

ADB and Clean Energy

Greater use of clean, renewable forms of energy and increased energy efficiency are crucial to maintain economic growth, reduce poverty, and combat environmental degradation and the threat of climate change

Rapid economic growth in the past 2 decades has brought prosperity to millions of people across the Asia and Pacific region, but the increase in consumption of conventional energy and traditional fuels in a “business-as-usual” manner has resulted in serious environmental and economic consequences. Energy consumption in the region has grown 289% over the last 30 years, driven largely by fossil fuels, and this trend is neither economically nor environmentally sustainable.

Greater use of clean energy, including renewable energy forms, and increased energy efficiency are critical to maintaining growth, reducing poverty, and combating environmental degradation and the threat of climate change.

As more and more member countries recognize the need to switch to clean and renewable energy forms, the Asian Development Bank (ADB) is helping them move their economies onto low-carbon growth paths.

Policy and Strategy

In its 1995 Energy Policy, ADB emphasized the need to accelerate the application of renewable energy and energy efficiency in its developing member countries (DMCs). This focus was strengthened in the Energy Policy Review of 2000 and, in 2006, a further review was carried out, resulting in a 2007 draft document that outlines ADB’s new energy strategy. This draft strategy—which is aligned with ADB’s new Strategy 2020—aims to meet energy demand

in a sustainable way, provide energy access for all, and support energy sector reform and governance.

Initiatives

The Energy Efficiency Initiative (EEI) was launched in 2005 to encourage greater attention to energy savings. The core objective is to expand ADB’s investments in energy efficiency projects to \$1 billion a year. ADB has listed People’s Republic of China (PRC), India, Indonesia, Pakistan, Philippines, and Viet Nam as priority countries for promoting more efficient use of energy.

To help finance EEI, the Clean Energy Financing Partnership Facility was established in April 2007. It is designed to fund small energy efficiency investments that require quick transactions; finance the technology transfer costs of clean technologies in some instances; and provide grant assistance for activities, such as developing the knowledge base on clean energy technologies.

The Carbon Market Initiative (CMI), approved in November 2006, provides financial and technical support to developers and sponsors of projects eligible for Certified Emission Reductions of greenhouse gases under the Clean Development Mechanism (CDM) of the Kyoto Protocol. As part of the CMI, the Asia Pacific Carbon Fund will provide up-front funding against the purchase of an estimated 25–50% of future carbon credits expected from projects.

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The Carbon Market Initiative deepens ADB's commitment to clean energy and climate change mitigation

In addition, the initiative will provide grants for the preparation and implementation of eligible projects.

CMI was created as a mechanism to boost the viability of alternative clean energy sources in developing countries and, at the same time, to assist developed countries meet their Kyoto Protocol commitments for cutting greenhouse gas emissions. It is an effective tool for addressing energy security and climate change—two of the most pressing global issues today.

Mainstreaming Clean Energy

Although many DMCs have established country-level clean energy legislation and set targets, there are significant barriers to mainstreaming the application of clean energy technologies and services. These include the perceived advantages of capital investment in conventional (mainly fossil fuel-based) energy sources, monopolistic energy markets, low tariffs and subsidies, and a lack of institutional capacities.

ADB aims to build an enabling environment—policy, regulatory, tariff, and institutional—for clean energy technologies.

ADB has brought together funds from the Governments of Canada, Denmark, Finland, and the Netherlands under its Renewable Energy, Energy Efficiency, and Climate Change (REACH) Program to support capacity building, institutional development, and project development activities.

Investments

With the surge in economic growth in the Asia and Pacific region, its contribution to global greenhouse gas emissions has risen from less than 10% in the 1970s to about 30% of the current level. Over the same period, the level of

investment in clean energy has been relatively small, leaving the region exposed to the threat of dangerous climate change in the future. To avoid this scenario, substantial levels of new investment will be needed over the next 20 years, with much of it required from the private sector.

Development finance institutions, such as ADB, have a critical role to play in this process by providing finance, risk-mitigation products, leadership, and knowledge sharing with regional policymakers. ADB recognizes the need for funding clean energy development, and between 2003 and 2005, invested \$2,383 million in the sector, including the \$115 million Renewable Energy Development Sector Investment Project in Pakistan, the \$35 million Gansu Clean Energy Development Project in the People's Republic of China, and equity investments in several funds targeting clean energy projects.

The 2008–2010 pipeline indicates that investments will exceed the EEI target of \$1 billion a year.

Energy for All

More than 1 billion people in the region do not have access to modern forms of energy, which is a key requirement for meeting the Millennium Development Goals, including reducing poverty.

Under its "Energy for All" initiative, ADB is helping DMCs to increase access to modern energy services.

For example, it will support projects to produce modern cooking stoves that can be operated using a wide range of fuels, including biomass. These will be made available to both rural and urban poor.

ADB is looking at catalysts that could be used to mobilize financial and private sector entities to provide funding under this initiative. ■

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