

# ADB's Climate Challenge

*Now is the time for bold action. We must commit wholeheartedly to fighting climate change and meeting the emission-reduction goals under the Paris Agreement while ensuring universal energy access in a region where more than 200 million people still lack access to electricity.*

**- ADB President Masatsugu Asakawa, June 2021**

The impacts of climate change are already causing massive damages around the world. Asia is particularly affected, with six out of the ten most climate vulnerable countries located in the region. The Asian Development Bank (ADB) calls itself "Asia and the Pacific's Climate Bank", referring to achievements such as being the first multilateral development bank (MDB) to in 2015 set climate investment targets for 2030 and for launching a Climate Change Operational Framework in 2017. Last year ADB joined other MDBs in committing to align operations with the goals of the Paris Agreement on climate change with a first deadline of 1 July 2023. ADB also finally committed to stop financing coal power projects in its revised Energy Policy. It is currently working on a Climate Change Action Plan and a Paris Alignment Guidance Note, and is reviewing its Safeguard Policy Statement (SPS), including a consultation on climate change.

Despite these promising moves, significant loopholes mean ADB cannot yet be termed a "Climate Bank". ADB's new Energy Policy did not exclude financing for all fossil fuels; in particular the bank continues to promote fossil gas with only few limitations. Questions also remain on how 'Paris alignment' will be interpreted by MDBs in practice. Early signs from ADB raise concerns that investments promoted to be 'climate friendly' in fact run counter to ambitions to limit global warming to 1.5°C above pre industrial levels, in line with the Paris Agreement, including continued financing of fossil fuels.

As ADB develops its Climate Change Action Plan, Paris Alignment Guidance and revises the SPS, it is crucial that it closes loopholes and does not water down commitments already made, but rather strengthens and adds to those commitments to fully support the 1.5°C goal. This must cover both direct and indirect finance, as well as other types of support, such as technical assistance. It must also ensure that the energy transition to renewable and sustainable sources is just and fair for all, supports gender equity and includes the most vulnerable people and communities.

*Fossil fuels are a dead end – environmentally and economically. The only sustainable future is a renewable one. The good news is that the lifeline is right in front of us. Wind and solar are readily available and, in most cases, cheaper than coal and other fossil fuels. If we act together, the renewable energy transformation can be the peace project of the 21st century."*

**- António Guterres  
UN Secretary General  
May 2022**



# What is Paris alignment?

The [Paris Agreement](#) is an international treaty on climate change, adopted in 2015, with a goal to limit global warming to well below 2°C, compared to pre-industrial efforts, while pursuing efforts to limit the increase to 1.5°C. To achieve this, countries commit to peak global greenhouse gas (GHG) emissions as soon as possible.

Paris alignment is a process to ensure an institution's strategies and activities are consistent with the Paris Agreement's goals. However, there is no set definition on how this will be achieved in practice. In 2018, ADB joined eight other MDBs to develop a joint framework for Paris alignment and in 2021, the MDBs announced their individual deadlines for alignment. The MDBs presented a [progress report](#) during the UN Framework Convention on Climate Change (UNFCCC) Conference of Parties (COP) in Glasgow in November 2021, but overall the process is opaque and the joint framework is not yet publicly available.

ADB committed to align all sovereign operations and 85% of all non sovereign (private sector) operations with the Paris agreement by [1 July 2023](#), and all operations by 1 July 2025. Other MDBs announced similar deadlines, but while, for example, the European Bank for Reconstruction and Development is consulting on its alignment framework, ADB has to date not opened up its process to stakeholders.

It is essential that any attempts to align with the Paris Agreement are truly ambitious and do not undermine the 1.5°C goal. As a road map, ADB could do well to follow the [Principles for Paris Aligned Financial Institutions](#), launched by 60 climate and human rights groups in 2020. This would require a stop for financing any project that would incentivise the continued extraction or production of fossil fuels, involve degradation or loss of natural forests or other natural ecosystems, or violate the human rights of surrounding communities – with specific attention to those who identify as Indigenous Peoples. Nor should ADB incentivise high-risk and extractive energy sources, such as large scale hydropower dams.

Furthermore, it is critical that there is no reliance on 'false solutions', including those typically associated with 'Net Zero' schemes, such as offsetting and carbon capture. Concerningly, the ADB is already considering these types of projects, such as a new Technical Assistance project to help "accelerate the decarbonization by [promoting carbon capture, storage and utilization](#) (CCUS) in emitting sectors in India". A growing body of evidence questions support for CCUS produced using fossil fuels, including their technical and economic viability. For example, a 2021 report by the Tyndall Centre for Climate Change Research demonstrates that CCUS [perpetuates the use of fossil fuels](#). Resources are far better targeted at sustainable renewable energy solutions, which are technically proven and dropping in cost.



## Why ADB must stop finance fossil gas

Asia is not only particularly vulnerable to climate change, it is also highly dependent on fossil fuels. While ADB's new Energy Policy took a significant leap forward by banning coal power investments, it left the door open for fossil gas. The language on conditions for gas investments is weak. The ADB pledged to clarify when it would support gas in a Guidance Note, but this is not yet available and may not be consulted on or even made public, despite calls from civil society.

Gas is sometimes described as a 'transition' or 'bridge' fuel to help countries move away from coal dependency. But this is a dangerous assumption. The International Energy Agency concludes "there is no need for investments in new fossil fuel supply" - not just coal but also "no new oil and natural gas".

There are a number of reasons why investments in gas are not viable for the transition to a 1.5°C world and therefore cannot be considered Paris aligned. Gas emits methane as well as carbon dioxide (CO<sub>2</sub>). The global warming potential of methane is over 80 times worse than CO<sub>2</sub> in the short term. The process of creating and regasifying Liquefied Natural Gas (LNG) is particularly energy intensive and is driving growth in emissions. In fact, gas, rather than coal, is the main driver of the global increase in CO<sub>2</sub> emissions since 2013. The majority of gas consumption is associated with uses that already have cost-competitive clean alternatives, so gas is not a 'transition fuel' - it has become a blocker for the shift to renewables.

Since the Paris Agreement was adopted, ADB has invested nearly \$5 billion in gas projects. Encouragingly, most projects approved since the new Energy Policy came into effect steer away from gas, however, there are exceptions, such as a \$600 million Technical Assistance grant for developing gas storage facilities in Pakistan. The project document argues that gas "plays an important role in decarbonizing Pakistan's electricity system". Moreover, several gas projects are listed in ADB's project pipeline. These were initiated before the new policy came into effect, including over \$1 billion in loans and grants for the Turkmenistan, Afghanistan, Pakistan and India (TAPI) gas pipeline project. This highly controversial 16,000 km pipeline will transport gas from Turkmenistan fields to the other countries for a 30 year period. ADB is already supporting a technical assistance project conducting due diligence to prepare the TAPI project for ADB approval. Since ADB's assistance to Afghanistan is currently on hold, it is unlikely that the TAPI project will be approved in the near future, however, rather than being paused, it should be dropped from the pipeline.



## Safeguards for the climate

ADB is undertaking a review its Safeguards Policy Statement (SPS), including consultations on how it can respond to climate change concerns. The first draft of the draft new SPS is not expected until the end of this year and an initial assessment of how to address climate change, released for the thematic consultation on climate change in May this year, did not give a clear indication of ADB's intentions.

The 2009 version of the SPS only mentions climate change three times. It has since been complemented by climate risk assessments, but a 2021 assessment of ADB's support for action on climate change by ADB's Independent Evaluation Department (IED) found the implementation and quality of these "variable". The assessment further concluded that the SPS lacks "strategic guidance, focus and capacity with regard to climate change", concurring with a 2020 analysis of the SPS, also by IED, which recommended that the new SPS should include a dedicated focus on climate change.

The revised SPS must put climate change and the Paris Agreements 1.5°C goal front and centre, including in a dedicated climate safeguard. NGO Forum on ADB is leading a civil society call for robust rights-based and just safeguards, which must apply to both direct and indirect financing, including financing through financial intermediaries, policy based loans and technical assistance.

The SPS should explicitly rule out further financing and other incentives for all types of fossil fuels and other high GHG emitting projects. It should, for example, introduce GHG reduction targets and an overall cap on all emissions, which must be science based with time-bound targets. It should also include targets for support for sustainable renewable energy and energy access for all. All data must be publicly disclosed and independently verifiable. Support towards intensive false solutions, such as CCUS, that undermine progress towards the 1.5°C goal of the Paris Agreement must be prohibited.

Significantly, all actions must be grounded through consultations with local and regional civil society and experts, with particular attention to gender equality and vulnerable people and communities. The urgent and rapid phase out of all fossil fuels must also be complemented by support for a gender responsive Just Transition, ensuring no one is left behind in the shift to a clean sustainable energy pathway.

## RECOMMENDATIONS

The ADB has a vital opportunity to shift its investments from dirty to clean and to tackle the climate crisis in its forthcoming policy developments. It should demonstrate leadership as a forward-thinking 'climate bank' by:



Aligning all financing and activities — including financing through financial intermediaries, policy based lending and technical assistance — with a pathway that limits warming to 1.5°C, prevents social and environmental harms, and ensures meaningful consultation with impacted communities, including considerations for gender equality.



Including a safeguard on climate change in the revised SPS, with ambitious targets for GHG emission reductions and energy access for all. The new safeguard must explicitly exclude financing or other support for all direct and indirect investments in fossil fuels. The SPS should mandate consultations with local and regional civil society and experts, with particular attention to gender equality and vulnerable people and communities.



Committing to promote and implement measures to support a gender responsive Just Transition, which is green and inclusive and grounded in the different contexts and realities of affected communities. This should include commitments towards communities already negatively impacted by ADB projects.



Disclosing and publicly consult on its draft Climate Change Action Plan and Paris alignment methodology, to ensure they are ambitious, avoid false solutions and address key stakeholder concerns.