Analysis: The Application of US Guidance on Fossil Fuel Financing at MDBs in Suriname

In August 2021, the U.S. Treasury issued Fossil Fuel Energy Guidance for Multilateral Development Banks (MDBs) in response to President Biden's Executive Order 14008 on Tackling the Climate Crisis At Home and Abroad. The guidance instructs the US government to oppose all coal, oil and gas projects at MDBs in which it participates, with a few exceptions, and to instead prioritize clean energy and energy efficiency and helping countries to achieve sustainable development pathways consistent with the goals of the Paris Agreement. In December 2021, President Biden put forward a government-wide performance standard to apply to U.S. financing of overseas energy projects.

The December 13th vote at the Board of IDB Invest, a member of the Inter-American Development Bank Group (IDB Group), for the Kuldipsingh Port Expansion Project in Suriname is the first known vote on financing for a project to which the new U.S. Treasury fossil fuel guidance has been applied, making it an important case study to assess what we can expect regarding the rigor and effectiveness of the U.S. government's implementation of new guidance and climate commitments on shifting public finance away from fossil fuels and towards renewable energy and sustainable development. The U.S., which has 30% of the voting power on the IDB Group Board, abstained from the vote, according to email communications with the U.S. Treasury, citing fossil fuel concerns. Even so, the project was still approved for IDB Group public finance.

The U.S. guidance on fossil fuel financing at MDBs states that the U.S. will *"...oppose oil-based energy projects. There may be limited exceptions, such as oil-based power generation in crisis circumstances or as backup for off-grid clean energy, if no cleaner options are feasible."* By failing to vote 'NO' on this project, the Biden Administration contradicted its own policies. Furthermore, this outcome demonstrates that the U.S. voting guidance is ineffective as a tool for enforcing its position on fossil fuel financing at MDBs. For Suriname, the vote to expand the port facility is significant because it facilitates the development of major new oil fields. In addition, over $1 billion in pending public debt from the IDB, World Bank, and IMF must also be viewed as further pressure on Suriname to become more dependent on future oil revenues that undermine the Paris climate goals (see details below).

US Guidance on Fossil Fuel Financing at MDBs is ineffective

The U.S. has outsized voting power at the Boards of the many MDBs in which it participates. The outsized U.S. voting power at the MDBs means that its voting positions (and even the threat of its voting positions) sends an important signal to other shareholders and influences the types of projects that make it to MDB Boards for a vote. While its shareholder position at the MDBs is not so significant as to be able to unilaterally block projects, on an issue like addressing climate change which countries globally are committing towards, collective opposing votes by major shareholders could stop fossil fuel expansion projects. At the recent COP26 in Glasgow, more than 30 nations, including the U.S., pledged to halt public financing for fossil fuel projects abroad after 2022.

However, in recent history, the U.S. has not used its voting power at MDBs to enforce its positions on fossil fuel financing or other development-related concerns, allowing them to go forward anyway. Votes on projects that violated guidance on fossil fuel financing, or the Pelosi Amendment; that had procurement integrity issues, inadequate community consultations or environmental assessments; and that raised technical and financial viability concerns, were abstained from by the U.S. Treasury, rather than outright opposed. An analysis of U.S. voting records on the Boards of multilateral development banks (MDBs) from January to August 2021 currently available on the US Treasury website, shows that the U.S. rarely opposes projects, and more often *abstains from voting* on projects that it has concerns with. The U.S. only voted 'NO' on 16 out of a total of more than 800 projects in the time period reviewed, most of them in China.

This is a demonstration that the U.S. guidance is ineffective as a tool for enforcing the U.S. position on fossil fuel financing at MDBs.

Voting 'NO' is the bare minimum that the U.S. should do to send a signal to other shareholders and help collectively stop the flow of public finance to fossil fuels at MDBs. The U.S. should also use its "voice" at the MDBs and tools available to it to help strengthen the MDB' climate and debt policies. One way it can do this is by conditioning capital increases and replenishments on these improvements, to equitably help countries phase out fossil fuels and transition their energy systems and economies. However, other than outlining what kinds of energy projects the U.S. does or does not support, the Treasury guidance provides no details on how the U.S. will use its voice at the MDBs to shift energy financing, making the new guidance largely ineffective.

Oil Port Facility to facilitate development of new offshore oil fields

In 2020, five deep water oil discoveries were made off the coast of Suriname. Four oil discoveries were announced by Total and Apache in oil block 58 and one oil discovery was announced by ExxonMobil and Petronas in oil block 59. Currently, Total and Apache are in the process of putting together a final investment decision for block 59 expected to be between $6 and $7 billion. A decision from ExxonMobil-Petronas could soon follow. The Suriname state-owned oil company, Staatsolie, is in the process of trying to raise funds to purchase shares, up to 20 percent, in the Total-Apache block 59.

The IDBG's Kuldipsingh Port Expansion Project should not have received the IDBG's public funding because it directly facilitates the development of these new offshore oil fields, which is not in alignment with the Paris Climate Agreement goal of limiting global warming to 1.5 degrees. The IDBG project documents state that the private port's main clients include: offshore oil development/exploration companies; the Kuldipsingh group's construction operations; and timber exports. The IDBG's funding will also be used to reimburse sister companies of the Kuldipsingh Port for expenditures already incurred, without detailing those expenditures or the specific companies. The Kuldipsingh group includes an oil services company. Before Total makes its final investment decision, it will be important to ensure

Suriname has the infrastructure to handle the development. The expansion of the port is directly tied to being able to handle more cargo related to the new offshore oil developments and thus, helps facilitate new oil field investments. The International Energy Agency has determined that no new oil production investments can be made if we are to limit warming to 1.5 degrees.

Over $1 billion in international public finance linked to Oil Expansion in Suriname by IDB, World Bank, and IMF

Currently in Suriname, Total, Exxon, and partners are getting ready to make final investment decisions for billions of investments in oil blocks 58 and 59. At the same time, Suriname is facing great difficulties servicing its public debt. The IDB is considering two policy-based operations together worth $250 million in general budget support to the government of Suriname. Additionally, the World Bank is considering $100 million in budget support, and the IMF is negotiating finance totaling $690 million. This equals **$1.04 billion in new public debt for Suriname**.

The international public funding of the IMF, IDB and World Bank should help Suriname with its debt without deepening the country's dependence on fossil fuels. The stability of the government's finances is critical during the development phase of these new oil fields. During the development phase of the new oil fields, no oil revenue will be generated to help the government pay for the extra governmental costs to manage/permit, develop, and build/maintain the infrastructure necessary for the off-shore oil development. The government also needs to pay for the government capacity to issue permits. It is important to the oil companies not to have any delays due to permitting. The IMF, IDB and World Bank funding all helps the government budget handle these extra costs.

The IDB and World Bank budget support is important to help reduce potential risks related to government financial stress and public service delivery, which can be linked to social upheaval, which can interrupt oil development.

Debt Sustainability: Moreover, in November 2020, Suriname defaulted on its sovereign debt payments. In order for the IMF, IDB and World Bank to determine it is financially sustainable for Suriname to take on $1.04 billion in new debt, they must be counting on the development plans of Suriname being able to generate enough government revenue. The most significant expected development is the new oil fields. Hence, the $1.04 billion in new debt largely hangs on these new oil investments going forward. In order to be able to pay back all this new public debt, Suriname will turn to oil development, deepening its dependence on fossil fuels at a time when countries should be diversifying their economies to avoid physical and transition climate risks.

The IMF, IDB and World Bank need to help Suriname resolve the debt crisis without deepening its dependence on risky fossil fuels and thus contributing further to the climate crisis.

Lack of Transparency on Transition Risks, Development Impacts, Paris Alignment Raise Accountability Concerns

The IDB Group has joined other MDBs in making commitments to align its financing with the goals of the Paris Agreement. However, there are no publicly-available documents explaining how this project aligns with IDB Invest's and shareholders' commitment to align financing with the Paris Agreement and end overseas fossil fuel investments.

While project documents acknowledge that the port will support oil operation logistics, they evade discussing the port's critical role enabling major new oil development, and deepening the country's dependence on fossil fuels. Suriname's oil extraction and exports are both links in the carbonization chain, which also includes delivery and use such as combustion. This evasion does not accord with IDB Group's commitment to the Paris Agreement, numerous shareholders' commitment at the Glasgow summit to end investments in fossil-fuel related projects, and IEA guidelines stating our planet cannot survive any new fossil fuel-generating investments.

Project documents conclude that the climate change transition risk to this project is low (in the short-term) and moderate (in the long-term) but only consider risks around the port such as greenhouse gas emissions from operating cranes, loaders, forklifts, trucks and vessels running engines and generators. To address these emissions, they commit to present an annual inventory of equipment for greenhouse gas pollution and verify and approve Staatsolie's spill prevention, control, response, and cleanup measures around the port.

Remarkably, the project documents fail to transparently discuss the implications of the port's expansion on Suriname's sustainable and inclusive development, and the port's role in global climate change impacts.

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