

ADB Energy Policy Review: FAQ based on stakeholder feedback on the draft energy policy

This FAQ addresses some of the most common concerns that have arisen through feedback and comments by ADB's stakeholders on the draft for ADB's new 2021 Energy Policy. The draft policy was released for public consultation on 7 May 2021, and the closing date of written comments was 30 June 2021. The reader should note that the categorization of the FAQ reflects the intensity of public interest in various topics but may not represent the structure or weight of issues in the energy policy itself.

1. Energy Access

ADB must specify targets and timelines for its contribution to achieving energy access for all, including sub-targets for gender and vulnerable groups.

ADB seeks opportunities within the framework of Country Partnership Strategies to work with developing member countries (DMCs) as they prepare, revise, and update their electrification and rural energy plans, as well as supporting DMCs in the plan's implementation. In this context, ADB pursues coherent, prioritized, and time-bound targets and implementation strategies for energy access. This includes identifying appropriate targets for the last-mile connections, women, minorities, and vulnerable groups based on the DMC's specific circumstances.

Considering ADB's total portfolio in the region, ADB is committed to working together with DMCs and other development partners towards the SDG 7 target to ensure universal access to affordable, reliable, and modern energy services by 2030.

The progress indicators are (i) the proportion of the population with access to electricity and (ii) the proportion of the population with primary reliance on clean fuels and technology. The custodian agencies for tracking progress toward these two targets are, respectively, the World Bank and the World Health Organization (WHO). The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) also releases regional progress reports and maintains a national Sustainable Development Goals (SDG) tracker for the region.

Asia has a high electrification rate. However, minimum energy consumption and reliability should be promoted.

ADB promotes the use of a Multi-Tier Framework (MTF) for Measuring Energy Access, which was developed by a consortium of international development agencies and programs.¹ The MTF has redefined the traditional binary measurement of having or not having energy access, to a spectrum of service levels from Tier 0 (no service) to Tier 5 (full service). The MTF helps measure whether the services are adequate, available when needed, reliable, of good quality, affordable, legal, and safe. ADB is cognizant of the risks of various modes of access delivery, when not responsibly designed, supplying too little and for too few.

Financing mechanisms supporting energy access options should focus on affordability and reach for those most vulnerable rather than bias for the private sector and market-based options.

¹ Asian Development Bank. 2019. Guidebook for Deploying Distributed Renewable Energy Systems. Manila; Asian Development Bank. 2018. Sustainable Energy Access Planning. A Case Study. Manila

The roles of public sector entities, such as state-owned utility companies, rural energy agencies, and rural electrification authorities, vis-à-vis the private sector vary country-by-country. In pursuing the goal of universal energy access ADB will work with DMCs with differing institutional setups and approaches to private-sector participation. ADB does not consider the involvement of the private sector in the access agenda to be inherently opposed to the goal of achieving universal, affordable energy access.

When appropriately involved in plans for increasing energy access, private sector actors can offer solutions that would otherwise not be available to a given community of consumers. One of the most critical barriers to buying new energy technologies is the high upfront cost that consumers must bear with minimal economic means and no savings. The private sector can play a significant role in the customer interface by supplying the financing for connections, off-grid equipment, appliances, and energy use. Digital finance solutions (mobile money, data risk analytics) have the potential to profoundly disrupt finance in the years ahead, and open the door to new, scalable low-carbon energy business models. A range of financing solutions, such as "lease-to-own" and "energy-as-a-service", have been introduced to support electrification through solar home systems and microgrids based on renewables and integrated battery energy storage.

2. Energy Transition

The draft is short of accepting the 1.5 °C Paris goal, which should be incorporated in the policy.

As ADB's Strategy 2030 assures, all ADB operations—including its energy sector operations guided by the new Energy Policy 2021—align with the Paris Agreement. The Paris Agreement's imperative (Article 2.1.c) is to make finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions, climate-resilient development. ADB and the other multilateral development banks have jointly declared their intention to align their financing with the ambitious mitigation and climate resilience goals of the Paris Agreement and have worked to develop methodologies to assess and characterize their operations in this respect. ADB will apply these methodologies to determine the Paris alignment of individual projects and other interventions as well as its overall energy sector portfolio.

The Paris Agreement sets out a plan to keep global warming below 2°C and urges its Parties to pursue efforts to limit the temperature increase to 1.5°C (Article 2.1.a). This target is achievable only through an international collaborative effort by the Parties of the Paris Agreement. ADB's assistance to the developing countries of Asia and the Pacific focuses on supporting transformative DMC energy policies and deploying such low-carbon and zero-carbon energy technologies as will make it possible to achieve the Paris climate targets, affordable and secure energy supply for inclusive economic and social development, and the SDG goal of modern energy for all by 2030.

The Paris Agreement does not include the idea of all DMCs committing to net zero in mid-century. The policy needs to be flexible to have differentiated strategies for different countries.

The Paris Agreement does not obligate all countries to commit to achieving net-zero carbon emissions by mid-century but rather during the second half of this century. Article 4.1 recognizes that peaking in carbon emissions will take longer for developing country Parties, however Article 4.3 binds all Parties to decarbonization efforts reflecting their common but differentiated responsibilities and respective capabilities in light of different national circumstances. Article 4.4 calls the developed countries to take the lead by adopting economy-wide absolute emission reduction targets in the second half of this century.

ADB will act following the Paris Agreement and refrain from setting definite carbon peaking time demands for its clients, especially in the cases of the least developed countries. The 2021 Energy



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Policy will adopt differentiated approaches for countries that take into consideration their level of economic development, resource endowment, and nationally determined low carbon transition pathways. When negotiating country program strategies with DMCs, ADB will, however, encourage a high level of ambition aimed at achieving the decarbonization of the DMC energy sectors and pursuing projects and technologies that will enable such developments. The principles of equity and common but differentiated responsibilities and respective capacities will be recognized. As such, ADB will prioritize support for providing essential energy access services in the poorest and most vulnerable countries. At the same time, ADB will encourage upper-middle-income countries to develop more ambitious long-term climate strategies and lead the low carbon transition in the region by deploying emerging zero-carbon and negative emissions technologies.

We want to see specific objectives, commitments and timelines, for example how many DMCs are working on phasing out fossil fuel subsidies, the amount of RE, etc. We want countries to commit to net-zero by mid-century.

Many of the kinds of objectives, commitments, and timelines referred to in this comment can only be agreed to by the sovereign states of the region. ADB is not in a position to set targets and timelines, whether binding or aspirational, that go beyond what the DMCs themselves have agreed to in international fora. However, ADB may, and has, set such targets for activities within its control. In the case of climate financing, 75% of the number of ADB's committed operations (on a 3-year rolling average, including both sovereign and nonsovereign operations) will be supporting climate change mitigation and adaptation by 2030. ADB has committed to deliver \$80 billion between 2019 and 2030 to address climate change challenges. ADB has also pledged to support gender equality through gender-inclusive project designs in at least 75% of its sovereign and nonsovereign operations by 2030. ADB is dedicated to the UN SDG 7 targets, including targets for access to modern energy and the share of RE, and follows the Asia Pacific region's progress systematically with its development partners.

3. Oil

Some languages on oil can be stronger.

The next version of the 2021 Energy Policy will clarify that ADB will not support upstream or midstream oil projects and will limit its downstream oil support to exceptional circumstances related to hybrid electricity solutions involving petroleum-based backup systems together with renewable energy for isolated grids, remote areas, and in fragile and conflict-affected situations.

Please clarify on midstream oil, e.g. refineries, because the draft policy is silent on this.

ADB will discontinue its support under the 2009 Energy Policy for refining, transportation, and distribution of petroleum products. ADB will no longer finance oil midstream activities.

Oil trading facilitations is considered Enabling Activity – ADB should consider limiting this in the energy policy.

ADB may continue providing guarantees and loans to partner banks in DMCs that support international trade and supply chains that may involve trading in oil. It is ADB's ultimate goal to disengage from funding for oil trading activities. However, the multilateral development banks are working together to produce a shared approach to Paris Agreement-aligned trade and supply chain financing. ADB may continue its support to DMCs international trade and supply chains until principles for such assistance have been jointly established.

4. Coal

The No.1 focus for ADB should be to support DMCs planning to retire fossil fuel. Need clarity in investments in existing coal power plants. Emission control technologies can be highly expensive and prolong the plant life, need more clarification on that. Unless 100% emission can be controlled, we do not want to see this type of projects.

ADB's support for the low carbon transition, including a planned phase-out of coal throughout the Asia Pacific region and consequent withdrawal from financing new coal power and heat plants as stated in the draft, has received much positive feedback. ADB will not participate in investments to modernize, upgrade, or renovate coal facilities that would extend the life of existing coal-fired power and heating capacity.

For those new coal-fired power plants which conform to the emission reduction targets, laws, and regulations, as well as technological, environmental protection standards of host countries, ADB should continue to provide finance.

A small proportion of the comments received are based on the premise that ADB should support standard thermal power projects relying on fossil fuels as long as they comply with high environmental standards and the DMC's own power sector development strategy. With regard to coal, however, ADB cannot take a step backward and, given the severe need to reduce greenhouse gas emissions, will instead support DMCs in reducing their dependence on coal, leading eventually to the phase out of fossil fuels.

All investments, whether supported by ADB or not, should meet the laws, regulations, and national environmental protection standards of a given country. For the existing coal-fired capacity, ADB can support setting up-to-date standards such as emission intensities and minimum efficiency levels and advise in developing capabilities that provide ancillary services to manage the variability of renewable energy while introducing low-carbon and climate-resilient technologies such as carbon capture and storage.

ADB will continue and confirm in the draft 2021 Energy Policy its current practice of not financing new coal-based power and heat generation investments.

We need to have energy security as the cornerstone of the energy policy. People will not close coal power plants until they are confident that the replacement capacity ensures high reliability.

Ensuring the security of energy supply and electricity system reliability are some of the main concerns in feedback objecting to ADB's withdrawal from supporting coal. ADB appreciates these concerns, and therefore the draft 2021 Energy Policy pursues an energy transition that is "planned and gradual". The draft policy and its third principle emphasize long-term planning and other analytical studies for roadmaps and sector strategies. Professional methodologies for such studies have energy security and system reliability among the leading planning criteria and premises.

Energy security can be built on a multitude of solutions, these could include thermal capacity in reserve, strong cross-border interconnections, nuclear energy, hydropower, demand responses, and other options. System medium/long-term reserves need to be optimized based on the available solutions, of which fossil fuel-based units can play a role. The integration of renewable energies into the existing systems calls for the reinforcement of ancillary services that can be strengthened through energy storage, digitalization, and other innovative technologies as well as grid management.

The draft 2021 Energy Policy observes that moving away from the dominance of fossil fuels requires the cooperative operation of assets by different independent entities in the power system, including

power producers, district heating utilities, large consumers, grid owners and operators, market exchanges and single-buyer hosts, and government agencies. ADB will support DMCs in meeting the challenge of regulation necessary to navigate this complex landscape and to mobilize their flexibility resources effectively.

5. Natural Gas/LNG

The criteria for financing gas are unclear, leaving loopholes for unabated support for gas to continue, and the requirements are less demanding than those of ADB's peer organizations.

Feedback regarding natural gas/LNG in the draft 2021 Energy Policy is divided and focuses on the criteria for ADB to finance natural gas projects.

"The proposed conditions are too stringent compared with other financial institutions." "ADB should be much more positive and proactive in supporting natural gas, with less stringent conditions".

As several comments have indicated that the criteria are unclear, ADB will reconsider and modify them for the next draft. ADB recognizes that the GHG emissions of natural gas are substantially lower than those of coal and switching to natural gas may also offer other benefits in some circumstances. In some cases, for instance, shifting from coal to gas is uncomplicated even within an individual energy facility, requiring only relatively minor changes. Gas-fired power plants as part of a power generation mix can also balance the variability of renewable energy. On the other hand, new technology options have emerged that can achieve the same results. ADB also recognizes that while the shift from coal to gas reduces greenhouse gas emissions, it does not eliminate them. Furthermore, the indirect emissions of natural gas production and transmission are responsible for a significant share of global methane emissions.

In this context, ADB's position is not to have a blanket approval for all technically and financially feasible natural gas projects proposed by the DMCs. Instead, ADB will develop a new set of criteria to ensure that renewable energy and other low or zero-carbon technology options and their combinations that provide equivalent services are not unduly overlooked by resorting to natural gas. The projects will also need to be assessed as Paris-aligned. Furthermore, ADB will consider whether gas support should be limited for DMCs eligible for ADB concessional funding, as gas infrastructure and end-use facilities have been successfully financed without resort to development financing in many of the region's middle-income DMCs.

The guidance note is concerning – can we see the draft and give feedback? ADB must publish its gas guidance note as part of the energy policy review.

The guidance note will be based on the criteria that ADB's management and the Board will approve and are thus subject to change. Therefore, the guidance note cannot be developed simultaneously with the policy. It will be an internal document for ADB staff.

Do you plan to include an assessment of methane leakage in the final version?

At this stage, the methodology used to estimate fugitive methane leakages throughout the entire gas supply chain in a given project's economic and environmental analyses is not sufficiently mature to serve as a standard part of project review. Therefore, the policy will not include an obligation to use such an assessment. In cases where the fugitive emissions of natural gas in a project have already been studied and identified, there are no restrictions that prevent project officials from including them in the project analyses. Given the stakeholder support for including methane leakage assessment in ADB's project analyses, this matter can be revisited at a later stage by a lower-level guidance document or during the first review of the 2021 Energy Policy.

6. Hydropower

Large hydropower issues are not sufficiently reflected in the draft. Given ADB's limited resource, suggest removing large hydro from "sustainable hydropower" in Para 79.

ADB's current approach is to favor all renewable energy solutions, including hydropower. Hydropower can be a valuable part of a country's renewable energy mix, offering storage capacity as well as contributing to balancing the variability of wind and solar power generation. ADB is committed to ensuring that all projects strictly adhere to the existing safeguard policies and best practices guidance. The management of issues related to processing large hydropower proposals specifically can be best addressed through staff guidance documents, rather than in the policy itself.

With new investment in hydropower, what are the plans to look at alternative energy sources? How can hydropower be working with other renewables?

ADB encourages DMCs to plan and develop integrated renewable energy generation mixes that best suit their environmental and energy production needs. Hydropower has the potential to provide energy storage as well as maintain frequency in the system and balance the variability of other renewable generation sources. Hydropower is thus a potential enabler for incorporating a large share of variable renewable energy into the energy mix of some DMCs.

ADB should stop funding any new Greenfield hydropower plants.

ADB will be selective in its support for new hydropower installations and will carefully assess the possible negative impacts. ADB is committed to ensuring that the hydropower projects it supports mitigate or avoid negative environmental and biodiversity impacts through effective early planning and careful adherence to safeguard policies.

The draft policy qualifications on finance for hydropower, pumped storage and nuclear energy are also based on biases drawn from populist writing without any solid evidence provided to back them.

The qualifications on finance for hydropower, pumped storage, and nuclear energy should not be taken to indicate a negative view of those forms of energy production in themselves. These stances, and the associated provisions, address some of the wide-ranging environmental and social concerns associated with the particular technologies involved in these methods of energy production. It is ADB's responsibility to ensure that its draft 2021 Energy Policy takes into consideration the environmental and social concerns connected with its energy sector activities.

7. Waste-to-Energy

Waste to energy projects need to be considered holistically as part of an overall ADB approach to waste minimization and management.

It is the intent of this policy that waste-to-energy (WtE) solutions will be considered in light of ADB's cross-cutting waste management approach, which focuses on waste minimization as the first choice. The primary criterion for ADB's support for WtE projects is that the feedstock for combustion follows the waste management's order of priority; considering firstly reduction of waste generation, then opportunities for re-use and recycling, then using waste to generate energy or basic materials, and finally landfilling only as a last option. Stronger language will be considered for the relevant paragraph in future drafts of the 2021 Energy Policy.

WtE is carbon-intensive and not renewable. WtE plants failed in US and EU in energy generation and financially. Thermal WtE is the most expensive way of removing wastes from landfill.

In ADB's view, WtE should be considered primarily a method of waste management with its energy generation potential viewed as a by-product and secondary priority. The financial feasibility of WtE is primarily dependent on the gate fees charged for disposal of the feedstock rather than on the profitability of its energy production. While it is true that it is a costly method of waste removal, it is a safer method of disposal than landfills and ADB supports WtE as the final option before landfilling. In evaluating potential support for WtE, therefore, projects must be assessed considering multidimensional and cross-sectoral dimensions and as an intersection between the energy sector and waste disposal.

How will ADB give effect in practice WtE prudently follows the waste management's order of priority, what complementary ADB policies will ensure that this is followed?

ADB's WtE Handbook and other internal guidance are consistent in promoting the order of reduce, recycle, recover, and disposal. This order will also be reflected in the staff guidance note produced subsequent to adopting the 2021 Energy Policy. ADB is committed to ensuring that its support for WtE projects functions as a cross-cutting aspect of effective waste management and follows the waste management's order of priority.

The impacts of WtE on health, environmental & social aspects should be considered. The impacts should be avoided, mitigated, and compensated.

ADB is in complete agreement with this point. It is essential that any negative impacts on health, environment, and society are mitigated or avoided for all supported energy sector projects. ADB will support DMCs in performing long term planning and assessment of prospective WtE projects that will ensure that potential negative impacts are identified early and avoided or mitigated.

ADB falsely categorized waste as a source of renewable energy. Waste is neither truly renewable nor a low-carbon energy source.

This is a valuable point. The feedstock for WtE can be composed of a variety of materials, including biogenic and non-biogenic combustible solid waste. Only the biogenic components of the waste can be considered renewable, such as food waste, woody construction waste or agriwaste, and other such materials. The categorization of WtE as renewable or non-renewable would depend heavily on the composition of the waste that is used for combustion.

ADB should exclude WtE incineration and other thermal-based technology from the ADB Energy Policy. The only WtE technology that may be permitted is biochemical, particularly anaerobic digestion.

WtE is an important element in an advanced national waste management system. The world's leading countries in waste management and recycling —such as Germany, Sweden, and Switzerland—include WtE in their waste management portfolio. In all of these countries WtE serves an important role in diverting waste from the land fill and safely disposing of it. In Germany in 2018, for instance, over 65% of trash was sent to recycling or composting, roughly 30% sent to WtE, and the remaining less than 5% of material either unaccounted for or sent to the landfill. The countries that have invested in recycling and waste management have also made significant investments in WtE as a part of that system.² In contrast, many of the countries that currently experience a waste

² L. Levaggi et al. 2020. Waste-to-Energy in the EU: The Effects of Plant Ownership, Waste Mobility, and Decentralization on Environmental Outcomes and Welfare. *Sustainability*. 12 (14). <https://doi.org/10.3390/su12145743>

crisis lack planned waste management systems, do not have WtE facilities, and send most of their combustible solid waste to landfills.

8. Nuclear energy

Can SMR (nuclear) play a role in the long-term policy given the recent development?

Technological development of small modular nuclear reactors (SMRs) for both power generation and heating has progressed significantly in recent years. Following the current trajectory, SMRs can be expected to provide a promising zero-carbon energy source in the 2030s. Should a client find that SMRs offer significant benefits as a part of their energy mix, ADB may consider nuclear energy as part of that DMC's energy strategy, and ADB may provide technical assistance related to planning long-term policies that include nuclear energy. ADB does not support or oppose the use of nuclear energy, including SMRs. It is not ADB's policy, however, to finance investments in nuclear energy because of the many barriers to its deployment, such as public acceptance, risks related to nuclear proliferation, waste management, safety issues, high investment costs, and the long preparation and construction time of nuclear plants.

Asia will be an important source of both supply and demand for advanced nuclear technology. ADB should begin by building a pilot analytical unit to keep up with advanced nuclear power for its clients.

As ADB does not invest in nuclear energy projects, ADB has limited internal capacity and expertise to assess and develop nuclear technology projects. Establishing an analytical unit for advanced nuclear power is currently not considered pertinent to ADB's future strategy and will not be reflected in the 2021 Energy Policy.

9. CCS/CCUS

ADB should withdraw from CCS/CCUS support at this time, given the reliance on unproven and expensive technologies that divert public finance away from a just transition and viable renewable energy options.

Place to store carbon can be problematic. Because we are constrained with money and time, we should focus on RE which is the cheapest now.

ADB recognizes the critical role of CCS/CCUS in the long term, particularly for difficult to decarbonize but energy intensive industry sectors, such as cement and steel. The realization of hydrogen's potentially significant role in future energy systems also requires natural gas-based hydrogen production coupled with CCS/CCUS (blue hydrogen). ADB will therefore provide support to DMCs to improve their capacity to plan for and deploy this technology for power, heat, hydrogen and ammonia as well as supporting programs to identify and remove barriers to its deployment. As stated in the draft 2021 Energy Policy, ADB will not, however, finance CCUS in the context of enhanced oil recovery.

10. Inclusiveness

Gender equality seems weak in the draft.

The current draft addresses gender equality in the contexts of specific sub-sectoral energy operations. In response to the concerns raised that gender equality is receiving insufficient attention, the next draft of the 2021 Energy Policy ADB will elevate this topic as one of the overarching issues for the energy sector operations through a gender equality statement. The next draft will also strengthen the specific guidance on gender equality in its energy sector operations.

ADB should set consistent terminology to describe gender-based violence (GBV)-related risks and how grievance redress mechanisms (GRMs) will handle them. GRMs should be equipped to handle GBV, and specifically sexual abuse, exploitation, and harassment (SEA/SH) -related, grievances. These should take into consideration the needs of specific groups, including children, to inform the appropriate and adequate response.

ADB recognizes the potential of GBV, SEA and SH related risks in the operations it supports. It is also aware that certain circumstances associated with projects may heighten those risks. These concerns are not unique to ADB's energy sector projects but are pertinent to all operations. The risks are, however, specific to the contexts in which they arise, and those need to be recognized and addressed through adequate GRMs under highly varying sets of conditions. The answers to these concerns therefore need to be developed at ADB's corporate level in a cross-cutting manner.

11. Working with financial intermediaries and other partners

How can ADB make sure that non-sovereign projects will also exclude coal and other fossil fuels? The Energy Policy is not clear on the private sector investment and financial intermediaries (FIs).

The next draft of the 2021 Energy Policy will clarify that the policy applies to all ADB operations—both sovereign and non-sovereign operations—including project loans, sector loans, policy-based loans, result-based loans, financial intermediary loans, equity participation, and technical assistance.

ADB should explicitly withdraw support for FIs with no stated intention to phase out involvement in the coal sector along 2030/40 timelines as identified in the internationally recognized Global Coal Exit List (GCEL).

ADB's energy policy applies to financial intermediary loans funded by it and through its equity participation. ADB will not, however, withdraw from FI arrangements if its partner has investments in coal-related activities outside the sphere of their joint operations with ADB.