ADB'S ENERGY FUTURE

MAY 2021

> “Our current Energy Policy is quite outdated … we are trying to update it now, including discussions on how we will deal with coal financing and also gas financing.”
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> Masatsugu Asakawa
> ADB President
> March 2021

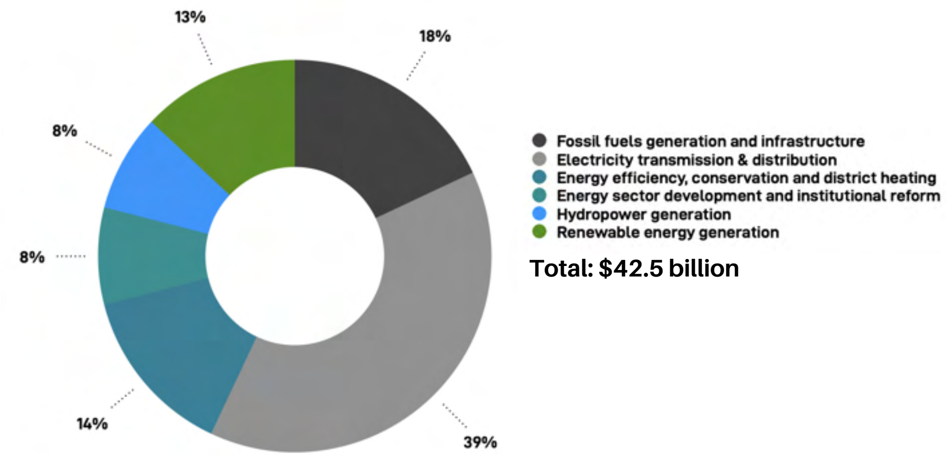
At almost 55 years old, and with the world facing a rampant climate crisis, the Asian Development Bank (ADB) is desperately behind the times. Despite pledging to support the Paris Agreement on climate change, the Japan-led multilateral development bank's (MDB's) policies are out of date. Significantly, its 2009 Energy Policy provides next to no limits to fossil fuel support – a crucial first step to become Paris aligned.

2021 is a vital year for climate action and ADB has several opportunities to step up its game. It is timely that ADB is finally reviewing its Energy Policy this year – and this needs to result in a new policy fully aligned with the Paris Agreement. As ADB is currently leading the MDB Working Group on Paris Alignment, expected to announce progress at the November 2021 COP26 climate conference in the UK, it must start living up to its promises.

ADB'S ENERGY PORTFOLIO

From 2016-2020, the immediate years after the Paris Agreement was approved, ADB committed over $22 billion in financing for the energy sector. This represents almost a fifth of ADB's overall portfolio, second only to transport. On the surface, ADB is making progress towards greening its portfolio. The share of renewable energy projects is growing and ADB has not approved any direct finance for coal projects since late 2013. But coal is still allowed in the Energy Policy and scratching the surface of its portfolio, there are a number of loopholes and greyzones whereby ADB could in fact be supporting more fossil fuel projects than is immediately obvious – even coal. This includes financing through financial intermediaries (FIs) and support for transmission and distribution (T&D). Moreover, despite its relatively low proportion in terms of value, the fossil fuels share of the portfolio at least doubles when looking at installed energy capacity. This includes support for natural gas, linked to significant rises in the world's greenhouse gas emissions – effectively undermining the Paris goals. All of these loopholes must be closed, starting with a strong revised Energy Policy excluding all support for fossil fuels.

ADB's energy portfolio per subsector, 2009-2019



Source: Independent Evaluation Department (2020) Sector-wide Evaluation: ADB Energy Policy and Program, 2009-2019

GREYZONE: TRANSMISSION AND DISTRIBUTION

The largest share of ADB's energy investments goes to T&D projects. The power sources linked to T&D are not always obvious, but a T&D investment that funds electricity transmission from a generation source powered by fossil fuels cannot be considered to be in alignment with the Paris Agreement as it is in effect a subsidy. From 2009 to 2019, almost two-thirds of ADB's T&D investments were in high-voltage transmission or a combination of high- and medium-voltage. The energy sources are rarely specified, but it is likely that some if not most are linked to fossil fuel power plants. For example, the project documentation for ADB's $300 million support for the Dhaka and Western Zone Transmission Grid Expansion Project includes a direct reference to the Rupsha gas power plant, also supported by ADB. Only a fraction of T&D projects was for low-voltage distribution projects, most suitable for reaching 'last mile' energy-poor communities – key for achieving Sustainable Development Goal 7 on energy access and also likely to benefit women in particular.

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FOSSIL FREE ADB

> **The problem with gas is if we build out a huge infrastructure for gas now to continue to use it as the bridge fuel, when we haven't really exhausted the other possibilities, we're going to be stuck with stranded assets in 10, 20, 30 years.**
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> **John Kerry**
> **US Presidential Climate Envoy**
> **January 2021**

FOSSIL FUEL: NATURAL GAS

ADB has approved approximately $4.7 billion worth of gas projects since the adoption of the Paris Agreement. Gas is sometimes described as a 'transition' or 'bridge' fuel to help countries move away from coal dependency. But this is a dangerous assumption. There are a number of reasons why gas is not viable for the transition to a 1.5°C world. Natural gas emits carbon dioxide and methane, which is over 80 times more potent as CO2. The process of creating Liquified Natural Gas (LNG) is particularly energy-intensive and is driving growth in emissions. Analysis by Carbon Brief reveals that gas, rather than coal, was the main culprit in increasing global CO2 emissions from 2013-2019 - suggesting that gas, rather than renewable energy sources, is replacing coal demand.

This is also evidenced in the ADB's own portfolio. For example, the project documentation for the ADB-supported Myingyan greenfield gas power plant in Myanmar reveals that solar and wind alternatives were not considered, despite the fact that the plant is expected to result in nearly three-quarters of a million tonnes of CO2 emissions per year – an amount deemed 'significant' by ADB standards. This goes against the urgent need to decarbonise the power sector. Other MDBs are showing the way; significantly the European Investment Bank (EIB) has committed to end support for all fossil fuels, including gas. By continuing to support fossil fuels, the ADB risks being left behind.

LOOPHOLE: FINANCIAL INTERMEDIARIES

An important fossil fuels 'loophole' is funding through FIs such as infrastructure funds and private equity funds. Unlike direct investments in a company or project, an FI investment effectively 'outsources' funding decisions to a third party, which in turn invests the capital in sub-projects or sub-clients. Under current ADB standards, there is little to no information disclosure about where ADB FI investments end up. This poses significant risks as there is little oversight or information about what happens to the funds once they have been disbursed to the FI. For example, all social and environmental information for its 2019 $100 million investment in India's National Investment and Infrastructure Fund is withheld on commercial grounds.

Although sub-project information is scarce, it is likely ADB FI investments do support fossil fuels - such as its $95 million equity investment in Clifford Capital. Clifford Capital has a fossil fuel heave portfolio, including sub-investments in a gas power plant and a Liquefied Natural Gas (LNG) terminal in Bangladesh, both owned by Summit Power. The World Bank's private sector arm, the International Finance Corporation (IFC), has repeatedly invested in fossil fuels through FIs – even coal – despite the World Bank's 2013 pledge to end financing for coal under most circumstances.

TAKE ACTION: CALL FOR A FOSSIL FREE ADB!

ADB must raise its game in tackling the climate crisis. As it updates its Energy Policy it should take three key steps:

1) End all direct and indirect finance for fossil fuels. The new energy policy should explicitly end all ADB financing and support for all existing and new coal, oil and gas fossil fuel power generation projects and related infrastructure, including T&D.

2) Scale up funding to sustainable, renewable energy projects taking a people-centred approach that ensures a climate safe and equitable future. All energy projects funded by the ADB must help lift more people out of energy poverty and contribute to a just transition.

3) Demonstrate leadership as a forward-thinking climate bank. Becoming a true climate bank must include aligning all financing and activities — including private sector financing and investing through financial intermediaries — with a pathway that limits warming to 1.5°C, prevents social and environmental harms, and ensures meaningful consultation with impacted communities.

Sign the letter: https://bigshiftglobal.org/adb-stop-funding-finance-fossil-fuels
Find out more and join the Fossil Free ADB campaign at fossilfreeadb.org

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