



Netherlands Commission for  
**Environmental Assessment**

# Toward an Assessment Framework for Policy Coherence of Dutch Support to Oil and Gas Development in Developing Countries



22 May 2018  
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## Advisory Report by the NCEA

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<b>Subject</b>	<b>Toward an Assessment Framework for Policy Coherence of Dutch Support to Oil and Gas Development in Developing Countries</b>
<b>To</b>	the Inclusive Green Growth Department, Ministry of Foreign Affairs of the Netherlands
<b>Request by</b>	Mr Frank van der Vleuten
<b>Date</b>	22 May 2018
<b>From</b>	the Netherlands Commission for Environmental Assessment, under the Sustainability Advice Programme
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## Summary

**Question to NCEA.** The Inclusive Green Growth department (IGG) of the Ministry of Foreign Affairs has asked the NCEA to propose a framework that helps the minister of foreign trade and development cooperation (Dutch acronym: BHOS, for *Buitenlandse Handel en Ontwikkelingssamenwerking*), supported by IGG, to assess the policy coherence of support to the exploration and development of fossil fuel production in low and medium income countries, predominantly in Africa. The minister is in particular interested in coherence of her support with the Sustainable Development Goals (SDG) agenda and the [Paris agreement](#) on climate change.

**Preamble.** In the NCEA's view, the assessment should clarify the feasibility of BHOS support to fossil fuels on key indicators for sustainable development, with a view to the SDGs. The NCEA therefore makes the following assumptions:

- Countries will develop a sovereign vision to create optimal balance of use of their fossil fuel resources.
- This vision will be highly influenced by their expectations on the domestic and global energy transition.
- Dutch companies, having experience with relatively sustainable ways of value chain development for oil and gas, may play a constructive role in the energy transition of partner-countries.
- Countries can use Nationally Determined Contributions (NDCs) to define “optimal balance of use”, but these may insufficiently help to assess their future sustainable energy policies.
- Assessment of the quality of revenue governance in relation to indirect effects of fossil fuel policy is necessary to determine policy coherence.

**Essential approach.** To assess the policy coherence of a proposed BHOS support to a foreign country's fossil fuel production, the following analytical steps can be used (see also the diagram below):

- Step 1: describe the **current country situation**.
- Step 2: determine realistic long-term **futures** for country development.
- Step 3: define **intervention options** for BHOS that may contribute to the goals of aid and trade.
- Step 4: **assess impact** of each option on country SDGs and on sustainable Dutch GDP to determine policy coherence.

**Interpreting policy coherence.** Whether a BHOS support option is “policy coherent” with a view to its assessed impacts in step 4, depends on the political interpretation of policy coherence. Examples of possible interpretations are:

- Dutch companies that benefit from BHOS support should contribute to SDGs by applying high-standard sustainability policies and safeguards systems.
- Impacts on each country SDG and on sustainable Dutch GDP should be beneficial.
- Impacts of BHOS support should not contribute adversely to any country SDGs.
- Coherence with “Paris” implies that important Dutch business opportunities in the oil and gas value chains of a country at least should contribute to low carbon climate resilient development (LCCRD).

- If BHOS has a choice to support alternative Dutch trades, the most sustainable trade should be chosen.

The chosen interpretation may influence the feasibility of doing the impact assessment.

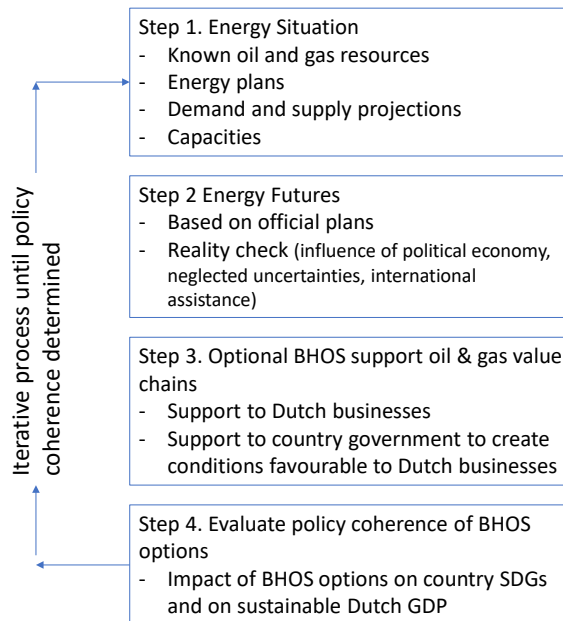
**The dilemma of choosing a reference scenario.** The future role of fossil fuels is uncertain. IEA has developed a Sustainable Development Scenario that is coherent with the goals of the Paris Agreement and the SDG agenda, and the minister looks for a BHOS role that is coherent with that as well. The minister may therefore assume that, to assess policy coherence of an intervention, this IEA scenario is an appropriate background. However, as the future is unknowable, reality may take a different direction. Yet, even in that case, a BHOS role based on the Sustainable Development scenario may still be policy coherent.

### **Recommendations**

The NCEA recommends the Inclusive Green Growth department to:

- Clarify the operationalization of policy coherence DGIS wants to make.
- Decide how to deal with reference scenarios, which may determine the policy coherence of gas and oil investments.
- Determine which BHOS support can be assumed to be policy coherent (or incoherent) in all relevant developing countries. Applying the assessment framework to a representative sample of countries may shed light on that.
- Apply the assessment framework in a quick scan, and if that is not conclusive, in a more detailed assessment.
- Build-up experience with applying this framework with politically relevant interpretations and refine the framework as required.
- Stimulate an ongoing learning process (through research and dialogue) to better understand and support the energy transition needed to meet the Paris Agreement and SDGs, through considering the physical, biological, economic and governance uncertainties that create the above mentioned dilemma in scenario choice.

**Diagram: 4 step approach to assessing policy coherence**



# 1. Introduction

The Directorate-General for International Cooperation (DGIS) has asked the NCEA to propose a framework that helps the minister of foreign trade and development cooperation (Dutch acronym: BHOS), supported by the DGIS to assess the policy coherence of options to support the exploration and development of oil and gas production in low and medium income countries, predominantly in Africa.

In IGG's own words, there are three relevant possible explanations of policy coherence:

- Policy coherence for development. Policy coherence for development tackles bottlenecks in non-Development Cooperation areas that hinder developing countries in SDG financing / realization, and seeks to strengthen synergies with non-Development Cooperation areas. Policy coherence for development is the aim to limit negative effects for developing countries in non-Development Cooperation policies and to maximize positive effects.
- Policy coherence within cooperation with developing countries. This refers to the coherence between the four main BHOS policy fields involved in cooperation with developing countries: climate finance, private sector development, multilateral cooperation and trade promotion.
- Coherence between Dutch ambitions internationally and nationally.

The commitment in the Dutch National Energy Agenda<sup>1</sup>, one of the backgrounds of this request to the NCEA, was "For the coherence of our international policy, the government will determine its position on how to deal with public bilateral contributions to the exploration of new stocks of fossil fuels in relation to the emission space." IGG's request is therefore, combining the different explanations of policy coherence, to interpret policy coherence in the context of this NCEA advice as: "Development Cooperation and non-Development Cooperation policies should seek to limit the negative effects of climate change (and climate policy) on developing countries and to maximize positive effects on the achievement of the SDGs". IGG's interpretation enables to encompass coherence between four main policy fields of BHOS. It also encompasses the implications of downsides of a slower energy transition. One such downside may be the need for additional adaptation efforts with regard to the additional climate impact. Another downside may be the impact of measures to create negative emissions in developing countries (both downsides may be unavoidable if the world temporarily exceeds emission space and maintaining the Paris goal is the leading goal).

Sustainable development, seen as the achievement of the 17 Sustainable Development Goals (SDGs), and central to IGG's interpretation above, is the overarching framework for policy coherence, following the explicit commitment of the Dutch government to further policy coherence ([letter to Parliament on 28 September 2017](#)), aimed at a balanced implementation of the SDGs ([SDG target 17.14](#)). According to the minister in this letter: "Policy coherence is central to the 2030 UN sustainable development agenda. Coherent policy in this context is about a balanced implementation of the SDGs, where a balance has to be found between economic, social and environmental aspects of sustainable development, thereby taking into account the interests of future generations and other countries, especially those of developing countries. Policy coherence for development strives to reduce damage for the latter group of

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<sup>1</sup> Nationale Energieagenda (2016: 88): <https://www.rijksoverheid.nl/documenten/rapporten/2016/12/07/ea>

countries from policy in other areas than aid as much as possible and maximize positive effects. Policy coherence for development addresses specific obstacles, such as in areas of trade and taxes, which impede developing countries in financing and realizing the SDGs” (unofficial translation). Furthermore, the Dutch government has [formulated](#) the following ambitions regarding aid & trade: end extreme poverty within one generation, global sustainable inclusive economic growth, support Dutch companies abroad<sup>2</sup>. The first two of these three ambitions are internationally operationalised in the form of the SDGs. More recently, the agreement of the new Dutch Cabinet (2017) stated that “Development cooperation is, as an integral part of foreign policy, aimed at combating the root causes of poverty, migration, terrorism and climate change. This is done within the sustainable development goals of the United Nations.”

Support to trade should therefore contribute to global public goods, i.e. to a sustainable world economy, to a sustainable development of the receiving trading countries and to a sustainable Dutch economy. If developing countries contribute to the SDGs, this is also in the wider interests of global sustainable development. The measurable criteria for specific developing countries to contribute to SDGs, and to the Paris Agreement on climate change, are therefore crucial for determining policy coherence of specific support actions.

In this dossier, the Dutch government operates in a highly politicised environment in which support for activities of Dutch enterprises aimed at the development of oil and gas value chains, will *immediately* and *a priori* lead to opposition – in politics, civil society and increasingly in investment communities. Attempts aimed at developing fossil fuels are likely to be exposed by opponents in these communities as infringements of the Paris Agreement and the SDGs. For the sake of this assessment framework, NCEA distinguishes two groups of SDGs:

- the energy-related SDGs, which depend directly on the development of the energy system in a country, including energy export. These are foremost energy for all, economic growth and climate change;
- the other affected SDGs: other environmental and social impacts. (See [Annex 1](#) for further discussion on this problem structure).

There is a risk that the discussion will focus on *perceptions* of social, environmental and political costs rather than on broadly acknowledged (academic) research. Social acceptability is also affecting market developments and the *momentum* in the market<sup>3</sup>.

In this context, the minister is in particular interested in coherence of her support with the [Paris agreement](#) on climate change, which provides an extension and deepening of SDG 13. This is keeping global temperature increase this century well below 2 degrees Celsius, and pursuing efforts to keep it below 1.5 degrees Celsius, and supporting action by developing countries and the most vulnerable countries, in line with their own national objectives.

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<sup>2</sup> <https://www.rijksoverheid.nl/onderwerpen/ontwikkelingssamenwerking/nederlands-beleid-ontwikkelingssamenwerking>.

<sup>3</sup> An example is provided by the announcement of the Norwegian Pension Fund Global regarding its potential oil and gas divestments. If and when this intention will materialise, has to be determined yet. Despite this uncertainty and lack of clarity these announcements have an influence in what can be called the “market of social acceptance”.



## 2. Preamble to the assessment framework

A working group of independent experts of the Netherlands Commission for Environmental Assessment (hereafter referred to as 'the NCEA') has designed the framework presented in this advice.

In the NCEA's view, the assessment of policy coherence should clarify the feasibility of BHOS support to oil and gas on key indicators for sustainable development, with a view to the SDGs:

- In the context of BHOS support to the oil and gas sector, the 17 SDGs can be reduced to a smaller set of directly related core goals.
- Possible contributions BHOS support can make to SDGs by supporting oil and gas value chains should be:
  - assessed against the achieving of SDGs in possible futures without these contributions;
  - compared with contributions to achieving SDGs through alternative support options, such as stimulating the emergence and growth of alternatives to oil and gas.

The NCEA therefore makes the following assumptions:

- **Countries will look for optimal balance of use of their oil and gas resources:** to meet energy-related SDGs, primarily 7, 8 and 13, and indirectly other SDGs such as SDG 1, it is assumed that the production of oil and gas resources of the country will try to accelerate achieving energy-related SDGs (see [Box 1](#)), by creating an optimal balance between:
  - selling on the world market for revenue to enable investing in these SDGs (after processing first, where profitable for the country);
  - using oil and gas resources for domestic purposes to support these SDGs, such as gas for cooking, transport or load management capacity to balance intermittent renewables; or,
  - "leaving oil and gas resources in the ground".

**Box 1: The SDGs that can be directly influenced by new production of oil and gas are:**

- **SDG 7:** [Ensure access to affordable, reliable, sustainable and modern energy for all.](#)
- **SDG 8:** Decent work and economic growth.
- **SDG 9:** [Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation](#) – as sustained growth in the upstream segment of the African oil and gas industry also means growth in the associated midstream and downstream 'infrastructure' parts of the business: terminals, storage capacity, pipelines and refineries.
- **SDG 13:** Take urgent action to combat climate change and its impacts, [elaborated in the Paris Agreement.](#)

As SDG 7 measures the shift from fossil fuel reliance, as well as increasing efficiency & access – energy access being largely delivered beyond the grid – it is SDG 8 (decent work and economic growth) and 11 (sustainable cities and communities) that justify use of oil and gas. SDG 7, 12 (responsible production and consumption) and 13 balance this with need for RE, energy storage & electrification of transport (EVs etc.). Other SDGs may benefit from reliable and cheap energy – such as SDG 1 (poverty reduction), but only if the use of energy stimulates inclusive and sustainable growth.

- The balance that countries look for will be highly influenced by the uncertain energy transition:** CO<sub>2</sub>-emissions from exported oil and gas are mainly at the account of the consuming countries and depend on the worldwide use of oil and gas for purposes that result in CO<sub>2</sub>-emission. The market for oil and gas will be determined by action from other countries on their NDCs. It is unlikely that on a least cost basis, one African country deciding not to extract will affect supply or indeed the price of oil/gas as there are significant cheaper reserves elsewhere. This with the exception perhaps in the regional gas market, and gas is cleaner than coal or diesel or indeed kerosene. In other words, deciding not to extract will have limited impact on action by other countries. Indeed, assuming least cost extraction globally for the 2 degree carbon budget limit, would suggest that only a quarter of the oil and a third of gas reserves would be extracted in Africa<sup>4</sup>. However, the influence of the political economy around new oil and gas finds could create significant barriers to the development of a low carbon economy and the energy system transformation required in the country. It is also possible that constrained demand globally, due to an energy transition elsewhere, will leave new producers with stranded assets before having achieved predicted returns. It is the impact on the energy transition domestically and internationally therefore that will drive coherence or incoherence with the SDGs. This therefore is the focus of this analysis.
- Dutch companies in the oil and gas sector may play a constructive role in the energy transition of developing countries.** Low carbon industries/energy efficient extraction offer trade opportunities potentially coherent with SDGs/Paris. The latest World Energy Outlook (WEO) highlights the need for an accelerated transition to sustainable energy systems, indicating how hydrocarbons can be used to serve that transition, but also indicates that, realistically, the era of hydrocarbons is not yet over (see Annex 1). Recent oil and gas discoveries (offshore and onshore), for example in Sub-Saharan Africa, have the potential to put these countries on a more sustainable and inclusive growth path<sup>5</sup>. Over-optimistic forecasts of revenues create their own challenges – and efforts to improve fiscal resilience are essential. It is not realistic to assume that without compensation, developing countries will leave all oil and gas resources in the ground only to help the world reach the 2 or 1.5 degrees Celsius carbon budget<sup>6</sup>. Economic, political or other domestic reasons, like a risk of investing in assets that will strand when the world shifts away from oil and gas, can result in governments reconsidering the development or exploration of natural resources. Finally, it is assumed that achieving energy-related SDGs (see [Annex 1](#)) does not foreclose contributing to other SDGs as well – under the condition of good planning and transparent governance.

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<sup>4</sup> Lahn and Bradley, 2016. Left stranded? Extractives led growth in a carbon constrained world.

<sup>5</sup> In Ghana, large capacity building projects are set up (e.g. by the World Bank in 2010 ) after the 2007 discovery of major offshore hydrocarbon deposits. The rapid development of those deposits, has the potential to bring significant economic development opportunities to the country. End 2017, Ghana announced a new programme, the Accelerated Oil and Gas Capacity Building Programme, to build capacity of state institutions and improve local content in the petroleum sector. This will grow the economy, to rapidly achieve accelerated development and industrialization. “It is anticipated that the development of the oil and gas industry will be a source of accelerated growth, poverty reduction and general prosperity to the people of Ghana”, the Ghanaian Minister of Energy recently stated.

<sup>6</sup> The carbon budget is the amount of cumulative CO<sub>2</sub> emissions we can emit while still having a certain chance of limiting global temperature rise to less than a predefined target (such as 2 or 1.5 degrees Celsius above pre-industrial levels).

- **Nationally Determined Contributions (NDCs) can be used to define “optimal balance of use”, but with “reality checks”.** According to the Paris Agreement, the developed countries should support action by developing countries and the most vulnerable countries, *in line with their own national objectives*. National objectives for SDG 13 referring to climate change mitigation and adaptation, are materialized in their Nationally Determined Contributions. Objectives for SDG 7 and others might be stated elsewhere. Policies for extractives and energy intensive industrialisation are however rarely coherent with the NDC statements. An [analysis by New Climate Institute, PBL, and IIASA](#) shows that for many countries, additional measures are needed to achieve the targets included in their NDCs<sup>7</sup>. A reality check is therefore needed before The Netherlands can determine the effect of BHOS supported oil and gas interventions in a country on SDGs. Many NDCs show a level of ambition. Some countries however had limited time to produce them – and based their NDCs on their latest incremental plans rather than a coherent long-term vision. A reality check is therefore needed to consider if country energy-sector decision making itself is based on realistic assumptions, e.g. about technological development in renewables and storage, future oil and gas prices and likelihood of price shocks that will increase the chance of investing in assets that become stranded.

It will not be easy to keep long-term temperature increases well below 2 degrees Celsius (see [Annex 1](#)). A scenario where this goal is achieved at the least cost and the maximum value for the world as a whole would include developing countries not using their fossil reserves domestically, but using the revenues to invest in the “leapfrog” to clean energy. The Paris Agreement then commits the industrialised countries to support developing countries in delivering these modern, distributed energy systems.

The developed world may also compensate developing countries for any lost income from deliberately not developing and exploring the reserves. Developing countries that explore their fossil reserves anyway, do not per se go against the Paris agreement. It only means that others have to do more, and the world as a whole has to invest more to achieve the energy transition needed<sup>8</sup>. This is beyond the control of the Dutch government, which can take its responsibility to create “coalitions of the willing” to further change. Accepting such a positive attitude towards change, however, has its limits and its success is dependent on many domestic and international considerations. It is therefore assumed that by taking the NDC and wider recent country policies on achieving energy-related SDGs, and checking its real-world value through a sensitivity analysis, a range of possible futures can be identified. Against this background, coherent Dutch aid and trade can make a contribution to implementing energy-related SDGs. Impact on other SDGs depends on good governance by the country and the investors.

<sup>7</sup> Kuramochi et al. 2017, Greenhouse gas mitigation scenarios for major emitting countries. Analysis of current climate policies and mitigation commitments: 2017 update see [http://www.pbl.nl/sites/default/files/cms/publicaties/pbl-2017-greenhouse-gas-mitigation-scenarios-for-major-emitting-countries-2017-update\\_2675.pdf](http://www.pbl.nl/sites/default/files/cms/publicaties/pbl-2017-greenhouse-gas-mitigation-scenarios-for-major-emitting-countries-2017-update_2675.pdf).

<sup>8</sup> This can be in line with the SDGs. The Paris Agreement and the SDGs provide generic guidance which must be narrowed down before selecting the most sustainable actions. Contributions to promote or stimulate (investments in) the oil and gas sector in developing countries are to be assessed against the background of the SDGs declaration, providing clear considerations regarding the relevance of the SDGs and the development they aim to achieve. The SDG declaration recognizes “that the dignity of the human person is fundamental”. It continues: “we wish to see the goals and targets met for all nations and peoples and for all segments of society. And we will endeavour to reach the furthest behind first.” (p.3, item 4). This core aspect of the SDGs provides a yardstick for arguing for or against (indirect) investments in support of oil and gas projects in developing countries.

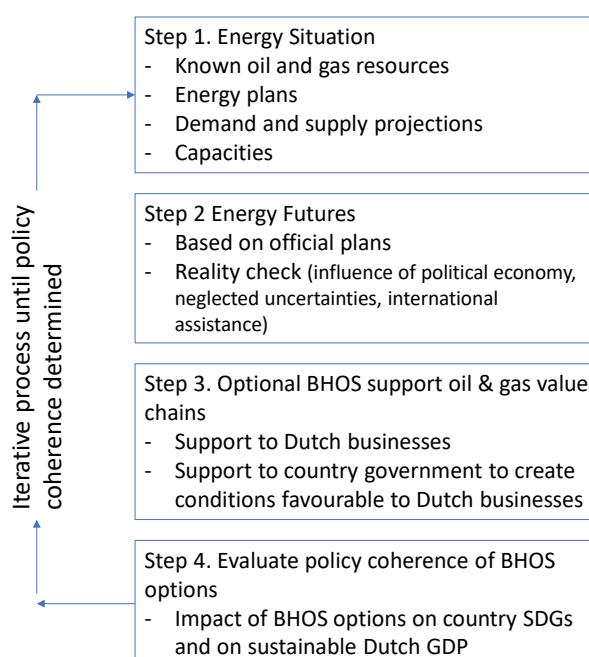
- To determine policy coherence with relation to indirect effects of fossil fuel policy, it is necessary to assess the quality of revenue governance. DGIS may be assumed to only support countries in their energy sector if DGIS is willing to accept the choices the country makes in using the additional revenues it will gain from BHOS support. This willingness depends on the risk that the country will use the revenue for unsustainable goals. A general assessment of quality of revenue governance is sufficient for this assessment framework. An assessment of specific opportunities and risks of revenue governance goes beyond the scope of this assessment framework.

### 3. Assessment framework

Keeping the above assumptions in mind, to assess the policy coherence of a proposed BHOS intervention in a developing country’s oil and gas production, the following analytical steps can be used:

- Step 1: describe the **current country situation**.
- Step 2: determine realistic long-term **futures** for country development.
- Step 3: define **intervention options** for BHOS that may contribute to the goals of aid and trade.
- Step 4: **assess the impact** of each option on all goals of aid and trade to determine policy coherence.

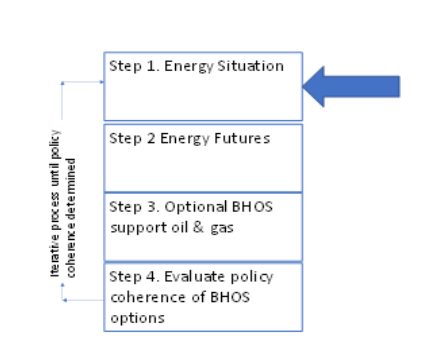
The following diagram shows how these steps can be made in an iterative process, from global assessment to detailed assessment, until it can be concluded which BHOS support options are “ policy coherent”.



The steps are elaborated hereafter. Their application can become complicated, which is why NCEA proposes in step 4 possible interpretations of “policy coherence” that DGIS might apply with the aim of reducing the complexity of the analysis needed to assess policy coherence.

## STEP 1: DESCRIBE THE CURRENT COUNTRY ENERGY SITUATION

*In this step DGIS assesses the baseline information against which the effects of Dutch trade will need to be assessed. Sources: official government plans (like NDCs, SE4All plans), assessments and available models; otherwise publications from other reliable national and international sources.*



This first step starts with gathering baseline information, that can be found in:

- Plans: known oil and gas resources and government plans for their use.
- Assessments: national energy demand and supply projections.
  - Electricity: of which from oil and gas/hydro/geothermal/biomass, on-grid /off-grid
  - Consumer fuel: transportation, cooking, heating etc. Check effect of efficiency improvements with limited finance for many households to invest in energy demanding appliances and equipment for manufacturing etc. Consider realistic future demand<sup>9</sup>.
  - Industrial oil and gas demand, incl. carbon capture and storage
  - Oil and gas export

Then continues with an assessment of country capacities, to enable a reality check:

- Country capacities:
  - Ability to **assess and plan** on-grid sustainable strategies to meet energy demand and develop oil and gas resources.
    - Realism/realistic time scale of energy demand and supply projections, including recognition of the need for managing grid stability
    - Mix of export/import, domestic use decentralized-centralized, gas, oil, renewable, energy efficiency, etc.
    - Pathways for energy transition: which time frame? Investments? Risks like stranded assets?
    - Energy system flexibility for integrating new technologies
    - Energy system resilience to climate shocks (drought, flood) and oil and gas price shocks
    - Energy system outcomes for equity in opportunities for growth and jobs universal
    - Opportunities for energy storage e.g. pump hydro or electric vehicles

<sup>9</sup> Examples such as M-Kopa, d-light, and others, demonstrate the cost of providing access to renewable energy for electricity, cooking, etc. decreases rapidly. The Dutch government is and has always been a proponent of clean cooking solutions, etc.

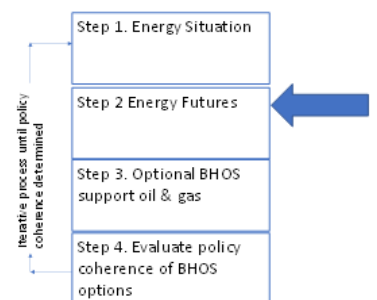
- Ability to **assess and plan off-grid** sustainable strategies to meet energy demand, where sustainable (temporarily) based on oil and gas.
  - Same questions as for on-grid strategies, as relevant
- Ability to **assess and plan transportation** (fuel) sustainable strategies to meet energy demand and develop oil and gas resources.
  - Same questions as for on-grid strategies, as relevant
- Ability to be **transparent and participative, engaging public in debate and responding to wider perspectives** about these strategies and their impacts on SDGs.
- Ability to **implement** these plans, with appropriate application of environmental and social safeguards to manage downsides.

General indicators of good governance of the energy system to keep in mind are:

- strategic long term energy planning alongside testing a range of options to increase energy system resilience, reliability, security, value (least cost) and reduce emissions;
- measures to cope with shocks – including, but not limited to, fiscal and other financial incentives;
- transparency of revenues as well as decisions where to invest revenues;
- maximizing upstream and downstream domestic services;
- ensuring that these services are capable of and incentivized to also support the energy transition;
- application of Strategic and project Environmental and Social Impact Assessment (SEA and ESIA) in combination with sound social and environmental norms and standards – e.g. those of the IFC and WB;
- indirect assessment of and support for countries that don't have formal of good quality plans to support the development towards a more low carbon energy-future.

## STEP 2: DETERMINE REALISTIC FUTURES FOR COUNTRY ENERGY DEVELOPMENT AS FAR AS RELEVANT FOR OIL & GAS CHOICES

*In this step, DGIS develops realistic futures for oil and gas and their use, starting from the Nationally Determined Contribution (NDC), and checking for inconsistencies with country energy policies and neglected uncertainties, such as opportunities, risks, transparency and international assistance to reduce uncertainties. This leads to a range of scenarios within which Dutch oil and gas interventions can have an influence.*



Realistic futures may be constructed by answering the following questions, then applying two reality checks:

- a. What is the future according the country's NDC, SE4All and energy master plans (or comparable policies to implement the Paris Agreement)?
  - What are the NDC, SE4All, energy master plan and wider national plan objectives with respect to the development of *oil production* and use and associated GHG emissions?
  - What are the NDC, SE4All energy master plan and wider national plan objectives with respect to the development of *renewables production* and use and associated GHG emissions? Specify for solar, wind, hydro, biofuels, geothermal, etc.

- b. First reality check: the influence of the political economy. NDC is theory, but how is the country likely to invest in reality?
- Political strategic goals of energy policy competing with those of the NDC, such as security of energy supply, resilience, cost to household, reliability.
  - Period for achieving results realistic in the eyes of investors on whom country decision-makers depend (i.e. discount rate).
  - Assumptions about application of new sustainable technologies for energy production and consumption, including carbon capture and storage.
  - The country's political-economic (not NDC) view of the future role of oil and gas – domestic vs export; i.e.:
    - Are revenue expectations realistic, given the expected global transition toward “Paris compliance”? Have countries considered a range of possible scenarios given length of investment times for gas particularly?
    - How are countries considering risk of investing in heavy industry when dealing with oil and gas development and exploration for domestic use, which locks in to high carbon pathways?
    - Do the countries have policies to incentivize investment in efficient technology in oil and gas end-to-end production, in heavy industry, transport, construction?
    - Is the country considering how climate risk disclosure and IOC's investment in efficient production will affect their export markets?
  - Coherence of energy sector policies and targets with least cost options for SE4All/Paris. If the difference is large, international funding may compensate the difference. Assess the component in least cost options of large hydro and biomass, as the social and environmental effects of these components on other SDGs may be difficult to mitigate.
  - Industrial strategy and transport strategies, e.g. is energy demand considered to be an exponential increase or is investing in efficiency being considered as part of demand management?
- c. Second reality check: is the political economy itself likely to be right? The influence of neglected uncertainties in the effects of country oil and gas strategies, including the uncertainties of the international energy transition<sup>10</sup>.
- Underestimated **risks**: financial (e.g. future price shocks in the oil and gas markets), government, operational, environmental, governance, reputational, and social risk.
  - Uncertain **opportunities**: market opportunities, including the long-term need for oil and gas in a transforming environment; financial returns; social and environmental returns in terms of the contribution to the SDGs.
  - Undetermined **transparency**: will the country be transparent about energy-sector decision-making, ex ante, and ex post, with effective enforcement? How will decisions about investment of oil & gas revenues be taken?

To assess specific uncertainties about long-term fiscal stability and governance of fossil fuel revenues in particular, the following questions can be answered:

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<sup>10</sup> [Annex 1](#) describes these uncertainties and refers to the widely accepted IEA scenarios: “DGIS could assume the Sustainable Development Scenario as background to the assessment and use the New Policies scenario to assess sensitivity of that assumption”.

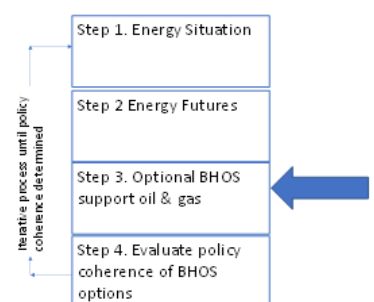
- What are the country's current objectives for fossil fuel revenues? Are there opportunities to consider natural capital accounting and a carbon price in investment decisions?
- What policies has the government developed to manage current account risk with export prices, as well as valuation, pricing and taxation to manage risks in global transition and support national transition?
- Is there a potential role for the National Oil Companies to play a role as national carbon managers to change their incentives?
- Is there an opportunity to build open and transparent governance of fossil fuel revenues, with objectives to invest in the transition to green growth?

These are the uncertainties that socially responsible financial institutions would normally map out when they make their investment decisions. Most developing countries may not have assessed these uncertainties at the level of the country's oil and gas strategies as a whole.

- d. International assistance to reduce the above uncertainties.
  - What support are countries likely to receive for energy transition planning? Multilateral or bilateral.
  - In which degree will this support reduce possible deviations from the future according to the NDC? Either by adapting the political economy, or by adapting the NDC.
  - How can the Dutch government help emerge a 'coalition of the willing' to support the development of realistic alternatives to oil and gas development or to ensure oil and gas development does not cause a country to lock in to high emission growth?
  
- e. Determine the range of realistic futures that results from questions a – d above. Summarize the range of realistic developments of oil and gas production in the country, and its contribution to SDGs 7, 8 and 13 in 2030:
  - Oil production and use
  - Gas production and use
  - Emissions from national energy use

### STEP 3: DEFINE INTERVENTION OPTIONS THAT MAY CONTRIBUTE TO THE BHOS GOALS

*In this step DGIS determines the options that potentially can be coherent with the goals of aid and trade.*



Two categories of options can be distinguished:

- a. BHOS options to support Dutch business opportunities in the oil or gas value chain directly (Dutch trade promotion).

Direct support options are for example:



- promoting sustainable investments along the oil and gas value chains – including investments in mitigating greenhouse gas emissions and more sustainable alternatives to oil and gas;
- stimulating or promoting investments in knowledge infrastructure, services, etc.

Criteria for support can be added, such as giving only support to Dutch businesses that are expected to do relatively better than other international companies in contributing to sustainable development (see [Annex 2](#)).

To further elaborate potentially coherent support options, DGIS may first identify relevant Dutch business opportunities :

- What oil & gas technologies and expertise do the Dutch Government and Dutch businesses have that can support the country’s transition to low carbon, climate resilient development and green growth?
  - What expectations could be placed on Dutch oil and gas companies to incentivize investing in efficiency and to ensure countries are supported in the transition?
  - What technologies and technical advice can Dutch companies offer to enable the transition? What services to oil and gas upstream and downstream offer wider relevance to the transition, and how can these be built domestically?
- b. BHOS options to improve governance conditions for sustainable energy investments that Dutch business opportunities could indirectly benefit from in the receiving country (“sustainable level playing field”).

Building capacity of good governance of energy systems including oil and gas, to achieve SDG 7, 13 and Paris Agreement, e.g.:

- Multilateral: actively promote relevant initiatives in collaboration with other countries and private sector agents, such as the Sustainable Development Investment Partnership (SDIP) which was announced in 2015 in Addis Ababa, Sustainable Energy for All, SREP and Convergence focus on the creation of blended value. This could result in consortia that promote renewable energy, while acknowledging the need for fossil fuels to realise energy driven SDGs whilst also achieving SDG 7 and 13 during a period of transition.
- Bilateral (either alone or in collaboration with other donors): e.g. promote strategic environmental assessment, long term energy planning for the transition (including sensitivity analysis of constrained markets for oil and gas), support to public debate over the best investment of revenues for future growth and competitiveness, technical support to fiscal stability and resilience, support to reducing energy intensity of energy demanding industry and transport, etc., as well as expanding support to off grid energy to achieve SDG 7.

Various institutions such as World bank, IEA and OECD countries such as Norway, France etc contribute by enhancing the governance of the extractive sector in developing countries through strengthening the regulatory and fiscal framework, and promoting awareness between government and citizens to ensure everyone benefits. Inclusive development, encouraging transparency and accountability by both government and industry are critical for the public acceptability of oil and gas development projects. A sustained growth in the upstream segment of their oil and gas industry also means growth in the associated midstream and



**Exploring the first interpretation: “Dutch companies that benefit from BHOS support should contribute to SDGs by applying high-standard sustainability policies and safeguards systems”**

The [letter to Parliament on 28 September 2017](#) includes the following: “Policy coherence for development strives to reduce damage for the latter group of countries from policy in other areas than aid as much as possible and maximizes positive effects.” If DGIS interprets the aid & trade policy as in fact two different policies (one for trade and one for aid), the quoted sentence implies that coherence can be assessed simply by ascertaining that the Dutch companies apply sound sustainability policies, including environmental and social safeguards systems covering climate change.

**Exploring the second interpretation: “Coherence with “Paris” implies that important Dutch business opportunities in the oil and gas value chains of a country at least should contribute to low carbon climate resilient development (LCCRD)”**. This interpretation of policy coherence would assume that coherent aid & trade support should create a significant improvement of SDG’s 7 (sustainable energy for all), 8 (economic growth) and 13 (climate change mitigation). This may simplify the assessment, as Dutch investors may have no such significant influence on improvement of any SDG to the country; for example if there is no reason to expect that a Dutch company will perform more sustainably than companies that otherwise would be asked for the job. In that case, DGIS may assume the supported investment to be trade, but not aid (see annex 1). It is recommendable for each support option to identify opportunities for local content/co-benefits of value chain investments and the likelihood that Dutch assistance would enhance these opportunities, and to flag warnings for adverse side effects (either direct or via use of revenue) that may be difficult to mitigate. However, the risks and opportunities for other SDGs are case-specific and DGIS needs to evaluate their implications for policy coherence case by case. To answer these questions, experts need to assess what is possible and likely to happen in the energy system of a country before assessing the difference Dutch interventions might make. This includes in particular the way in which a country is likely to govern the revenues of oil and gas export to contribute to SDGs; to use gas and perhaps oil in domestic value chains to accelerate a transition to sustainable energy; and to improve its governance after Dutch support to this governance, where required.

## 4. The dilemma of choosing a background scenario

Whether or not investments in oil or gas development by international companies in poor countries contribute to the country’s economic development depends among other things on the uncertain future oil and gas markets. Oil and gas price development in the middle term (i.e. until about 2030) is key, as that determines the profitability of investments. If there are doubts whether BHOS may contribute to economically viable developments, it needs to assume some background scenario. The IEA has developed different scenarios to analyse how these prices may develop in the future, and which investments are required (see annex 1). In the Sustainable Development Scenario, several SDG targets are achieved, including SDG7 and SDG13. In the New Policies Scenarios, continuing of historical trends are assumed and therefore, the targets are not achieved. The private sector would likely base their investment decisions on what they believe to be the most likely scenario. However, the future is unknowable. Given the fact that all governments worldwide have signed the Paris Agreement and SDGs, it makes sense that the Sustainable Development Scenario should be leading for governments –

otherwise, they *ex ante* reject achieving the goals to which they have committed themselves. Furthermore, even if this scenario were not to become reality, a BHOS role based on the Sustainable Development scenario may still be policy coherent.

If DGIS assumes that the Sustainable Development Scenario becomes reality, there may be less benefit to the country from oil and gas investments, due to future price shocks. It is thus more likely that BHOS would not support oil and gas development of a country, and DGIS may have somewhat increased the likelihood that the world will be able to realise the sustainable development scenario. If other donors and investors take its place, DGIS cannot prevent the oil or gas development to happen, but DGIS may “lead by example”.

On the other hand, making this assumption, DGIS would take the risk that a more likely future, closer to the New Policies Scenario, becomes reality instead, with an assumed higher demand and upward pressure on the oil price in the period to 2025, and then a marked slowdown. Natural gas is assumed to grow to account for a quarter of global energy demand to become the second-largest fuel in the global mix after oil. Then, DGIS may turn out to have not supported oil and gas developments, which could have contributed to sustainable development, perhaps without stranding assets. If many donor countries and investors were to follow this Dutch example, together they could have contributed to a scarcity and price increase of a still critical resource and the developing of the oil and gas resources by companies that have less interest to be socially responsible. Assisting these countries in good governance of oil and gas then may have less effect.

Finally, the choice for the Sustainable Development Scenario as background scenario does not preclude BHOS contributions to the development of any new oil and gas production. In some cases, such contributions may still be found in line with the Paris agreement, as the Paris Agreement does not solve the prisoner’s dilemma: which countries should leave it in the ground? In the case of the poorest countries, in cases where developing their resources is clearly profitable (even with future price shocks) and where quality of governance suggests revenues will be used to invest in sustainable development, the net benefit may be positive. DGIS is therefore advised to apply other background scenarios for reference before supporting an initiative. On the other hand, there is no ranking of countries in this sense to determine which ones add up the most efficiently to the global carbon budget. There is no criterion to determine in which cases it would be “policy coherent” from the point of view of the Paris Agreement, to support oil or gas development.

## 5. Applying the assessment framework

The NCEA has piloted the assessment framework in a quick scan test at country level. This reveals:

- Every country is unique and needs to be assessed individually to draw conclusions about most interpretations of policy coherence.
- Performing the full assessment leads to a report over 50 pages, with ample background info to be gathered that is mostly not available on the web. Even if an expert is very familiar with the country and with DGIS policies, information gathering requires at least 10 days per country. This might be sped-up by requesting the country in the framework of preparing development assistance to deliver information.

On the other hand, the test also showed that full assessment may not always be needed:

- The relevant questions depend on the interpretation of policy coherence. Also, Interpretation and operationalization of “policy coherence” affects the cost of doing the assessment.
- There are some questions where professional judgement may suffice without going into detail. In particular, the NDCs of countries that have shown in practice before to follow suggestions from international banks can be considered reliable. In that case, no other checks are required. The phase that fossil energy development is in also determines reliability of plans.
- Professionals, knowing the past record of governance of a country, can draw sufficiently reliable conclusions from that. For example, Senegal has a longer history in developing fossil fuel history than Tanzania, which is indicative of how well policy is institutionalized.

## 6. Recommendations

The NCEA recommends the Inclusive Green Growth department to:

- Clarify the operationalization of policy coherence DGIS wants to make.
- Decide how to deal with reference scenarios, which may determine the policy coherence of gas and oil investments.
- Determine which BHOS support can be assumed to be policy coherent (or incoherent) in all relevant developing countries. Applying the assessment framework to a representative sample of countries may shed light on that.
- Apply the assessment framework in a quick scan, and if that is not conclusive, in a more detailed assessment.
- Build-up experience with applying this framework with politically relevant interpretations and refine the framework as required
- Continuously re-assess the policy context with the aim of reducing uncertainties about policy coherence, reducing the dilemmas that these uncertainties create. It is not “inconsistent” to adapt policies when circumstances, including available knowledge and technologies in support of the energy transition, change. This requires research and dialogue, among scientists and between them and policy makers. Uncertainties are in particular created by – perhaps yet unknown – feedback loops between physical, biological,

economic, policy and governance subsystems; these loops may dampen or accelerate pathways:

- Knowledge about feedbacks may inform about amongst other things:
  - Carbon linkages between the oil and sector in countries and the wider economy, with implications for realistic time frames for transition, identify potential tipping points and the optimal pressure from governing institutions to accelerate these transitions; i.e. to manage tipping points.
  - Economy-wide country approaches to manage the risk of investing in, and dependency on, oil and gas in light of risk of stranded assets (or transition risks). Countries therefore need to develop competencies in the institutions that govern taxation and that depend on oil and gas revenue for financing their activities, for example by diversification and divestment of capital sources of sovereign funds.
  - Development of long-term energy plans for each country to enable analysis and management of transition risks and identify co-benefits of transition to a low carbon and climate resilient economy.
  - Possibilities for mutual reinforcement of strategies of different donor countries, financing institutions and receiving countries; e.g. potential for mutually supportive management of tipping points.
- Some of the feedbacks of interest can be those between (some are already under study, others perhaps not yet enough):
  - Greenhouse gas emissions, climate policies, the creation of negative emissions by biological and physical measures, land use and the economy.
  - Level of new oil and gas development by countries that need the revenue, knowledge about physical and biological processes, carbon risk, investment in sustainable energy, and net greenhouse gas emissions.
  - Climate change, the cost of adaptation, equity and political stability.
  - Investment in specific sustainable alternatives to oil and gas, their price development, the market penetration of these innovations and the profitability of investing in oil and gas development.
  - Dependency on oil and gas revenue, economic (e.g. fiscal) stability, the knowledge of governing institutions (e.g. fiscal), and their willingness to develop alternative revenue systems.
  - The general economic development, the ability to finance the energy transition and willingness of financial institutions to develop coherent financing policies.

# Annex 1: Estimating the impact of BHOS interventions on SDGs in an uncertain context

## Structuring the SDGs

The SDGs to serve this assessment framework for BHOS oil and gas interventions can be structured as follows:

- Energy-dependent SDGs:
  - The core SDGs directly affected by oil and gas development:
    - SDG 7 (providing energy for all).
    - SDG 13 (urgent action against climate change).
  - Indirectly dependent on energy are:
    - SDG 8 (economic growth and job creation).
    - SDG 11 (making cities inclusive, safe, resilient and sustainable).
    - SDG 12 (responsible consumption and production patterns).
    - SDG 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation) – as a sustained growth in the upstream segment of the African oil and gas industry also means growth in the associated midstream and downstream ‘infrastructure’ parts of the business: terminals, storage capacity, pipelines and refineries.
- Collateral SDGs: SDGs that may be affected by side-effects of the energy system, like health, biodiversity, peace (e.g. site development of other industry and fossil fuel energy generation, particularly in water scarce sites), etc.

SDG 7 is ensuring access to affordable, reliable, *sustainable*, and modern energy for all – and hence implies a shift from fossil fuel reliance and increasing efficiency. As for a large part of the population in Sub-Saharan Africa, energy access will be largely delivered beyond the grid, it is SDG 8 (decent work and economic growth) & 11 (sustainable cities and communities) that justify use of oil and gas, while SDG 7, 12 (responsible production and consumption) and 13 balance this with need for renewable energy, energy storage and low carbon transport. Electric vehicles support both energy storage and low carbon transport.

## Unpack the role of oil and gas

To assess the policy coherence of BHOS interventions on all of these SDGs it will therefore be necessary to further unpack role of oil & gas – and their interlinkage with the wider energy system, which is closely linked to global developments. This cannot be estimated by means of forecasts, as forecasts can only be made for relatively well-known and well-defined systems – which is not a typical situation for long-term complex systems we are dealing with.

Rather than forecasts, scenarios may be used to map out possible future developments under certain assumptions about driving forces – thereby providing insight into uncertainties and the boundaries of possible futures – and indicate the main challenges, synergies, and trade-offs of these futures. Scenarios can be defined as possible descriptions of how the future might develop, as based on a coherent and internally consistent set of assumptions (“scenario logic”) about the key relationships and driving forces. Scenario analysis forms an important tool in the assessment of climate change and climate change policy. It allows exploring the complex and uncertain future interactions between factors like economic growth, greenhouse gas emissions, climate, and ecosystems. Scenarios are generally developed by

computational modelling using Integrated Assessment Models (IAMs) and dedicated energy models.

IAMs use high levels of aggregation (such as large world regions) and provide a global analytical understanding of transitions, climate change, and the various complex interlinkages between the Earth and human system. The focus of modelling studies is often on least-costs pathways with little attention to institutional constraints and opportunities. There are several reasons why such pathways could be unrealistic, especially in the short term. Arguably, the most important of these is that mitigation strategies of governments, businesses and households often are not only based on cost optimisation, but on other factors such as public support, infrastructure lock in, visibility and contribution to other policy goals, e.g. reaching a high employment and benefitting the national economy. Moreover, factors like inertia, lack of information and institutional constraints play a role. These factors might explain why in several countries financially attractive efficiency improvements are not being implemented while at the same time, other more costly technologies are being deployed on an increasingly large scale, often supported by costly feed-in tariffs.

### **Lessons from global scenario studies**

In this assessment framework we look for oil and gas scenarios for specific developing countries and their impacts on SDGs. As oil and gas are part of global and regional markets, country scenarios should be derived from world scenarios. Low cost gas is largely traded in regional markets through pipelines. Global scenario studies show that many possible futures cannot be regarded as consistent with the Paris Agreement, i.e. holding global temperature change well below 2 degrees.

Driven by ongoing population growth, urbanisation and economic development, it can be expected that Africa's energy situation will change significantly. Expanding their energy system and increasing access to modern sources of energy provides great opportunities to reduce poverty and accelerate economic growth. However, depending on fuel choice this could also have major environmental impacts at the local, regional and global scale, including the region's contribution to global greenhouse gas emissions and air pollution. However, few studies have focused on projections for the African continent, let alone individual countries. However, none of these studies specifically focusses on Africa's long-term role in the global energy system, including in global climate change mitigation.

To determine coherent BHOS aid/trade interventions in specific countries that contribute the most to SDG13, the following should ideally be taken into consideration:

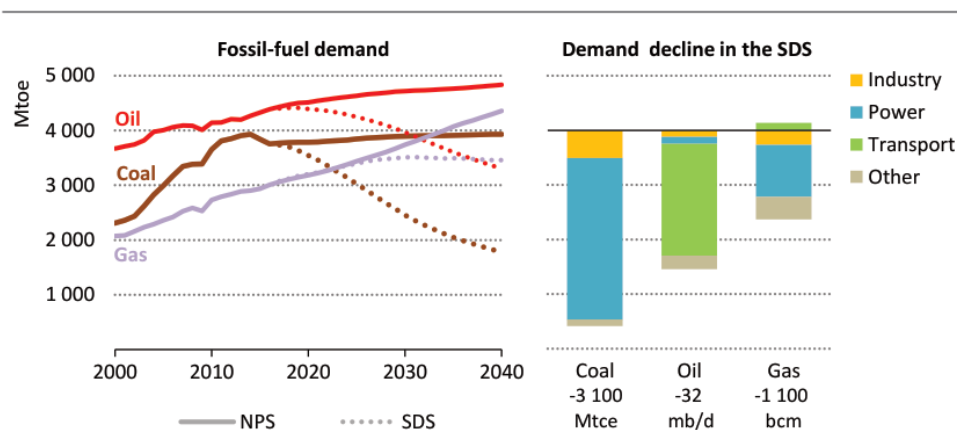
- the difference between baseline scenarios and scenarios that are consistent with the Paris Agreement, as this provides insight in the changes needed to achieve the global temperature goal (relative to the baseline considered);
- a range of global scenarios to consider uncertain future socioeconomic developments;
- Include for reference least-cost pathways to Paris under idealized assumptions. These generally show relatively large mitigation costs for developing regions, as they generally have carbon-intensive economies. This should not be regarded in any way as "fair" contributions, but rather could provide insight in the financial transfers to developing regions needed in order to achieve cost-optimal mitigation across regions.



**Box 2: Insights from the latest (2017) World Energy Outlook (WEO) of the International Energy Agency (IEA) – [www.iea.org](http://www.iea.org) – for context:**

- Under current trends and policies, **universal access to electricity remains elusive**, and scaling up access to clean cooking facilities is even more challenging. The New Policies Scenario provides insight into the challenges: around 675 million people – 90% of them in sub-Saharan Africa – remain without access to electricity in 2030 (down from 1.1 billion today), and 2.3 billion continue to rely on biomass, coal or kerosene for cooking (from 2.8 billion today). Household air pollution from these sources is currently linked to 2.8 million premature deaths per year, and several billion hours are spent collecting firewood for cooking, mostly by women, that could be put to more productive uses.
- The **Sustainable Development Scenario** of the IEA offers an integrated way to achieve a range of energy-related goals crucial for sustainable economic development: climate stabilisation, cleaner air and universal access to modern energy, while also reducing energy security risks.
- In the Sustainable Development Scenario, **low-carbon sources double their share in the energy mix to 40% in 2040** and coal demand goes into an immediate decline and oil consumption peaks soon thereafter. While the demand for natural gas increases by 20% to 2030 relative to 2010, it is still 20% lower than in the Current Policy scenario.

**Figure 3.18** ► **Fossil-fuel demand by scenario and decline by sector in the Sustainable Development Scenario relative to the New Policies Scenario, 2040**



*In the Sustainable Development Scenario, natural gas overtakes first coal and then oil to become the first among fossil fuels by the late 2030s*

Note: NPS = New Policies Scenario; SDS = Sustainable Development Scenario.

### **Doing practical assessments for BHOS interventions in specific countries**

These assessments may be difficult to make by means of formal modelling, in particular at country level and under time and budget constraints. To compare the potential impact of possible BHOS intervention options in a country, it may be sufficient to depart from their NDC and energy policies and to make an expert judgement of what will happen next. It is important that the expert is knowledgeable about scenarios as indicated above, in particular to take the country situation into consideration: developing countries have emitted least, and to achieve reliable energy for economic growth (SDG 8) and urban development (SDG 11), continued fossil fuel exploitation and use for power and transport is likely to be needed. Expanding energy access (SDG 7), responsible consumption (SDG 12) and action on climate change (SDG 13) do however require that developing countries are supported in making the transition to low carbon climate resilient development (LCCRD) – through maximising the opportunities of new technologies and systems innovation, to maximise renewables and efficiency. Those countries with new finds in oil and gas could be able to fund this transition from selling their fossil fuel assets, but risk also being exposed to stranded assets. In a highly polarized debate, this framework will increase understanding what the issues are for the developing countries and how Dutch aid and trade investments can support the LCCRD transition with an appropriate role for oil & gas given differentiated responsibilities.

Experts should be generally acquainted with African-owned initiatives, like AREI: The Africa Renewable Energy Initiative (AREI) is an inclusive, transformative, Africa-owned and Africa-led effort to accelerate and scale up the harnessing of the continent's huge renewable energy potential. Under the mandate of the African Union and endorsed by the Committee of African Heads of State and Government on Climate Change (CAHOSCC), the Initiative is set to achieve at least 10 GW of new and additional renewable energy generation capacity by 2020, and at least 300 GW by 2030. The NDCs are not yet likely to be well aligned with AREI, whilst AREI may be regarded to be part of the objectives with which (according to the Paris Agreement), finance should be brought in line. The LDC group also have their LDC Renewable Energy & Energy Efficiency Initiative which intends to support the poorest countries and poorest people achieve universal energy access, shift to 100% renewables and double the rate of energy intensity reduction. It will ensure no country is left behind, supporting thin governments with limited capacity to put the targets, plans and regulations in place that will enable investment.

## Annex 2: Responsible investors

### **DGIS may check first if interested Dutch investors have sound environmental and social safeguards and practices in place**

It is important for the Dutch government to get ex ante assurance about the realisation of the positive social and environmental outcomes, and minimizing the negative consequences on GHG-emissions. Because of the sensitive nature of promoting or stimulating oil and gas projects, the government may want to consider making its support dependent on a form of (performance or management) contract based on a set of SDG-related performance indicators. Regarding SDG 7 realisation and reporting of positive outcomes in terms of: Access to energy for all, Prioritising the interests of those who are worst off, Contribution to renewable energy and energy transition (e.g. as a mitigation strategy by the enterprise), Contribution to energy efficiency, The most tangible contribution coming from SDG 8 is the creation of direct jobs. All other indicators are complex and very difficult to evaluate.

In addition, the government may assess the potential market and financial upside of the project it intends to support. The potential gains need to be significant in order to justify the risks. Application of the IFC Performance Standards, which are normally applied to projects, to gain insight in the social and environmental risks and returns of a full scenario. The IFC Performance Standards even fall short, as they are not yet fully in line with the SDGs (IFC Performance standard 1 – “Plus” needs to be developed).

An assessment of predicted GHG emissions and the measures taken to mitigate or compensate these emissions to assess the potentially regressive contribution of the scenario with regard to SDG 13 and the Paris Agreement. SDG 13b calls for reinforcing the capacity for effective climate change-related planning and management. Also, it aims to improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation and impact reduction (13.3). Dutch financial institutions are increasingly aiming to reduce their carbon footprint, the government would run the risk of becoming a sitting duck if it would not uphold the same or comparable standards. See <http://carbonaccountingfinancials.com>.

It is important to note that what may be a clear and acceptable financial risk for a company or an investor (because of a diversified investment strategy), can become a long downside tail-risk for a developing country as a result of rapid technological breakthroughs, social unrest, or substantially higher exploration costs. This may materially affect the economic lifespan of the project. If this will be the case, and the Dutch government is shown to be instrumental in stimulating the exploration and development of the natural resources, to what extent will it then be partly responsible for the resulting developmental regression? This applies to activities that are directly related to the exploration and development of oil and gas, but also to activities aiming to curb GHG emissions – such as carbon capture. This can be a relevant contribution, but has to be assessed thoroughly (including a timely and comprehensive dialogue with local communities who will experience the results).

Transparency: Increasingly, investors are confronted with pressures to report on the social and environmental performance (and consequences) of their investments. In line with this general tendency, the framework could contain agreements or contract terms that require the enterprise that is to receive support: To make a comprehensive ex ante environmental and

social assessment of the investment project, To monitor progress on the relevant SDG/Paris Agreement indicators , To report on mitigating activities aimed at reducing the (potentially) negative impacts of the project, Demonstrate community consent, Achieve and report on real progress that tangibly benefits the least developed groups in the economy/society.