

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

To: Mr. Woonchung Um
Director Energy, Transport, and Water Division
Regional and Sustainable Development Department

From: International Accountability Project
USA

Date: 27 July 2007

Dear Mr. Um,

The International Accountability Project (IAP) is appreciative of this opportunity to submit comments on the Asian Development Bank's Draft Energy Strategy. The IAP supports and echoes many of the points articulated by our colleagues at Greenpeace, NGO Forum on ADB, International Rivers Network, Bank Information Center, Freedom from Debt Coalition and Oxfam Australia. We join our NGO colleagues and partner communities from across Asia in urging the ADB to take a leadership role in responding to the urgent global crisis of climate change. We also wish to highlight several areas in which the Draft Energy Strategy contains contradictions and problematic assumptions that endanger the wellbeing of communities and the environment in Asia and beyond.

We hope these comments will assist the ADB is developing an Energy Strategy that achieves genuine consistence with the ADB mandate of poverty alleviation and sustainable development.

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The IAP strongly agrees with the three pillars the ADB has stated as the guiding principles of its energy strategy: "(i) meeting the energy demand in a sustainable way, (ii) energy access for all, and (iii) energy sector reform and governance." These pillars—if implemented effectively and in good faith—can serve to guide the Asian Development Bank toward becoming a global leader in innovative and truly sustainable models of energy finance.

However, we are concerned that Draft Strategy fails to systematically uphold these pillars. Furthermore, the Strategy demonstrates that the ADB has not reformed its approach to energy finance in accordance with the vastly enhanced global awareness of the urgent need to take action on climate change; there is little to substantially differentiate the current Draft Strategy from the 1995 Energy Policy and 2000 Policy Review. Despite the enormous challenge of global climate change, the Draft Strategy promotes the same polluting technologies and activities that have caused—and are rapidly exacerbating—global climate change.

To meaningfully implement the three pillars, the ADB must do the following:

No support for nuclear power generation.

We commend the ADB for affirming that it “will continue to maintain its current policy of non-involvement in the financing of nuclear power generation.”¹ This is an important statement; however, in the final version of the Strategy the ADB should clarify that it does not plan to be involved in *any* aspect of nuclear energy, including research, transmission, technical assistance, etc.

Be a leader in taking strong action on climate change.

Finance renewables. We are concerned by language and assumptions in the Draft Strategy that suggest that the ADB does not see itself as a leader in the fight against climate change nor intend to step up to fill that role. The Strategy cites current demand trends of different fuels, and refers to these current trends to project future demand and energy use, implying that the ADB will do nothing to change the course of energy production and consumption, and will instead facilitate business as usual.² Indeed, these projections will be self-fulfilling prophecies if ADB fails to support renewable energy production in ways that strategically alter the current scenario. Furthermore, in its projections, the ADB fails to acknowledge the increasing viability and economic advantages of renewable energy.³

The ADB is in a unique position to play a catalytic role in the regional energy sector, creating an enabling environment for the proliferation of renewable energy projects. The Draft Strategy affirms this fact, noting that: “ADB has been instrumental in forging subregional collaboration and networks quite effectively ... [and] needs to continue to be engaged in fostering such energy trade as it is well positioned to play a catalytic role.”⁴ If the ADB has catalyzed sector reform in the past, it can do so again. If in the past, ADB has been able to create “enabling markets for the private sector and systems improvement, as well as loss reduction”⁵; it can now direct this regional intervention in support of truly clean and renewable energy initiatives through the creation of financial incentives and enabling markets.

Genuine clean and renewable projects include solar, wind, geothermal, small hydropower and waste biomass. An accurate definition of renewables should not include large hydropower, monoculture crops or plantations that involve deforestation. These latter activities directly or indirectly release greenhouse gas emissions, reduce biodiversity and destroy natural ecosystems—as has been described in the comments submitted by Greenpeace, International Rivers Network, and other organizations. Furthermore, “clean coal” is a fiction. *We call on the ADB to cease any support for coal or large hydropower.* The ADB can demonstrate its commitment to truly clean energy by not participating in the Phulbari coal mine in Bangladesh, about which NGO Forum on ADB and others have commented at length.

Define and use targets for emissions reductions based on real emissions, not project-based credits. ADB must be a leader amongst its peer institutions in taking strong action on climate change. In scanning the experience of other multilateral development banks,

¹ para. 82, p. 26

² For example, the document says: “A review of the demand trends in developing Asia, according to fuel types, shows that coal will continue to dominate with a share of 47% in 2030, followed by oil at 25.6% and natural gas at 9%, compared to 45%, 24.5% and 7%, respectively in 2004” (p.4). Similarly: “According to IEA estimates, the share of other renewables in the total primary energy demand is expected to increase to only 2% by 2030, with most of the growth occurring in the OECD countries” (p. 14).

³ For detailed information on this subject, see Greenpeace’s *energy [r]evolution* report, which details the extraordinary viability and comparative economic advantage of renewable energy.

<<http://www.greenpeace.org/raw/content/eu-unit/press-centre/reports/energy-r-evolution-executiv.pdf>>

⁴ para. 64, p.22-3

⁵ para. 20, p.9

ADB refers to the World Bank's clean energy and development strategy. However, the World Bank's policy and practice, in partnership with the Global Environmental Facility, has been widely criticized as a culprit in perpetuating the dangerously-flawed Clean Development Mechanism (CDM).

The September 2006 issue of *Development Dialogue* magazine provides a comprehensive analysis of carbon trading and notes serious problems with the Clean Development Mechanism approach. It reveals that the Global Environmental Facility has in effect "tempted governments to lower a domestic environmental baseline to become eligible for a larger GEF grant."⁶ It is alarming that the ADB plans to participate in similar schemes that utilize project-based credits and not emissions-for-emissions trading. The ADB describes its own Carbon Market Initiative (CMI) as "another concrete effort to deepen ADB's commitment to clean energy and climate change mitigation;" however, since this Initiative is pegged to the flawed Clean Development Mechanism, it will only perpetuate the same problems.

The report also thoroughly substantiates why the current global carbon trading system actually discourages the reduction of greenhouse gas emissions. It reveals that

baseline accounting procedures also set up perverse incentives for carbon project proponents to emit as much greenhouse gas as possible today in order to make projects appear to be saving as much carbon as possible tomorrow. ... With a bit of judicious accounting, a company investing in foreign 'carbon-saving' projects can increase fossil emissions both at home and abroad while claiming to make reductions in both locations.⁷

The report also shares the startling anecdote that

a representative of the Asian Development Bank confided that his institution's first reaction to the CDM was to go through its existing portfolio to see which projects' funding might be topped up with carbon finance. No one was under any illusion that carbon money would be used for anything other than what the bank itself acknowledged to be business as usual.⁸

If the ADB is truly committed to fighting climate change, it must eschew business-as-usual approaches and instead pioneer models that do not replicate the problems of the CDM.

The Dag Hammarskjold Foundation article also demonstrates that "while some scientific basis exists for markets in emissions, none exists for markets in project-based 'offset' credits, or markets in which emissions allowances and project-based credits are interchangeable."⁹ Unfortunately, ADB's current use of the Certified Emissions Reductions (CERs) uses the latter system. ADB must rise above its peer institutions in this arena and lead by example in abandoning this flawed system, and participating *only* in systems in which scientifically verifiable emissions reductions are used.

Recognize true costs and account for externalities.

The Draft Strategy says, "Coal is a cheap and widely available energy source that will continue to be used in the future despite its impact on global climate. For this reason, it is essential to develop cleaner technologies for harnessing coal." We disagree with the assertion

⁶ Lohmann, Larry, editor. "Carbon Trading: A critical conversation on climate change, privatisation and power" *Development Dialogue* magazine, No. 48 2006. Corner house. p.152

⁷ Ibid. p.148

⁸ Ibid. p.147

⁹ Ibid. p. 145

that coal is cheap. While its production cost under the current world economic system has a lower dollar value attached to it than to other technologies, most of the costs of coal are externalized onto the environment and affected people. Indeed, coal use alone accounts for around 20 percent of global greenhouse gas emissions.¹⁰ The Strategy states, “Global economic damage from the negative impacts of climate change is projected by the insurance industry at hundreds of billions of dollars each year.”¹¹ These costs include public health impacts and structural damages, to name just two examples.

In relation to large hydropower, the Draft Energy Strategy also notes:

Coupled with the environmental concerns are the associated socioeconomic issues such as involuntary displacement, loss of livelihood and support systems, loss of traditional way of life, increase in health risks, low economic returns to the affected communities, displacement or loss of physical and cultural assets, reduced farm and domestic water supply, influx of migrants and population growth, and straining of local institutions and service providers.¹²

This statement summarizes many of the major ways in which costs of energy are unjustly externalized onto the backs of local people and their environment.

The true costs of coal, hydropower and other sources of energy are infinitely higher than the current “price” on the world market. As a development institution with a mandate to improve quality of life in Asia, the ADB must acknowledge these costs, and must account for them in assessing current and potential sources of energy—at every stage of operation, beginning with project identification.

Do not repeat past mistakes in sector reform.

In the discussion of energy sector reforms and governance, the ADB states that it “believes that private sector participation in the energy sector will relieve governments’ debt burdens and allow scarce resources to be allocated to social sectors such as health, education and rural electrification.”¹³ We question the viability of this statement, given the multiple examples to the contrary.¹⁴ Furthermore, even where the Draft Strategy is transparent about past failures, we do not see an accompanying commitment to learn from these past challenges. For example, the Strategy notes that, “stalled privatization (Indonesia, Korea, Philippines, Singapore, and Thailand) and strong resistance to privatization (India, Indonesian Constitutional challenges, and Sri Lanka) indicate that the overall aim of privatization may no longer be relevant.”¹⁵ And in the evaluation of ADB’s energy operations: “OED has also opined that analysis of alternatives in project identification and selection has been a shortcoming of ADB’s operations.”¹⁶ Yet the Draft Strategy lays plans for funding precisely the same kinds of projects that ADB has helped finance to date, demonstrating that analyses of alternatives continues to be a shortcoming. The ADB is seriously endangering its credibility as an institution if it

¹⁰ Pew Center on global climate change <http://www.pewclimate.org/global-warming-basics/coalfacts.cfm>

¹¹ para. 9, p. 5

¹² para. 55, p. 20

¹³ para.2, p.68

¹⁴ For example, the case of the Philippines powerfully demonstrates a case where ADB intervened to promote unbundling, and the increased private sector participation in the energy sector increased governments’ debt burdens while diverting money from social sectors. For a detailed analysis of ADB’s effect on the Philippine power sector, see comments submitted by Freedom from Debt Coalition.

¹⁵ p. 77 par. 43

¹⁶ para. 23, p. 11

continues to ignore the findings of its own staff and analysts calling for serious change and new approaches.

Uphold institutional mandate to reduce poverty.

The second pillar of the Strategy is “energy for all.” Appendix 1 of the Strategy discusses energy access as a necessary step in achieving the Millennium Development Goal of poverty reduction. Yet when discussing rural electrification and energy for all, we see that “the review of ADB’s intervention shows that it is quite difficult to establish direct links between power sector investments and poverty reduction.”¹⁷ Given that ADB’s mission is to “help its developing member countries reduce poverty and improve the quality of life of their citizens,”¹⁸ this finding should cause serious alarm within the ADB and provoke it to immediately address this situation. The credibility of ADB’s commitment to reduce poverty is undermined by the Draft Strategy’s plans to promote the same kinds of sector restructuring projects. If ADB is serious about poverty reduction, it must finance and encourage rural electrification programs that have rural populations as target beneficiaries. The IAP joins our colleagues at International Rivers Network, NGO Forum on ADB, Greenpeace, and others, in calling on the ADB to shift its financing to off-grid and decentralized renewable energy projects, as the most effective means to reach the rural poor.

Conclusion

In the process of drafting and implementing its Energy Strategy, the ADB has the opportunity to demonstrate leadership in the global fight to stop climate change. The ADB has at its disposal the necessary resources to draft and implement an Energy Strategy that responds to the growing call from economists, policy-makers, civil society and academia for economic growth that is decoupled from fossil fuel consumption. The ADB is at an important crossroads at which it must choose whether to be part of the problem, or part of the solution.

Leading scientists and economists have warned that the actions that are taken and investments that are made in the next ten years will be crucial to our ability to deal with the escalating, and devastating, impacts of global climate change. In the Draft Strategy ADB notes that “one common lesson that emerges from power sector reforms is that they take many years, and in many cases, far longer than originally expected. Progress is sometimes slow and there are setbacks.”¹⁹ Given the lengthy nature of these processes, the need could not be more urgent for ADB to start instigating powerful reforms and shifts to renewable and sustainable energy *now*.

Sincerely,

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¹⁷ para.15, p. 33

¹⁸ ADB website <http://www.adb.org/About/>

¹⁹ para. 15, p. 11