

GLOBAL ECONOMIC GOVERNANCE INITIATIVE



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Who Funds Overseas Gas Projects?

COMPARING DEVELOPMENT FINANCE FROM CHINA AND MAJOR MULTILATERAL DEVELOPMENT BANKS

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EXECUTIVE SUMMARY

In pursuit of climate goals, many development finance institutions (DFIs) are working to move their financing activity away from fossil fuels, especially coal. There is some concern, however, that a shift in development finance away from fossil fuels could be jeopardized if China’s policy banks fill the gap left by multilateral development banks (MDBs), as was the case when China emerged as the largest public financier of coal (Ma and Gallagher 2021).

Natural gas, a type of fossil fuel, accounts for 23 percent of global energy consumption and has made up almost one-third of energy demand growth over the past decade, more than any other fuel (IEA 2021). As energy demand is projected to continue to grow through 2030, especially in developing countries, DFIs have a role to play in determining the course of the natural gas sector—particularly through allocation of scarce financial resources to gas versus other kinds of energy, like renewable energy.

This policy brief explores recent lending and commitments from two Chinese policy banks and eight major MDBs for overseas natural gas projects, comparing the scope of policy frameworks and the scale and composition of development finance.

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We collected data on the MDBs and Chinese policy banks for gas infrastructure from 2008 to 2021, finding the MDBs financed more natural gas infrastructure projects than Chinese policy banks and have also provided additional financing for general support programs for the natural gas sector. In addition, MDBs and Chinese policy banks have focused on different gas subsectors, with China's policy banks focusing on exploration and extraction-related activities, while MDBs provided over half of their financing for transport, storage and distribution of gas.

The data on the MDBs does reveal a general decrease in financial disbursement for natural gas projects, however, this decline doesn't necessarily reflect a coordinated policy action made by the MDBs across the board. In 2017, the eight MDBs covered in this policy brief committed to align their financial flows with the Paris Agreement (AIIB 2018). However, the common MDB taxonomy released at COP26 did not classify or address natural gas projects (EIB 2021). Commitments on natural gas vary by individual institution. While there has been a decisive turning away from coal-based power generation, MDB policies on natural gas are less clear.

Meanwhile, domestic drivers in China, such as a lack of domestic comparative advantage in natural gas and the emergence of green Belt and Road Initiative frameworks, will limit Chinese development finance for overseas gas, and China's policy banks are therefore unlikely to fill a gas finance gap left by the MDBs. However, given a lack of policy clarity, the door is still open for China to engage in overseas gas development, such as further upstream development, coal-to-gas conversions and region-specific natural gas development.

Key findings:

- **Total amount of financing:** Between 2008 and 2021, Chinese policy banks and the MDBs committed nearly \$112 billion to gas infrastructure projects. DFI lending hit a peak in 2016, when the MDBs and Chinese policy banks financed more than \$16.2 billion, driven mainly by Chinese financing of a single project. This was followed by an overall decrease in new lending from 2017-2021.
- **MDB finance compared to Chinese policy banks:** The eight MDBs financed more gas-related infrastructure than Chinese policy banks—around \$63.7 billion compared to \$47.8 billion from the Chinese policy banks. In addition, MDB financing has been more constant than Chinese financing, which varied more year-to-year.
- **The largest gas lender:** The largest MDB in asset size, the European Investment Bank, was the single largest gas lender among the eight MDBs, financing \$37.5 billion between 2008 and 2021.
- **Varying subsector focuses:** Chinese policy banks and the MDBs have focused on different gas subsectors. Almost 47 percent of Chinese policy bank overseas lending was directed to exploration and extraction projects. The MDBs, on the other hand, centered just over half of their disbursements on transport, distribution and storage. MDBs provided a small amount of lending for energy efficiency projects, while Chinese policy banks did not finance energy efficiency projects at all. The different subsector focuses for the MDBs and Chinese policy banks are likely related to commitments and policy frameworks, with most of the MDBs restricting upstream gas development related to exploration and extraction.



- **In the power generation subsector:** The MDBs financed over \$17 billion in gas power plants, while Chinese policy banks provided just \$3 billion. Chinese policy banks financed more gas chemicals-related projects (\$4.9 billion) than power generating projects from 2008-2021.
- **Geographic breakdown:** Most of the finance from the MDBs and the Chinese policy banks went to European and Central Asian countries, representing 77 percent of disbursements from 2008 to 2021. The Middle East and North Africa were a far second destination region, receiving 9 percent of financing, only from the MDBs.
- **Comparing commitments and policy frameworks:** Chinese policy banks and the MDBs share some similarity in the lack of policy frameworks for overseas gas financing, especially relative to coal. Unlike coal, there is no common approach among the major MDBs on natural gas financing, whether upstream or downstream, and China has not specified a clear stance on overseas natural gas development.
- **China is unlikely to fill an MDB gas finance gap:** Domestic drivers in China will likely limit Chinese development finance for overseas gas, meaning China is unlikely to fill a gap in gas finance left by the MDBs. However, given a lack of policy clarity, the door is still open for China to engage in overseas gas development.

Key policy recommendations:

- **MDBs should lead China on natural gas policies.** As MDBs articulated a common position on coal-based power generation, they should also coordinate a consistent policy and framework on natural gas financing that is aligned with science-based climate targets. MDBs must take a leading role, and move first on developing commitments, policies and strategic frameworks. China has not historically led on fossil fuel transition policies, but it has followed—as the case of coal demonstrates.
- **More attention is needed on the role of the private sector.** DFIs are far from the only financier of global gas development. For China, foreign direct investment (FDI) and contracting arrangements are increasingly important channels for China's overseas engagement. Globally, international and domestic private sector investment are important sources of financing for natural gas development. Thus, policies governing the private sector, including companies and commercial financial institutions, will also be important.
- **Natural gas policies must be complemented by support for alternatives.** If Chinese policy banks and the MDBs increasingly restrict gas, there must be a parallel increase in support for cleaner alternatives, including for just transition policies that consider communities affected by fossil fuel phaseout.



INTRODUCTION

In pursuit of climate goals, many development finance institutions (DFIs) are working to move their financing activity away from fossil fuels. This shift has already transformed development finance for coal, with 99 percent of internationally available development finance now committed to reducing or ending coal finance support, spanning national development banks and multilateral development banks (MDBs) (Ray et al. 2021a). Many MDBs are working to harmonize their portfolios with Paris Agreement climate goals, for example, through pledges on the part of the International Development Finance Club and through a joint framework declaration (AIIB 2018).

There is some concern, however, that a shift in development finance away from fossil fuels could be jeopardized if China's policy banks fill the gap left by MDBs. In the past, as MDBs moved away from certain types of energy projects, China has emerged as the largest public financier and, in some cases, the lender of last resort (Bhandary and Gallagher 2022) for overseas hydropower and coal development (Ma and Gallagher 2021). Recent high-level commitments from China have ended most future support for overseas coal development (Springer and Ma 2021). However, could the MDBs' move away from other fossil fuels—particularly natural gas—be negated if China picks up the tab?

Natural gas accounts for 23 percent of global energy consumption and has made up almost one-third of energy demand growth over the past decade, more than any other fuel (IEA 2021). As energy demand is projected to continue to grow through 2030, especially in developing countries, DFIs have a role to play in determining the course of the natural gas sector—particularly through allocation of scarce financial resources to gas versus other kinds of energy, like renewable energy. This policy brief explores recent lending and commitments from China and major MDBs for overseas natural gas projects, comparing the scope of policy frameworks and the scale and composition of development finance.

The policy brief shows that MDBs have financed more natural gas projects than Chinese policy banks since 2008 and argues that Chinese policy banks are unlikely to fill a gap that might be opened by MDBs further restricting their support for gas development. Based on additional analysis of policy frameworks and support for specific gas subsectors, we recommend MDBs lead China on developing clearer policy frameworks regarding natural gas, conduct more research on private sector engagement in gas and that MDBs and Chinese policy banks scale up support for alternatives to gas-related energy infrastructure while paying attention to a just transition.

COMPARISON OF CHINESE POLICY BANKS AND MULTILATERAL DEVELOPMENT BANK GAS COMMITMENTS AND POLICIES

Multilateral Development Banks

In 2017, MDBs committed to aligning their financial flows with the Paris Agreement goals, and at the 2018 United Nations Climate Change Conference (COP24), they published their joint approach to implementing this commitment (World Bank 2018). The MDBs' common taxonomy released at the 2021 United Nations Climate Change Conference (COP26) did not classify or address natural gas projects. Individually, MDBs' pledges are not unanimous, and they have different stances on the natural gas sector.

Most of these commitments and strategies have been recently approved or are under review. Following the approach laid out by Ray et al. (2021a) to classify MDB stances into commitments and policies or strategic frameworks, Table 1 summarizes where each MDB stands on ending support to



gas upstream, midstream and downstream.² Policies and strategies include exclusion lists, formal instructions for staff, energy policies or similar arrangements. Commitments include announcements by bank leadership or at public consultations.

Table 1: MDB Policies and Commitments to Ending Support to Gas

		Ending natural gas midstream and downstream		
		Policy or Strategic framework	Commitment	No commitment
Ending natural gas upstream	Policy or Strategic framework	EIB		IADB, WBG, ADB AfDB
	Commitment		EBRD	
	No commitment			AiIB*, NDB

Source: Authors' elaboration. An asterisk (*) indicates that an MDB is currently reviewing or updating its policy.

Note: AfDB = African Development Bank Group, ADB = Asian Development Bank, AiIB = Asian Infrastructure Investment Bank, EBRD = European Bank for Reconstruction and Development, EIB = European Investment Bank, IADB = Inter-American Development Bank Group, NDB = New Development Bank, WBG = World Bank Group.

Among the MDBs analyzed in this brief, the European Investment Bank (EIB) has the most developed policies to phase out the financing of traditional and unabated fossil fuel projects, including natural gas. In its policy on energy lending, the EIB has committed to end gas support by 2021. The bank has committed to eliminate funding and technical assistance for i) the production of oil and natural gas; ii) traditional gas infrastructure (networks, storage, refining facilities); iii) power generation technologies resulting in greenhouse gas (GHG) emissions above 250 g CO₂ per kWh of electricity generated and iv) large-scale heat production infrastructure based on unabated oil, natural gas, coal or peat (EIB 2019).

The Inter-American Development Bank Group (IADB), the World Bank Group (WBG) and the Asian Development Bank (ADB) have policies ruling out support for upstream gas, with some caveats, and do not rule out support for midstream and downstream gas. The IADB Environmental and Social Policy Framework stated upstream gas exploration and development projects were inconsistent with the bank's commitment to sustainability and would no longer be supported. Still, the institution will finance upstream gas infrastructure in exceptional conditions: i) to increase energy access for the poor and ii) to minimize carbon emissions (IADB 2020).

The WBG announced it would no longer finance upstream oil and gas after 2019 (World Bank Group 2017). The institution identified financing upstream gas in the poorest countries and compatibility with Paris Agreement nationally determined contributions (NDC) commitments and development strategies as the two exceptions to the general commitment to end new lending for gas. Midstream and downstream natural gas investments continue to receive support from the Group. The WBG argues gas still plays an important role in the energy transition of some countries (World Bank 2017 and 2021).

The ADB 2021 Energy Policy provides guidance on energy access and energy security, climate change and environmental sustainability (ADB 2021). The policy stresses that natural gas could offer a lower carbon alternative to other fossil fuels and, under specific circumstances, provide flexible resources to integrate more renewable energy into the grid. However, it highlights some concerns

² Upstream refers to activities related to the production of natural gas, including exploration and extraction. Midstream refers to transportation and storage-related activities. Downstream refers to activities related to the end use of natural gas, including power generation and petrochemical processing.

about the harms of the continued use of natural gas, especially pertaining to the impact of methane emissions. ADB agreed to offer limited and conditional support to natural gas projects. The bank will not support any natural gas exploration or drilling activities and will be selective in its midstream and downstream natural gas support. ADB may also support projects involving space heating, cooling, domestic demand, industrial energy applications, or distributed electricity generation to improve energy access, or if it is demonstrated that the projects displace more polluting fuels.

The European Bank for Reconstruction and Development (EBRD) does not have a formal policy to end all lending to gas projects. Still, at the EBRD 2021 annual meetings, the institution committed to reach “full Paris alignment” by 2023. The institution is holding a public consultation to align its projects with the Paris Agreement, linked with the joint MDB alignment framework released during COP26.

In the 2018 Asian Infrastructure Investment Bank (AIIB) Energy Sector Strategy, the bank stated ample opportunities for investments in oil and gas production to energy security, but acknowledged these projects carry higher risks (AIIB 2018). The institution said it would continue to support oil and gas processing, transportation and distribution investments seeking energy security or promoting regional integration and trade. AIIB will also consider development, rehabilitation and upgrading of natural gas transportation (including storage) and distribution networks, and control of gas leakage. The AIIB is currently reviewing its Energy Sector Strategy (Wright 2022). In the draft presented in December 2021 for consultation, the institution stated that it would not finance upstream natural gas activities. Yet, the bank will continue to support natural gas midstream and downstream infrastructure that replaces higher carbon fuels and inefficient technologies or oil- and coal-fired energy facilities.

In the African Development Bank’s (AfDB) 2012 Energy Sector Policy, the bank committed to promote oil and gas financing for power generation, to build sound governance and transparency in the use of oil and gas resources and to rule out support for oil and gas exploration (AfDB 2012). More recently, AfDB President Akinwumi Adesina highlighted the potential of natural gas to help address Africa’s energy needs and said countries should seek an energy mix that includes natural gas (Burkhardt 2021). At COP26, a chief officer at AfDB stressed gas as a driver to transiting to a low-carbon economy, noting that natural gas “stands as an ecologically plausible solution for industrialization and clean cooking in Africa” (Singhe, 2021).

The New Development Bank (NDB) has not formally discussed the issue.

Finally, as one of the most significant shareholders and financial contributors, the United States has a leading role in shaping MDB policies and commitments. In August 2021, the US Treasury released a fossil fuel energy guidance to position the country in MDB decisions, aiming to narrow support and oppose upstream projects for natural gas (US Department of Treasury 2021). Midstream and downstream projects will be supported in exceptional occasions, such as in i) countries, fragile and conflict-affected states, or small island developing states eligible for the WBG’s International Development Association (IDA); ii) areas that lack economical and technical feasible clean energy alternatives; iii) projects that have a substantial positive impact on energy security, energy access or development; and iv) projects aligned with a country’s decarbonization pathway, greenhouse gas reduction strategies and that avoid carbon lock-in (US Treasury 2021).

China

China has not issued commitments related to restricting policy bank support for upstream, midstream or downstream natural gas development overseas. In fact, oil and gas extraction was classified as an “encouraged outbound investment” on the basis of economic benefits (Gallagher and Qi 2021). Xi Jinping’s September 2021 announcement at the 76th United Nations General Assembly specified



that China would step up support for clean and low-carbon energy overseas and would not build new coal-fired power plants overseas, but natural gas was not mentioned (Springer and Ma 2021).

In terms of policy and strategic frameworks, China's primary approach in the realm of environmental and social safeguards has been to adhere to host country guidelines. In July 2021 and January 2022, the Ministry of Ecology and Environment (MEE) and the Ministry of Commerce issued guidelines for policy banks and companies laying out a new, albeit voluntary, approach to China's overseas engagement, recommending overseas projects adhere to international or Chinese best practices (Nedopil Wang 2022). These guidelines were codified in a March 2022 guidance across multiple Chinese ministries, including the National Development and Reform Commission (NDRC) and the Ministry of Foreign Affairs. Taken together, these policy frameworks specify that projects should "make a positive contribution to addressing climate change," but make no mention of natural gas. Specific clean energy projects that the guidance encourages include wind, solar, hydrogen, nuclear, smart grid, storage and carbon capture and storage (CCS).

In 2021, the Belt and Road International Green Development Coalition, a coalition between MEE and international partners, issued a guidance known as the Traffic Light System for China's overseas finance and development (BRI International Green Development Coalition 2020). The Traffic Light System rates projects based on their potential risks and contributions to environmental dimensions of pollution, climate and biodiversity. Under the Traffic Light System, natural gas power generating projects are classified as "red/yellow", meaning that they require strict supervision and regulation, but can achieve a "yellow" status with mitigation and compensation measures, namely CCS.

In regional cooperation agreements with China, explicit mentions of natural gas are generally absent, with two notable exceptions. In the Forum on China-Africa Cooperation's (FOCAC) Declaration on China-Africa Cooperation on Combating Climate Change, China committed to support "qualified gas-to-power and green hydrogen development projects in accessing green investment and financing support" (FOCAC 2021). In the Joint Statement on the Implementation of the EU-China Cooperation on Energy, the EU and China agreed to explore cooperation related to expanding markets for liquefied natural gas (LNG) (European Commission 2019). These regional commitments indicate clearer support for natural gas than what China's unilateral guidances have specified.

Thus, any explicit language by China's regulatory agencies around the classification of gas—as either low-carbon and therefore favored, or high-carbon and potentially regulated along with coal—could strongly determine the future course of China's overseas gas-related engagement.

COMPARISON OF CHINESE AND MULTILATERAL DEVELOPMENT BANK GAS DEVELOPMENT FINANCE

MDBs have a strategic position and an extended history of financing energy infrastructure. These institutions have mandates and missions to support development over the medium and long term and play a critical countercyclical role. Their unique sources of funding allow them to offer more competitive credit conditions, create new financial products, scale up riskier projects and address market inefficiencies. A dollar allocated by MDBs can commit two to five dollars in new financing every year (World Bank 2015).

We collected data from eight major MDBs (WBG, EIB, IDB, EBRD, AfDB, AIIB, ADB and NDB) to track their commitments to the natural gas sector. We also collected data on China's overseas development finance for gas. China's official overseas development finance is defined as lending commitments from China's two policy banks, the China Development Bank (CDB) and the Export-Import Bank of China (CHEXIM), to overseas borrowers with public ownership. We used data from the

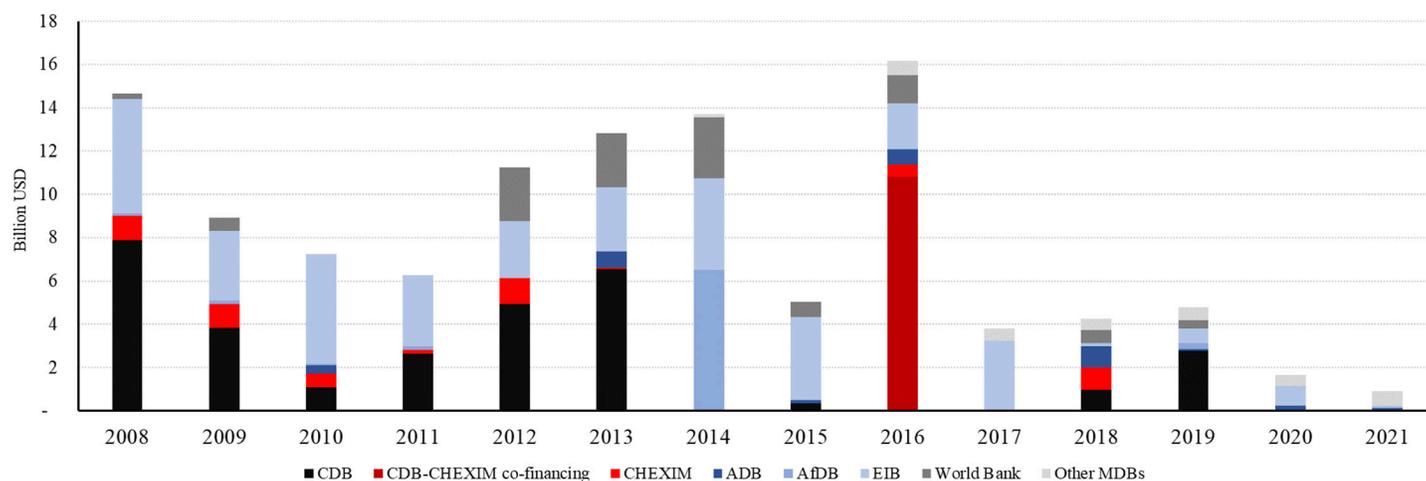
China's Global Energy Finance Database to identify gas projects receiving Chinese overseas development finance (BU GDPC 2022a). For both MDBs and Chinese DFIs, we tracked projects that have already reached financial closure.

We assessed commitments from these eight MDBs and the two Chinese policy banks between 2008 and 2021. 2008 is the year that China's overseas development finance first attained a level on par with major MDBs. Note that the AIIB and the NDB, often seen as China-led MDBs, were created in 2016 and 2014, respectively.

Taken together, Chinese DFIs and MDBs committed nearly \$112 billion to gas projects between 2008 and 2021. During this time, the eight MDBs financed more gas-related infrastructure, around \$63.7 billion, than the Chinese policy banks, which was around \$47.8 billion. The largest MDB in asset size, the EIB, was the single largest gas lender among these MDBs, financing \$37.5 billion between 2008 and 2021 (as shown in Figure 1).

Figure 1 illustrates a peak in 2016 when the MDBs and policy banks financed more than \$16.2 billion, driven mainly by Chinese financing of a single project,³ and then an overall decrease in new lending. In 2021, CDB and CHEXIM did not finance any new natural gas overseas projects—in fact, they provided zero overseas development finance across all energy types (Ma et al. 2022). Also in 2021, MDBs committed the lowest amount of development finance since 2008, \$927 million, with only the ADB, AIIB, EIB and NDB providing loans. Following general trends in China's overseas development in comparison with WBG finance across all sectors (Ray et al. 2021), MDB finance for natural gas infrastructure has been relatively more constant over this time period, while Chinese development finance tended to vary more.

Figure 1: Chinese Policy Banks and Selected MDBs Commitments to the Gas Sector, 2008-2021



Source: China's Global Energy Finance Database, Boston University Global Development Policy Center; Authors' elaboration.

Chinese policy banks and the eight MDBs focused on different gas subsectors.⁴ Almost 47 percent of CDB and CHEXIM overseas lending was directed to exploration and extraction projects.

³ Yamal LNG project in Russia was co-financed by CDB and CHEXIM. It accounts for over 20 percent of total Chinese development finance for overseas gas between 2008 and 2021.

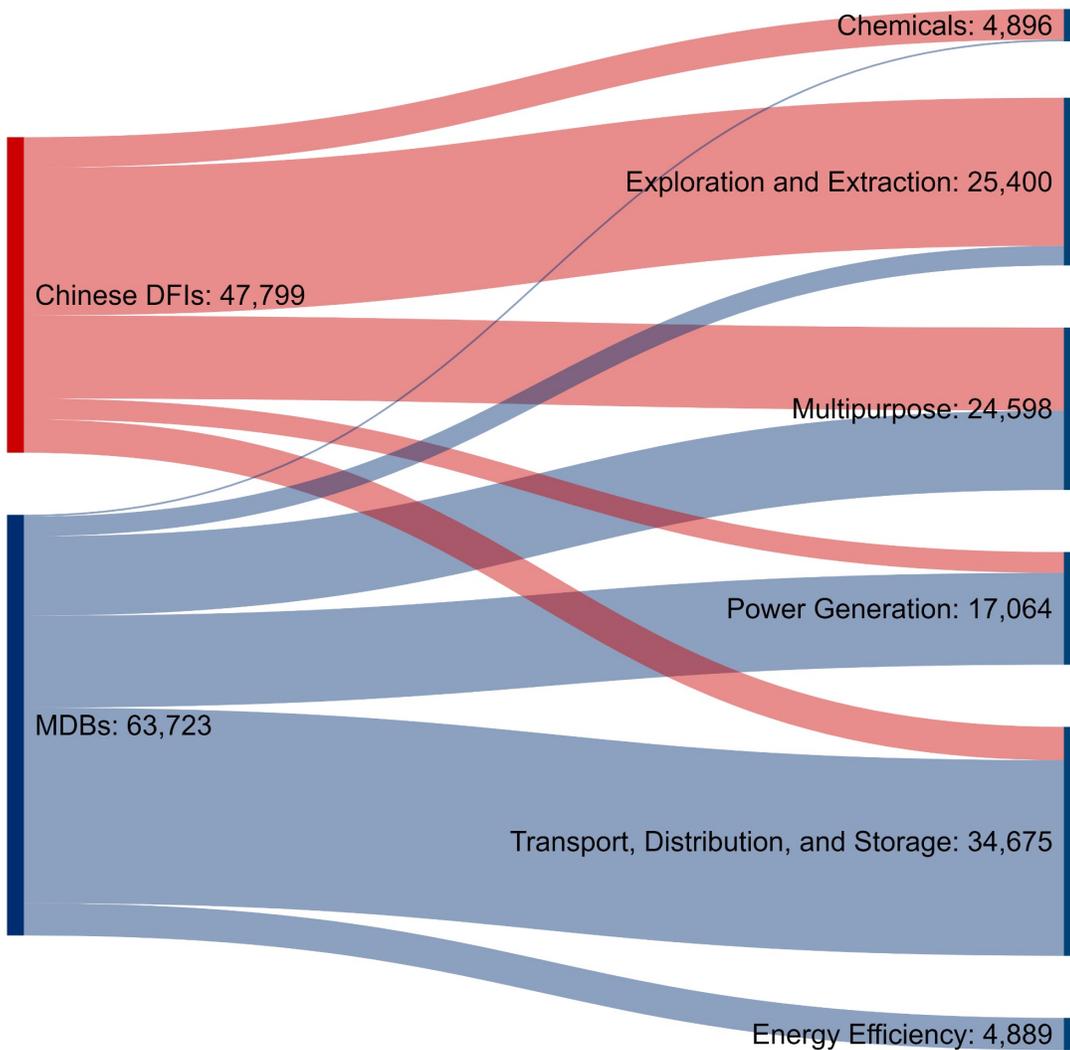
⁴ We classify gas projects into six subsectors: exploration and extraction; transport, distribution and storage; power generation; chemicals; multipurpose; and energy efficiency. Energy efficiency refers to projects that improve efficiency, such as through upgrading existing facilities, but do not expand the capacity of the project. Multipurpose projects refer to projects that include activity in two or more of the other subsectors.



MDBs, on the other hand, centered just over half of their disbursements on transport, distribution and storage, as shown in Figure 2. MDBs provided a small amount of lending for energy efficiency projects, while Chinese policy banks did not finance energy efficiency projects at all. The different subsector focusses for MDBs and Chinese policy banks is likely related to commitments and policy frameworks, with the most MDBs restricting upstream gas development related to exploration and extraction.

It is also important to highlight trends in downstream subsectors. In the power generation subsector, MDBs financed over \$17 billion in gas power plants, while Chinese policy banks provided just \$3 billion. In fact, Chinese policy banks financed more gas chemicals-related projects (\$4.9 billion) than power generating projects over this period.

Figure 2: Chinese Policy Banks and Selected MDBs Gas Commitments by Subsector (Amount in Million Dollars)



Source: China's Global Energy Finance Database, Boston University Global Development Policy Center; Authors' elaboration.

Looking at project destinations, both Chinese policy banks and MDBs concentrated the vast majority of their support in European and Central Asian countries, representing 77 percent of disbursements from 2008 to 2021. The Middle East and North Africa were a far second destination region, receiving 9 percent of financing, only from the MDBs.

In addition to collecting data on physical infrastructure lending, we classified MDB gas-related projects as “general” when they featured indirect support for natural gas development. For example, in this category we included broader energy programs and local institutional, governance and regulatory support to strengthen the gas sector. Between 2008-2021, these general projects totaled \$6.3 billion. As they belong to a unique type of project not directly related to physical assets, they were excluded from the main analysis, but represent an important channel through which MDBs support the gas sector.

WHY CHINA IS UNLIKELY TO SHORE UP GAS DEVELOPMENT FINANCE

First, as the above data has shown, the major MDBs provided more development finance than CDB and CHEXIM for natural gas development since 2008. China is not the dominant development financier for overseas gas, as it has been as a public financier for coal (Ma and Gallagher 2021).

Second, the structure of China’s own energy industry has led to a strategy of China pursuing gas imports rather than developing a globally competitive domestic natural gas industry. Natural gas represents 10 percent of China’s total energy supply (International Energy Agency 2022). China is one of the world’s top consumers and importers of natural gas, currently representing almost 15 percent of global gas imports, with demand forecasted to increase to 22 percent of LNG imports by 2025 (International Energy Agency 2020a). However, China’s domestic production of natural gas is relatively low, representing 5 percent of global natural gas production. In contrast to the country’s massive coal deposits, China has relatively little technically and economically accessible natural gas reserves. China’s import dependency for natural gas has been increasing over time (International Energy Agency 2020b).

Thus, China’s overseas engagement in the natural gas sector is not driven by relieving domestic overcapacity and finding new outlets for specialized Chinese companies, as is the case for coal (Kong and Gallagher 2021). China’s engagement in overseas natural gas infrastructure, including exploration, extraction and transport/distribution activities has been in part motivated by securing energy supplies by China. Overall, however, China’s oil and gas equity investments abroad are a small share in the gas that it imports. In addition, individual Chinese enterprises and national oil companies primarily pursue overseas investments based on commercial rather than geopolitical interests (International Energy Agency 2015). For example, Chinese companies have been wary of pursuing gas investments that might make them vulnerable to sanctions, as evidenced by China National Petroleum Corporation (CNPC) withdrawing from investment in an Iranian gas field in 2019 (Bloomberg News 2019) and Sinopec halting discussions for a gas chemical complex in Russia (Geiger 2022). From a government planning perspective, oil and gas extraction is likely an “encouraged outbound investment” for China’s overseas activity because oil and gas projects may be relatively profitable relative to Belt and Road Initiative (BRI) infrastructure projects, thus balancing China’s overseas portfolio; income from oil and gas projects may allow host countries to purchase more goods and services from China (Chow 2022); and overseas investment gives Chinese companies opportunities to acquire new technologies and experience.

Finally, China’s policies and frameworks governing overseas activity do not provide strong support for future overseas natural gas development; in fact, recent green BRI guidelines are explicitly supportive of other energy technologies, including wind, solar, nuclear, hydrogen and storage (BU GDPC 2022b).

From the above trends and drivers, it is unlikely that China will significantly scale up development finance for overseas gas across subsectors. China’s policy banks do not have a mandate to support a domestic natural gas industry in “going global,” nor is overseas development financing a preferred strategy for securing China’s domestic gas supply.



Although China is not likely to fill a gap should MDBs set more restrictions on natural gas support, and China's overseas development finance for gas has declined precipitously since 2016, there are still several channels through which China might engage in gas infrastructure overseas. First, as China's overseas development finance decreases overall, other channels—such as foreign direct investment and export services via contracting arrangements—are becoming increasingly important channels for China's overseas engagement. For natural gas, these channels are possibly on par with historical development finance levels, however, data is currently lacking. Second, the lack of specificity around the status of natural gas in China's various overseas climate and energy-related announcements and policy frameworks creates some challenges. With gas not specifically restricted, this lack of clarity leaves the door open for near-term shifts in foregone coal support moving towards natural gas. For example, coal plants in the planning stages that are no longer eligible to receive Chinese support may be able to shift to gas-fired power generation to remain eligible for Chinese support while meeting existing contractual obligations of power purchase agreements. Finally, it is important to note China's policy banks have a different subsector focus than the MDBs, with nearly half of Chinese overseas development finance for gas going into exploration and extraction since 2008, while MDBs have largely restricted support for exploration and extraction. In addition, China has supported more overseas gas chemicals projects than power generation overall, indicating that policy focus on China's downstream gas financing and investment should go beyond just the power sector.

CONCLUSION AND POLICY RECOMMENDATIONS

At the same time China and other global energy financiers are applying climate policies to their overseas finance and investment, there remains a pressing demand for energy infrastructure in developing countries. The International Energy Agency projects that global energy demand will continue to grow through 2030, and to meet the Paris Agreement, annual investment in clean energy projects and infrastructure will need to increase to nearly \$4 trillion (International Energy Agency 2021). The question remains what stance DFIs will take towards natural gas infrastructure, and if any coordination on the part of MDBs could be stymied by China emerging as a major public financier for gas.

The data presented in this policy brief show the overall engagement of Chinese policy banks and MDBs with natural gas. The policies of MDBs and Chinese policy banks will be critical in shaping the trajectory of natural gas financing in the years to come. Comparing commitments and policy frameworks, we find that China and MDBs share some similarity in the lack of policy frameworks for overseas gas financing, especially relative to coal. Unlike coal, there is no common approach among the major MDBs on natural gas financing, whether upstream or downstream, and China has not specified a clear stance on overseas natural gas development. Comparing development finance, our analysis shows that between 2008 and 2021, the major MDBs financed more natural gas infrastructure (\$63.7 billion) than Chinese policy banks (\$47.8 billion), and the MDBs also financed \$6.3 in general support programs for the gas sector in various countries.

While there is a geographic concentration of the location of natural gas projects in Europe and Central Asia, there is a distinct division in the actual subsector focus of the projects between Chinese policy banks and the MDBs. Nearly half of Chinese development finance for overseas gas has gone into exploration and extraction activities, while the MDBs—many of which have restricted support for upstream activities—provided over half of the financing over this time for transport, storage and distribution.

Overall, we argue that domestic drivers in China will limit Chinese development finance for overseas gas, and it is unlikely to fill a gap left by the MDBs; however, given a lack of policy clarity, the door is still open for China to engage in overseas gas development through several channels.

Based on the above analysis, we provide the following policy recommendations across three areas for the MDBs and Chinese policy banks.

Policy Recommendation Area 1: MDBs Should Lead China on Natural Gas Policies

The MDBs need to provide greater clarity and information on when and how they will support natural gas. Natural gas does not feature in the common taxonomy of the MDBs coal-based power generation. It is difficult to ascertain under what conditions natural gas financing would indeed be consistent with the goals of the Paris Agreement.

The MDBs must take a leading role, and move first on developing commitments, policies and strategic frameworks. China has not historically led on fossil fuel transition policies, but it has followed—as the case of coal demonstrates. Specificity from MDBs can encourage China to codify how natural gas fits in to new green BRI frameworks. The current lack of clarity in Chinese policy leaves room for further upstream development, coal-to-gas conversions and region-specific natural gas development.

In addition, as Chinese policy banks have also focused mostly on upstream activities such as exploration and extraction, they may face heightened stranding risk amid a changing international landscape and host countries increasing climate ambition.

For Chinese policy banks, greening multipurpose projects will require industry-specific strategies beyond regulations specific to natural gas. Therefore, when MDBs and policy banks formulate natural gas strategies, they should also formulate complementary policies to mitigate risks from downstream use.

Even while leading, the MDBs can also coordinate with China. For example, the Global Methane Pledge, announced at COP26 in Glasgow, invites participants to adopt voluntary actions in the goal of reducing global methane emissions by at least 30 percent below 2020 levels by 2030. The EIB and EBRD have signed on and can encourage peers and Chinese counterparts to join.

Policy Recommendation Area 2: More Attention is Needed on the Role of the Private Sector

The role of the private sector cannot be downplayed. For China's overseas engagement in natural gas, FDI and contracting arrangements may be on par with historical development finance levels, however, clear data is currently lacking and more research is needed.

Globally, international and domestic private sector investment are important sources of financing for natural gas development. Thus, policies governing the private sector, including companies and commercial financial institutions, will also be important. This will require clarity on natural gas when it comes to financing policies such as green bond taxonomies and disclosure requirements.

Policy Recommendation Area 3: Natural Gas Policies Must be Complemented by Support for Alternatives

If Chinese policy banks and the MDBs increasingly restrict gas, there must be a parallel increase in support for cleaner alternatives, including for just transition policies that consider communities affected by fossil fuel phaseout.

Chinese policy banks and the MDBs will need to significantly scale up renewable energy financing and offer credible pathways that allow countries to meet their energy-related goals in a climate compatible manner.



Support for clean energy generation will not be enough. Countries that have looked towards natural gas as a source of public revenue will also need international support to diversify their economies and build revenue generating parts of the economy that are not carbon-intensive.

Whether countries use natural gas as a bridge fuel or leap forward directly to renewables will determine how swiftly countries decarbonize their economies. As Chinese policy banks and the MDBs are important providers of public finance, their lending policies will help shape the trajectory of low-carbon growth. DFIs can send a stronger signal regarding their support for renewable energy by explicitly articulating their positions on natural gas.

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