

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

To: energystrategy@adb.org

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### Comments on the Asian Development Bank's Draft Energy Strategy

We welcome the opportunity to provide comments on the ADB draft Energy Strategy. Given the urgency of meeting the rapidly growing demand for energy in the Asia region while addressing the critical climate change, organizations like the ADB can play an important role in helping developing member countries address these challenges in tandem. While the strategy does take a critical look at the success of energy programs to date, and is based on a comprehensive review of the Bank's record in the sector, it does not always consistently address these weaknesses. Greater clarity about the role of the strategy in ADB's operations is needed including an explanation of how the strategic pillars identified will be used to make decisions about funding, and how the ADB will be held accountable to the strategy.

#### Energy Sector Reforms and Governance

Citizens and consumers are increasingly vocal about their dissatisfaction with the results of electricity reform. Governments are slowing and halting privatization efforts. The record of experience suggests that improving energy sector governance is critically important.<sup>1</sup> Yet in its energy strategy the ADB proposes to continue to support privatization oriented reform efforts.

*ADB should not continue to uncritically support reforms that the strategy document itself states have been problematic. As part of its energy strategy, ADB should analyze what has gone wrong with reform efforts in various DMCs from a public interest perspective, and address these issues in a transparent and inclusive manner.*

*Increasing transparency and creating an open, inclusive and participatory process to discuss what policy measures will best meet a particular country's needs is critical to identifying credible and legitimate approaches to electricity sector reform. More attention needs to be given to the processes by which new policies and regulatory measures are put in place and operationalized, rather than the prescription of predetermined policies and measures.*

*The strategy should emphasize promoting the capacity of DMC institutions to practice transparency. In particular, greater disclosure of "technical issues" is essential, even if these*

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<sup>1</sup> Smita Nakhooda, Shantanu Dixit, Navroz Dubash, *Empowering People: A Governance Analysis of Electricity* (Washington DC: WRI, 2007).

issues may be considered too “technical” for the general public to understand. For example, public access to detailed analyses of demand-supply scenarios and about the impacts of new energy pricing projects on public interests can allow people to understand the bases for choosing approaches to meeting energy needs.

*Similarly, greater disclosure around the basis for power purchase agreements or asset valuation is necessary.* The strategy notes that privatization efforts have been slow and difficult to complete in part due to conflicts of interest, and other such challenges. Greater public debate and scrutiny of such technical issues can make trade-offs between interests transparent, and help avert costly deadlocks.

*The strategy’s emphasis on building the capacity of effectively functioning independent regulatory frameworks for electricity is important.* Independent regulatory systems can create enhance transparency, participation, credibility and predictability of key decisions in the energy sector. It is vital to ensure that regulators practice transparency and proactively address public interest concerns particularly through greater stakeholder engagement and by creating meaningful space for engaging the public.

*The mandate and capacity of regulators to deal with sustainable development challenges such as environmental sustainability and social equity needs particular attention,* as these institutions will play an increasingly important role in facilitating clean and sustainable energy provision and use. Special institutional mechanisms to include stakeholders and socio-economically weaker groups of society in the regulatory process (for example through appointing capable consumer representatives), are important means to this end.

## **Environmental and Social Standards and Due Diligence**

The draft strategy seeks to keep a range of energy options and technologies with significant associated environmental and social risks eligible for ADB support, placing a greater emphasis on compliance with environmental and social due diligence on a case by case project basis for ensuring “environmental sustainability”.

*It is crucial to weigh the full economic, social and environmental costs and benefits of various energy technology choices,* and conduct a comprehensive analysis of options available to meet the energy needs of member countries. Local environmental impacts and potential impacts on local communities, as well as the implications for global climate change must be emphasized in the strategy. Fundamental shifts in the way that we use energy are needed. This necessitates a willingness to reassess the fundamental underpinnings of a fossil fuel based energy economy, alongside measures to reduce emissions associated with conventional energy, and pragmatic solutions to meet immediate demand for energy.

*The ADB needs to make a clear stand on how it will address social and environmental impacts – particularly with regards to implementation of the guidelines of the World Commission on Dams.* For the strategy to merely state that ADB will address social and environmental impacts is not enough. For hydropower development in particular, the global negotiated benchmark is the World Commission on Dams (WCD) which presents a framework for managing social and environmental risks. The ADB strategy should be clear on whether it is willing to subscribe to the WCD guidelines for any dam projects they support.

*It is imperative to ensure high standards of due diligence and transparency to ensure project compliance with the ADB’s environmental and social safeguards.* This imperative links to a

country level environmental governance challenge that must be addressed simultaneously: the need to improve the scope and integrity of project environmental impact assessments (EIAs). In project level EIAs in many DMCs are increasingly reduced to a bureaucratic hurdle to project approval. Particularly in the electricity sector, where the serious environmental and social impacts of electricity generation and transmission projects may be seen as “getting in the way” of economic development, stronger EIA procedures with greater public participation and access to redress mechanisms are needed. Greater oversight and proactive involvement from the national environmental regulator as well as project-affected communities and civil society is necessary.

*Submitted on behalf of the Electricity Governance Initiative*

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