RECOURSE

Making finance accountable to people and planet

RECOURSE SUBMISSION TO ADB'S ENERGY POLICY REVIEW

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Introduction

Recourse welcomes this opportunity to provide input to the Asian Development Bank's (ADB's) review of its draft revised Energy Policy. Recourse is a Netherlands-based civil society organisation, working for a world where people and planet are at the heart of development. We campaign to redirect international financial flows away from dirty, harmful investments, towards greener and more inclusive development, working with partners around the world to hold financial institutions accountable.

The climate emergency is real. According to data from the IPCC, World Energy Council and oil industry databases, analysed by Oil Change International, the greenhouse gas (GHG) emissions from the oil, gas, and coal in the world's currently operating fields and mines would take us beyond 2°C of warming.[1] Asia has seen the largest growth in GHG emissions in the world over the last two decades, with three Asian countries in the top ten of global emissions.[2] [3] ADB's draft Energy Policy notes that ADB's Developing Member Countries (DMCs) in the Asia and Pacific region are responsible for 45% of global energy sector GHG emissions.

As ADB's Climate Change Operational Framework states, Asia's "low-carbon transition must start with the energy sector."[4] This means a complete phase out of fossil fuels. According to the International Energy Agency's latest analysis "there is no need for investments in new fossil fuel supply". IEA does not only call for no more investments in coal, but also "no new oil and natural gas", in order for the world to achieve the Paris Agreement's ambition to limit the long-term increase in average global temperateness to 1.5°C.[5]

In its 2020 review of the Energy Policy, ADB's Independent Evaluation Department (IED) found that ADB "is no longer adequately aligned with the global consensus on climate change".[6] Moreover, a number of ADB shareholders have ramped up their commitments for a fossil fuel free future in recent years, including those determining their engagement in MDBs, such as the UK's new Export Finance

[1] http://priceofoil.org/2016/09/22/the-skys-limit-report/#:~:text=DOWNLOAD%20REPORT,fuel%20infrastructure%20and%20industry%20expansion
[2] https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter5.pdf
[3] https://www.adb.org/documents/climate-change-operational-framework-2017-2030
[4] https://www.adb.org/documents/climate-change-operational-framework-2017-2030
[5] https://www.iea.org/reports/net-zero-by-2050
[6] https://www.adb.org/sites/default/files/evaluation-document/518686/files/swe-energy-policy-and-program.pdf

Policy.[7] Other MDBs have also strengthened their policies, for example the European Investment Bank (EIB) is moving towards a near full exclusion of fossil fuels.[8]

ADB's draft Energy Policy rightly states that "a vigorous intervention in the energy sector represents a direct and effective response to tackling climate change and building climate and disaster resilience" and recognises some of the concerns of continuing business as usual, including acknowledging the risk of fossil fuel plants becoming 'stranded assets' as cleaner technologies gain a stronger foothold.

The policy commits to some positive steps in this direction; significantly the exclusion of coal sends important signals that the fossil fuel era is coming to an end. Yet, fossil fuels still feature strongly in the draft with a continued focus on gas, in particular as the listed conditions for ADB to finance gas projects are vague, leaving potential loopholes for unabated support for gas to continue. More clarifications are also required regarding funding through financial intermediaries (FIs), known to have undermined coal restrictions at other institutions, in particular the International Finance Corporation (IFC).[9]

Moreover, the policy lacks explicit targets on what ADB aims to achieve in terms of GHG emission reductions, clean renewable energy support, on energy access, to name a few. Nor does it commit ADB to work towards the Paris Agreement's 1.5°C goal. This is a big omission, indicating a reluctance for ADB's interventions to be monitored, measured and held accountable for any of its commitments. As it currently stands, the next opportunity for review is 2025, which is too long given the urgent need to address climate change by rapidly phasing out fossil fuels.

We call on ADB to play a leadership role in shifting the trajectory towards a more sustainable path, building on efforts to align with the Paris Agreement and its 1.5°C aspiration, by ensuring the revised Energy Policy is fossil free and climate proof. In this submission, Recourse provides recommendations on how to strengthen the policy, including by closing the loopholes currently undermining it.

It should be noted that this submission is not comprehensive in terms of its coverage of issues and recommendations, but should be read in conjunction with other inputs, in particular from civil society and indigenous peoples' organisations in Asia.

We are disappointed by the consultation's lack of outreach in Asia and strongly encourage this to be rectified as a matter of urgency, including efforts to reach affected communities for their input and views. See for example the letter led by NGO Forum on ADB, supported by Recourse and other partners, regarding fundamental problems with ADB's Asia Clean Energy Forum consultation.[10]

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[7] https://www.gov.uk/government/consultations/aligning-uk-international-support-for-the-clean-energy-transition

[8] https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy

[9] See for example https://www.inclusivedevelopment.net/wp-content/uploads/2020/01/outsourcing-development-climate.pdf
https://www.inclusivedevelopment.net/wp-content/uploads/2020/01/philippines-coal-report.pdf

[10] https://www.forum-adb.org/post/acef-energy-policy-consultation-statement

Coal financing

Coal is the largest contributor to greenhouse gas emissions globally and represents over sixty percent of ADB's Developing Member Countries (DMCs) power generation – yet ADB has to date no policy against coal. As IED concludes in its review of ADB's energy policy and programmes, "the time is right for ADB to state clearly and explicitly its policy positioning on this matter".[11] Recourse therefore welcomes ADB's commitment in the draft policy to "not finance any new coal-fired capacity for power and heat generation of any facilities associated with new coal generation", with the important addition to also "not finance any coal mining, oil and natural gas field exploration, drilling or extraction activities."

This is a big step forward, but potential loopholes must be closed. In its review, IED argues that ADB in practice has not financed coal since 2013. However, this is not strictly correct, since it did not assess indirect finance, such as policy-based lending and financing through FIs. Yongping Zhai, Chief of the Energy Sector Group, admitted in the North America Energy Policy consultation in June 2021 that ADB may have financed coal through FIs, for example for an energy access project in Mongolia, since 2013.[12] It is therefore essential that there are no loopholes in the revised Energy Policy (see further detail on FIs below).

- RECOMMENDATION: The policy's coal exclusion should explicitly cover all forms of ADB support, both direct and indirect, including technical assistance, policy-based lending and financing through financial intermediaries. For example, the EIB's Energy Policy says: "this policy applies not only to direct investment loans but also to all intermediated operations of the Bank, including those carried out through commercial banks and investment funds."[13]

The coal exclusion should also more explicitly address infrastructure associated with coal, so that ADB finance does not end up as an indirect subsidy to continued coal use.

- RECOMMENDATION: The coal exclusion should add language to cover coal-related infrastructure. An example is this language from the IFC's Interpretation Note on implementation of FI investments: "IFC will exclude coal related sub-projects including coal mining, coal transportation or coal-fired power plants, as well as infrastructure services exclusively dedicated to support any of these activities."[14]

Fossil fuels for industrial use

An important aspect of fossil fuels, and in particular coal financing, is industrial use. According to the Intergovernmental Panel on Climate Change, GHG emissions derived from industrial processes, such as steel and cement, accounted for over a fifth of direct global GHG emissions in 2010 and is

[11] https://www.adb.org/sites/default/files/evaluation-document/518686/files/swe-energy-policy-and-program.pdf
[12] Personal notes, ADB North America Energy Policy Consultation, 9 June 2021
[13] https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy
[14] https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_interpretationnote-fi

growing.[15] For example, coal is often used in in the cement production process. Alternative methods are increasingly available and it is important that public finance supports, and does not undermine, these efforts.[16]

It is encouraging that ADB references the significance and specific context of industrial emissions in the draft Energy Policy, and commits to supporting "knowledge sharing and demonstration of … new technology options for the more difficult to decarbonise industrial segments." It is also welcome that the coal financing exclusion, refers to all "coal-fired capacity for power and heat generation or any facilities associated with new coal generation", without exclusion for industrial use. However, besides these positive elements, the policy is lacking clear direction for investments in fossil fuel reliant industrial processes, apart from a commitment to "support carbon capture, utilisation and storage for power plants and industries", but this is a costly and unproven technology. Investments would be better directed to development of alternative more sustainable and renewable sources of fuel.

- RECOMMENDATION: ADB should clarify and strengthen its position on exclusion of coal and phasing out of industrial use of fossil fuels, including a commitment to support development of low-carbon alternatives that are not relying on unproven and costly technologies. For example, EIB commits to "intensify its continuing efforts to support accelerated investment in areas that require large volumes of long term and low cost capital – including … deployment of low carbon technologies by industry."[17]

Natural gas

"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."

John Kerry, US Presidential Climate Envoy, January 2021

New research by IISD reveals that in most countries and cases, the majority of gas consumption is associated with uses that already have cost-competitive clean alternatives.[18] The gas era should therefore be firmly over, yet gas still features strongly in ADB's draft policy. This builds on a disturbing trajectory. According to research by Oil Change International, ADB has financed at least $4.9 billion in fossil fuels since the Paris Agreement, nearly all of which is gas. Moreover, from 2016-20 ADB approved $11.1 million in technical assistance, supporting governments to build gas pipelines, power plants and LNG terminals across Asia.[19]

There are a number of well-known reasons why gas is not a viable option for the transition to a 1.5°C world. Natural gas emits carbon dioxide as well as methane, both potent greenhouse gases. Methane

[15] https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter10.pdf
[16] https://www.axios.com/coal-burned-to-make-steel-cement-still-major-emissions-source-1a3ebc54-d8ce-4f40-84c0-2380bf826cbf.html
[17] https://www.eib.org/attachments/thematic/eib_group_climate_bank_roadmap_en.pdf
[18] https://www.iisd.org/publications/natural-gas-finance-clean-alternatives-global-south
[19] https://fossilfreeadb.org/2021/05/02/sowing-the-seeds-of-climate-chaos-the-asian-development-banks-support-for-gas/

leakages, happening across the entire gas supply chain, is 86 times more potent as a greenhouse gas than CO2 over a 20-year time period.[20] Adding to this are the emissions associated with the transport of Liquified Natural Gas (LNG).[21] Oil Change International (2017) outlines five other key reasons why gas should not be considered a transition fuel:

- No Room for New Fossil Gas: Climate goals require the power sector to be decarbonized by mid-century. This means gas use must be phased out, not increased.
- New Gas is Holding Back Renewable Energy: Wind and solar are now cheaper than coal and gas in many regions. This means new gas capacity often displaces new wind and solar rather than old coal.
- The Wrong Gas at the Wrong Time: Claims that gas supports renewable energy development are false. The cheapest gas generation technology (CCGT) is designed for baseload operation, not intermittent peaking. In any case, most grids are a long way from renewable energy penetration levels that would require back up. Storage and demand response will be ready to step in by the time they are really required.
- New Gas Locks in Emissions for 40+ Years: Companies building multi-billion dollar gas infrastructure today expect to operate their assets for around 40 years. Emissions goals mean this expectation cannot be met.
- Too Much Gas Already: The coal, oil, and gas in currently producing and under construction projects is enough to exceed climate goals. Opening up new gas fields is inconsistent with the Paris goals.[22]

ADB's draft policy in itself raises several reasons why gas is not viable in a low carbon future and does not align with the Paris Agreement. For example: "Replacing coal with natural gas reduces but does not eliminate GHG emissions and fugitive emissions from natural gas production and transmission have risen on both energy and climate agendas." However, this does not account for the fact that gas, rather than coal, has been driving the global increase in CO2 emissions since 2013, according to recent analysis by Carbon Brief.[23] Moreover, the draft policy acknowledges that "LNG terminals and gas transmission and distribution infrastructure require high capital costs". ADB's conclusion in the same paragraph presenting gas as a preferred "transitional fuel" for the region is therefore strange and contradictory. These high environmental impacts and financial costs should instead mean that public finance should leapfrog fossil fuels, including gas, and support renewable energy.

Other IFIs are increasingly taking a stricter approach to gas. According to analysis by the Fossil Free ADB coalition, they seek to exclude gas, using a combination of the following elements:

> "(a) a stronger climate test that requires showing alternatives to gas are not *viable* rather than just more expensive (e.g. UK and FMO, the Dutch development bank)[24]

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[20] https://theconversation.com/emissions-of-methane-a-greenhouse-gas-far-more-potent-than-carbon-dioxide-are-rising-dangerously-142522

[21] https://www.foeeurope.org/sites/default/files/extractive_industries/2017/natural_gas_and_climate_change_anderson_broderick_october2017.pdf

[22] http://priceofoil.org/content/uploads/2017/11/gas-briefing-nov-2017-v5.pdf

[23] https://www.carbonbrief.org/analysis-global-fossil-fuel-emissions-up-zero-point-six-per-cent-in-2019-due-to-china

[24] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/975753/Guidance_-_Aligning_UK_international_support_for_the_clean_energy_transition_-_March_2021_.pdf

(b) strict emissions standards (e.g. EIB has a power generation standard for all projects of less than 250 grammes of CO2 per kilowatt-hour[25]), and/or
(c) a shadow cost of carbon aligned with the upper end of the High-Level Commission on Carbon Prices (e.g. EIB currently employs a shadow cost of carbon of €80, set to rise rapidly[26])."

ADB's draft policy does seek to limit gas financing through a set of conditions. However, the conditions listed in the draft revised policy leave significant room for interpretation, and the promised "detailed guidance note" is not publicly available, making it impossible to assess how stringent the full set of conditions are and whether they will indeed rule out gas in most circumstances. This continued support for gas is a lost opportunity for ADB to become a climate leader and instead it continues to be a laggard, in contrast to, for example, the EIB, which has committed to end support for unabated fossil fuels, including gas, by end of 2021.[27]

The commitment to "not participate in investments to modernise, upgrade, or renovate coal facilities that will extend the life of existing coal-fired power and heating capacity" is welcome, but it is concerning that the exemption for reengineering facilitated for "cleaner fuels" lists natural gas as an option. It clarifies that gas must in these cases prove to contribute to the country's net zero carbon neutrality by mid-century, but this includes a reliance on unproven technologies, such as carbon capture.

- RECOMMENDATION: ADB should commit to phasing out gas with a clear timeline, in line with MDB best practice, such as recent commitments by EIB. This should include direct and indirect financing, such as financing through financial intermediaries, policy based lending and technical assistance. The phase out should extend to midstream and downstream gas financing and support, as well as associated facilities. Gas should also be excluded as an option for reengineering existing coal-fired power plants.

Financial intermediaries

For any commitments to climate action by ADB in its new energy policy to be meaningful and have impact, its provisions must apply both to direct and indirect financing. A positive aspect of ADB's draft energy policy in relation to FIs is its focus on using FI lending to support energy efficiency and energy access, which is welcome as FIs can act as aggregators, bundling smaller subprojects.

However, while investing in FIs can help to mobilise funds and attract private capital for economic development, this form of third-party or 'hands-off' lending also comes with significant risks - in particular around clients' adherence to E&S safeguards. In recent years, IFC - over 50 per cent of whose investment portfolio is to FIs - has been forced to acknowledge these risks and has taken some

[25] https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy
[26] https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy
[27] https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy

steps to address them. Following critical findings from both IFC's own watchdog[28], and from civil society groups,[29] IFC has reduced high-risk lending through FIs, no longer provides general-purpose loans, and has developed a 'Green Equity Approach' to help to transform not only its own lending but that of its FI equity clients, to phase out coal to zero by 2030.[30]

Like many other public development banks, since the financial crisis of 2008, ADB has stepped up its support to FIs. In the decade after the financial crisis ADB increased its lending to FIs tenfold.[31] Recourse has examined ADB's FI portfolio since the adoption of the Safeguard Policy Statement in 2009.[32] ADB's active FI portfolio since 2009 stands at over $6 billion, supporting 86 clients. Loans comprise the majority of ADB's FI investments at just over $3.5bn while equity investments total just over $2bn.

A 2020 IED evaluation points to problems with implementation of environmental and social safeguards in ADB's FI investing: "projects implemented through FIs have remained the weakest performers on safeguards. Further, FI projects and finance sector projects have performed less well, despite the low-risk portfolio. Similar risks also apply to increasingly important private sector operations in private equity funds and general corporate finance."[33]

ADB's FI investing is far less transparent even than IFC's, so it is very difficult to see where that money ends up. That is a significant black hole for $6 billion in public money. Recourse examined all 86 FI investments and nearly every single one had vital social and environmental information withheld. This is unacceptable and lagging behind current good practice[34]; and also makes it impossible for civil society to be able to track and monitor the implementation of any climate commitments ADB may make. In relation to the energy policy, the concern is that money invested through FIs could end up supporting fossil fuels by the back door.

- RECOMMENDATION: ADB must publish the name, sector and location of all high and medium risk projects it supports through FIs, to enable public tracking and assessment of ADB's fossil fuel commitments. Without transparency reforms, there is no way for the general public to know if FI money, which is ultimately public funds, is going to coal and other fossil fuels.

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[28] http://www.cao-ombudsman.org/newsroom/documents/FIAUDIT.htm

[29] https://www.oxfam.org/en/research/suffering-others; https://www.inclusivedevelopment.net/policy-advocacy/financial-intermediary-lending/

[30] https://www.ifc.org/wps/wcm/connect/05541643-0001-467d-883c-5d7a127ffd57/IFC+Greening+Report+Sept+2020.pdf?MOD=AJPERES&CVID=nisvaOC&ContentCache=NONE&CACHE=NONE

[31] ADB's support to financial intermediaries has grown more than tenfold in the years 2009 to 2017, from $678m to over $7 billion. https://56606927-2a85-4cfb-95b4-3f0439636792.filesusr.com/ugd/898604_df83d5499bfa4914b92e2213d0838fd0.pdf

[32] Recourse found 86 active and approved ADB FI investments in the period 2009-2021, not counting technical assistance, with a total value of $6.715 billion. The investment types comprise: 39 loans, 34 equity, 3 loan + equity, 2 loan + guarantee, 1 equity + debt security, 5 debt security, 1 guarantee, and 1 other.

[33] ADB Evaluation (2020), para. 265. ADB Independent Evaluation Department (2014) "Safeguards Operational Review: ADB Processes, Portfolio, Country Systems, and Financial Intermediaries," available at https://www.adb.org/documents/safeguards-operational-review-adb-processes-portfolio-country-systems-and-financial-interm

[34] For examples of good practice on transparency at other DFIs, see https://www.re-course.org/wp-content/uploads/2021/03/Submission-to-European-Investment-Bank-review-of-its-Transparency-Policy.pdf

This transparency is key since in our research we found several FI investments in ADB's portfolio that raised red flags – possibly indicating exposure to fossil fuels. Three brief examples of ADB FI investments – in commercial banks, a private equity fund and an infrastructure fund – illustrate this problem.

ADB has invested $400 million in Axis bank and Yes bank in India, both of which are heavily invested in coal. Though ADB's loans target small farms and women, they are not sufficiently ring-fenced. Axis is invested in companies such as Adani, Coal India, Power Finance Corp and Tata Power, among others, with over $5.2bn exposure to fossil fuels[35]; while Yes bank has over $2bn in exposures to companies such as Power Finance Corp and CESC.[36]

Another risky ADB FI investment is its $95m equity holding in private equity fund Clifford Capital. Clifford is involved in gold and copper mining, oil drilling, oil shuttle tankers, gas power plants, LNG and oil-power plants.[37] In 2015, ADB entered into its first co-financing deal with CCPL with support to Myanmar's Myingyan Natural Gas Power Project.[38]

ADB has also invested $100m in India's National Infrastructure Investment Fund. Indian NGOs have expressed deep concerns about the NIIF, not least about its partnership with NTPC.[39] In its MoU with NTPC, NIIF announced its intention "to collaborate to further help India's vision of building sustainable and robust energy infrastructure in the country." With a total installed capacity of 62110 MW, NTPC Group has 70 power stations including 24 coal, and seven combined cycle gas/liquid fuel power plants.[40]

- RECOMMENDATION: ADB must include robust exclusions for fossil fuels – including coal, oil and gas – that apply to both its direct and indirect lending; and includes associated facilities and infrastructure such as transmission lines, roads, and ports. As ADB emphasises increasing support for the private sector and as it switches its support from coal to gas, the risks from FI investments leaking to fossil fuels will only grow, so action is needed to address this in ADB's new energy policy.

Untested technologies

The policy to a large extent relies on unproven and 'emerging' technologies, as viable options to address climate change – a dangerous strategy, that also risks displacing investments urgently needed in the shift away from fossil fuels to renewable energy. For example, according to the draft policy ADB "will support carbon capture, utilisation and storage investments for power plants and industries."

[35] https://coalexit.org/investments-bank-ct?name=Axis+BankA
[36] https://coalexit.org/investments-bank-ct?name=Yes+Bank
[37] https://www.cliffordcap.sg/projects
[38] https://www.re-course.org/news/in-the-dark-secrecy-and-the-myingyan-public-private-partnership-gas-power-plant/
[39] https://www.re-course.org/news/aiib-urged-to-reject-new-200m-investment-in-india/
[40] https://www.outlookindia.com/newsscroll/ntpc-niif-ink-pact-to-explore-investment-avenues-in-india/1896592 and https://pib.gov.in/PressReleasePage.aspx?PRID=1639087

However, a growing body of evidence questions support for Carbon Capture Utilisation and Storage (CCUS) or 'blue hydrogen' or any hydrogen produced using fossil fuels. For example, a 2021 report by the Tyndall Centre for Climate Change Research demonstrates that carbon capture and storage perpetuates the use of fossil fuels.[41] Resources are far better targeted at sustainable renewable energy solutions.

- RECOMMENDATION: ADB's fossil fuel exclusions should extend to fossil fuel projects utilising carbon capture and storage given these rely on unproven and expensive technologies, which can divert public finance away from a just transition to renewable energy.

Energy access

"Continued reliance on fossil fuels means forgoing the economic opportunity of localised, renewable energy systems, which create jobs and boost developing countries' GDP … Financing of fossil fuel projects as a means of closing the energy access gap should be terminated."

Sustainable Energy for All, 2020

Access to energy continues to be a challenge for communities around the world. Globally, almost 800 million people lack electricity and 2.8 billion clean cooking, according to a 2020 report by Sustainable Energy for All, figures that are likely to increase due to the impacts of the Covid-19 pandemic. Lack of access to energy is also undermining gender equality. Sustainable Energy for All concludes that a lack of energy access "disproportionally affects women and girls in the form of health, productivity, unpaid labour, and employment burdens."[42]

Public financing can and should play an important part in supporting Sustainable Development Goal (SDG) 7's goal of energy access for all. We therefore welcome the draft policy's specific mention of SDG 7 on universal access to affordable, reliable, sustainable, and modern energy, including efforts to reach the "last-mile" households. However, it is crucial that this is not done at the expense of the climate by supporting fossil fuels, including through indirect finance and support for fossil fuels linked infrastructure, such as transmission and distribution systems.

Worryingly, Sustainable Energy for All's 2020 review of 27 countries in Africa and Asia found that much of the increase in commitments to fund universal energy access was for fossil fuel technologies "which will lock those [countries] into decades of carbon emissions and dependence on imported coal", as well as risk becoming stranded assets. It is vital that ADB does not contribute to this problem. Furthermore, the report found that finance for grid-connected renewables has declined, while levels of finance for mini-grids and off-grid solutions remain low, undermining progress on "gender equality, economic opportunity, climate change, and protection of land and forests." [43]

[41] https://www.research.manchester.ac.uk/portal/en/publications/a-review-of-the-role-of-fossil-fuelbased-carbon-capture-and-storage-in-the-energy-system(fe2c5986-b2f8-437f-b306-52d4993390b6).html
[42] https://www.seforall.org/publications/energizing-finance-understanding-the-landscape-2020
[43] https://www.seforall.org/publications/energizing-finance-understanding-the-landscape-2020

Noting this reversal of trends, with an increase in fossil fuel investments and decrease for renewable energy, it is vital that ADB tracks its investments, and sets and meets clear timelines and targets for increasing support for energy access. For example, the African Development Bank has a target of 75 million new off-grid connections for rural households and small businesses by 2025.[44] At present there are no similar targets in the draft revised Energy Policy, indicating a significant lack of ambition, which also means there is little accountability of ADB's contributions to the achievement of SDG 7.

This is particularly concerning considering the IED's findings in its evaluation of ADB's 2009 Energy Policy and energy programme that, despite commitments to support renewable energy and energy access for all in the policy "its guidance was general and of limited usefulness as a framework for prioritisation and selection of specific operations". Hence, since 2009, IED concludes, ADB has "paid little attention to providing modern energy access to remote communities and other marginalised populations", and "is inefficient in supporting development programs that involve small, dispersed subprojects, as in the case of demand-side energy efficiency and off-grid energy access projects".[45]

- RECOMMENDATION: Energy access for all is a key priority where public finance should play an important role, also contributing to other goals, such as gender equality (SDG 5). It should be achieved through investments in clean, renewable energy, and not rely on fossil fuels, locking countries into decades of carbon emissions, dependence on imports of coal and other fossil fuels, as well as stranded asset risks.
- RECOMMENDATION: ADB must specify clear targets and timelines for its contribution to achieving energy access for all, including sub-targets for gender and vulnerable groups. ADB should communicate and report on these targets in an open and transparent manner.

It is encouraging that the policy spells out that "the voices of vulnerable groups, minorities, and refugees" should be heard in the "transparent, impartial, and socially sensitive multi-criteria analysis" to guide the choice between national vs off-grid solutions. However, it is unclear whether this analysis is 'required' versus just 'needed', as it is currently phrased in the document. Without compulsory wording it is unlikely that these commitments will be met. Likewise, community participation is flagged as "vital", including when prioritising end-uses of grid systems and for organising the operation, maintenance, and commercial services related to the system. But again, without any clear guidance or requirement.

Moreover, while the draft policy recognises the importance of "strong public sector support", private sector initiatives and market-based approaches feature strongly in the draft policy for delivering energy access. This is in line with ADB's commitment to increase private sector lending to a third of its portfolio by 2025, but it is a risky strategy for energy access in particular. While the private sector and market-based approaches may have a role to play in certain circumstances, a core driver is profitability, which raises questions about affordability and reach of low-income communities lacking electricity and clean cooking access, with particular potential for negative impacts on women.

[44] https://www.afdb.org/filead- min/uploads/afdb/Documents/Generic-Documents/Brochure_New_Deal_2_red.pdf
[45] https://www.adb.org/sites/default/files/evaluation-document/518686/files/swe-energy-policy-and-program.pdf

- RECOMMENDATION: ADB should require an energy access options analysis, with clear guidelines, to ensure the needs of vulnerable groups and 'last-mile' communities are prioritised. Financing mechanisms should focus on affordability and reach for those most vulnerable, rather than a bias for private sector and market-based options.
- RECOMMENDATION: Community participation should be compulsory when determining prioritisation of end-uses of grid systems and for organising the system.

Energy Policy consultation

The consultation process for the energy policy review is not in line with best practice, or even with other ADB consultation processes, such as the ongoing Safeguards Policy Statement review. The information on the website is incomplete, without clear deadlines for intervention, or a listing of consultation opportunities, nor has the outreach to stakeholders been comprehensive. This is particularly concerning, as affected communities and local civil society are unlikely to be reached and therefore unable to contribute with vital input, for example, on their priorities for energy access.

RECOMMENDATIONS:

- ADB must run a full public consultation on the draft energy policy with a clear process and timelines that are easily accessible on ADB's website. This should include details on how ADB will collect and integrate feedback.
- ADB should organise dedicated consultations to collect input from impacted communities and civil society organisations based in the region with translation available and clear public information on how to participate. At a minimum, accessible and participatory online civil society input sessions should be scheduled for groups within Central, South and South East Asia as well as the Pacific.
- To ensure full participation for civil society groups that may risk reprisals for giving input, submissions via a digitally encrypted platform should be enabled on ADB's website.
- ADB must publish its gas guidance note as part of the energy policy review.
- It is not possible for stakeholders to assess the policy meaningfully if we are missing key details on how it will be applied including considerations and standards for selecting projects and assurances that mechanisms will be in place to avert reprisals against affected communities.
- ADB should commit to reviewing the energy policy by 2023, to assess whether its implementation has achieved results in line with the 1.5°C goal of the Paris Agreement.