood and regularly mispriced, which has resulted in a significant over-exposure to environmentally unsustainable assets throughout our financial and economic systems.”

The World Resources Institute (WRI) and the United Nations Environment Programme’s Finance Initiative (UNEP-FI) define carbon risk as the “non-physical climate change-related factors facing assets and companies. This principally encompasses policy and legal, technology, market and economic factors as well as reputational risks. Depending upon their nature and severity, carbon risks may translate to CARs for financial intermediaries and investors” therein including credit, market, policy, liquidity, operational, and reputational risks. In 2019, the European Investment Bank pledged to phase out its support for fossil fuels after 2021, stating that “the EIB, like many other financial institutions, is increasingly worried about being left with stranded assets on its balance sheets.” In general, the types of known risk for financial institutions that most resemble ECAs are:

- regulatory (i.e. GHG emissions-reduction policies);

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78 Ibid
82 Ibid
• supply chain costs and reliability (i.e. the transferring of higher energy costs onto customers);
• product and technology (i.e. decreased demand for carbon-intensive product);
• litigation (i.e. climate-related lawsuits for operator or business along value chain);
• reputation (i.e. consumer & stakeholder backlash) and;
• financial (i.e. profitability loss).86

In terms of CAR assessments, significant literature and research has been dedicated to addressing investor CAR, while much less attention is given to insurance or ECA industry carbon disclosure and asset risk.87 Indeed, the difficulties of assessing CARs are directly tied to the complexities of the financing process. Furthermore, with ESG regulatory risks on the rise for investors and issuers (Fig. 8 below), it is increasingly evident that FIs are faced with no choice but to respond to these changes. Consequently, potential risk exposure for ECAs, or the governments backing them, becomes of concern especially given their dependence on public coffers.

Figure 8: Rising ESG Regulations for Investors and Issuers 88

3.3.3 Emissions Reporting and Responsibility

87 See Annex VI
88 MSCI, (2019). ESG Trends to Watch in 2019
The complexities of capital flows require different categorical approaches for emissions accounting. The GHG Protocol has set the international standard for FI GHG emissions accounting and mitigation. In essence, a financial institution’s Scope III emissions are simply its investees’ (operator or supply chain stakeholder) Scope I and II emissions (see Fig. 9 below). This distinction is important given that capital moves, and FIs do not. While a coal company’s emissions can be best measured by measuring its power plant or or operational emissions, measuring a FIs facility/operational emissions would be of no use in understanding its GHG impact. In international project finance, ideal due diligence for FF-related projects therefore requires the policyholder/ECI applicant to report properly on all three scopes, and the investor or financial backer to report properly on Scope III. Indeed, a survey by the Carbon Disclosure Project indicated that over 70% emissions are considered Scope III for most signatory companies – with the figure likely higher for only financial institutions. Furthermore, of the 15 sub-categories within Scope III, 90% Scope III emissions came from only two sub-categories; use of sold products, and purchased goods and services, as outlined in red below. Given the enormous significance of Scope III emissions for financial institutions, it’s therefore important that FIs understand how their operations and processes most influence these emissions, beyond the limits of their walls.

Figure 9: Scope III Emissions

A standard but sometimes misleading approach to the ECA project finance approval process is in the categorical determination of a specific project upon financing it (See Annex XIII). In the transportation sector, it would not be relevant to assess the carbon

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90 Carbon Disclosure Project, (2016). Tracking Progress on Corporate Climate Action
91 Ibid
footprint of a project without taking into consideration the emissions that will result once the infrastructure has been built, (especially if the infrastructure is primarily for transportation of FF-related equipment or commodities). A project finance’s carbon footprint for an airport or road therefore should include data relating to airport or road activity, such as aircraft or vehicular circulation – the main source of the project’s emissions.\(^93\) This is significant in the case of ECAs, given that the OECD classification for determining a project’s impact is mostly limited to the immediate physical boundaries of that project, and fails to address the project’s influence on successfully contributing to a carbon-intensive supply chain, for example.

Ultimately, carbon leakage for FIs is a natural consequence of strict domestic GHG emissions regulations and weak international or foreign ones. The concern for good governance and CSR then becomes apparent. Indeed, in countries with strict environmental regulations, well-governed firms not only produce fewer emissions domestically than poorly governed firms, but they also export fewer emissions abroad.\(^94\) This implies that, in international project finance, good GHG emissions management depends more on firm-level governance structures than it does on international or foreign climate regulations and frameworks. Indeed, CSR practices are generally voluntary, and without significant external pressure, there may be little incentive for good CSR governance [See Annex XI] when it comes to exporting emissions. Within the private sector, there is direct correlation between implementing sustainable production techniques when long-term investors actually value CSR.\(^95\) In the case of ECAs, those long-term investors are absent, given that finance ministries manage public coffers, and taxpayers generally provide for them.

3.3.4 Project Finance and Development

The 1980s experienced a rise in states liberalizing their foreign direct investment (FDI) policies, followed by 94% of all regulatory changes being favorable to FDI between 1993 and 2003.\(^96\) Indeed, developing countries and “government policy changes have made it easier for foreign investors to enter more economic sectors and establish operations [while] screening and authorization of the establishment of foreign owned enterprises have been replaced by simple registration in some sectors, and many performance requirements have been lifted in favor of incentives.”\(^97\) The UN Conference on Trade and Development estimates that US $5-7 trillion worth of annual investment will be needed in order to meet the SDGs.\(^98\) Furthermore, in order to achieve the EU’s 2030 targets, institutions will need to fill an annual investment gap €180 billion.\(^99\) UNEP also claims that project and trade finance is capable of unlocking these investments and reducing global carbon footprints through International Investment Agreements (IIAs), but that IIAs currently overlook environmental considerations thereby restricting states’ abilities “to implement enabling policies for inclusive green economy pathways, particularly in the energy, transportation, agricultural, industrial, water, and waste sectors,” citing many

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\(^{95}\) Ibid


\(^{97}\) Ibid


international project finance agreements still taking place in high-carbon sectors.\textsuperscript{100} IIAs come in the form of Bilateral Investment Treaties (BITs) or Free Trade Agreements (FTAs), but generally have three dominant characteristics:

1. “Investment” and “Foreign Investor” definitions, including treaty-based scopes of protection for the investors;
2. Standards for types of investment protection such as fair and equitable treatment standards, or non-discrimination standards; and
3. Dispute settlement mechanisms as they relate to a specific violation or standard, thus giving the foreign investor legal security from an international arbitration tribunal\textsuperscript{101}

Investor protection schemes in IIAs, according to legal experts and international organizations, are considered one of the largest barriers to sustainable development.\textsuperscript{102} While ECAs generally provide insurances and guarantees and not direct investments, they do indirectly benefit from IIAs given the added protection offered to their insurance policies. In fact, it’s likely that ECAs actually make investor protection schemes possible, as these are the agencies paying out to exporters in the event of damages. Indeed, ECAs can then use these protection mechanisms to seek financial compensation for damages of any losses associated with an operation, thus providing a regulatory channel making it easier for ECAs to collect debt from foreign entities. Only recently have some IIAs begun to include clauses stating that countries “should not seek to attract foreign investment by lowering their environmental and social protection standards.”\textsuperscript{103} Though somewhat encouraging, it seems indeed the sole responsibility of the foreign entity to prevent a potential environmentally damaging deal, while the legal privileges of external investors remain the same. Additionally, in an OECD-run exercise on RTAs, only 18 out of 177 RTAs with substantive environmental provisions included implementation and evaluation reporting documentation, further citing that RTA environmental provisions remain generally unknown.\textsuperscript{104}

The economic consequences of current climate change conditions and a lack of reform regarding trade agreements are potentially grave, especially for MICs and LICs, thereby making the path to sustainable development that much harder. Furthermore, the OECD expects that climate-related economic risks to have larger impacts for MICs/LICs than higher income countries, especially non-OECD ones, as shown in the figure below. Indeed, market damages from climate change impacts are expected to outpace global economic activity, with African and Asian countries most affected by climate impacts.\textsuperscript{105} Economic growth and RtD are essential to the wellbeing of these countries, but not without fully understanding these climate impacts and the mechanisms currently in place to exacerbate them. The potential reality of these scenarios depends on how quickly these regions are capable of ensuring that their policies, whether environmental, social, or fiscal, align to the best extent possible with the PA and the SDGs.

\textsuperscript{101} Ibid
\textsuperscript{102} Ibid
\textsuperscript{103} Ibid
\textsuperscript{104} OECD. (2018). Inquiry on Regional Trade Agreements and Environmental Protection
\textsuperscript{105} OECD, (2015). The Economic Consequences of Climate Change.
3.4 CONCLUSION

This chapter makes clear the international commitments that have been made both to climate change mitigation and policy coherence via the Paris Agreement, EU regulations, and OECD guidance. Policy coherence can be assessed vertically, horizontally, and institutionally, and is used to understand the context of FF financing in the export insurance industry. The chapter highlights the relevance of climate change for financial institutions within the context of the energy transition given the potential risks associated with climate change impacts for FIs, including regulatory, financial, supply chain costs, and litigation, also known as carbon asset risks. It then identifies FI influence on fossil fuel emissions, which is via Scope III accounting and reporting, and the consequences of not addressing climate risks for FIs. Finally, these concerns are brought together in the context of international trade and project finance, given the importance of ECAs for successful project implementation.

Figure 10: Selected Economic Damages from Climate Damages Scenario

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106 Ibid
4. FINDINGS AND ANALYSIS

4.1 INTRODUCTION

This chapter covers the three phases of the research findings; 1) language on emissions as found in relevant ECA documents; 2) climate mitigation frameworks referenced in these ECA documents, along with the assessment of these frameworks per their own guidance documents, and their relevance to the context of ECA FF financing; and 3) responsibilities, reasons, and consequences associated with the findings of the previous two chapters (based primarily on interviews and communications), identified as fiscal carbon governance. In all chapters, findings from other phases of the research were also included to reinforce the study.

4.2 LANGUAGE ON FINANCED EMISSIONS

4.2.1. Introduction

This phase of the study analyzed seven policy documents from ADSB, six policy documents from UKEF, and six policy documents from EDC (sec. 2.5). The study does not summarize each document, given that sec. 2.5 and sec. 2.6.1 make clear the ESG or CSR relevance of each document. This phase groups project-related emissions, financed emissions, Scope III emissions, supply chain emissions, and downstream/upstream emissions under the same umbrella of FI financed GHG emissions (sec. 3.3.3). The following section therefore highlights relevant text as it relates to disclosing and implementing mitigation measures for financed emissions.

4.2.2. EDC

While all three ECAs express commitments to certain international environmental safeguards and commitments (sec. 4.3.10) only one out of the 19 documents makes an explicit statement on phasing out a type of fossil fuel financing.\(^{107}\) In its Climate Change Policy (2018), EDC commits to a strategy on ending loan financing for coal-fired power plants (CFPPs):

However, the Climate Change Policy document later specifies that EDC will still consider supporting a company that receives between 40-60% of its revenue from coal-related business, if that company can show that it will begin “implementing a credible, public low carbon transition plan within the next five years.” This does not mean that the company portfolio needs to be considered low-carbon within the next five years, but instead that it would simply need to state its intention to decarbonise and prepare a plan to do so.

EDC’s Environmental and Social Review Directive (2019) emphasizes the need to follow international environmental and human rights standards diligently in order to meet international environmental targets, and EDC specifically mentions the Paris Agreement as a key driver of its climate action commitments. The most notable of these commitments is for EDC to “...commencing in 2020, set targets to reduce the carbon intensity of its lending portfolio, work toward implementing the recommendations of the Task Force on Climate-Related Financial Disclosures” and “encourage its customers operating in carbon intense sectors to disclose climate-related information, starting with annual greenhouse gas emissions.” However, this new climate policy only applies to loans, which makes up less than 30% of the business that EDC’s facilitates. Furthermore, since EDC also houses Canada’s development agency, the parallel can be drawn that this actually only applies to the development bank part of EDC. This may make it unlikely for other ECAs to follow suit given the that other ECAs can look to their development counterparts to fulfill these types of commitments. Furthermore, EDC does not define or give a timeline for the term’s targets, work toward, reduce and encourage.

The Climate Change Policy also claims that climate risks have been considered, but fails to indicate exactly what risks have been assessed or share with concerned CSOs its environmental assessment methodology. There is evidently “nothing in EDC’s new climate change policy to ensure that its oil and gas clients will in fact lower their emissions or contribute to this transition.” While EDC does claim that proper due diligence and

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108 Ibid
109 Ibid
111 Ibid
112 Ibid
113 Ibid
114 E-mail 10. CSO staff 2 to Adrien Tofighi. 12 Feb 2019
115 E-mail 2. CSO Staff 1 to Adrien Tofighi. 12 Feb 2019
116 Interview 3. Skype. CSO Staff 2; F. 24 Apr 2019 (44min)
116 Above Ground, (2019). With new limits on coal but none on oil and gas, EDC’s climate policy misses the mark.
GHG mitigation measures are being taken, these are not made public, and are almost always conducted by third parties, or even by the companies they finance.\textsuperscript{117}

It is therefore unclear what the conditions of these commitments are. EDC does refer to numerous climate-related frameworks, \textit{(Annex V)} but conditions for disclosure, implementation, mitigation, and reporting are nonexistent its documents. When Above Ground staff asked\textsuperscript{118} whether or not it will consider reporting its Scope III emissions, EDC emphasizes that it will respect the TCFD \textit{(sec.4.3.7)}, for which Scope III is only relevant and optional. EDC also commits to, amongst others, the IFC Performance Standards \textit{(sec. 4.3.5)} and explicitly states the requirement to disclose GHG emissions for Category A projects under this framework.\textsuperscript{119} In fact, all three ECAs are required to disclose Category A project-related emissions under the IFC Performance Standards, and while all three do state their commitment to the IFC Performance Standards, ADSB and UKEF do not make the same type of explicit statement on the need to disclose Category A project-related emissions. This does not mean the latter do not adhere to these requirements, but it does make responsibility and accountability requirements less clear.

4.2.3. ADSB

ADSB’s 2017 Sustainability Report, cites the Paris Agreement and states the need to mobilize capital and attract “loans from commercial financial institutions - such as pension funds, green funds and banks - for climate and climate-related projects in emerging economies and developing countries,”\textsuperscript{120} further emphasizing the importance of green investments to ensure the PA targets are met. While positive, the document has no language on emissions mitigation efforts, and focuses entirely on green investments.

In its reporting to the UN Global Compact \textit{(sec. 4.3.7)}, ADSB reports entirely on its operational emissions, as distinct from its financed emissions, and highlights operational-type effort, as shown in the box below. Indeed, ADSB does this throughout other documents as well,\textsuperscript{121} and associates any commitments on climate change to these types of operational or facility-related improvements. The following represents the core of ADSB’s reporting responses for the three most environmentally- significant principles of the UN Global Compact (UNGC) \textit{(sec. 4.3.8)}:

\textsuperscript{117} Interview 3. Skype. CSO Staff 2; F. 24 Apr 2019 (44min)
\textsuperscript{118} Ibid
\textsuperscript{119} EDC, (2010). Disclosure Policy.
\textsuperscript{120} ADSB, (2017). Sustainability Report.
In the event that it’s not clear, ADSB is reporting essentially on its office’s energy efficiency retrofits, which have nothing to do with its financed emissions. Indeed, no documents contained any language on coal-related, nor explicit language of lowering financing for oil and gas-related projects. ADSB does however bring up the need to mitigate potentially adverse downstream and upstream effects of its financing in its CSR Policy regarding its supply chain responsibility and Category A project impacts:

“[CSR] is also concerned with supply chain responsibility. For export credit insurance this means that we will examine:

- the supply chain for the project related to the export transaction and
- the Dutch exporter’s supply chain.

...the Dutch exporter must answer questions about his supply chain including questions about his knowledge of Dutch government policy on supply chain responsibility, how it is applied in the exporter’s company, who the exporter’s major suppliers are and the origin of the goods and services to be exported.

...Projects with the highest risks are classified as Category A. These are the most sensitive projects and are likely to have significant potential adverse environmental and/or social impacts. Their impact will stretch beyond the project’s location and/or will be difficult to mitigate/compensate.

We therefore conduct the most extensive environmental and social reviews for projects in this category. We will require an environmental and social impact assessment (ESIA) in order to be able to review them. Upon request the exporter must provide this and any other information we may need, such as information about permits and government consents.

However, the Dutch government’s policy on supply chain responsibility, as referenced in the box above, actually focuses only on human rights and labor, and not carbon intensity,
nor is it actually regulated by any legislation.\textsuperscript{124} Across the seven policy documents assessed for ADSB there is no substantive language on disclosure or implementation measures taken for reducing financed emissions beyond any commitments to optional recommendations from ESG or climate-related frameworks.

4.2.4. UKEF

In the disclosure section of its Environmental, Social, and Human Rights (ESHR) Policy, UKEF indicates that it “publishes in its Annual Report and Accounts details of export contracts supported including, where relevant, the ESHR risk/impact categorisation in line with the definitions in the OECD Common Approaches (sec. 4.3.6) and Equator Principles (sec. 4.3.4), estimated operational Greenhouse Gas emissions, and...”\textsuperscript{125} However, in its Annual Report, and Accounts, UKEF only expands in more depth on its emissions in the context of its operational facilities.\textsuperscript{126} While it does cite one case study in which UKEF contributes to an ESHR Impact Assessment by modelling potential emissions for two greenfield gas-fired stations (Category A), in order for the projects meet EHS Guidelines,\textsuperscript{127} it does not actually disclose other financed emissions, as misleadingly suggested in its ESHR policy. Even though it does make financial disclosures by sectoral support, in no section of any of these documents does UKEF explicitly offer a strategy, methodology, or plan to implement any mitigation measures. It does, however, make commitments to numerous international guidelines and frameworks (Annex V),

Regarding support for coal-fired power plants, the UK has committed to the Powering Past Coal Alliance (PPCA)\textsuperscript{129}, but it is unlikely that this national commitment influences the decisions of its ECA. A written statement to parliament by the UK Dept. of Energy and Climate Change claimed that UKEF has not provided financing to a coal-fired power station overseas since 2002.\textsuperscript{130} However, OECD project classification (Annex XIII) means that an ECA could finance various infrastructural projects supporting the development of a carbon-intensive project's supply chain without financing the actual power-plant itself, thereby classifying those projects as non-carbon intensive. Furthermore, this same UK official position on public financing of new coal-fired power plants overseas includes a disclaimer that:

\begin{quote}
UK Export Finance simply doesn’t believe that Scope III emissions are anything to do with them, and has no plans to measure, regulate or reduce them.”\textsuperscript{128}

- Adam McGibbon || Senior Campaigner, Global Witness
\end{quote}

\begin{itemize}
\item[\textsuperscript{124}] SOMO, (2014). A review of Dutch policy for Socially Responsible Public Procurement
\item[\textsuperscript{125}] Netherlands Enterprise Agency (RVO), Corporate Social Responsibility. (date accessed Sept. 2019).
\item[\textsuperscript{126}] UKEF, (2018). Policy and practice on Environmental, Social and Human Rights due diligence and monitoring.
\item[\textsuperscript{127}] Ibid
\item[\textsuperscript{128}] Survey & Questionnaire Responses, CSO Staff 5
\item[\textsuperscript{130}] UK Department of Energy & Climate Change, (2013). UK Position on Public Financing of Coal Plants Overseas.
\end{itemize}
It remains unclear to the author whether or not UKEF could be able to continue financing coal-related infrastructure overseas, as the position refers only to power stations, further citing that it cannot act beyond the scopes of the IFC (sec. 4.3.4). If this is the case, the UK’s position on stopping direct support to coal-fired power plants is commendable, but also very weak. Consequently, this disclaimer may also jeopardize the legitimacy of the UK in spearheading climate responsibilities as it would restrict itself to the limitations of international standards instead of going beyond them. Indeed, in written evidence submitted to the UK Parliament, Navraj Galeigh of the Edinburgh Law School also reiterates that “the need for new institutions and standards is growing. The trajectory of the phase out of export credits for fossil-fuel-related transactions by ending the support for new fossil fuel extraction should be expanded to transportation and processing infrastructure projects.” 132 Across the six policy documents assessed for UKEF there is no other substantive language on implementation measures being taken for mitigating financed emissions, aside from commitments to international ESG standards and guidelines.

4.2.5. Conclusion

Phase I of the study concludes that ECA policy documents indicate almost nothing about how they plan to disclose, let alone mitigate, their financed emissions. Even when ECAs do make commitments on phasing out a FF, such as in the case of Canada’s coal financing policy, there is no language in the ECA policy documents on the measures taken to actually meet these commitments. Of the three ECAs, EDC documents contain the clearest language pertaining to climate change commitments, but this language does not translate into action as far as the study can tell. While each ECA acknowledges the Paris Agreement and the challenge of climate change, the documents point to external ESG and climate-related frameworks in response to these challenges, but do not themselves contain language on the mitigation or implementation measures being taken.

131 Ibid
4.3. REFERENCE AND REDIRECTION

4.3.1 Introduction

The following section identifies and assesses the external ESG and climate change-related mitigation frameworks and guidelines referenced throughout the ECA Documents from phase I. These frameworks represent the backbone of ECA due diligence processes and methodologies according to ECA policy documents. Given the lack of language on financed emissions within the ECA documents, it was important to understand how these frameworks can help ECAs meet their climate targets at the international level. The next phase for this study assesses these external frameworks, guidelines, and policies per the Q&A flowchart’s logic in sec 2.7.1. To do so, the policies and frameworks were assessed based on their capacity to guide ECAs in accounting for and mitigating financed emissions. The frameworks were assessed by combining available documentation for each framework (Annex XV) with feedback from the stakeholders in the study.

To begin, the figure to the right represents a recurring pattern observed throughout this phase. Generally, ECAs referenced international guidelines and frameworks, and sometimes referenced national policies or standards as elaborated on in the following sections. However, national policies were also often based on the same international standards (see Fig. 12). This phase of the study aimed to first acknowledge the type and depth of guidance provided by each framework, how this guidance may relate to ECA financing, and consequently the applicability of such guidance in order for ECAs to meet international climate targets. In some cases, additional GHG methodologies or climate guidance frameworks were also assessed. Due to the length and depth of each framework, the author does not include boxes or annexes summarizing each framework but references to the relevant standards/metrics of the guidelines in Annex XV.

4.3.2. GHG Protocol

The GHG Protocol is one of the most recognized standards from all the frameworks assessed in this study. It “establishes comprehensive global standardized frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions.” The GHG protocol’s most relevant category for FIs and ECAs is Category 15: Investments, as this most closely addresses Scope III emissions as applicable to investors and multilateral banks. In 2016, 92% of Fortune 500 companies who were engaged with the Carbon Disclosure Project reported their emissions via the GHG Protocol, either directly or indirectly. In fact, many of the frameworks assessed within this study are based off the GHG Protocol [Annex XIV]. The standard requires that companies report on Scopes I and II, with Scope III remaining

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133 For example, documents of ADSB’s parent companies, Atradius N.V. and GCO, were also assessed, given that ADSB made numerous references to adopting its parent companies’ CSR Policies. This formed part of a policy referencing pattern noticed especially in the case of ADSB’s policies.
optional (sec. 3.3.3). FIs may also choose to report on any of the Scope III emissions they want, including for example business travel and employee commuting (upstream). While some FIs do try to report on the meaningful Scope III emissions (i.e. use of sold products, processing of sold products), many find it too hard to do so, and not worth the effort, especially given the lack of regulatory pressure.\(^{137}\) Additionally, the GHG Protocol does not give tailored guidance to FIs such as ECAs. While it does mention ECAs in its Category 15 standard, the GHG Protocol understands very little about how ECAs operate.\(^ {138}\) Although, there is an anticipated need to revisit this work, there have not been any discussions on this at the moment.\(^ {139}\)

> [The GHG protocol] tried to measure emissions of financed portfolios, but [was] unable to do so as many banks did not fully support the projects, claiming the results were meaningless... GHG protocol and Science Based Targets haven't identified ECAs as a target for GHG mitigation."\(^ {140}\)

Given the lack of a fitting regulatory landscape to support the implementation of the Corporate Value Chain/Scope III emissions for Category 15: Investments, the GHG Protocol is not sufficiently capable of guiding FIs to align their financing with the PA, let alone ECAs, without additional steps taken by the FI itself, the government, or international supervisory entities, such as the OECD. More importantly, the research also finds that the GHG Protocol is currently unable of properly standardizing guidance specifically for ECAs, due to a lack of supporting legal systems, project finance complexities, and ECA structural diversity.\(^{141}\) To this end, the GHG Protocol is, on its own, not a strong enough framework to guide ECAs towards meeting the goals of PA Article 2.1c.

The GHG Protocol is referenced only in EDC’s documents. However, as Fig. 12 of sec. 4.3.10 indicates, the protocol is the standard of reference for several other frameworks cited in this study, meaning that other ECAs use this standard as well, either indirectly or directly.

- **EDC**
  - Operational Footprint Data\(^ {142}\)
    - Operational carbon foot-printing only, and not actually applied to project financing, as far as this research can tell.

4.3.3. GRI

*(Based on GHG Protocol)*

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\(^{137}\) Interview 1. Phone. Climate Finance Expert 4; M. 26 Feb 2019 (27min)
\(^{138}\) Interview 7. Skype. Climate Finance Expert 1; F. 06 Sep 2019 (39min)
\(^{139}\) Ibid
\(^{140}\) Ibid
\(^{141}\) Ibid

1. Ibid
2. Interview 4. Skype. Climate Finance Expert 2; M. 25 Apr 2019 (51min)
3. E-mail 8. Climate Finance Expert 1 to Adrien Tofighi. 27 July 2019

\(^ {142}\) EDC, (2019). Operational Footprint Data.
GRI is an independent international organization that has spearheaded CSR and sustainability reporting for over two decades. The GRI Sustainability Reporting Standard provides guidance on emissions reporting through its GRI 305 Emissions standard which is based entirely on the GHG Protocol’s Corporate Standard and the GHG Protocol’s Corporate Value Chain (Scope III) Accounting and Reporting Standard.\textsuperscript{143} GRI does not suggest that its standard elaborates or builds on that of the GHG Protocol’s. Therefore, GRI 305 does offer guidance on Scope III emissions accounting, but is equally unable to address the relevant upstream and downstream Scope III emissions for ECAs in the same way that the GHG Protocol does (\textit{sec. 4.3.2}). Furthermore, GRI 305 does not offer any language on ECAs or give specific guidance to public finance institutions, reaffirming a likely lack of understanding towards ECAs.

GRI, and more specifically GRI 305, is not sufficiently capable of guiding FIs to align their financing with the PA, without additional steps taken by the FI, the national governments backing the ECAs, or international entities with ECA oversight, such as the OECD. More importantly, GRI is currently unable of properly standardizing guidance specifically for ECAs, and therefore is not a strong enough framework to guide ECAs towards meeting the goals of PA Article 2.1c. The ECAs that reference GRI as a CSR and sustainability standard to help them meet international climate commitments are:

- \textbf{ADSB}
  - Atradius N.V.: 2017 Annual Report\textsuperscript{144}
    - ADSB N.V mentions usage of GRI in its 2017 Annual Report but no longer in its 2018 Annual Report.\textsuperscript{145} It is also unclear whether or not Atradius N.V. intended to use the GRI for internal/operational carbon footprinting, or for its portfolio.

- \textbf{EDC}
  - Environmental and Social Risk Management Policy\textsuperscript{146}

\subsection*{4.3.4. EPs}
\textit{(Based on IFC Performance Standards \& WB EHS)}

The Equator Principles is a voluntary “risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects.”\textsuperscript{147} Regarding financed emissions, they are less of a methodology than they are a set of principles with a checklist. The EPs have been known to lack significant scientific guidance, and its principles have been considered too broad, as well as too subjective for proper implementation, by FI industry stakeholders.\textsuperscript{148} The EPs are based on the IFC Performance Standards and EHS Guidelines for guidance, both of which do not address relevant Scope III financed emissions for FIs but instead provide guidance to project

\begin{flushright}
\textsuperscript{143} Global Reporting Initiative. GRI 305: Emissions. \\
\textsuperscript{144} Atradius N.V.: Connected - 2017 Annual Report Atradius N.V. (2017) \\
\textsuperscript{145} The only language hinting any usage of GRI, either formally or currently: “In addition, we monitor our greenhouse gas emissions and our methods of disposal of waste materials” Atradius N.V., (2018). The DNA of Atradius: Annual Report \\
\textsuperscript{146} EDC, (2019). Environmental and Social Risk Management Policy. \\
\textsuperscript{147} Equator Principles, About. (accessed on June 2019) \\
2. ECA-Watch Seminar Notes, 11-13 Mar 2019 \\
3. E-mail 1. CSO Staff 17 to Adrien Tofighi. 18 Nov 2019
\end{flushright}
operators. The EPs have essentially adopted existing standards which are already been applied internationally, turned these into optional for adoption, and added principles. Though little, they do give attention specifically to ECAs. A UNEP inquiry on the EPs however concluded that FIs often adopt the EPs for reputational purposes and mitigate certain related risks, but that they did not necessarily change the way most FIs conducted their business. In November 2019, the EPs were reviewed internally during which CSOs requested special review for Principle 3: Applicable Environmental and Social Standards (formerly EP4), the most pertinent principle for FIs and ECAs. The report concluded that recommendations to include Scope III emissions would not be possible since “reporting is still fairly new and evolving. It would be challenging to implement at the project level given the 15 categories (see 3.3.3) of potential Scope III emissions.” The final assessment stated that EP3 had not been reviewed in favor of current requirements of the PA, citing that the new version; remained full of discretionary language, had no changes in transparency commitments, and did not give any new guidance on limiting financing for projects with severe impact on climate.

EP is therefore not a substantially relevant framework to guide FIs or ECAs towards meet international climate commitments such as PA Article 2.1c, and has been referenced by EDC and UKEF as a guiding CSR and sustainability framework:

- **EDC**
  - Understanding EDC’s Project Review Process
  - Environmental and Social Risk Management Policy

- **UKEF**
  - UKEF’s Implementation of the Equator Principles 2018 - 2019
  - Policy and practice on Environmental, Social and Human Rights due diligence and monitoring
  - External Process Update

4.3.5. IFC Performance Standards

The IFC Performance Standards “define IFC clients’ responsibilities for managing their environmental and social risks.” IFCPS 3 Resource Efficiency & Pollution Prevention is considered the most relevant performance standard for ECA stakeholder project financing. The IFC Performance Standard enforces pollution prevention guidance for “clients”, otherwise known as “the party responsible for implementing and operating the project that

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153  E-mail 1. CSO Staff 17 to Adrien Tofighi. 18 Nov 2019


159  IFC., IFC’s Environmental and Social Performance Standards. (accessed March 2019).
is being financed, or the recipient of the financing.” GHG emissions mitigation guidance therefore focuses heavily on operators. An ECA and its clients may commit to the IFC Performance Standards, but there is no language within the ECA documents on how an ECA might hold their IFC-compliant supply chain operators to account on these standards. Furthermore, the only mention of indirect emissions within IFCP 3 is if a project is expected to produce >25,000 tonnes of CO2 annually. In this case, the client is expected to quantify “off-site generation by others of electricity, and heating and cooling energy used in the project.” It is also up to the client to measure these emissions annually per “internationally recognized methodologies and good practice”, citing the option to select methodologies by the IPCC, various international organizations, and relevant host country agencies.

However it has been questioned just how reasonable it is for a lending institutions, the World Bank, which oversees the IFC Performance Standards, to also be responsible for ensuring that parties are held to account.

Throughout this frameworks assessment and communications with concerned CSOs, the findings suggests that the IFC Performance Standards may be a good point of reference for carbon-intensive facilities, whereas an ECA providing financing to a client for which the infrastructure will support the FF industry, but is not necessarily a carbon-intensive facility in and of itself (i.e. dredging, or transportation infrastructure), will be considered to have minimum climate impact (Annex XIII). The second significant shortcoming of the IFC Performance Standard is similar to that of the GHG Protocol, which is that identifying and reporting on the more relevant downstream or upstream emissions remains optional and heavily in the hands of the companies along the supply chain. The nature of diffused responsibilities across a supply chain, along with reporting complexities, means that ECAs are likely unwilling and more importantly incapable of ensuring that the relevant indirect emissions of their financed projects are understood, accounted, let alone mitigated. While the IFC Performance Standards have introduced much needed pollution prevention and energy efficiency standards over the past two decades (Annex XV), the IFC Performance Standards are not a robust enough framework for ECAs to align their project financing with PA Article 2.1c., given the current need of meeting stringent international climate targets. The ECAs referencing the IFC Performance Standards as a means to meet these targets are:

- ADSB
  - Atradius DSB CSR Policy
  - Environmental and Social Policy Document
  - Policy Statement: Corporate Social Responsibility


163 Ibid


165

1. Survey & Questionnaire Responses, CSO Staff 1
2. Interview 6. Phone. ECA Staff 1; F. 08 Aug 2019 (57min)
3. E-mail 26. CSO Staff 1 to Adrien Tofighi. 23 Sep 2019

166 Interview 4. Skype. Climate Finance Expert 2; M. 25 Apr 2019 (51min)

167 Survey & Questionnaire Responses, CSO Staff 5


The complexity of ECAs is a huge contributor to the lack of problem-solving capacity. This will make any clear strategy of imposing carbon-risk disclosure more difficult. Although there are some parallels with development aid, some are straightforward, some are much more complex... [GHG] accounting methodologies would be ridiculously hard... The broader point is that we need to avoid fossil fuels”

- Climate Finance Expert

4.3.6. OECD

- Arrangement on Officially Supported Export Credits
- Guidelines for Multinational Enterprises (OECD Guidelines)
- Recommendations of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches)

The OECD stands out as it is not a framework in and of itself, but offers various guidelines defining the standards of international trade, project finance, and investment. As an intergovernmental economic organization that sets the standard for many policies, OECD is well placed to take leadership in making sure that companies and countries have the necessary regulatory landscape to meet current global needs. The three significant frameworks relating to ECA financing in carbon intense industries are the OECD Common Approaches, the OECD Guidelines, and the OECD Arrangement, the Arrangement mostly provides guidance on setting financial terms to create a level playing field across ECAs. Perhaps one of the more referred to achievements of the OECD Export Credit Group has been to impose limits on inefficient coal-power plant financing, leading ECAs like UKEF, for example, away from direct inefficient coal-power plant financing. However, ECA Watch CSOs claim that these coal-related restrictions come nowhere near the necessary standard

171 ADSB, (no date). Information Disclosure Policy
172 EDC, (no date). Understanding EDC's Project Review Process
175 EDC, (2010). Disclosure Policy. Export Development Canada
178 Interview 4. Skype. Climate Finance Expert 2; M. 25 Apr 2019 (51 min)
179 Survey & Questionnaire Responses, CSO Staff 5
to be meaningful in any way, with CSOs citing that so-called efficient coal-powered plants generally emit almost just as much as ordinary ones.\footnote{180} Nonetheless, improving OECD-related frameworks is considered one of the best strategies that governments have in setting a PA-aligned standards.\footnote{181}

**OECD Arrangement**

The Arrangement offers practical but non-legally binding guidance on climate-change mitigation and adaptation projects, referring specifically to projects of low carbon intensity. It classifies various climate change mitigation projects, such as carbon capture and storage, waste-to-energy, and hybrid power plants.\footnote{182} This is incredibly important guidance for those enterprises leading the way in the energy transition, but misses the recurring inability to provide guidance on how to reduce the carbon intensity of an existing portfolio. Even within this set of climate change mitigation and adaptation guidelines, which applies mainly to the renewable energy sector, the sector understanding “does not apply to items located outside the power plant site boundary for which the buyer is usually responsible,”\footnote{183} reiterating the lack of attention given to indirect emissions and downstream/upstream project-related effects. Surprisingly, there is also no guidance on terms and conditions for “regular” fossil-fuel power plants (i.e. anything that is not considered part of the “renewable energy sector”), other than a paragraph on repayment terms for “non-nuclear power plants.”\footnote{184} The OECD Arrangement’s terms and conditions, while useful and necessary for good export credit practices, are not designed to serve as an emissions mitigation framework, thereby invalidating any reference to it as meaningful guidance framework for meeting international climate commitments.

All three ECAs are indirectly committed to the OECD Arrangement as their host countries are participants to the Arrangement.\footnote{185}

- ADSB\footnote{186}
- UKEF\footnote{187}
- EDC\footnote{188} \footnote{189}

**OECD Guidelines**

On portfolio disclosure, the (voluntary) OECD guidelines “encourage a second set of disclosure or communication practices in areas where reporting standards are still evolving such as, for example, social, environmental and risk reporting. This is particularly

\footnotesize
\begin{enumerate}
\item E-mail 1. CSO Staff 18 to Adrien Tofighi. 24 Mar 2019
\item E-mail 17. CSO Staff 3 to Adrien Tofighi. 09 May 2019
\item E-mail 16. CSO Staff 3 to Adrien Tofighi. 09 May 2019
\item ECA-Watch Seminar Notes. 11-13 Mar, 2019
\end{enumerate}

\footnotetext{180}{OECD, (2008). Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-income countries.}

\footnotetext{181}{Ibid}

\footnotetext{182}{Ibid}

\footnotetext{183}{Ibid}

\footnotetext{184}{Ibid}

\footnotetext{185}{EDC meets the terms and conditions of ‘the Arrangement’ in accordance with Canadian law (see EDC notes in Annex XIV).}

\footnotetext{186}{OECD, (2019). Arrangement on Officially Supported Export Credits.}

\footnotetext{187}{Ibid}

\footnotetext{188}{Ibid}

\footnotetext{189}{Ibid}

\footnotetext{180}{EDC, (2018) Evolving with the changing needs of exporters.}
the case with greenhouse gas emissions, as the scope of their monitoring is expanding to cover direct and indirect, current and future, corporate and product emissions.\textsuperscript{190} The inability of regulatory oversight by the OECD on indirect emissions is exemplified in its "encouragement" to disclose those emissions. It is meaningful and relevant that the OECD cannot do more than encourage this type of disclosure, by stating this. This same inability to reach indirect emissions accounting in project finance is also reflected by the GHG Protocol’s language on reporting Scope III emissions "if relevant and available"\textsuperscript{(sec. 4.3.2)}. Consequently, while the Guidelines are designed for MNEs, they are currently less a suitable framework for FIs to be held to account on their portfolio’s impacts, and also less a suitable set of guidelines for ECAs seeking PA Article 2.1c alignment.\textsuperscript{191} In an October 2019 update for banks implementing the guidelines, OECD encouraged banks to leverage their influence onto clients, and engage more significantly in public policy advocacy to raise minimum ESG standards.\textsuperscript{192} It is, however, ultimately in the hands of ECAs to take on these considerations, and to develop on their own mechanisms for doing so.\textsuperscript{193}

The ECAs that commit to OECD Guidelines are:

- **ADSB**
  - Environmental and Social Policy Document\textsuperscript{194}
  - Policy Statement: Corporate Social Responsibility\textsuperscript{195}
  - Information Disclosure Policy\textsuperscript{196}

- **EDC**
  - Corporate Sustainability and Responsibility: Business Integrity\textsuperscript{197}

- **UKEF**
  - Note on Human Rights and Social Risks and Impacts\textsuperscript{198}

**OECD Common Approaches**
*(based on IFC Performance Standards)*

The OECD Common Approaches are the main standard of reference for ECA due diligence of environmental and social safeguards. They are not only designed to “promote coherence between Adherents’ policies regarding officially supported export credits, their international environmental, climate change, social and human rights policies, and their commitments under relevant international agreements and conventions," but also to establish a global level playing field of environmentally-related project finance practices.\textsuperscript{199}

The Common Approaches, along with the IFCPS and the World Bank EHS Guidelines, have defined appropriate classification of projects based on their environmental impact [Annex]

\textsuperscript{190} OECD, (2011). OECD Guidelines for Multinational Enterprises

\textsuperscript{191} E-mail 5. CSO Staff 3 to Adrien Tofighi. 23 Apr 2019

\textsuperscript{192} OECD, (2019). Due Diligence for Responsible Corporate Lending and Securities Underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises.

\textsuperscript{193} 1. Ibid

\textsuperscript{194} ADSB, (no date). Environmental and Social Policy Document

\textsuperscript{195} ADSB, (2018). Policy Statement: Corporate Social Responsibility

\textsuperscript{196} ADSB, (no date). Information Disclosure Policy

\textsuperscript{197} EDC. Corporate Sustainability and Responsibility: Business Integrity.

\textsuperscript{198} UKEF, (no date). Note on Human Rights and Social Risks Impacts.

Perhaps the most important component of the Common Approaches, for this study, is its reference to the IFC Performance Standards as the main standard of use for conducting this due diligence, specifically, IFCPS 3 (sec. 4.3.5). The Common Approaches however do not refer to indirect emissions for Scope III, and refer only to a project’s Scope I and II emissions. Consequently, while a client/project-operator could technically report on indirect Scope II emissions, there is no indication in the Common Approaches that an ECA, which financially backs this project, would need to take its own Scope III emissions into account. Additionally, the Common Approaches encourage clients to report on Scopes I and II emissions where relevant and feasible. Consequently, the Common Approaches, without any regulatory backbone, are anything but a reliable framework for aligning FIs with PA 2.1c.

The ECAs from this study that commit to the Common Approaches are:

- **ADSB**
  - Corporate Social Responsibility and Export Credit Insurance
  - Environmental and Social Policy Document
- **EDC**
  - Environmental and Social Risk Management Review Guideline
  - Disclosure Policy
- **UKEF**
  - Note on Human Rights and Social Risks and Impacts
  - UKEF’s Implementation of the Equator Principles 2018-2019
  - Categorisation for cases issued 2018 - 2019
  - Policy and practice on Environmental, Social and Human Rights due diligence and monitoring

4.3.7. TCFD  
*(Based on GHG Protocol)*

The TCFD is a voluntary climate-related financial risk disclosures framework. TCFD is designed to offer FIs guidance on what to expect from market shifts towards a more climate-aware financial industry. The climate-related financial disclosure recommendations focus on governance, strategy, risk management, and metrics and targets. TCFD does offer meaningful guidance on portfolio-level and strategic

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200 Ibid  
201 ADSB, [2017]. Corporate Social Responsibility and Export Credit Insurance Policy.  
202 ADSB, [no date]. Environmental and Social Policy Document  
203 EDC, [2019]. Environmental and Social Risk Management Policy.  
204 EDC, [2010]. Disclosure Policy.  
205 UKEF, [no date]. Note on Human Rights and Social Risks Impacts  
210 TCFD. About the Task Force. (accessed on June 2019)  
211 TCFD, [2017]. Final Report: Recommendations of the TCFD.
organizational reforms which can help FIs become more climate-resilient, focusing heavily on climate risks. TCFD however acknowledges the major shortcomings of current Scope III emissions accounting and reporting standards citing:

The gaps in emissions measurement methodologies, including Scope III emissions and product life-cycle emissions methodologies, make reliable and accurate estimates difficult...[and] the lack of robust and cost-effective tools to quantify the potential impact of climate-related risks and opportunities at the asset and project level makes aggregation across an organization’s activities or investment portfolios problematic and costly.

Box 5: TCFD Scope III Difficulties

TCFD is based on the GHG Protocol [sec. 4.3.2]. TCFD’s recommendations do not contain any language or guidance for the international project finance industry, nor do they even mention ECAs or the export credit industry in their climate risk-proofing approach. Furthermore, a company can sign up to become a TCFD supporter in a quick form, and be listed immediately on the project’s “TCFD Supporters” list without the need for approval. In the case of EDC, it’s still unclear exactly how it plans to address these climate risks, while its adoption of TCFD is also seen largely as a reputational move, more than a substantive one. Finally, TCFD serves primarily as a risk-assessment toolkit, and not necessarily a mitigation framework. In its Framework for Alignment with the Paris Agreement, the Institute for Climate Economics warns against shortsighted risk-assessment approaches, citing:

As such, risk management approaches would need to be adapted to lead to either real reductions in emissions, increases in resilience the redirection of financial flows from at-risk activities and assets to activities and assets that do not undermine and/or have direct and indirect contributions to the three goals of the Agreement. Financial institutions that are principally approaching Paris Alignment from a climate risk perspective must question their strategies to determine “At what point does managing risks lead to increasing direct and indirect contributions to long-term low GHG climate-resilient development”?

Box 6: 14CE on climate risks

Though likely a useful framework for investment banks to assess direct climate risks, TCFD is not a significant nor suitable framework to guide ECAs towards meeting the goals of PA Article 2.1c. The only ECA that references TCFD as a CSR and sustainability framework is:

212 Ibid
213 Ibid
214 Ibid
215 Ibid
4.3.8. UNGC

(Based on GHG Protocol)

The UN Global Compact is a voluntary initiative designed to help companies contribute to the SDGs. The initiative provides a set of principles, three of which address environmental issues. The three principles state that businesses should “support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies.” UNGC’s uniqueness across these frameworks is to offer portfolio-level strategy guidance, especially on unlocking green finance and offsetting emissions through trading schemes for foreign direct investments. The framework reflects a global portfolio greening movement, which is considered an important step in identifying new industries for project finance. However, greening strategies often do not give guidance on steps that can be taken to also reduce the current carbon-intensity of a portfolio. In other words, an ECA can finance more renewable energy infrastructure while still financing the same level of FF-related infrastructure.

The UNGC’s principles also remain subjective to interpretation, and lack any requirement for implementing reductions in financed emissions, as seen with the case of ADSB in sec. 4.2.3. The principles specifically offer significant guidance on direct and operational-level environmental impact, such as creating more sustainable production and consumption programmes, and employing energy efficient technology. ADSB’s official reporting of UNGC refers almost entirely to facility-restricted operational improvements, such as reducing office waste and banning single use plastics from the HQ’s restaurant. While these are important steps to take for any large organizational operation, the very fact that this reporting is acceptable for FIs suggests broad subjective interpretation and a lack of meaningful requirements from the UNGC to actually align FIs with PA 2.1c. Additionally, the UNGC is based on the Science-Based Targets initiative, which uses the GHG Protocol’s standard.

The UN Global Compact is therefore not a suitable framework for guiding FIs towards lowering their financed emissions, let alone ECA-type project financing. The only ECA that references the UNGC is:

- ADSB

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218 UNGC, The Ten Principles of the UN Global Compact. (accessed July 2019).
220 1. Interview 1. Phone. Climate Finance Expert 4; M. 26 Feb 2019 (27min)
   2. Survey & Questionnaire Responses, CSO Staff 5
   3. Phone Communication, CSO Staff 1, 09 Sep 2019
221 Interview 6. Phone. ECA Staff 1; F. 08 Aug 2019 (57min)
222 Survey & Questionnaire Responses, CSO Staff 1
4.3.9 WB EHS

The World Bank’s Environmental, Health, and Safety (EHS) Guidelines are “technical reference documents with general and industry-specific examples of Good International Industry Practice (GIIP) and are referred to in the World Bank’s Environmental and Social Framework and in IFC’s Performance Standards” offering guidance in four sectors; 1) environmental; 2) occupational health and safety; 3) community health and safety, and; 4) construction and decommissioning. The World Bank Group sets its ESG requirements for borrowers and clients through the EHS Guidelines and the IFC Performance Standards (IFCPS). As the terms suggest, the IFCPSs are a set of standards, while the EHS guidelines provide an added value to those standards, which is that of greater coordination and policy harmonization, ESG clarity and guidance, and stronger development impact.

However, the EHS Guidelines provide guidance for clients on the receiving end of loans, guarantees, and credits, to understand and measure their direct emissions, and not any downstream or upstream impacts. Clients are then expected to accurately report on these impacts accordingly. OECD project classification means that an ECA can finance various infrastructural or support transactions along the supply chain of an oil or gas exploration project and classify these as having no impact, thereby requiring no environmental or social review process. This was the case with ADSB’s energy sector project finance between 2012-2015: out of the 78 transactions headed toward FF-related support, 32 required zero ESG review, as these were considered maritime or aviation support operations, thereby not considered to have any EHS impact. Consequently, EHS guidelines remain limited to immediate emissions and do not consider the influence of capital on successfully contributing to downstream or upstream emissions, thereby not being of great use for PA alignment. If 60 – 80% of existing oil, gas, and coal reserves are unburnable, carbon-intensive supply chain support operations will also need to be addressed and downsized. The WB’s EHS guidelines does not indicate any capacity to do this, as it is likely just not part of its original design.

While the guidelines are certainly an important part of making sure ECAs understand their clients’ direct emissions or direct environmental impacts, abiding to the guidelines does not mean that ECAs can measure, let alone mitigating, any of the downstream or upstream emissions that will result from the successful implementation of those transaction or project. Consequently, the EHS Guidelines are not suited to align ECAs with PA 2.1c. The ECAs that reference the WB EHS are;

- UN Global Compact (based on GHG Protocol)
  - Corporate Social Responsibility and Export Credit Insurance
  - Corporate Responsibility Statement
  - Atradius N.V.: UN Global Compact - Communication on Progress 2019
  - Policy Statement: Corporate Social Responsibility

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229 IFC, (no date). EHS Guidelines.
230 Ibid
In the process of searching for “the golden standard,” the Agence Française de Développement (AFD), a development agency and not an ECA, stands out as having some of the most comprehensive language of Scope III emissions reporting in project finance. The language in its methodology suggests a relatively high(er) political will across its leadership than the ECAs studied in this research, to properly account for its financed emissions. Methodological emphasis is placed on an ex-ante approach for new projects (basing its project-approval process on forecasted emissions) as opposed to ex-post assessment of GHG emissions (measuring emissions of already approved projects). An ex-ante GHG mitigation methodology was also the preferred approach for the Swedish ECA context, though this has yet to be materialized also due to complexities. However AFD does cite the significant barriers to implementing its methodology, such as double-counting, lack of supply chain oversight, and an incoherent regulatory context (i.e. EU ETS). Despite the agency’s apparent willingness to address meaningful Scope III emissions, the AFD confirms its inability to fully measure these, but the methodology does give guidance on measuring the main sources of indirect emissions (Scopes II, and sometimes III), where possible. Despite its attempted thoroughness, AFD’s methodology concludes that a lack of supply chain oversight and an incoherent regulatory context renders the methodology likely ineffective. It’s possible then that AFD’s methodological shortcomings, and more significantly, the shortcomings of most international GHG emissions accounting and mitigation methodologies, are not a reflection of a poorly designed scientific tool but instead of a poorly designed landscape for the applicability of that tool.

Box 7: Additional remarks on AFD’s GHG Methodology

4.3.10. Conclusion

This phase of the study first assesses ECA commitments to external climate-related frameworks and guidance protocols in order to help them meet international climate targets. It then assesses the applicability of these frameworks for ECA-type project finance. Figure 12 below summarizes the research findings for this phase. The author also assessed additional climate-related frameworks for FIs (i.e. PCAF, SBT), but did not include an in-depth written assessment for these as they were not cited in the three ECAs’ policy documents, in order to remain within the scope of the study. This phase concludes with three recurring conclusions;

1. Scope III emissions accounting and reporting is complex, increases in complexity based on the financing model of an FI, and Scope III accounting and reporting remains optional per international standards. Furthermore, the sub-categories most relevant to FIs in Scope III emissions mitigation (sec. 3.3.3) are not given any particular attention;

2. Even if these weren’t optional, these guidelines are either written for ECAs on general environmental practices, or for other types of FIs on GHG mitigation. No

References:
- ADSB, (no date). Environmental and Social Policy Document
- Interview 6. Phone. ECA Staff 1; F. 08 Aug 2019 (57min)
- Ibid
ESG or climate-related framework is designed specifically for ECAs as well as Scope III emissions accounting and mitigation, and;

3. On the topic of climate change, ECAs immediately point to these frameworks in their policy documents, thus heavily depending on external and extraneous guidance. Specifically, ECAs indirectly depend primarily on two international standards in GHG emissions accounting and reporting (GHG Protocol, and IFC Performance Standards), both for which points 1 and 2 apply to.

In all cases, the findings conclude that none of GHG emissions accounting and mitigation frameworks assessed are designed to properly guide ECAs, and therefore their governments, in alignment with PA 2.1c. This also suggest that due to its complexities, a GHG mitigation and accounting methodology may in fact deter from the broader goal of decarbonisation. Indeed, the lack of proper ECA fiscal carbon governance, both national and international, may contribute significantly to this conclusion, and is elaborated upon in the following chapter.

Figure 12: ESG-Climte frameworks: ECA and Scope III applicability
Source: Author; see Sec. 4.3.10 (see Annex XIV for table notes)

<table>
<thead>
<tr>
<th>International Standards, Frameworks, and Guidelines for FI Climate Change Mitigation</th>
<th>Is the framework</th>
<th>ECAs</th>
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<td>Scope 3-relevant</td>
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<td>Nat. Extractive Industries Transparency Initiative (EITI)</td>
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<td>✓</td>
</tr>
<tr>
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<td>✓</td>
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<td>Priv. IFC Performance Standards (International Finance Corporation)</td>
<td>✓</td>
<td>✓</td>
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<td>Priv. Equator Principles</td>
<td>✓</td>
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<td>Nat. OECD Common Approaches</td>
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<td>Nat. World Bank Group EHS Sector Guidelines</td>
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<td>Nat. OECD Arrangement on Officially Supported Export Credits</td>
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<td>Priv. OECD Guidelines for Multinational Enterprises</td>
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<td>Priv. PDC (Portfolio Decarbonization Coalition)</td>
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<td>Priv. UN PRI (Principles for Responsible Investment)</td>
<td>✓</td>
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<td>Priv. UNEP-Fi (Finance Initiative - Principles for Responsible Banking)</td>
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- **✓** Yes
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- **☒** No

4.4. FISCAL CARBON GOVERNANCE

4.4.1 Introduction

This phase of the study addresses the potential barriers, responsibilities, and consequences associated with good governance in FF-financing. It first gives an overview of the regulatory nascency found throughout communications and documents. It then highlights the absence of guidance and political will from national and international political actors
tasked with guiding ECAs. Finally, the study addresses the current and potential consequences of low political will and weak regulatory structures on international project finance stakeholders and the broader global community.

The EU defines fiscal governance as “the rules, regulations and procedures that influence how budgetary policy is planned, approved, carried out, monitored and evaluated.”\textsuperscript{240} This research defines \textit{Fiscal Carbon Governance} as the set of rules, regulations, and procedures influencing capital flows in carbon-intensive industries, and how these are planned, implemented, monitored, and evaluated. \textit{Influencing} is defined quite simply as the power or ability to affect a thing, such as an industry. In the case of international project finance, influence over an industry is the contribution to the implementation of a carbon supply chain’s parts, for which each part is designated a value associated to the success of the overall project.

The various processes or definitions required for establishing good FCG are not new, but combining them does mean giving more clarity, direction, and perhaps meaning to decarbonisation for the financial industry. The case for stronger FCG is supported by the fact that firms with strong governance export fewer emissions than those with weak governance.\textsuperscript{241} The focus of this research however means that fully defining the scope of this term is not possible, nor is it the intention. Instead, this phase of the study uses FCG as a sub-theoretical framework. The purpose is to highlight the importance of explicitly labeling what is otherwise an ambiguous direction. This means giving transparency, responsibility, regulatory support, guidance, and implementation a context within to study the issue. The following section elaborates on the weakness or ambiguity of these elements as observed across the three case studies.

\subsection*{4.4.2. Regulatory Nascency}

According to some CSOs in this study, current regulatory structures do not give enough attention to ECA operations.\textsuperscript{242} This lack of structure makes decarbonisation that much more difficult. The consequence of poor regulatory design is that agents will function in ways that best meet their needs. The complexities of international project finance are only due to those agents’ subjective interpretation of loose regulations and guidance, and their legal ability to meet certain needs the way they see fit, depending of course on their context. This “what works” approach makes each ECAs entirely different from one another, a trait not unfamiliar to sovereign states. Naturally, a government-backed corporation is just an extension of that sovereign diversity imposing itself onto market structures. This is primarily what makes collective goals hard to reach. However, the OECD Arrangement was established in 1978 after years of collective efforts to redefine MNE behavior with regards to human rights. While there will always be progress to be made, human rights policies have had the benefit of a longer historical evolution than climate change policies, so the ability to make these collective decisions is not impossible.

According to many CSOs the first step towards accountability is better transparency to assess what is/is not being done. Low transparency also means that it’s difficult to establish an international baseline for ECA project finance. Indeed, this research is only possible due to each of the three countries’ publicly accessible policy documents and data – a level of

\textsuperscript{240} European Commission, (no date). What is Fiscal Governance?
\textsuperscript{241} Ben-David, I., et al., (2018). Exporting Pollution: Where do Multinational Firms Emit CO2?
\textsuperscript{242} ECA-Watch Seminar Notes. 11-13 Mar, 2019
transparency which is absent for many other ECAs. While progress has been made on this, most ECA-Watch CSOs believe that the ECAs they focus on are generally unwilling to be that much more transparent than their current project financing transparency (see Fig. 13). This may be due to a combination of protection of privacy laws and an ECA’s concerns for reputational risks. Furthermore, the OECD’s Common Approaches and its EU equivalent 1233/2011 do not provide adequate measures to ensure transparency, with CSOs citing instances of misleading and/or erroneous reporting.

In the case of UKEF, its statutory purpose does not contain “a developmental or environmental statement in there at all. It is support for exporters.” In fact UKEF’s CEO has acknowledged that its “reporting does not include Scope III emissions...[as] there is no requirement on us to do that at the moment.” Climate change language is consequently often omitted in ECA documents, seemingly not by moral judgment but by the lack of legal precedent. For example, human rights policies form the core of ESG content in all three ECAs. In fact, human rights policies were almost always embedded in ESG policy documents, whereas climate change policies did not always appear. Indeed, climate change policies were given the least content attention or elaboration from the ECAs.

A literal example of this is in EDC’s Environmental and Social Risk Management Review Guideline, which focuses on good environmental practices to mitigate social risks. The Guideline makes six references to human rights, including a requirement for companies to declare any significant environmental, social, or human rights risks associated with the project. The guideline makes half as many references to climate change, stating that it is in the process of defining proper guidelines for it. EDC was however the most thorough of the three ECAs in making the clear distinctions between these three categories. Above

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243 ECA-Watch Seminar Notes, 11-13 Mar 2019
244 OECD, (2013). The OECD Private Guidelines
245 ECA-Watch Seminar Notes, 11-13 Mar 2019
246 ECA-Watch, Transparency (accessed June 2019)
247 Survey & Questionnaire Responses (2019)
249 Ibid
250 All policy documents in Annex IV
Ground indeed confirms that “there is nothing in EDC’s new climate change policy to ensure that its oil and gas clients will in fact lower their emissions,”\(^{252}\) Furthermore, EDC does not define “carbon intensity of lending portfolio” anywhere in its documents, despite mentioning the term in its policies, nor did it have an answer on how it planned to do so.\(^{253}\) The difficulty in exposing something that doesn’t exist is reflected here, as almost none of the documents assessed in sec. 4.2 provided any substantive language on how ECAs would enforce international standards or hold their clients to account. After all, this is simply not perceived as the role of ECAs, despite their influence.

The case for ADSB is taken to the other extreme, as its Environmental and Social Policy Document references human rights 32 times, while referencing climate change zero times.\(^{255}\) Throughout ADSB’s documents, there is strong evidence that it does indeed care to meet its regulatory requirements and enforce policy when necessary, but it also very obviously fulfills the minimum requirements on these safeguards wherever legally possible.\(^{256}\) This logic is reflected especially in one of its charts on organizational priorities, where “corporate governance and risk management” was amongst the most important, while “environmental protection and sourcing” was the very last, out of 12 categories.\(^{257}\) This is not a suggestion of ADSB’s poor responsibility, as much as it is a suggestion of the poor legal and economic structures surrounding these ECAs. In some cases, the shortcomings of Sec. 4.3 are not only limited to external frameworks but also to national policies. For example, ADSB’s CSR policy states that it has integrated the Dutch government’s policy on CSR into its operations and activities,\(^{258}\) yet the Dutch government makes clear that its CSR policy is not actually regulated by

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\(^{252}\) Above Ground, (2019). With new limits on coal but none on oil and gas, EDC’s climate policy misses the mark.

\(^{253}\) E-mail 9. CSO staff 2 to Adrien Tofighi. 12 Feb 2019

\(^{254}\) Interview 3. Skype. CSO Staff 2; F. 24 Apr 2019 (44min)

\(^{255}\) ADSB, [no date]. Environmental and Social Policy Document.

\(^{256}\) 1. Ibid


\(^{258}\) ADSB, (2017). Corporate Social Responsibility and Export Credit Insurance Policy
any legislation, and is entirely voluntary.\textsuperscript{259} Indeed, the absence of national accountability measures significantly weakens any statement on CSR.

Furthermore, in a request for disclosure by a CSO staff to its government’s ECA on accessing questionnaires that had been filled out by prior clients (as part of their ECI application for an export deal see Fig. 1), the CSO staff noted a vague questionnaire with worrisome responses ranging from “I don’t know” and “no negative effect” to “N/A” as a largely acceptable set of replies, as if to suggest nothing more than bureaucratic exercise.\textsuperscript{260} It is not beneficial to the ESG cause that ECA project-review and approval language also lacks the legal teeth to actually enforce any of the standards that it demands of its clients, such as going no further than “encouraging” their clients to limit their GHG emissions, for example.\textsuperscript{261} In this instance, the lack of accountability and general oversight of a project’s ESG standards becomes clear, consequently making clearer the difficulties of implementing any GHG mitigation strategy.

\begin{quote}
\textbf{ECA-Watch CSO Staff:}

Some [ECA] operations do not fall under the OECD Arrangement so they are not even classified in terms of environmental impacts.\textsuperscript{262}

\textbf{ECA-Watch CSO Staff:}

EDC is releasing a new disclosure policy between now and the end of December. It is limited by laws it cannot control, so it remains to be seen how different their policy will be because national laws on this haven’t changed.\textsuperscript{263}
\end{quote}

These weak regulatory structures can aggravate any GHG mitigation effort, as ECAs are notoriously known for giving reason to their activities by referring to the market forces of laissez faire economics.\textsuperscript{264} To some extent, this can indeed be perceived as a mechanism of neutralization, which in this case entails neutralizing a harmful activity by pointing to ones lack of control over that activity (see Annex X). On the subject of phasing out financing for FF-related operations, most ECAs conveniently respond that they are demand-driven, and that the agency cannot make discriminatory decisions towards any project so long as it meets international standards.\textsuperscript{265} Game theory studies on climate change indicate that cooperation for emissions reduction is more likely when other countries do the same,\textsuperscript{266} reinforcing the necessity of a stronger regulatory structure if governments are serious about meeting international climate goals. Consequently, the need for better supervision of ECA project review and approval process, is more than apparent.

\textsuperscript{260} E-mail 14. CSO Staff 8 to Adrien Tofghi. 09 Apr 2019
\textsuperscript{262} E-mail 25. CSO Staff 9 to Adrien Tofghi. 04 Sep 2019
\textsuperscript{263} Phone Communication, CSO Staff 2, 09 Sep 2020
\textsuperscript{264} ECA-Watch Seminar Notes. 11-13 Mar, 2019
\textsuperscript{265} 1. Interview 6. Phone. ECA Staff 1; F 08 Aug 2019 (37min)
2. ECA-Watch Seminar Notes. 11-13 Mar, 2019
3. Survey & Questionnaire Responses, CSO Staff 5
4. Interview 5. GoToWebinar. CSO Staff 4; F. 25 Apr 2019 (21min)
\textsuperscript{266} Wood, P., (2010), Climate Change and Game Theory, Environmental Economics Research Hub Research Reports.
4.4.3. The R in CSR

The various levels of assuming and deflecting responsibility can be identified as methods of neutralization (Annex X), and are seen not only with ECAs but also national governments and other institutions part of this industry. While these incidents weren’t always explicit, assessing how institutions interpret responsibility also plays an important role in understanding broader policy coherence, or lack thereof. If not already obvious, moral and legal responsibility hold two different spaces worth acknowledging. While moral responsibility might precede just about any decision-making determination, legal responsibility is preceded only by legal boundaries. Due the subjective nature of the former, the study only focuses on the latter.

At the ECA level, responsibility regarding climate change is commonly avoided by combining two factors; 1) the government is responsible, and 2) the client/buyer is responsible. As a stark example of this duality, ADSB legally frees itself of nearly all responsibility as an agency by stating in its ECI application form that OECD “Guidelines make clear how governments expect [clients] to behave… By signing the [ADSB] application form the exporter declares that it is familiar with these guidelines and will do its utmost to comply with them.” Simultaneously, ADSB also claims “international CSR terminology differentiates between causing, contributing to and being directly linked to negative impacts,” further highlighting the subjective interpretation of the word. On financed emissions, some FIs simply don’t believe that they have any real responsibility, partly due to just how indirect these seem to them. In fact, ECA’s “often discharge responsibilities onto clients,” as well as national governments, as noted above. Consequently, supervisory departments and ministries should be included when ECA responsibility is in question. In its Note on Human Rights, UKEF makes clear that “states are required to take additional steps to protect against human rights abuses by business enterprises that are owned or controlled by the State…such as export credit agencies.”
Indeed, there is significant distortion when laying blame on ECAs for their climate-change commitment malalignment, especially when all three ECAs refer to government authority for further guidance should there be the need. The importance of addressing government was also confirmed during various communications with CSOs, with some CSO staff emphasizing the need bypass discussions with ECAs and speaking directly with government officials, as a more effective strategy. Nonetheless, this “convenience” in poor regulatory design for ECAs does not make them reform-proof.

4.4.4. Guidance & Political Will

As ECAs are essentially government agencies, it seems clear where responsibility stands and therefore where guidance should be coming from, but this is not always the case. ECA-Watch CSOs have observed a generally low political will when discussing FF-phase out with the ministry/department involved in overseeing their ECAs.

This lack of guidance and will was not just observed with CSOs. In fact one ECA sustainability staff also raised concerns about its government’s inability to provide proper

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274 Export Development Canada Exercise of Certain Powers Regulations, SOR/94-410
275 ADSB, [no date]. Environmental and Social Policy Document
277 1. Interview 5. GoToWebinar. CSO Staff 4; F. 25 Apr 2019 (21 min)
2. ECA-Watch Seminar Notes. 11-13 Mar, 2019
3. Survey & Questionnaire Responses, CSO Staff 2
278 1. Ibid, all
2. CSO Observation Survey (2019)
implementation guidance with regards to climate change mitigation strategies. Furthermore, certain unwilling government officials have also been identified as significant barriers for private FIs wishing to drive innovative solutions forward, such as within renewable energy sector. While the finding of low political-will is a strikingly unsurprising yet disappointing one, it is one worth keeping in mind when referring back to the numerous GHG accounting and mitigation frameworks, and the seemingly unsurmountable complexities they are faced with. The likelihood is indeed evident that strong political could reduce these barriers, whether through GHG emissions accounting, or a portfolio-based phase out.

A nascent regulatory structure also means that acknowledging nascency in documents is within the norm, one policy document citing “various policy frameworks at the national level, too, are relevant to corporate social responsibility. These frameworks provide the context within which to act, but do not themselves form an ECI assessment framework.” Given every ECA’s structural diversity, a CSO’s definition of “Government” can range in interpretation from parliament, to the department overseeing the ECA. That said, there are also positive signs of strong political will, especially when including the government ministries driving action on climate change. For example one CSO claimed that an overwhelming majority of MPs agreed with their position when demanding UKEF to better align its actions with the country’s climate direction. Beyond governmental boundaries, ECA staff and CSOs are looking at international rule-setting organizations such as the OECD for more support, some stating that OECD may provide environmental safeguarding frameworks but is still largely unable to provide recommendations on how to implement these frameworks. Indeed, the OECD lacks its own regulatory backbone, with the Common Approaches not legally binding, in addition to containing “a clause (article 28) that permits ECAs to derogate from its provisions and from any other standards in their entirety.”

"There is nobody from the political side that is guiding us... Any guidance we get from the government is important. [The] OECD guidelines don't necessarily help us answer questions like ’is this in line with the Paris Agreement.’ The Ministry of Foreign Affairs has given no instructions on this either. Irrespective of that, we need to have a direction." - ECA Staff

4.4.5. Climate Incoherence

One of the results of a nascent regulatory landscape in which responsibility and guidance are largely unclear, is conflicting institutional direction. Effectively and unsurprisingly, when these conflicting directions are vertically stratified; from an agency’s policy

279 Interview 6. Phone. ECA Staff 1; F. 08 Aug 2019 (57min)
280 Interview 1. Phone. Climate Finance Expert 4; M. 26 Feb 2019 (27min)
281 ADSB, (no date). Environmental and Social Policy Document.
282 Survey & Questionnaire Responses, CSO Staff 5
283 E-mail 5. CSO Staff 3 to Adrien Tofighi. 23 Apr 2019
285 Interview 6. Phone. ECA Staff 1; F. 08 Aug 2019 (57min)
document language, to its government’s commitments and actions, and up to international industry-level contradictions, there is unequivocally a case of policy incoherence.

At the OECD level, CSOs claim that competition laws are much more stringent than environmental ones, despite OECD commitments to sustainable policy coherence and climate change (sec. 3.2.1). At the ECA-level, policy incoherence is evidenced throughout each of the ECAs’ ESG-related documents, not necessarily through explicit contradictory statements, but by holding up their carbon-related energy-financing portfolio against each of their stated environmental and climate commitments (sec. 4.2.5) including the PA. Indeed, incoherence can be considered both vertical and institutional, as government departments contradict broader international-level commitments (national to international) (sec. 3.2.1), while also contradicting one another internally (department to department), as shown in this chapter. Consequently, incoherence permeates ECA sustainability policy documents, which is simply where these conflicting institutional and political directions manifest themselves.

Indeed, Figure 17 suggests that ECAs are the embodiment of a state’s climate incoherence. Perhaps an exception to this statement can be made for Canada, as its development finance cooperation department is housed within EDC. As the figure shows, FF financing largely outweighs clean financing for each ECA. When including data on other state departments’ overseas energy financing, it becomes evident that ECAs are in essence the fossil fuel development arms of these governments. Indeed, most development cooperation agency is not heavily invested in fossil fuels, as that is not their mandate, and governments can rely on ECAs for this. This contradiction in political direction was emphasized many times by each CSO working on these ECAs.

![Energy sector project financing by country (billions)](image)

Figure 17: Energy sector project financing by country
Source: See Annex VIII

Figure 17 summarizes the incoherence’s elaborated on below:

**Netherlands**

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286 ECA-Watch Seminar Notes, 11-13 Mar 2019
287 4. Survey & Questionnaire Responses, CSO Staff 1
5. E-mail 1. CSO Staff 16 to Adrien Tofighi. 16 September 2019
6. Survey & Questionnaire Responses, CSO Staff 5
7. ECA-Watch Seminar Notes, 11-13 Mar 2019
A report by Both ENDS cited that the Dutch government supported €1.13 billion worth of climate change mitigation and climate finance projects for developing countries in 2018, while simultaneously financing €1.76 billion towards fossil fuel support, via ADSB, thereby highlighting the Dutch government’s climate policy incoherence.288

Through the Dutch Fund for Climate Development (DFCD), which is managed partly by the Dutch FMO, the Netherlands plan on providing an additional €160 million between 2019-2022 to developing countries for climate-relevant projects.289 Unfortunately, ADSB’s fossil fuel financing is still expected to largely outweigh any efforts on behalf of the Dutch government to help countries become more resilient to climate change and its effects.290 The Netherlands has also recently committed to ending financing support for coal projects and exploration and development of new oil and gas fields overseas via its trade and development operations. However, “this commitment is not applied to the export credit facility (ADSB), which supports the by far largest volume of fossil fuel related business transactions abroad.”291

Canada

Canada has pledged to provide CAD $2.65 billion between 2015-2020, averaging $530 million per year, to developing countries in helping them tackle climate change.292

However, between 2012-2017, EDC’s oil and gas support was CAD $10 billion per year, for which roughly CAD $7 billion went to overseas projects annually, as 30% of its support is aimed at domestic operations.293 Consequently, between 2015-2017, Canada provided 13 times more overseas financing for the oil and gas sector via EDC than for its developing-country climate change financing support, annually. While it is unclear to the study exactly which countries received this financing, most of its ECA financing is directed to developing or transitional countries, and not developed countries.294 During this period, EDC further undermined its very own national climate commitments via the remaining CAD $3 billion support for domestic oil and gas projects that it supported.

While more recent figures have not been found, ECA Watch CSOs claim that EDC “provides massive support to the oil and gas sector...[and] has no plans to phase out this support from its business portfolio.”295 This is, of course, in direct contradiction to EDC’s Climate Change Policy (sec. 4.2.2) which explicitly commits to and supports the 2015 Paris Agreement.296

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290 Survey & Questionnaire Responses, CSO Staff 1
291 E-mail 25. CSO Staff 1 to Adrien Tofigli. 6 Nov 2019
294 Eurodad, (2011). Exporting goods or exporting debts? Export Credit Agencies and the roots of developing country debt.
295 Survey & Questionnaire Responses, CSO Staff 2
UK

- The UK's International Climate Finance commitment was designed to “support developing countries to respond to the challenges and opportunities of climate change... if we do not tackle climate change, it will undo the progress made globally to meet the Sustainable Development Goals.”

- ECA-Watch CSOs say that UKEF’s overseas activities are in direct contradiction to the ICF. In 2019, Global Witness research highlighted this incoherence, stating that between 2010 and 2016, the UK, via UKEF, had supported £4.8 billion in FF-related projects overseas, while simultaneously spending £4.9 on climate aid via the ICF, at a yearly average of £800 million towards FF-related projects, against £816 million.

- On the other hand, UKEF provided roughly GBP 20.8 million in cleantech finance that same year. Furthermore, the UK also prides itself on being the first major economy to strive for net zero GHG emissions by 2050, which would be commendable if it meant that those emissions weren’t exported elsewhere. While the UK’s new head of trade has indicated that she wanted UKEF’s portfolio to be less carbon intense, it has yet to be seen how this translates in terms of implementation.

4.4.6. Carbon Asset Risk

The ability to outsource GHG emissions overseas, otherwise known as carbon leakage, raises concerns for climate experts as it allows a company or FI to bypass homeland regulations and continue contradicting climate change commitments. An ECA’s indirect FF project financing facilitates carbon leakage, perhaps without understanding the repercussions of that leakage. Those repercussions or risks are indeed of concern to some ECAs given that they “can be caused by a range of environment-related risks and these risks are poorly understood and regularly mispriced.”

“We have started to ask for climate-risk and resilience impact assessments... for particular projects. We haven’t done this on the portfolio level, yet... There aren’t many tools specifically for us because ECAs are different than investment firms.”

- ECA staff

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298 1. ECA-Watch Seminar Notes, 11-13 Mar 2019
2. E-mail 1. CSO Staff 16 to Adrien Tofighi. 16 September 2019


300 Phone Communication, CSO Staff 16, 09 Sep 2019

301 1. Interview 4. Skype. Climate Finance Expert 2; M. 25 Apr 2019 (51min)
2. Interview 1. Phone. Climate Finance Expert 4; M. 26 Feb 2019 (27min)


303 Interview 6. Phone. ECA Staff 1; F. 08 Aug 2019 (57min)
In a UK Environmental Audit Committee on UKEF’s carbon-related business financing abroad, a MP suggested that outsourcing responsibility to recipient countries would not be advantageous to the image of the UK as a climate leader, and even less to the goals of the PA.\textsuperscript{305} Outsourcing responsibility in this context is akin to locking countries into a carbon-dependent economy when the majority of existing coal, oil, and gas reserves are deemed unburnable in order to stay under 2C. In fact, when asked whether or not UKEF used the Department for International Trade’s (DfID) carbon-lock-in toolkit in project approval, UKEF’s CEO responded that he was uncertain if they did, but that UKEF did follow international standards such as the EPs \textsuperscript{306} For a government-backed agency supporting nearly €1 billion in FF-related business overseas in 2016 alone, with a figure likely to be similar in other recent years, one would assume its very own governmental carbon lock-in assessment tool to be an integral part of the project review process.

Similarly, in 2018, Canada’s Office of the Auditor General highlighted substantial weaknesses in EDC’s corporate governance and board oversight, as well as in its risk-management practices stating that “at the time [2018] of our audit, [EDC] did not have operational and strategic risk management frameworks in place,”\textsuperscript{307} a rather worrisome finding for an agency that specializes in assuming other companies’ risk. Indeed, risk insurance is the DNA of ECA project financing. Yet when CSOs asked EDC staff whether or not it has conducted any climate or carbon asset risks vis-a-vis its financing portfolio, EDC responded that it had not done so, and that they were still in the process of figuring out how to conduct one.\textsuperscript{308}

When ECA-Watch CSOs were asked whether or not they believed ECAs were at risk due to their exposure to climate or carbon assets, the majority of ECAs claimed that they believed ECAs were exposed, but that the exposure was less than that of private FIs due to being backed by government.\textsuperscript{309} The CSOs that believed ECAs were less exposed highlighted the fact many ECAs guarantee the delivery of carbon-related infrastructure, assuming that

\begin{center}
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“In its Climate Change policy, EDC says that ‘climate risks have been considered.’ But it doesn’t say exactly what risks have been looked at. The law requires EDC to do environmental assessments... we need to see those assessments.”\textsuperscript{304}

- Karen Hamilton || Program Officer, Above Ground
\end{quote}
\end{center}

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\begin{figure}[h]
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\includegraphics[width=\textwidth]{car-exposure.png}
\caption{CSO assessment of ECA CAR exposure}
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\item Interview 3. Skype. CSO Staff 2; F. 24 Apr 2019 (44min)
\item House of Commons, (2019). EAC Oral Evidence.
\item Ibid
\item E-mail 11. CSO staff 2 to Adrien Tofighi. 26 Feb 2019
\item Survey & Questionnaire Responses, all.
\end{enumerate}
\end{footnotesize}
the coverage for these guarantees would be over well before the actual asset becomes stranded.\textsuperscript{310} One CSO noted that generally speaking if an ECA is involved in a project, it is because traditional private FIs have refused to be, due to the project’s heightened risk. Consequently, with more private FIs staying clear of carbon-intensive projects, the CSO expects ECAs to take on more FF-related transactions, thereby increasing its exposure to stranded assets.\textsuperscript{311} This trend of private FF-related businesses turning to government support as private FIs increasingly refuse to be involved was also expressed by financial experts.\textsuperscript{312} The majority of CSOs highlighted the significance of using government as shield. When asked what mechanisms ECAs might take to mitigate this type of risk, most CSOs were unable to answer due to lack of knowledge on the issue, with some CSOs pointing to a surge in premiums and rates, re-insurance, state-protection, and potential OECD-level protection mechanisms.\textsuperscript{313}

Indeed, if CARs are estimated to rise in the coming decades, it isn’t unreasonable to be concerned about what looks to the public as political apathy on climate change. With the primary role of ECAs being to ensure its government’s exports and operate at a zero-net cost, or “break-even,” ECAs in fact specialize in pricing for risk more than they actually specialize in assuming it. This means that unlike their private financial counterparts at risk of direct financial loss from the loss of value in carbon assets, ECAs are only ‘at risk’ if they are unable to accurately price for the loss of those assets in their insurance policies, regardless of how much FF-related business they may support. With this logic, various scenarios are possible from the survey results:

1. ECAs raise premiums and interest rates \(\rightarrow\) burden on exporter and/or foreign buyer/bank (or reduction in demand carbon-related ECI). (sec. 1.1: Fig. 1).

2. ECAs keep premiums and interest rates as they are, and secure export deal or trade agreement investor protection clauses to retrieve the carbon-related losses from foreign buyer/bank \(\rightarrow\) burden on foreign buyer/bank.

\textsuperscript{310} Survey & Questionnaire Responses, CSO Staff 15
\textsuperscript{311} Survey & Questionnaire Responses, CSO Staff 7
\textsuperscript{312} ECA-Watch Seminar Notes, 11-13 Mar 2019
\textsuperscript{313} Interview 6. Phone. ECA Staff 1; F. 08 Aug 2019 (57min)
3. ECAs pull from public coffers to cover for carbon-related loss\textsuperscript{315} → burden on taxpayer.

One scenario does not exclude the other, as ECAs could very well apply a combination of these mechanisms to price accurately for their losses. However with ECAs primarily financing MICs and LICs,\textsuperscript{316} the burden of covering for carbon-asset related losses may fall onto the same countries expected to be hit hardest by climate-change related impacts, further aggravating MIC/LIC debt (sec. 3.3.4). Furthermore, the demand-driven nature of ECA logic suggests that ECAs may not raise premiums or interest rates without ministry or department heads interfering. In this case, and until this is done, it’s likely that ECAs use scenarios 2 and 3 to cover for loss. The alternative of course, is that they do not actually understand the costs associated with climate-related risks, as suggested by the University of Oxford’s Stranded Assets Programme,\textsuperscript{317} and are therefore incorrectly pricing for them. In this case, supervisory ministries and departments may bear the burden of these costs.

4.4.7 Conclusion

The findings in this phase of the study point to a weak governance and regulatory landscape around the ECAs for carbon-related projects, otherwise considered FCG. Weak FCG is a result of various factors such as a low level of transparency on ECA project financing, as well as a low political willingness to address the issue of decarbonisation (sec. 4.4.4). Furthermore, there is a lack of dedication in ECA documents towards climate change or climate change policies. This is likely because binding climate change regulations are few, and still evolving, and not due to ECAs failing to enforce or follow them. Furthermore, governments are first and foremost responsible for their ECAs project financing decisions, as even ECAs willing to address climate change more substantively lack direction on how to align their operations with PA 2.1c. This lack of direction is evidenced from governments as well as OECD. The study then addresses potential consequences of these findings. The first is on climate incoherence (sec. 4.4.5), by including existing data on contradictory energy sector financing across state departments/ministries, with each ECA seemingly functioning as the FF financing arm for their governments. Indeed, these ECAs are the form through which each governments’ climate policy incoherence is executed. The consequences for this incoherence are then addressed through the lens of carbon asset risks (sec. 4.4.6). Since ECAs specialize in pricing for risk and not actually assuming it, ECAs may raise premiums and rates in order to meet these costs, potentially causing a reduction in FF-related export insurance demand. However, the demand driven nature of ECAs suggests that until the departments overseeing them require them to do so, they are more likely to instead shift the costs associated with CARs onto foreign buyers/banks and/or public coffers.

\textsuperscript{315}E-mail 22. Climate Finance Expert 3 to Adrien Tofghi. 29 July 2019


2. E-mail 11. CSO staff 2 to Adrien Tofghi. 26 Feb 2019
5. CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

The conclusions of this research are defined by the answers to the original research questions. The main question is answered first, followed by the sub-questions.

**Main question:** What type of GHG mitigation plans have ADSB, EDC, and UKEF implemented to align their operations with their governments’ commitments to the Paris Agreement?

Per sec. 4.2, ADSB, EDC, and UKEF have not implemented any GHG emissions accounting and mitigation plan in order to align their operations with their government’s commitments to the Paris Agreement.

**Sub question 1:** What do ECA policy documents indicate about mitigating financed emissions to align their actions with PA 2.1c?

Per sec. 4.2, phase I of this research concludes that ECA policy documents indicate almost nothing about how they plan to disclose, let alone mitigate, their financed emissions. Even when ECAs do make commitments on phasing out a FF, such as in the case of Canada’s coal financing policy, there is no language in the ECA policy documents the measures taken to actually meet these commitments. Of the three ECAs, EDC documents contain the clearest language pertaining to climate change commitments, but this language does not translate into action as far as the study can tell. While each ECA acknowledges the Paris Agreement and the challenge of climate change, the documents point to external ESG and climate-related frameworks in response to these challenges, but do not themselves contain language on mitigation measures.

**Sub question 2:** Do the referenced ESG and GHG mitigation frameworks sufficiently align ECAs with PA 2.1c?

Per sec. 4.3, phase II of this research concludes that no ESG or climate-related framework referenced in these three case studies is designed specifically for ECAs as well as Scope III emissions accounting and reporting. While some portfolio-level mitigation measures could be adopted, the ESG and climate frameworks referenced lack any regulatory support for ECAs to do so. Furthermore, the complexities around international project finance make GHG emissions accounting and reporting nearly impossible, and poorly understood. Additionally, the fact that ECAs point to these frameworks without further expanding on how they are implementing them suggests that if they are indeed implementing the frameworks, it is likely that they are meeting their basic or minimum guiding principles. Given the complexity and depth of knowledge required to meaningfully address financed emissions, this suggests that the frameworks do not apply to GHG mitigation for ECAs. Therefore, the referenced ESG and GHG mitigation frameworks do not, on their own sufficiently align ECAs with PA 2.1c.

**Sub question 3:** What are potential reasons, barriers, and consequences for non-alignment?
Per sec. 4.4, phase III of this research concludes the following:

- **Barriers:** the study equates non-alignment to weak FCG. Indeed, weak regulatory support for potentially decent guidance or commitments means that ECAs have no real incentive to align with the PA. The most significant barrier to strong FCG is a low political will from both governments and rule-setting institutions like the OECD. This low political will consequently translates into very weak guidance on PA alignment, as expressed by CSOs, climate finance experts, and ECAs.

- **Reasons:** Akin to barriers, the reasons for non-alignment are most likely that binding climate change regulations are few, and still nascent. Consequently, ECAs have no incentive to implement rigorous climate change policies or mitigation strategy. Furthermore, with responsibility being divided between OECD and national mandates, ECAs are capable of referring back and forth to each rule-setting entity in favor of their operations.

- **Consequences:** ECAs with carbon-intensive energy portfolios are actually the consequences of policy incoherence. This means that governments which are unwilling or incapable of taking the necessary measures to align with PA 2.1c will likely use the mechanisms of ECAs for FF financing, as these agencies are best suited to do this. The consequences of this incoherence in the context of the energy transition is that since ECAs specialize in pricing for risk and not actually assuming it (and assuming ECAs actually fully understand these costs) ECAs are likely to shift the costs associate with carbon asset risks onto public coffers and/or onto foreign buyers/banks. In the event that ECAs do not fully understand these risks and cannot accurately price for them, their costs may subsequently fall onto the shoulders of the departments and ministries overseeing the ECAs.

Additionally, the findings throughout section 4.3 and the Fig. 12 in sec. 4.3.10 indicate that a GHG emissions accounting and mitigation methodology is far too complex, and likely impossible, for ECA-type financing. Indeed, pointing to these frameworks, or attempting to implement them may in fact be counterproductive to the broader goal of decarbonisation. However, this does not mean that ECAs are any less exposed to carbon-related risks. ECAs consequently face two obligations in order to ensure their security; they can either try to understand these climate-risks and price accordingly, or begin to implement portfolio level decarbonisation targets (sec. 5.3.2 Fig. 20), under the mandated of supervisory ministries.

**5.2 REFLECTIONS**

The most significant reflection for this research is on the issue of portfolio and leadership-level decision-making to decarbonise. Phase II of this research tests each ESG and climate-related framework for its capacity to help ECAs understand and mitigate their indirect emissions via GHG emissions accounting and reporting. However, the research does not test these ESG and climate-related frameworks for their ability to guide leadership-level or portfolio-level decisions towards decarbonisation. This is because policy documents assessed in Phase I did not actually include any portfolio or leadership-level decision language to decarbonise, nor did they refer to these frameworks in this context. Consequently, the findings from Phase I still suggest that even if some of these frameworks offered good portfolio-level or leadership-level guidance, these have apparently still not been adopted, given the absence of any language on this in the ECA policy documents. This
also reaffirms the lack of robustness or regulatory support for these frameworks. However, it would still be worthwhile to include this dimension in further research.

5.3. RECOMMENDATIONS

The following section contains recommendations based on the conclusions and findings of this study. These are defined by assessing what works and does not work from the analysis. The recommendations are also based on the scope and limitations of this research, and therefore may not apply to other ECA case studies.

5.3.1 Research Recommendations

1) Policy Conflict Assessment: International Agreements and Policies Applicable to ECAs

1.1. Assess relevant international and regional policies and agreements and how they might apply to ECAs. The purpose of doing so would be to draw a full regulatory landscape surrounding ECAs and their operations. This would include organizing the policies and regulations to show which ones aggravate PCSD (i.e. IIAs, BITs, subsidy arrangements) vs. which ones improve it (i.e. climate treaties). Doing so would help understand the legal or market weight that some treaties, arrangements, and agreements have over others. This research drafted a list of potential regulations and agreements that the author believed may apply to ECAs. The recommendation is therefore to build off the list and much further, assess each item for ECA applicability. This recommendation follows from findings in sec. 4.4.5.

<table>
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<tr>
<th>Draft list of international agreements &amp; policies potentially applicable to ECA operations</th>
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<tr>
<td>1) International Agreements &amp; Policy</td>
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<td>2) A/RES/70/1 Sustainable Dev. Goals</td>
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<td>3) Article 38(1) Statute of the International Court of Justice</td>
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<td>4) Aarhus Convention (Convention on Access to Information, Public Participation...)</td>
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<td>5) Energy Charter Treaty</td>
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<td>6) European Convention for the Protection of Human Rights and Fundamental Freedoms</td>
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<td>7) International Trade Policy in the Context of Climate Change Imperatives 2010/2023[INI]</td>
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<td>8) EU Regulation No 1233/2011 of European Parliament</td>
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<td>10) EU Directive 2004/18/EC</td>
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<td>11) EU Directive 2004/17/EC</td>
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<td>12) General Agreement on Tariffs and Trade (GATT)</td>
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<td>13) Kiev Protocol on Pollutant Release and Transfer Registers</td>
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<td>14) Kyoto Protocol</td>
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<td>15) ILO Convention 169 on the Rights of Indigenous Peoples</td>
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<td>16) International Covenant on Civil and Political Rights and the ICCPR 1st optional protocol</td>
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<td>17) Art. 17 Convention on The Settlement of Investment Disputes Between States and Nationals of Other States</td>
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<td>18) Art. 21 Lisbon Treaty</td>
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<td>19) Montreal Protocol on Substances that Deplete the Ozone Layer</td>
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<td>20) OECD Arrangement on Officially-Supported Export Credits</td>
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<td>21) OECD Guidelines for Multinational Enterprises</td>
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<td>22) &quot;OECD Principles and Guidelines - Sustainable Lending Practices</td>
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<td>23) &quot;OECD Common Approaches</td>
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</table>
| 24) Export Credits (based on IFC Performance Standards)"
| 25) UNGA – RES 32/33: Human Rights and Climate Change |
| 26) UNGA – RES 35/20: Human Rights and Climate Change |
| 27) UNFCCC - Paris Agreement |
| 28) WTO Agreement on Subsidies and Countervailing Measures Agreement |

Figure 19: Draft list of policies/regs. applicable to ECAs
2. **Portfolio-level ECA decarbonisation study**

One of the Swedish ECA’s, SEK, has set a 5% cap on its gross lending to fossil fuel operations. These types of portfolio-level decisions avoid GHG emissions accounting and mitigation complexities. Though SEK would still benefit from understanding its climate risks by assessing its financed emissions, setting these caps can at least jumpstart the decarbonisation process. The Portfolio Decarbonisation Coalition would be well suited to work with by using their expertise for ECA applicability. Furthermore, highlighting working solutions such as that of the SEK can motivate ECA decarbonisation discussions rather than isolate them. This recommendation follows from findings in sec. 4.3.10.

3. **ECA Decarbonisation implications on MIC/LIC RtD**

It would be unwise to push for ECA decarbonisation without the input and guidance from MICs/LICs. Countries with weak environmental institutions may take on more FF projects than those with stronger environmental institutions. Researching the impact and influence of ECA-related financing on MICs/LICs would be beneficial to understanding potential environmental and economic costs or benefits. The argument of ECA decarbonisation is worthwhile in the context of climate change and the Paris Agreement given existing knowledge on FF financing, but this argument would need better and more relevant data on the implications for MICs/LICs in order to be able to properly make any ‘international development’-related conclusions. Although there exists research on the impacts of project-level ECA financing in global south countries, these are isolated case studies assessing direct or community-level environmental damages. To the best of the author’s knowledge, no research exists on the political and economic dimensions of macro-level climate change-related impacts from ECA FF financing in these countries. Doing so may shed light on two issues related to this research; 1) understanding the potential landscape for a clean energy sector, and; 2) understanding the potential implications of ECA FF financing of MIC/LIC debt. This recommendation follows from findings in sec. 4.4.6.

5.3.2 Policy Recommendations

1. **Coalition of countries willing to decarbonise**

1.1. The ECA-Watch network has spearheaded assessments of which governments may be most capable and willing to decarbonize their ECA financing portfolios. This research further recognizes this approach for policy makers. Cooperation in the context of international climate change commitments not only spurs innovation but also lead to emissions reductions.\(^{318}\) It would also be counter-productive to call for decarbonisation without addressing the likelihood of other carbon-intense ECAs picking up the FF-related projects rejected by low-carbon ECAs. A coalition of governments willing to decarbonize their ECAs should move beyond their ‘responding to demand’ and actively explore ways for filling the energy gap with new demand. This could mean that coalition governments allocate a share of ECA-related revenues towards an ECA-led decarbonisation strategy, which includes regular OECD lobbying, R&D for cleantech financing, and experimentation of low-carbon financing mechanisms. While some ECAs may already be doing this, the point of cooperation is that it lessens the risk of losing competitive advantage. This recommendation follows from findings in sec. 4.4.7

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\(^{318}\) Wood, P., (2010), Climate Change and Game Theory, Environmental Economics Research Hub Research Reports.
1.2. Furthermore, LICs/MICs with strong environmental institutions and a political and infrastructural landscape for low-carbon energy could also benefit from a coalition model. The purpose of a LIC/MIC coalition in ECA FF financing is to play a stronger role in determining the conditions for an export deal, for example, or to have more influence in establishing market mechanisms that are in favor in LICs/MICs. Finally, LICs/MICs that are already implementing a low-carbon project finance future would have a context within which to share their solutions for laggards to look to. This recommendation follows from findings in sec. 4.4.6.

2. Improve existing regulations
Improving existing regulations is perhaps the most obvious and common recommendation, but cannot be stressed enough. This study does not find a lack of existing frameworks or guidance, but instead a lack of relevance and regulatory support for existing frameworks and guidance. Indeed, current agreements and guidance mechanisms already have plenty of ingredients to be effective, but these any lack legal backbone. The first steps to strong FCG is to improve existing regulations and not create new but equally weak regulations, as this would deter from the purpose of strong FCG. Indeed, the emphasis needs to shift towards implementation and enforcement, rather than development. Governments that are committed to the PA should therefore push for improving regulations, such as at the OECD level. While this is the essence of CSO work on ECA financing for the past decades, it cannot be emphasized enough that regulations need continuous improvements in order to meet current needs. Furthermore, providing legal backbone to one regulation can kickstart a domino effect, as regulatory updates are generally more common for regulations that have legal teeth, given that legal procedures have a historically tried and tested process for improvement. This recommendation follows from findings in sec. 4.3.10 and sec. 4.4.2.

3. Country-level Portfolio Decarbonisation
Given that GHG accounting and mitigation may indeed deter from the broader objective of decarbonisation, the need for portfolio and national level financing targets is evident. The PA calls for Nationally Determined Contributions (NDC), leaving it up to countries to define their climate actions. In the case of international project finance, strong FCG in line with PA 2.1c means that governments should establish targets for overseas FF financing as well. The research suggests using the logic of NDCs to set relevant transvestment targets for total overseas energy sector project financing from a country, as shown below.
Assuming a fixed budget for overseas energy sector public financing, in the case of Canada, a 13.5% annual “transvestment” target over three years starting in 2020 with the goal of reaching 10% by 2025 means that Canada would need to lower its overseas FF financing from 78% to 37.5% by 2023 via EDC (or €4,980MM to €1,867MM), while simultaneously boosting its cleantech financing from 22% to 62.5%. These are enormous steps that need to be taken if these countries are indeed committed to international climate targets. In short, a 90% cleantech financing target for each country from 2020, assuming a fixed public finance budget from the available data, would be mean reducing overseas FF financing to:

1. UKEF: €193MM by 2025
2. ADSB: €289MM by 2025
3. EDC: €637MM by 2025

Given that ECAs commit to seeing through a contract upon signing it, this would mean that no new FF-related projects could be backed starting in 2020, to allow for a rapid phase out of already approved projects. Most importantly, this policy recommendation does not exclude the need for ECAs to actively engage with FF-related businesses in leveraging their influence and helping those businesses phase out as well. Indeed, the point would not be to simply shift the demand of ECI in FF projects to other ECAs, but to provide a low-risk context for these businesses to transition along with the ECA.

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319 Data pulled from calculations in Annex VIII

- *Transvestment targets: “transvestment” was suggested on numerous occasions within CSO watch conversations to ensure cleantech and renewables could fill the energy gap upon decarbonising. In this instance, this means shifting a certain percentage of financing out of FF and into cleantech energy. Indeed the challenge is to leverage the influence of ECAs in order to push FF-businesses towards cleantech.

- *The 90% by 2025 target is chosen by the author based off: 1) suggestions by ECA-Watch CSOs to decarbonise as soon as possible; 2) international climate change commitments, and; 3) FI reports.

- For a 2025 90% clean target: % of total FF financing -10%, divided by 5, for 2020-2025.

- (Ex: Canada: 78% - 10% = 68% /5 = 13.5% annual transvestment out of FF and into cleantech. Rounded to nearest half.

320 Total overseas energy sector financing X .10
5.4 CONCLUSION

The scale and speed for PA alignment is directly tied to shareholder/stakeholder mandates as well as a general political willingness for ambitious target-setting to low-carbon finance models. This research assessed the climate and ESG-related policy documents for three ECAs, and finds an overwhelming absence of implementation measures to ensure that each agency’s operations mitigate their financed emissions, and fall in line with PA 2.1c. Furthermore, while ECAs have definitely committed to numerous international ESG frameworks, the study concludes that adhering to these does not imply a reduction in FF financing, as most of the safeguards address other ESG-related issues, and are therefore and not suited for ECA-type financed emissions mitigation. This is due to a weak regulatory structure and low political willingness, from governments as well as guiding international organizations such as the OECD, resulting in supervisory departments and ministries to operate inconsistently with their climate change commitments. Indeed, the same governments committing to PA 2.1c are ultimately responsible for failing to address the contradictions of those ministries overseeing their ECA. Consequently, ECAs are simply the result of this broader policy incoherence.

Consequently, the research also identifies the relevance of climate-related and carbon asset risks for ECAs, given that the costs associated with these risks are at the core of decision-making processes for FIs concerned with the energy transition. Since ECAs specialize in pricing for risk and not actually assuming it, ECAs could raise premiums and rates for ECI applicants in order to meet CAR costs, thereby potentially causing a reduction in FF-related ECI demand. However, the demand driven nature of ECAs means that until the departments overseeing them require them to do this, they are more likely to shift CAR-related costs onto foreign buyers/banks, and/or public coffers. Indeed, without government interference, the relevance for international development is significant as ECA operations will continue to hinder PA 2.1c and the SDGs. Furthermore, their ability to shift these CARs onto foreign entities is likely to exacerbate already expected MIC/LIC climate-related economic damages, as forecasted by the OECD (sec. 3.3.4), and consequently exacerbate MIC/LIC debt. Of course, the major assumption being made here is that ECAs and their supervisory departments do actually understand the costs of these risks, and are pricing for them accurately enough. The unprecedented conditions of climate change mean that not doing so could be detrimental for those departments.
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## ANNEX I: Interviews, communications, survey

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ANNEX II: Survey questions
(via SurveyMonkey)

SURVEY: CSO observations of ECA fossil fuel financing

1. What is the name of your organization/CSO?
2. What is your first and last name, and title? (N/A for anonymous)
3. Which country is your work primarily based in?
4. What is the name of the ECA your CSO focuses on?
5. How many years has your CSO been active with or researching this ECAs activities and financing?
6. On a scale of 1-10, how transparent (publications, discussions, etc.) is this ECA with its yearly project financing? (10 being fully transparent)
7. Can you estimate what percentage of this ECAs financing supports the fossil fuel industry, both directly or indirectly (e.g. this includes the financing of a deep-water port which would be used primarily for oil & gas exploration)?
8. According to the GHG Protocol on carbon accounting, the "Category 15: Investments" section is “relevant to public financial institutions (e.g., multilateral development banks, export credit agencies) and other entities with investments not included in scope 1 and scope 2.” ECA financing operations generally count towards Scope III emissions accounting. These are indirect emissions that occur in the company's value chain, including both upstream and downstream emissions. This survey therefore does not consider Scope I and II emissions accounting as a significant climate-change due diligence practice for ECAs. What type of due-diligence methods has this ECA already taken to reduce its engagement with fossil fuel-related project financing? Please check all that apply. (Methods as defined by GHG Accounting Services Ltd.)
   a. Governance: Clearly define board and senior management responsibilities and accountability processes for managing climate change risks and opportunities.
   b. Strategy: Integrate the management of climate change risks and opportunities into the company’s business strategy.
   c. Goals: Make commitments to mitigate climate change risks: define key performance metrics and set quantified and time-bound goals to improve energy efficiency and reduce greenhouse gas emissions in a cost-effective manner; and set goals to address vulnerabilities to climate change.
   d. Implementation: Make a systematic review of cost-effective opportunities to improve energy efficiency, reduce emissions, utilize renewable energy and adapt to climate change impacts. Where relevant, integrate climate change considerations into research and development, product design, procurement and supply chains.
   e. Emissions inventories: Prepare and report comprehensive inventories of greenhouse gas emissions; data should be presented to allow trends in performance to be assessed and it should include projections of likely changes in future emissions.
   f. Disclosure: Disclose and integrate into annual reports and financial filings, the company’s view of and response to its material climate change risks and opportunities, including those arising from carbon regulations and physical climate change risks.
   g. Public policy: Engage with public policy makers and other stakeholders in support of effective policy measures to mitigate climate change risks. Ensure there is board oversight and transparency about the company’s lobbying activity and political expenditures on this topic.
   h. Other: please specify below
9. ECA official documentation suggests that very little has been done to systematically reduce Scope III emissions and fossil-fuel financing. However, there could be plans to do so that have simply not been publicized or formalized yet. In your interactions with them, has the ECA discussed or made any plans to implement any of the above methods? If so, which ones? If possible, please elaborate in the comment box on these discussions/plans.
   a. Same choices as above.
10. The financial sector is beginning to shift away from fossil-fuel-related investments and into substitute industries, most commonly for reasons relating to the risks of stranded carbon assets.
   a. Do you think that ECAs share the same types of risks that banks/investment firms have with regards to carbon assets? Please elaborate.
   b. Are you familiar with any industry practices that ECAs might be implementing to protect themselves from these risks (e.g. trade agreement language, insurance mechanisms, state protection, etc.)? If yes, please elaborate.

QUESTIONNAIRE: ECA-Watch Seminar (World Café from Both ENDS)

1. On a scale of 1 to 10 how willing is your ECA or national government to move ahead in terms of transparency and/or an ECA fossil fuel phase out?
ANNEX III: Interview questions

CSOs & Climate Finance/Policy Experts: these questions cover the core themes and do not include introductory, more specific, or concluding questions.

- Are you familiar with any “good practices” for how some development aid agencies might be shifting financing of fossil fuel related projects to other sectors? What policies/tools being used?
- Are you familiar with a GHG emissions accounting methodology that might be applicable to ECAs? If no, is this due to specific barriers that you can elaborate on?
- How can fossil-fuel invested financial institutions ensure that their carbon operators or investees report on their Scope I and II emissions, so that Scope III reporting is actually meaningful for these financial institutions?
- Do you think ECAs contribute to emissions leakage?
- How do carbon asset risk assessments apply to ECAs?
- Fossil fuel companies received lower credit rating in past few years. How do you think this could affect ECAs and the government’s that back them?
- What mechanisms can ECAs take to financially secure higher risk financing? Or, what mechanisms can ECAs put in place to mitigate against carbon asset risk?
- Do you think ECAs play a role in aggravating foreign country debt via carbon lock-in?
- Do you know if there are any mechanisms being put in place for export insurance to cover for volatility in fossil fuel market, due to expected increase in climate change-related regulation?
- What do you know of ECA support for non-energy related projects?

ECA: these questions cover the core themes and do not include introductory, more specific, or concluding questions.

- Is your ECA at all concerned about carbon asset or carbon-related risks?
- RE carbon bubble: who bears the costs with carbon-intensive ECAs? Public, Exporter/insurer, buyer/guarantor?
- What mechanisms might exist to facilitate this transfer of risk?
- Does your ECA run climate risk assessments for itself, for the operator, for the debtor?
- While many ECA-backed projects are not categorized as FF-related, some CSOs claim this is misleading as infrastructure towards FF-related business should be called as such. Could you share your opinion on this?
- Are there discussions with other ECAs on the issue of climate risks or GHG emissions accounting?
- ECA guarantees mean that if a loan defaults, the ECA should guarantee the credit amount to the investor. If this is the case, is the ECA/gov. paying out of its own pockets or pursuing foreign bank/gov. to repay this amount? Specifically, would a carbon asset-related default fall onto the importing bank? Are there any standard conditions or practices on this?
**ANNEX IV: ECA Documents assessed & search term list**

*See reference list for correct referencing: ADSB, EDC, UKEF*

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**Document Term Search List**

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<td><strong>IEA</strong></td>
<td>The success of wind and solar is powered by strong policy support</td>
<td>article</td>
</tr>
<tr>
<td><strong>IEA</strong></td>
<td>World Energy Outlook: Special Focus on Renewable Energy</td>
<td>report</td>
</tr>
<tr>
<td><strong>IIED</strong></td>
<td>Southern voices on climate policy choices: analysis of and lessons learned from civil society advocacy on climate change</td>
<td>report</td>
</tr>
<tr>
<td><strong>IIIGC</strong></td>
<td>Climate Change: Implications for Investors and Financial Institutions</td>
<td>report</td>
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<tr>
<td><strong>IMF</strong></td>
<td>Coordinated Direct Investment Survey</td>
<td>report</td>
</tr>
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<td><strong>IMF</strong></td>
<td>IMF Annual Report 2017</td>
<td>report</td>
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<tr>
<td><strong>ING</strong></td>
<td>Eneco + ING Supporting a sustainable energy company</td>
<td>article</td>
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<tr>
<td><strong>International Center for Trade and Sustainable Development</strong></td>
<td>The effects of climate change policies on international trade and competitiveness</td>
<td>article</td>
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<tr>
<td><strong>International Credit Insurance and Surety Association</strong></td>
<td>What is the difference between export credit insurance and trade credit insurance?</td>
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<td><strong>International Finance Corporation</strong></td>
<td>International Financial Institution Framework for a Harmonised Approach to GHG Accounting</td>
<td>report</td>
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<tr>
<td><strong>International Finance Corporation</strong></td>
<td>IFC's Definitions and Metrics for Climate-Related Activities</td>
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<td><strong>Investment Policy Hub</strong></td>
<td>Special Update on Investor-State Dispute Settlement: Facts and Figures</td>
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<td><strong>IPPF</strong></td>
<td>This is a Crisis: Facing up to the age of environmental breakdown</td>
<td>report</td>
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<td><strong>IRENA</strong></td>
<td>Renewable Power Generation Costs 2017</td>
<td>article</td>
</tr>
<tr>
<td><strong>Leonardo DiCaprio Foundation</strong></td>
<td>Fossil fuels will peak in the 2020s as renewables supply all growth in energy demand</td>
<td>article</td>
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<tr>
<td><strong>Mercer</strong></td>
<td>Climate Change Scenarios – Implications for Strategic Asset Allocation</td>
<td>report</td>
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<td><strong>Ministry of Economic Affairs Netherlands</strong></td>
<td>Energy Report: Transition to Sustainable Energy (2016)</td>
<td>policy legal</td>
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<td><strong>Ministry of Finance Netherlands</strong></td>
<td>Export Credit Guarantee Scheme</td>
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<td>Ministry of Foreign Affairs, Netherlands</td>
<td>NCP Evaluation Final Statement Both ENDS vs. ADSB</td>
<td>policy, legal</td>
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<tr>
<td>Ministry of Infrastructure and Environment, Netherlands</td>
<td>Climate Agenda: Resilient, Prosperous and Green</td>
<td>policy, legal</td>
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<tr>
<td>New Economics Foundation</td>
<td>Central Banks Climate Change and the Transition to a low-carbon economy</td>
<td>report</td>
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<td>Nordic Council of Ministers</td>
<td>Tackling Fossil Fuel Subsidies and Climate Change: Levelling the Energy Playing Field</td>
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<td>OECD</td>
<td>Arrangement on Officially Supported Exports</td>
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<td>OECD</td>
<td>Assessing Options to Increase Climate Support</td>
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<td>Common Approaches</td>
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<td>Country Risk Classifications ECA</td>
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<td>ECA arrangement text</td>
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<td>Greener export credit rules approved</td>
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<td>International trade consequences of climate change</td>
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<td>OECD Arrangement Commercial Interest Reference Rates CIRR</td>
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<td>OECD</td>
<td>Other policy-related financial, trade and technical barriers to clean-energy investments</td>
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<td>OECD</td>
<td>REVISED SECTOR UNDERSTANDING ON EXPORT CREDITS FOR RENEWABLE ENERGY, CLIMATE CHANGE MITIGATION AND ADAPTATION, AND WATER PROJECTS</td>
<td>policy, legal</td>
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<tr>
<td>OECD</td>
<td>The economic consequences of climate change</td>
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<td>PCAF</td>
<td>Harmonising and implementing a carbon accounting approach for the financial sector Platform Carbon Accounting Financials (PCAF) report 2018</td>
<td>report</td>
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<td>PERI</td>
<td>Economics and Climate Justice Activism: Assessing the Fossil Fuel Divestment Movement</td>
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<td>Portfolio Decarbonisation Coalition</td>
<td>Portfolio Decarbonisation Coalition</td>
<td>platform</td>
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<td>Principles for Sustainable Insurance</td>
<td>Global guidance on the integration of environmental, social and governance risks into insurance</td>
<td>report</td>
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<td>Principles for Sustainable Insurance</td>
<td>Understanding the links: Insurance regulation and sustainable development</td>
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<td>RepRisk</td>
<td>ESG Risk Assessment Tool</td>
<td>platform</td>
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<td>Revolving Door Watch</td>
<td>Revolving Door Watch</td>
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<td>Santander Trade Portal</td>
<td>FDI Trade Portal - Santander</td>
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<td>Science Based Targets SBTI WRI</td>
<td>Developing a Framework for Financial Institutions to Set Science-based Targets</td>
<td>presentation</td>
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<td>SEI</td>
<td>Exploring connections between the Paris Agreement and the 2030 Agenda for Sustainable Development</td>
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<tr>
<td>Sustainable Finance Lab</td>
<td>What role for financial supervisors in addressing systemic environmental risks?</td>
<td>report</td>
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<td>Swedish Financial Supervisory Authority</td>
<td>The effects of climate change on financial stability, with particular reference to Sweden</td>
<td>report</td>
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<td>Swedish Society for Nature Conservation</td>
<td>The world’s first Report fossil-free export credits?</td>
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<td>TCFD</td>
<td>TCFD Supporters</td>
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<tr>
<td>UK Gov</td>
<td>Financial Risk Management and Global Climate Change</td>
<td>report</td>
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<td>UNPRI</td>
<td>French Energy Transition Law - investor briefing on Article 173</td>
<td>policy, legal</td>
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<td>UNPRI</td>
<td>Signatories</td>
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<td>UNFCC</td>
<td>Climate change driving debt in developing countries</td>
<td>article</td>
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<tr>
<td>University of Cambridge</td>
<td>The Paris Agreement: implications for banks, institutional investors, private equity and insurers</td>
<td>report</td>
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<tr>
<td>University of Cambridge</td>
<td>Unhedgeable risk: How climate change sentiment impacts investment</td>
<td>report</td>
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<td>Willis Tower Watson Wire</td>
<td>Eight key considerations for chief risk officers now that strategic planning is over</td>
<td>article</td>
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<td>World Bank</td>
<td>Decarbonizing Development: Three Steps to a Zero-Carbon Future</td>
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<td>World Bank</td>
<td>Green Infrastructure Finance</td>
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<td>World Economic Forum</td>
<td>Global Redesign - Strengthening International Cooperation in a More Interdependent World</td>
<td>article</td>
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<td>World Economic Forum</td>
<td>Global Risks Report 2019</td>
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<tr>
<td>WRI &amp; UNEP-FI</td>
<td>Carbon Asset Risk: Discussion Framework</td>
<td>report</td>
</tr>
</tbody>
</table>
ANNEX VII: Summary of GHG Accounting Methodology for ECA-Watch Network

Scope III emissions

All indirect emissions (not included in scope II) that occur in the value chain of the reporting company, including both upstream and downstream emissions. (15 categories):

- Category most relevant for ECAs:
  - 15. Investments (project finance)
- Categories most relevant for ECA investee’s (carbon operators):
  - 10. Processing of sold products
  - 11. Use of sold products
  - 12. End of life treatment of sold products

Agencies considered

Most formulas or methodologies are originally based on the international GHG Protocol, and modified accordingly.

- DNB Pension Fund (PACTA Methodology - with Principles for Responsible Investment)
- ING (Terra Methodology - with 2Investing)
- FMO (internal methodology)
- European Investment Bank (internal methodology)
- European Bank for Reconstruction and Development - KFW Development Bank (N/A)
- French Development Agency (Le Bilan Carbone)
- French Energy & Environment Agency (Le Bilan Carbone)

Basic relevant commonalities

- Methodologies are mostly ex-ante (during the information-gathering phase, to decide whether or not to support a project) as opposed to ex-post (during the reporting phase).
- Methodologies are designed to use primary data (project-specific data) to calculate scenarios, but are often complemented by secondary data (industry standard), when primary data is unavailable. Given that the international GHG Protocol places no stringent requirement on reporting for Scope III emissions, depending on secondary data is not uncommon.
- The process of using industry standards is also known as an “emissions factor” - where a project’s characteristics or activity data is converted into emissions data based on other projects (i.e.: project capacity, length, asset-type, etc.).
• Emissions accounting allocation for project finance is simple to the extent that its financing model is simple: if a bank finances 50% of a project in a year, it will account for 50% of its Scope III emissions for that year.

• Baseline scenarios:
  o Used to determine impact of new project by estimating potential emissions of the proposed project against existing situation;
  o Used to determine potential emissions from alternative scenarios if the project is not approved (considerations include likelihood for another financial institution to invest in project, government’s climate-awareness, and renewable/alternative development prospects);
    ▪ Also known as “do nothing; do minimum; do something else”
  o Often incorporate the debtor country’s economic status as decision-making factor, with premise that the lower the GDP, the more there’s need for economic stimulation (regardless of the energy class).
  o Example from French Development Agency (translated + adapted)

<table>
<thead>
<tr>
<th>Emission Type</th>
<th>Low-income country</th>
<th>Low-middle-income country</th>
<th>Upper-middle income(emerging)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low emissions &lt; 10KTeq CO2/yr</td>
<td>Financing is possible</td>
<td>Financing is possible</td>
<td>Financing is possible</td>
</tr>
<tr>
<td>Middle emissions 10KTeq CO2/yr - 1MTeq CO2/yr</td>
<td>Financing is possible</td>
<td>Financing is possible</td>
<td>Non-concessional financing is possible. Concessional financing also possible if country is “climate-aware”</td>
</tr>
<tr>
<td>High emissions &gt;1MTeq CO2/yr</td>
<td>Financing is possible. Concessional financing possible only if country is “climate aware”</td>
<td>Financing is not possible, unless country is “climate-aware”</td>
<td>Financing not possible</td>
</tr>
</tbody>
</table>

• Emission type: in most cases, both relative and absolute emissions are considered, but relative emissions seem more significant in the decision-making process. These are emissions compared to some unit of economic output, therefore, more relevant for the development context. However, absolute emissions provide better estimate of actual emissions level, and should be used.

Applicability for ECAs

According to GHG Protocol, insurances and guarantees should be treated as capital, so ECAs should technically be considered equity shareholders in international project financing.

• GHG Protocol has formula for assessing GHG responsibility for multiple equity stakeholders. However, there are no specifications in the methodology on how to allocate emissions between primary financier (bank) vs. secondary financier (guarantor/ECA).

• Furthermore, GHG protocol requirements are directed towards major shareholders, but investments from agencies with “neither financial control nor significant influence” of a project (often the case for ECA) is considered to be an equity investment with less than 20% ownership, and therefore “insignificant.”
Given that most projects have multiple primary financers, this already reduces the GHG emissions responsibility per financier. The case for ECAs makes it even harder to allocate responsibility given they are “secondary financers” (so, less equity share), and, there is often more than just one ECA per project.

- Difficulty to establish an international ECA GHG methodology given various ECA structures and models (as evidenced by the number of different methodologies created by different development banks). Also factors such as consistency of data, data verification, or double-counting would need attention to even begin make accounting a meaningful process.

Recommendations

- Consider a methodology based on Environmentally-extended input out (EEIO) data - or, based on “emissions factors” (converting activity data into emissions data) - this could at least help create an estimated baseline without entering into the complexities of project-specific data.
  - Emissions factors are used when there is no existing knowledge or reporting in emissions from investees.
  - See: Econometrica; IFC-Carbon Emission Estimation Tool (CEET)
- In the case of ECAs, a purely climate-focused decarbonisation strategy may be best suited using absolute emissions, as opposed to relative emissions. However, doing so may conflict with the interests of partners in Africa, Asia, and South America, as the argument for economic stimulation is abandoned.
- The case for fuzziness around responsibility is problematic only if GHG emissions accounting is the end-goal. GHG emissions accounting for ECAs can be useful as a general argument and point of reference for decarbonisation. Pushing for an international GHG emissions accounting methodology for ECAs should not be the end-goal, and may backfire given the complexities/“fuzziness” for each case.
ANNEX VIII: Calculations for energy sector financing

VIII.A.

1. “Total” = any development cooperation agency/initiative + ECA. Generally, this is not considered to be domestic financing, although 30% of EDC’s financing is domestic.
2. Financing from UK and Canada was averaged out per-year, based on multi-year financing data.
3. There is a risk of double counting towards cleantech finance, as it is unclear if cleantech financing data was only from development cooperation government agencies or if sources already included some ECA-related operations. In this case, the figures below include all data on cleantech if its source was not specified, meaning that the cleantech financing figures are at most the figures included in the table, but potentially less.

CANADA
Conversion (Nov. 2019): CAD 1; EUR 0.68
Multi-year data is averaged out to most recent year.

FF
• Via EDC: CAD 10.4 billion in 2017 towards oil and gas, (30% for domestic\textsuperscript{321})\textsuperscript{322}
  o CAD 7.3 billion in 2017, overseas
  o Total 2017: EUR 4.98 billion, overseas

Clean
• Via EDC: CAD 1.5 billion in 2017 (Ocl, 2018)\textsuperscript{323} (EUR 1.023 million)
• Via other gov.: CAD 2.65 billion between 2016 – 2021
  o CAD 530 million in 2017\textsuperscript{324} (EUR 361 million)
• Total 2017 CAD 2.03 billion
  o Total 2017: EUR 1.39 billion

NETHERLANDS
FF
• Via ADSB: EUR 1.76 billion
  o Total 2018: EUR 1.76 billion

Clean
• Via ADSB: EUR 50 million
• Via other gov: EUR 1.08 billion
  o Total 2018: EUR 1.13 billion\textsuperscript{325}

UNITED KINGDOM
Conversion Rates (Nov. 2019): GBP 1; EUR 1.17

\textsuperscript{321} Unknown if 30% domestic was FF, clean, or both. Author allocated 30% deduction entirely towards FF, under the assumption that all cleantech financing headed overseas. This is potentially incorrect, but would make the case for overseas FF decarbonisation stronger if indeed incorrect.
- CAD 10.4 billion total \(\rightarrow\) CAD 7.28 headed overseas.
\textsuperscript{323} Ibid.
\textsuperscript{324} Gov. of Canada., (2015). Canada's international climate finance.
\textsuperscript{325} Both ENDs, (2019) The Fossil Elephant in the Room.
Multi-year data is averaged out to most recent year possible.

FF
- Via UKEF: GBP 4.8 billion from 2010-2016 towards FF 326
  - GBP 800 million in 2016 Total 2016: EUR 947 million

Clean
- Via International Climate Fund: GBP 4.9 billion from 2011-2017327
  - GBP 816 million in 2016 (EUR 966 million)
- Via UKEF: GBP 104 million from 2013-2018 328
  - GBP 20.8 million in 2016 (EUR 25 million)
- Total 2016: GBP 837 million
  - Total 2016: EUR 991 million

VIII.B.

Country total energy sector project financing for selected year

<table>
<thead>
<tr>
<th>Country</th>
<th>FF-related financing overseas (millions)</th>
<th>Climate Financing overseas (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada (2017)</td>
<td>€4,980 (via EDC) *</td>
<td>€1,390 (total)</td>
</tr>
<tr>
<td>Netherlands (2018)</td>
<td>€1,760 (via ADSB)</td>
<td>€1,130 (total)</td>
</tr>
<tr>
<td>UK (2016)</td>
<td>€947 (via UKEF)</td>
<td>€991 (total)</td>
</tr>
</tbody>
</table>

*Overseas only for EDC

VIII.C.

ECA-only energy sector financing for selected year

<table>
<thead>
<tr>
<th>Year</th>
<th>Total ECA</th>
<th>Currency</th>
<th>EUR</th>
<th>Total ECA</th>
<th>% share</th>
</tr>
</thead>
</table>

327 Ibid
328 Ibid
<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>FF (CAD millions)</th>
<th>(mil)</th>
<th>Energy sector (EUR millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>*EDC FF</td>
<td>CAD 10,400</td>
<td>7,094</td>
<td>8,117</td>
</tr>
<tr>
<td></td>
<td>*EDC Clean</td>
<td>CAD 1,500</td>
<td>1,023</td>
<td>87%</td>
</tr>
<tr>
<td>2018</td>
<td>ADSB FF</td>
<td>EUR 1,760</td>
<td>1,760</td>
<td>1,810</td>
</tr>
<tr>
<td></td>
<td>ADSB Clean</td>
<td>EUR 50</td>
<td>50</td>
<td>97%</td>
</tr>
<tr>
<td>2016</td>
<td>UKEF FF</td>
<td>GBP 800</td>
<td>950</td>
<td>974.7</td>
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<tr>
<td></td>
<td>UKEF Clean</td>
<td>GBP 20.8</td>
<td>24.7</td>
<td>97.5%</td>
</tr>
</tbody>
</table>

*Including domestic for EDC

**VIII.D.**

**Country energy sector project financing for selected year (in billions)**

*Including domestic for EDC

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>FF (EUR millions)</th>
<th>Clean (EUR millions)</th>
<th>Clean (other intl. dept.)</th>
<th>Clean (total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>*CA</td>
<td>€ 7,094</td>
<td>€ 1,023</td>
<td>€0.361</td>
<td>€1.390</td>
</tr>
<tr>
<td>2018</td>
<td>NL</td>
<td>€ 1,760</td>
<td>€ 0.050</td>
<td>€1.080</td>
<td>€1.130</td>
</tr>
<tr>
<td>2016</td>
<td>UK</td>
<td>€ 0.950</td>
<td>€ 0.025</td>
<td>€0.960</td>
<td>€0.991</td>
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</table>

**Energy sector project financing by country (billions)**

- Conversion (Dec. 2019): CAD 1; EUR 0.68
- Conversion (Dec. 2019): GBP 1; EUR 1.19
## ANNEX IX: Climate Policy Types, Instruments, and Evaluation

*Source:* Gupta et al. (2007).

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Environmental effectiveness</th>
<th>Cost-effectiveness</th>
<th>Meets distributional considerations</th>
<th>Institutional feasibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulations and Standards</td>
<td>Emission levels set directly, though subject to exceptions</td>
<td>Depends on design; uniform application often leads to higher overall compliance costs</td>
<td>Depends on level playing field; small/new actors may be disadvantaged</td>
<td>Depends on technical capacity; popular with regulators, in countries with weak functioning markets</td>
</tr>
<tr>
<td>Taxes and charges</td>
<td>Depends on ability to set tax at a level that induces behavioral change</td>
<td>Better with broad application; higher administrative costs where institutions are weak</td>
<td>Regressive; can be improved with revenue recycling</td>
<td>Often politically unpopular; may be difficult to enforce with underdeveloped institutions</td>
</tr>
<tr>
<td>Tradable permits</td>
<td>Depends on emissions cap, participation and compliance</td>
<td>Decreases with limited participation and fewer sectors</td>
<td>Depends on initial permit allocation, may pose difficulties for small emitters</td>
<td>Requires well-functioning markets and complementary institutions</td>
</tr>
<tr>
<td>Voluntary agreements</td>
<td>Depends on program design, including clear targets, a baseline scenario, third-party involvement in design and review, and monitoring provisions</td>
<td>Depends on flexibility and extent of government incentives, rewards and penalties</td>
<td>Benefits accrue only to participants</td>
<td>Often politically unpopular; requires significant number of administrative staff</td>
</tr>
</tbody>
</table>

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| Subsidies and other incentives | Depends on program design; less certain than regulations/standards. | Depends on level and program design; can be market-distorting | Benefits selected participants; possibly some that do not need it | Popular with recipients; potential resistance from vested interests. Can be difficult to phase out |
| Research and development | Depends on consistent funding, when technologies are developed, and policies for diffusion. May have high benefits in long term | Depends on program design and the degree of risk | Initially benefits selected participants; potentially easy for funds to be misallocated | Requires many separate decisions; depends on research capacity and long-term funding |

NOTE: Evaluations are predicated on assumptions that instruments are representative of best practices rather than theoretically perfect. This assessment is based primarily on experiences and literature from developed countries, since peer-reviewed articles on the effectiveness of instruments in other countries were limited. Applicability in specific counties, sectors, and circumstances—particularly developing countries and economies in transition—may differ greatly. Environmental and cost effectiveness may be enhanced when instruments are strategically combined and adapted to local circumstances.\textsuperscript{331}

\textsuperscript{331} Ibid
Annex X: Techniques of Neutralization in Context of CSR

*Source: Fooks, G. et al. (2013)*

Adapted by author for ECA-applicability

<table>
<thead>
<tr>
<th>Source</th>
<th>Primary Technique</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sykes and Matza (1957)</td>
<td>Denial of responsibility</td>
<td>Social actor indicates that harmful behaviour is the result of circumstances or other factors beyond their control</td>
</tr>
<tr>
<td>Thompson (1980)</td>
<td>Dispersal of blame / transfer of responsibility</td>
<td>Social actors dilute the degree to which they are responsible for harmful behaviour by claiming responsibility for the problem is shared amongst a number of social actors</td>
</tr>
<tr>
<td>Fooks; Gilmore; Collin; Holden; Lee (2012)</td>
<td>The defence of legality &amp; expression of right</td>
<td>By pointing to the legality of their product/actions, corporate actors excuse their negative impact on public welfare and justify the existing liberty of action of the company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A variant of appealing to higher loyalties where corporate actors justify behaviour with reference to (unspecified) universal rights that protect business freedoms</td>
</tr>
<tr>
<td></td>
<td>For the good of the cause/ for the greater good</td>
<td>A variant of appealing to higher loyalties. Corporate actor claims their behaviour was/is for the greater good, producing long-term consequences that serve as a justification of their actions</td>
</tr>
<tr>
<td></td>
<td>Protection of the weak</td>
<td>A variant of appealing to higher loyalties where corporate actors claim that behaviour (producing socially suboptimal outcomes) is justified to protect the interests of other, less powerful groups</td>
</tr>
<tr>
<td></td>
<td>The world has moved on</td>
<td>Corporate actor claims that shifts in public attitudes rather than own their own behaviour explains public condemnation</td>
</tr>
</tbody>
</table>

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ANNEX XI: Stages of Corporate Sustainability

*Source: Landrum, N. E., & Ohsowski, B. (2018).*

<table>
<thead>
<tr>
<th>Sustainability spectrum position</th>
<th>Compliance</th>
<th>Business-Centered</th>
<th>Systemic</th>
<th>Regenerative</th>
<th>Coevolutionary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orientation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Understanding of sustainability</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Relationship to natural world</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Economic growth</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Sustainability concerns</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

- **Stage 1**
  *Compliance (very weak sustainability)* – firms engage in activities which are externally enforced.
- **Stage 2**
  *Business-Centered (weak sustainability)* – firms engage in egocentric internally focused activities that result in benefit to the firm.

---

● Stage 3
  *Systemic* (intermediate sustainability) – firms work with others integrating the full realm of sustainability activities (environmental, economic and social) to address systemic change.

● Stage 4
  *Regenerative* (strong sustainability) – firms understand sustainability science and seek to repair the damage of an industrial-era consumer society.

● Stage 5
  *Coevolutionary* (very strong sustainability) – firms understand the place of humans, corporations and societies as existing in partnership with the natural world, giving as much as receiving.\(^{334}\)

\(^{334}\) Ibid
“Since the 1970s, 88 countries have adopted a constitutional right to a healthy environment, with an additional 62 countries enshrining environmental protection in their constitutions in some form—a total of 150 countries from all over the globe with constitutional rights and/or provisions on the environment. While there are still gaps in many of the laws, the substantial growth of environmental laws has been a notable achievement. Simultaneously, there has been a dramatic growth of environmental institutions. As of 2017, 164 countries have created environment ministries or the equivalent (cabinet-level bodies with responsibility over issues explicitly including, but not necessarily limited to, environmental protection). Of the remaining countries (countries without environment ministries), 22 have environmental entities with the functional role of independent government agencies and 7 have other entities with responsibility for environmental matters.” – UNEP (2018)
ANNEX XIII: OECD Export Credit Project Classification

Source: OECD, (2016)

IV. CLASSIFICATION

10. Adherents should identify the potential positive and negative environmental and social impacts relating to the applications to be classified. In this context:

   - Potential environmental impacts may include, but are not limited to, generation of significant air emissions, including greenhouse gas emissions, effluents, waste, hazardous waste, wastewater, noise and vibrations, significant use of natural resources, and impacts on endangered species.

   - Potential social impacts may include, but are not limited to, labour and working conditions, community health, safety, and security, land acquisition and involuntary resettlement, indigenous peoples, cultural heritage, and project-related human rights impacts, including forced labour, child labour, and life-threatening occupational health and safety situations.

11. The three categories for classification are:

   - Category A: a project is classified as Category A if it has the potential to have significant adverse environmental and/or social impacts, which are diverse, irreversible and/or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works. Category A, in principle, includes projects in sensitive sectors or located in or near sensitive areas. An illustrative list of Category A projects is set out in Annex I.

   - Category B: a project is classified as Category B if its potential environmental and/or social impacts are less adverse than those of Category A projects. Typically, these impacts are few in number, site-specific, few if any are irreversible, and mitigation measures are more readily available.

   - Category C: a project is classified as Category C if it has minimal or no potentially adverse environmental and/or social impacts.

12. Adherents should seek to ensure a coherent approach to the classification of projects through reporting and review of such projects, pursuant to paragraph 44 of this Recommendation.

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336 OECD, (2016). Working Party on Export Credits and Credit Guarantees Recommendations of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches)
### ANNEX XIV Frameworks Table & Notes

*Source: Author, see Sec. 4.3*

<table>
<thead>
<tr>
<th>International Standards, Frameworks, and Guidelines for Fi Climate Change Mitigation</th>
<th>Is the framework</th>
<th>ECAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nat.</td>
<td>Extractive Industries Transparency Initiative (EITI)</td>
<td>ECA-relevant</td>
</tr>
<tr>
<td>Priv.</td>
<td>Greenhouse Gas (GHG) Protocol</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>CDP (Carbon Disclosure Project)</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>GRI (Global Reporting Initiative)</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>PCAF (Platform Carbon Accounting Financials)</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>SBT (Science-Based Targets)</td>
<td>Yes</td>
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<tr>
<td>Priv.</td>
<td>UN Global Compact Principles</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>TCFD (Task Force on Climate-related Financial Disclosures)*</td>
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</tr>
<tr>
<td>Priv.</td>
<td>IFC Performance Standards (International Finance Corporation)</td>
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</tr>
<tr>
<td>Priv.</td>
<td>Equator Principles</td>
<td>Yes</td>
</tr>
<tr>
<td>Nat.</td>
<td>OECD Common Approaches</td>
<td>Yes</td>
</tr>
<tr>
<td>Nat.</td>
<td>World Bank Group EHS Sector Guidelines</td>
<td>Yes</td>
</tr>
<tr>
<td>Nat.</td>
<td>OECD Arrangement on Officially Supported Export Credits</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>OECD Guidelines for Multinational Enterprises</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>PDC (Portfolio Decarbonization Coalition)</td>
<td>Yes</td>
</tr>
<tr>
<td>Priv.</td>
<td>UN PRI (Principles for Responsible Investment)</td>
<td>Yes</td>
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<tr>
<td>Priv.</td>
<td>UNEP-FI (Finance Initiative - Principles for Responsible Banking)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

- **Yes**
- **Scope 3: if relevant and available (optional)**
- **No**

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**ADSB**

ADSB mentions GRI in its 2017 Annual Report as a goal for 2019, but no longer mentions it in its 2018 Annual Report. The Netherlands have technically committed to the EITI but have yet to be assessed against the 2016 standard. EITI is an initiative demanding better transparency from the oil, gas, and mineral resources industry - it is not explicitly a climate change mitigation framework and for this reason was not assessed more extensively. The UN Guiding Principles on Business and Human Rights was referenced in all three ECAs’ policy documents but is not included as it was not climate change specific enough for this assessment.

**EDC**

EDC uses GRI and the GHG Protocol but only for its operational footprint. Canada is not an implementing country of the EITI but Canada’s ESTMA provides equivalent reporting level to the EITI Standard. EITI is an initiative demanding better transparency from oil, gas, and the mineral resources industry - it is not explicitly a climate change mitigation framework and for this reason was not assessed more extensively. The IFC Performance Standards are used within the EHS Sector Guidelines, but EDC does not make explicit commitments to EHS. EDC meets the terms and conditions of the Arrangement via Canada’s variant of the Arrangement. The UN Guiding Principles on Business and Human Rights was referenced in all three ECAs’ policy documents but is not included as it was not climate change specific enough for this assessment.

**UKEF**

The UK has technically committed to the EITI but has yet to be assessed against the 2016 standard. EITI is an initiative demanding better transparency from oil, gas, and mineral resources industry - it is not explicitly a climate change mitigation framework and for this reason was not assessed more extensively. The UN Guiding Principles on Business and Human Rights was referenced in all three ECAs’ policy documents but is not included as it was not climate change specific enough for this assessment.

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337 EITI, Implementing Countries: Canada. (accessed on July 2019)
338 EDC, (2019). Operational Footprint Data
339 EITI, Implementing Countries: Canada. (accessed on July 2019)
340 EDC, (2018) Evolving with the changing needs of exporter
341 EITI Countries: Implementation Status. (accessed on July 2019).
## ANNEX XV: ESG frameworks assessed & search term list

<table>
<thead>
<tr>
<th>Framework</th>
<th>ECA / Scope III relevant standard (linked)</th>
<th>Link</th>
</tr>
</thead>
</table>

### Framework terms searched in ECA documents

- CDP (Carbon Disclosure Project)
- Equator Principles
- Extractive Industries Transparency Initiative
- GRI
- GHG Protocol
- IFC Performance Standards (International Finance Corporation)
- OECD (Common Approaches, Arrangement, Guidelines)
- TCFD (Task Force on Climate-related Financial Disclosures - based on GHG Protocol)
- Science-Based Targets
- UNCTAD IPPSD (Investment Policy Framework for Sustainable Development)
- UNEP Finance Initiative - Principles for Responsible Banking
- Portfolio Decarbonization Coalition
- UN Global Compact Principles
- UN Guiding Principles on Business and Human Rights
- UN Principles for Responsible Investment
- World Bank Group EHS Sector Guidelines

### ECA terms searched in ESG docs.

- ECA
- ECI
- Export Credit Agencies
- Export Insurance
- Corporate Value Chain
- Development Banks
- Development Finance
- Operator
- Processing of Sold Products
- Scope 3 / III
- Supply Chain
- Project Finance
- Use of Sold Products