

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

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From: Bank Information Center
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The Bank Information Center (BIC) welcomes the Asian Development Bank's draft Energy Strategy, which is focused, according to the strategy paper, on addressing the energy sector's challenges – "to meet energy security, to transition to a low carbon economy, and to achieve poverty reduction objectives." We hope the new Energy Strategy will provide greater clarity on ADB project financing requirements, and better reflect current international best practices across the sector. As an initial step in the consultation process, BIC is pleased to provide comments on the ADB's Energy Strategy Paper (May 2007).

I. Consultations and Follow up

i. 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.

ii. 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.

iii. We also recommend that a **second draft** of the Strategy be publicly released for a brief comment period. At a minimum, the 2nd draft should be posted on ADB website, all participants that attended the regional consultations and who sent in comments should be informed of its release, and a two-week comment period should be set.

iv. We request that the ADB clarify the relationship of the proposed Energy Strategy with the Energy Policy (1995). Currently, there is some confusion about this.

II. Climate Change and 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). Moreover, the ADB's institution-

wide Medium Term Strategy II (MTS II) directs the ADB to “focus on low carbon technologies, energy efficiency and development of renewable energy (RE).” 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 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.

It should be noted that, in the past, the share of hydrocarbons in its total spending on energy has not been low. Greenpeace estimates that, between 2000 and 2006, ADB’s financing of nine fossil fuel projects and loans and technical assistance to the sector accounted for about 26% of its energy portfolio, while renewables, energy efficiency, conservation and CDM projects represented only 4.1%. (Presentation by Gerd Leipold, Greenpeace International to the ADB, June 21, 2006.)

Apart from the obvious climate change concerns, increased ADB support for fossil fuels raises other important issues.

- **Public Financing for Fossil Fuels is Not Needed** -- The draft Strategy is inconsistent in its justification for supporting oil and gas. On the one hand, the ADB argues that it should not be involved in oil and gas prospecting: “As oil and gas are internationally traded commodities with established private sector interest for its development, ADB will continue its policy not to finance exploratory projects.” (p.27)

However, the ADB states that it will provide assistance for refining, extraction, transportation (e.g., pipelines), and distribution. The rationale for increased ADB investments in these fossil fuel activities is puzzling. With the rapid increase in prices for fossil fuels, there is sufficient private capital to develop these energy sources; ADB financing is simply not needed. If ADB is genuinely interested in promoting a low carbon energy sector in Asia, it should logically stop spending on fossil fuels and divert its investments to promoting alternative energy sources. Given renewable energies have more difficulty in attracting private capital, they should be the focus of public financing and the ADB should be the catalyst in leading a shift toward renewable energy sources.

- **High Cost of Clean Coal** (technically and economically) -- Coal is one of the major sources of green house gases. Clean coal technologies are not readily available to ADB borrowing countries and are economically very costly. At best, this is a risky experiment, to which the World Bank Group is already devoting substantial resources. The ADB could create more value added by concentrating its scarce resources on promoting renewable energy.

III. Need for Concrete Benchmarks in Reducing Carbon

While the creation of the Energy Efficiency Initiative (EEI) in 2005 and the Clean Energy Financing Partnership Facility (CEFPPF) in 2007 are encouraging steps, these initiatives fall well short of ensuring a transition to a low carbon economy for Asia. Within the ADB's Clean Energy and Environment Program there is no specific strategy for increasing renewable energy. EEI sets a target of increasing investment for "clean energy" generally to at least \$1 billion annually, which could all be spent on energy efficiency. There is also no timeframe set for when the 1 billion target should be met. While the ADB should do everything it can to support energy efficiency, to change Asia's current trend of dependence on unsustainable fossil fuel-based energy generation, the ADB needs to make a concrete and significant commitment specifically to renewable energy.

The draft Strategy rightly points out that; "Studies have shown that with current technologies, renewable sources can form a significant component of the electricity grid, to the extent of almost 10% to 20%. This is more than five to ten times the current share." (pg. 25) It goes on to say that "ADB's support for renewable sources of electricity will be increased substantially." However, the ADB does not offer a specific commitment or clarity on specific actions to develop renewable energy sources. To begin, the Strategy needs:

- 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 findings from the IPCC 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.
- A clear plan for increasing investment in Energy Efficiency and renewable energy.
- An increase the number of ADB staff with renewable energy expertise, and

- Measures to support specific renewable energy outreach activities to engage the private sector. (Much of the renewable energy industry does not have experience setting up projects in the DMCs or working with the International Financial Institutions.)

Furthermore, the draft Strategy states that, “The barriers for renewable energy development are not technical, but regulatory, institutional, and market-related.” (pg. 43). However, the Strategy does not offer a specific policy framework to promote renewables. The ADB needs to be much more innovative and committed in its approach to RE development. The Strategy should lay out a specific plan of action (including some of the examples provided above) and targets for funding and output of renewable energy. If the ADB’s Energy Strategy is to be considered a “strategy,” it should outline where RE opportunities exist in specific countries in Asia and how the ADB will assist countries to realize such opportunities.

IV. Analysis of Alternatives and Consideration of Low Carbon Options

Although 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), the draft Strategy does not specify any commitment or requirement that the ADB to analyze alternatives before going forward with an energy project. Given the ADB’s stated intention to assist Asia in achieving a low carbon economy, it will be critical that the ADB Energy Strategy require analyses of all proposed energy (e.g., oil-, gas-, and coal-related) projects and adequately consider the options. In particular, the Bank should consider whether energy needs could be met by renewable energy technologies. In addition, when the analysis indicates that the need can only be met by fossil fuels, private financing should be pursued.

V. Governance

While the ADB suggests that a major rationale for its involvement in the energy sector is to promote good governance (p.73), the draft Strategy’s 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.

Such sectors as oil, gas, and mining require sector specific governance requirements to adequately and appropriately address and protect social rights and the environment. The ADB is significantly behind other IFIs on sector specific governance requirements for energy operations. For example, energy-related policies at the World Bank, IFC, EBRD, and IMF specify governance requirements that are particular to the sectors of oil, gas, and mining (extractive industries). For these sectors, the ADB should adopt the recommendations stemming from two extensive multi-stakeholder consultations - the World Bank Group’s Extractive Industries Review (EIR) and the Canadian Government’s National Roundtable Discussions on Corporate Social Responsibility and the Canadian Extractive Sector in Developing Countries. These consultations included stakeholders from governments, industry, academia, local communities, and local/international civil society organizations. Some of the recommendations from these consultations that **should be adopted include, *inter alia*:**

- Explicit core and extractive industries-specific **governance requirements/ indicators** that must be met before a project qualifies for ADB funding (i.e. **sequencing**);
- Under no circumstances should ADB support extractive industry 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 and publicly disclosed throughout the lifetime of the project;
- Require upstream social and environmental analyses for all **policy advice, technical assistance and analytic/advisory activities** (e.g., privatization, new contract models like production sharing agreements);
- Adopt clear **no go zones** and do not finance any extractive 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;
- Require **public disclosure of all revenues and investment contracts** (see details below);
- Do 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.

VI. 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 International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) already require all extractive industry projects to disclose all government payments. Furthermore, the International Monetary Fund (IMF) recommends disclosure of all contracts between governments and extractive industry operations. The IFC has project requirements for contract disclosure, and the EBRD supports contract disclosure as best international practice.

To promote more effective governance and transparency for revenues and contracts, we recommend that the Energy Strategy include the following specific requirements for all extractive industry projects financed by the ADB:

- Public disclosure of all types of material project payments made to the host government, including royalty payments, taxes, commodity-based payments, signing bonuses, pipeline tariffs, dividends, acreage fees, and payments made to government security personnel;

- Public disclosure by governments of all revenue payments received from oil, gas, and mining projects receiving loans or technical assistance from the ADB;
- Public disclosure of all key terms and clauses of all foreign investment contracts and agreements, including host government agreements, production sharing agreements, concession agreements, and inter-governmental agreements;
- Disclosure of all transparency-related requirements contained in ADB loan and assistance agreements.

In addition to the essential project requirements, we believe that the Extractive Industries Transparency Initiative (EITI) is a useful step toward greater revenue transparency. Accordingly, we recommend that the ADB encourage and assist member countries to commit to, and implement, EITI principles.

Thank you again for the opportunity to contribute to ADB's new Energy Strategy. We hope that you will agree to incorporate these important requirements towards more socially beneficial ADB energy operations.

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