Climate change is one of the greatest challenges of the 21st century. The latest report of the International Panel on Climate Change projects that in the coming decades the world will be facing increasing heat waves, longer warm seasons and shorter cold seasons. As we are witnessing with our own eyes, climate change also causes longer patterns of unpredictable and extreme weather. One can argue about the reasons behind the energy crisis in Texas during the winter of 2021, but one thing is obvious — Texans had not experienced such a prolonged, freezing winter for a long time. A few months later, the winds in the North Sea suddenly stopped blowing, sending the UK into an energy crisis and pushing several domestic energy suppliers out of business in several days. To tackle the climate change challenge, the global community long ago joined efforts towards finding ways to minimize humans’ impact on nature.

Finally, on November 4, 2016, the Paris Agreement entered into force, aiming to limit global warming to well below 2°C compared with pre-industrial levels. Countries have been actively working ever since on accelerating climate action — the latest example being the COP26 summit which took place between October 30 and November 13, 2021. International organizations and especially financial institutions stepped in to support the climate agenda, and among them the World Bank Group (WBG), by playing a leading role in helping to shape the climate dialogue and support climate financing. In 2021, the WBG launched the Climate Change Action Plan 2021–25 (CCAP), which sets out the ambitions and objectives of the WBG leadership on climate change adaptation and mitigation financing for adaptation, including increasing climate financing targets to 15 per cent on average over the fiscal years 2021–25. In its 2021 Energy Policy to Support Energy Access and a Low-Carbon Transition in Asia and the Pacific, the Asian Development Bank announced its ambition to deliver $100 billion in cumulative climate financing from its own resources between 2019–30.

Investment needs

As renewable energy is considered to be an important component of the green transition, a substantial share of funds provided by Multilateral Development Banks (MDBs) is aimed at increasing renewable capacities, especially in developing economies — the main clients of those institutions. And yet, investment needs are still enormous. Tackling the green transition comes at a price. According to the World Bank (WB), the cost of meeting the International Panel on Climate Change (IPCC)’s ambition to deliver $100 billion in cumulative climate financing from its own resources between 2019–30.

Ensuring a just transition

As far as energy is concerned, switching to gas-to-power (especially combined with carbon capture technologies) is considered by many to be a reliable, affordable and environmentally prudent option that could enable a just transition without causing abrupt and risky sacrifices.
This is true not only in least-developing countries, but also in middle-income and even high-income countries. In the US, for example, the growth of wind and solar (126 TW) between 2015 and 2018 was accompanied by a similar increase in gas-fired power production capacity (134 TW).1

In Germany, a report by Wartsila Oyj shows that to phase-out coal power plants by 2038 the country would need as much as 12 GW of new gas-fired power plants.2 When a lightning strike led to the blackout of an extensive portion of the UK grid in London in 2019, it ignited conversations on the need for resilience in the grid, as it became apparent that battery storage to clean alone will not be enough to guarantee security of supply in the UK. In the increase of the penetration of renewables in the energy mix,3 help the unstable for providing anything but baseload due to the time and expense required to kick a reactor into gear, the CEO of Statera, A "We believe that launching such a bank (we suggest naming it ‘International Bank for Sustainable Energy Future’ or IBSEF) would enable developing countries to develop reliable and cost-efficient power sources, while enabling justly transitioning how long natural gas will remain a transition fuel helping to lay the path towards a green future, the majority of them agree that gas-powered generation will continue to play a key role in the energy transition, at least for some time. Mohammad Sanusi Barkindo, the OPEC Secretary General, mentioned that “oil and gas will continue to have an important role to play well into the future...” and...” it has much to offer in this regard, including some of the world’s cost-cutting-edge technologies and advanced innovations, which can all be leveraged to promote a lower-carbon future.4

According to the International Energy Agency (IEA), “the links between electricity and gas markets are not going to go away any time soon. Gas remains an important tool for balancing electricity markets in many regions today and...” and...” remain an important component of electricity security.”5

According to Deloitte: “The hydrogen-based power generation model is to be used for energy storage, especially for reserve power at the bottom of the curve, and can adapt with new clean energy technologies (e.g., carbon capture and hydrocarbon-based storage) that abate emissions on a significant scale.”6 And, finding MDB financing even for development of gas-to-power plants has become more difficult. The WBG and the European Investment Bank have dropped their support of upstream oil and gas in 2019 and financing of gas-to-power projects has been declining. Over the last few years, major shareholders of the MDBs have been vocal in slowing down their support of gas-related projects. To get their approval, those projects have to be located in low-income countries with no eco-service provision and technically feasible and clean energy sources in sight. These projects would also need to have a significant positive impact on energy security, energy access and development. As a result, such projects are often facing greater scrutiny from MDB stakeholders compared with green labeled investments. On top of that, MDB staff are often being asked to come up with convincing gas-to-power projects, even when all or most of the applied conditions can potentially be met. Commercial financing is also shrinking as institutional investors, who traditionally have been the supporters of long-term investment projects, are becoming increasingly ESG-concerned, gradually disposing of their holdings in projects that have any connection to fossil fuel power generation. As interest in gas-to-power projects in the eyes of MDBs and institutional investors is shrinking significantly, while demand for baseload generation is apparently continuing to grow; it is unclear who is going to assist developing countries in transitioning toward a green future. Even worse, underfinancing creates a real possibility of future market movements that could lead to a deficit of fossil-based products (in the end even Tesla cars still use a lot of plastic in their construction).

Developing a solution
When it comes to capital markets, the global economy has developed a solution for dealing with the assets that banks are hesitant to hold, but which have strategic or other substantial value. During the financial crisis it has been customary for governments to pool all such “assets” into a special-purpose vehicle, which the burdened on the shoulders of commercial banks and the private sector and pooling them together under strict supervision of regulators or some specifically designated governmental agency with the appropriate expertise. A similar “pooling” approach could be used regarding the energy assets that become less attractive in view of the world development community. In our opinion, the time has come to launch a discussion on establishing an international multilateral bank that will use the highest fiduciary standards, employed by the international community, and will rely on the expertise of top world experts to assist developing countries in identification, appraisal, financing and supervision of environmentally and socially acceptable fossil-based energy projects.

Major oil and gas producing countries could be the founders of such international financial institution, mobilizing funds and applying their technological and expertise for the common good. There is at least one existing and quite successful example of major fossil fuel producers pooling their funds to help the global community to tackle their development challenges.

In 1976 the Member States of OPEC have established the OPEC Fund for International Development. Recently the OPEC Fund has expanded its role in financing the energy sector with its Energy for the Poor Initiative and participation in the UN Sustainable for All Initiative.

Possible financial tools
We believe that launching such a Bank (we suggest naming it ‘International Bank for Sustainable Energy Futures’ or IBSEF) would enable developing countries to develop reliable and cost-efficient power sources, while enabling justly transitioning how long natural gas will remain a transition fuel helping to lay the path towards a green future. The experience of the OPEC Fund, noted: “The OPEC Fund has come to launch a discussion on establishing an international multilateral bank that will used the highest fiduciary standards, employed by the international community, and will rely on the expertise of top world experts to assist developing countries in identification, appraisal, financing and supervision of environmentally and socially acceptable fossil-based energy projects.

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Key to a green tomorrow
The world’s road to a low-carbon future will not be easy and will be full of new challenges as we see forward. However, this journey cannot be undertaken without engaging oil and gas producers, as they hold one of the keys to the world’s greener tomorrow. It is in our hands to ensure that during this journey the world uses its best minds and resources, and that no one along this road is left behind.

A b r a h a m Shihata, one of the founders of the OPEC Fund, noted: “The experience of the OPEC Fund shows... that a modest, but well-structured step can, if pursued within careful limits envisaged for it, create, in time, the momentum needed for taking further steps towards the ultimate objective.” We believe that creation of the IBSEF could become such a step, which would help create a much-needed building block toward the ultimate objective of a green, low-carbon world.

2. https://arctech.org/news-materia/developing-countries-fce-23-million-enroll-investment-gap-key-sustainable
6. Ibid.