

Comments on ADB's Energy Strategy (version May 2007)

To: ADB Energy Strategy Development Stakeholder Consultation Workshop
Organizers

From: Bank Information Center, South Asia Office
India

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I) Recommendations on Process of Consultations and Follow up:

In previous policy consultations, the ADB has put a matrix on its website with all comments and submissions sent by CSOs. The matrix cites whether comments have been integrated or omitted and offers explanation as to why certain recommendations have not been taken on board. At a minimum, we would like the ADB to continue this practice with the ADB energy strategy consultation process.

However, it should be noted that some civil society organizations consider that a more legitimate form of consultation would be carried out by an independent panel of experts and/or external reviewers who would integrate comments from various stakeholders and put forward recommendations for the final draft. Such a panel should ideally be put in place with civil society input and in a transparent and democratic manner. This panel, rather than ADB staff, should propose changes to the ADB draft, to be vetted by the public, before the final draft is created by ADB staff and approved by the Board.

II) Comments on the Draft Strategy

a) Climate Change and the ADB Support for Hydrocarbons (Fossil Fuels)

The draft Strategy states that “Asia’s current approach of increasing the supply of low-cost fossil fuel-based energy is unsustainable” (p. 13). Yet, the ADB not only plans to continue to support coal (albeit “clean” coal), natural gas, and oil, but the draft Strategy suggests *an acceleration* of hydrocarbon development. The following excerpts from the draft Strategy do not instill confidence that the ADB will be helping Asia to transition to a low carbon economy:

“...the share of the oil and gas sectors in ADB’s operations remains low. Lately, however, interest in these sectors has increased ...Hence, it is expected that ADB’s interventions **will increase** (emphasis added) especially in the gas sector.” (p. 9)

“The ADB will encourage private sector investments in pipeline infrastructure (oil and natural gas), and to the extent it remains unattractive to the private sector investments in

this regard would be considered acceptable provided they operate as a common carrier and encourage upstream investments in exploration and development.” (p. 72)

[*Strategy Related to Hydrocarbon Sector Reform*] “With a view to supporting DMCs, the reforms should aim to stimulate the economic development by (i) **accelerating indigenous hydrocarbon resource development; (ii) elimination of transportation and delivery bottlenecks** (*emphasis added*); (iii) enhancing efficiency and effectiveness of energy production and utilization...; and (iv) adoption and enforcement of stronger environmental regulations.” (p. 71).

[*Strategy for supporting coal projects*] “[The ADB] will selectively support coal-based power projects only if cleaner technologies are adopted and adequate mitigation equipment and measures are incorporated in the project design.” (p. 26) ...“**ADB will actively promote environmentally and socially sound mining practices, extraction and use of coal for power generation, coal bed methane extraction and use, coal gasification, adoption of clean coal technologies, waste coal utilization, and transportation.**” (*emphasis added*) (p. 27)

BIC does not believe that the ADB can continue to support and accelerate funding of fossil fuels and at the same time uphold the strategy’s first pillar of “meeting the energy demand in a sustainable way” towards a lower carbon future.

Apart from the obvious climate change concerns related to increased support to fossil fuels:

- **Public Funding for Fossil Fuels is Not Needed**—As the ADB has pointed out, sufficient private sector interest already exists in the development of fossil fuels. Because renewable energies have more difficulty in attracting private capital, they should be the focus of public financing. The ADB should thus be a catalyst in leading this shift towards alternative energy sources.
- **High Cost of Clean Coal (both technically and economically)**—Clean Coal technologies are not readily available in ADB’s borrowing countries and are economically very expensive. This money is better spent on alternative, climate change reducing forms of energy such as wind, solar and other forms of decentralized renewable energy.

b) Need for Concrete Benchmarks in Reducing Carbon and for Energy Efficiency

- Concrete proposals with quantitative and qualitative benchmarks are needed for ADB’s plans for reducing carbon through its energy portfolio. This means that the ADB must integrate finding from the IPCC report in its strategy and devise benchmarks that identify how the ADB will concretely move towards a low carbon future through its energy portfolio up to 2030.
- As part of this benchmarking exercise, the ADB must concretely define its plan for Energy Efficiency and scaling-up of renewable energy

c) Consideration of Low Carbon Alternatives

The ADB’s Operations Evaluation Department (OED) determined that “analysis of alternatives in project identification and selection has been a shortcoming in ADB’s [energy] operations” (pg. 11). However, the draft Strategy does not address any commitment/requirement of the ADB to

conduct/consider analysis of alternatives before going forward on any energy operation. Given the ADB's stated intention to assist Asia to a low carbon economy, it will be critical that the ADB Energy Strategy requires all proposed energy (e.g., oil-, gas-, and coal-related) projects to conduct and adequately consider the options provided by analysis of alternatives to the business-as-usual fossil fuel operations, especially analysis of opportunities for RE development.

d) ADB's Involvement in Governance of the Energy Sector

Regarding governance issues, the ADB highlights its role in promoting good governance and suggests this as a rationale for its involvement in the energy sector. (p.73) Unfortunately, the draft Strategies' governance considerations are severely lacking in details relevant to energy operations. The Strategy merely describes basic concepts of accountability, participation, and transparency with no specific requirements/targets for energy sub-sectors such as **oil, gas, and mining**.

Particular to oil, gas and mining, the ADB Energy Strategy should include, inter alia (Note: these recommendations are taken from the World Bank Group's global multi-stakeholder consultations – Extractive Industries Review):

- Explicit core and sectoral governance requirements that must be met before a project qualifies for ADB funding (i.e. **sequencing**);
- Under no circumstances should ADB support extractive industry (e.g., oil and gas) projects in areas involved in, or at high risk of, **armed conflict**;
- only support projects that **benefit all affected local groups**, including vulnerable ethnic minorities, women and the poorest;
- **free prior and informed consent** is ensured for indigenous peoples and local communities affected by oil, gas, and mining operations and before any resettlement takes place;
- Require **baseline data on poverty and social indicators**, which should be monitored throughout the lifetime of the project;
- Require **poverty impact assessments**;
- Require upstream social and environmental analyses for all **policy advice/loans, technical assistance and analytic/advisory activities** for countries where oil, gas, or mining development is likely or intended to occur as a result of ADB supported reforms;
- Adopt clear **no go zones** and not finance any energy operation that might affect existing World Heritage properties, current official protected areas, or critical natural habitat, or areas planned in the future to be designated;
- Require **emergency response plans** as a precondition of ADB funding;
- not support projects that undermine or are inconsistent with **international human rights law**;
- create a central **Human Rights Unit** to monitor, verify and conduct annual audits; and
- adopt all of the **core labor standards** as contractual obligations for project financing.

e) Revenue and Contract Transparency – If the ADB continues to invest in fossil fuels, it must adopt international best practices in transparency and these must be reflected as requirements in the Energy Strategy. With regard to revenue and contract transparency in the oil, gas, and coal sectors, the ADB is substantially behind other IFIs. For example, the EBRD, IFC, and IMF have all adopted transparency requirements for oil, gas, and mining in their respective operational policies.

The ADB Energy Strategy should clearly state the following ADB requirements:

- Public disclosure of all revenue payments (including royalties, taxes, commodity based payments, signing bonuses etc) made to governments and their agents by all oil, gas, and mining projects that receive the financial support of the ADB, including those made via financial intermediaries;
- Public disclosure by governments of all revenue payments received from the oil, gas, and mining industries for countries receiving loans or technical assistance from the ADB;
- Public disclosure of key contractual agreements for all oil, gas, and mining projects funded by the ADB; and
- Disclosure of the transparency-related requirements contained in ADB loan and assistance agreements.

The ADB should also encourage endorsement by member countries of the Extractive Industries Transparency Initiative (EITI) and assist them in implementing EITI principles.

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