



**NGO FORUM ON ADB'S
CRITIQUE (2ND ROUND) OF THE
"AIIB ENERGY SECTOR
STRATEGY DISCUSSION
DRAFT"**

**BY
RAYYAN HASSAN
EXECUTIVE DIRECTOR**



PREAMBLE

The AIIB has released its 2nd AIIB Energy Sector Strategy Discussion Draft for public comments till March 6 2017. This is the second of the two rounds of public consultations on the document. "The objective is to solicit further inputs and comments on the draft Energy Sector Strategy. After this, the Strategy will be completed and considered by the Board of Directors." (pg. 1 AIIB ESS Discussion Draft)

The note is essentially structured as follows:

- Introduction
- Global Energy Landscape
- Issues and Challenges
- Lessons Learned from MDB Energy Sector Investment in Asia
- Objective of the Energy Sector Strategy
- Guiding Principles
- Implementation: Sectoral Approach, Cross Cutting Issues. (The Forum will critique the different components of the above-mentioned structure accordingly throughout this paper and include comments and critiques on outstanding issues)

FORUM'S ASSESSMENT OF THE 'PURPOSE OF THE DISCUSSION DRAFT'

In page 1 the Discussion Draft is mentioned to be 'by intention', a high-level draft to facilitate consensus building as the Strategy develops.

Analysis: Thereby implying that this draft is aimed towards the AIIB Board members for consensus on the proposed Energy Strategy of AIIB. Unlike the previous issues note which was more an initial draft open to critique and interpretation. But similar to the previous draft the content of this discussion draft may not be considered as the official position of the AIIB Management and Board. It is also not clear as to whose views are being represented here in the document, we may assume its management but there is no clear indication of this in the text.

In point 2 the note emphasizes on a quote by the UN Secretary General on the need for careful decisions on energy production, consumption and distribution and how they impact poverty eradication and climate change.

Analysis: *This quotation in the introduction is taken as an improvement from the issues note as the tone focuses on poverty eradication and climate change at the onset of the document.*

Point 4 emphasizes on the need for the discussion note recognize the SE4ALL, 2030 Agenda for Sustainable Development and the Paris Agreement. It further looks towards developing energy infrastructure and facilitates 'transition to a less carbon intensive' energy mix; and meets the goals and commitments of the SGDs, SE4ALL and Paris Accord.

Analysis: This clear signal to honor and help achieve global commitments is seen as an improvement in language and overall tenor from the previous draft. The notion of transitioning to less carbon intensive energy mix is also recognized as a progressive intent in the energy strategy. Furthermore, box 1: Global initiatives clearly outlines the prescribed goals of the broader commitments such as – doubling renewable energy in the global energy mix; ensuring access to affordable, reliable, sustainable and modern energy for all (SDG Goal 7), and recognizing the need to reduce global average rise in temperature to less than 2 degrees as per the Paris Agreement. Clearly indicating these goals and objectives is also a progressive step forward in the second draft.

GLOBAL ENERGY LANDSCAPE

Point 5 of the draft recognizes the need to support clients to meet their Nationally Determined Contributions (NDCs) under the Paris Agreement and to reap the benefits of new technologies and innovation.

Analysis: Forum believes the recognition to revise the Intended Nationally Determined Contributions (INDCs) in point 5 to achieve COP 21 objectives is also forward looking. Point 6 also identifies the citing of Deepwater Horizon Oil Spill and the Fukushima Nuclear leak as examples; is also a pragmatic improvement in the discussion draft. It serves as a reminder that all ambitious

pursuits in energy production have to consider the inherent environmental and social risks embedded within them.

ASSESSMENT OF 'PROPOSED OBJECTIVE OF THE STRATEGY'

Point 19 emphasizes that the Strategy is consistent with the Bank's lean, clean and green core values. **Yet there is NO mention of compliance of the Energy Sector Strategy with the AIIB's Environmental and Social Framework (ESF) and its Public Information Interim Policy (PIIP). The Strategy also in its entirety fails to emphasize on issues of accountability, transparency and due diligence and compliance to all other policies and guidelines of the AIIB.** The AIIB is yet to have a clear Information Disclosure process and an operational Grievance Mechanism. The Bank is already underway in energy sector investment, which leads to the question whether the ongoing projects will be considered in future policies and operations? Without clear information disclosure and redress mechanisms the impact on local communities and local environments will be catastrophic and this needs to be addressed in the Energy Sector Strategy explicitly.

On the issue of Energy Access there is a clear objective in liberalizing the energy trade within borrowing governments, the ramifications of lifting quotas from imports and exports of energy may lead to loss in sovereign rights over energy as a sector, as foreign energy suppliers may end up monopolizing domestic markets pushing out national producers. There is also a growing concern that if private sector operators in energy sector were to have free access the user fees on energy would increase, and the end use of the energy would not be targeted to the poor and marginalized but rather commercial enterprises. There is a need to deeply investigate the pros and cons of lifting quotas on energy imports and exports based on the role of the private sector energy producers, geo political influence of energy exporting countries and the diversity of the needs of the governments in the context of reaching those without access to energy through the perspective of energy justice.

Analysis: It is evident that AIIB is fully aware of the Asian GHG emission and fossil fuel dependency predicament. This would suggest that Bank is bound to the ongoing discussion on climate change and need for emissions cutbacks to reduce climate change and shift towards Renewable Energy. From a civil society perspective this is encouraging as the framing of the

debate on energy investments in the Bank's own language is in line with ongoing climate crisis.

IMPLEMENTATION: PRINCIPLES

The draft mentions AIIB's support for 'regional energy infrastructure connectivity' for allowing smooth Renewable Energy integration in power systems. This intention is well taken yet not much detail is provided in the financing mechanism of achieving this. There has been mention of unlocking private capital into energy investments throughout the draft thus raising some concerns on the issue of energy accessibility by the vulnerable and poor.

Analysis: Forum appreciates paragraph 30,31,32,33 where Renewable Energy has been emphasized as a core area for AIIBs investment. Yet with increasing economies of scale in investment the capital to be leveraged would entail private capital to be unlocked in these investments, thereby relegating the needs of the masses and upholding the private interests in energy supply and demand. This overarching guiding principal will shape the investment in the energy sector in the Bank and unfortunately there is hardly any tangible modality elaborated, which indicate how that will be beneficial to those who have limited or no access. We can assume an increase in user fees as distribution channels maybe in the hands of private operators and not in the public domain.

In 'Energy Efficiency (EE)' the note points towards 'international experience, primary energy forecasts by international institutions' that suggest energy efficiency is one of the major means to achieve global environmental objectives vis-à-vis COP21 goals. The note consequently elaborates AIIBs proposition of making most of energy infrastructure stocks, rehabilitation and upgrade of existing generation plants focusing on fossil fuel power plants, aggressive loss reduction programs in power and gas transmission and distribution networks'. In terms of financing the note indicates AIIB will engage potential Financial Intermediaries to tap huge but dispersed potential of EE in industry, buildings and transport.

Analysis: This point emphasizes the need for continuing with fossil fuel based plants and investing more on associated facilities. Let us keep in mind the production glut in China (steel and metal industries), Coal extraction in Indonesia, Urbanization plans in India for Smart Cities are all active impetus which will benefit substantially from AIIBs investments in 'upgrading' existing systems. Moreover the mention of Financial Intermediaries or FIs indicate the role of private investment firms attracting

multiple investors across various sectors such as – transport, buildings, all forms of industry. There is compounding evidence that FIs have been unaccountable on environmental and social impacts when it comes to implementing and financing IFI led projects in infrastructure. This growing reliance on private capital firms/ FIs in this sector without robust transparency and accountability measures will lead to misappropriation of resources and detrimental impacts on environment and communities.

AIIB ENERGY SECTOR STRATEGY HAS NO PROJECTIONS OR MODELS ON HOW TO ACHIEVE TRANSITION FROM FOSSIL FUELS TO RENEWABLE ENERGY: PRINCIPLES

Civil society recognizes that transitioning from coal based power to renewables will require transitional investments in **gas** but what was expected on this note was calculations and accurate models on how this transition would be done to ensure COP 21 agreements. This issue of fossil gas as a transitional energy resource remains further inconclusive in later sections as directional rhetoric is mentioned on ‘doubling’ renewable energy investments and reducing fossil fuels. The lack of clear time-bound guidelines on phasing out from gas may lead to overinvestments in fossil fuels and in effect jeopardize the broad objectives of COP 21 mentioned earlier in the note. To this end Forum is explicitly calling AIIB to STOP investment in all forms of fossil fuel including gas.

In point 35, ‘**Limit local and regional pollution**’ the note stresses on the need on sectoral investment on energy pollution clean up projects.

Analysis: the issue of pollution clean up and emissions reduction is described as ‘business line’ without details or examples on best practices, base line data and/or possible alternative solutions. The treatment of the issue in the note through general rhetoric does not give the impression that AIIB is looking into this issue with significant emphasis.

‘**Power transmission and distribution**’ where the focus is given on power grid infrastructure as possible high priority area of investment. This falls within the scope of the previously stated goal of energy efficiency.

Analysis: As most of such projects will look to upgrade existing grid technology there will be various outsourced procurement orders associated in these projects. This should lead to a closer look to AIIBs Procurement Policy and Corruption and Integrity checks and balances. The importation of technological upgrades there

environmental and social impacts along with the transparent and accountable transactions in their procurement all need to have multiple layers of checks and balances. Once again a clear need is present on baseline studies on current grid efficiency before any project is approved. There also is need for accurate models of efficiency on the upgrade technology its cost and viability in the long term should be publicly shared before the loans, work orders, contracts and tenders are issued.

CIVIL SOCIETY CONCERNS OVER HYDROPOWER

Analysis: This section of the note is clearly focused on **hydropower dams** as the core investment sector for AIIBs bid for RE in Asia. The Forum is alarmed at this blatant push for large hydro as an RE source considering the destructive nature dams have had in the environment. The Narmada Dam funded by the WB had led to a social movement and protest and forced displacement, ADBs Namtheum 2 Dam in Laos, Citarum in Indonesia, West Seti Nepal are all examples of how devastating socially and environmentally **large hydropower dams** are. The lack of meaningful consultations, lack of robust EIA and SIAs, corruption and weak governance, militarization and abuse of state power have all led to failed projects and bad loans among the MDBs. They have also led to formal complaints, media and press backlash, which have shamed companies, governments and banks associated with the projects. We urge the AIIB to focus more on Solar and Wind sources without this blatant support for large hydro as an RE source. Over the past 2 years, the World Bank has approved only \$66 million for new hydro in Asia versus over \$750 million for new renewables. Meanwhile, the ADB's hydro portfolio remains modest, and has avoided direct financing of the more controversial hydro projects, for example on the Mekong mainstream. The AIIB should adopt a prohibition on large hydropower projects on the mainstream of major rivers. The aftermath on the ground will lead to grave consequences and instabilities, which will lead to credible losses in both name and portfolio to AIIB. In the same vein the AIIB should respect FPIC for all projects affecting indigenous peoples, and should only approve projects that meet the criteria established under the World Commission on Dams.

‘**Local and regional pollution investments**’- In this section once again broad generalizations have been used to indicate investment in pollution abatement without focusing on specific technologies or modalities of funding them. We urge the AIIB to be more explicit in describing this ‘business line’.

Fossil Fuel power generation investments- the discussion draft states 'Carbon efficient oil and coal fired power plants would be considered if they replace existing less efficient capacity or are essential to the reliability and integrity of the system, or if no viable or affordable alternative exists in specific cases, particularly in low income countries.'

Analysis: *NGO Forum on ADB calls on AIIB to fully remove the provision for 'Coal and Oil' from any considerations for investment from its Energy Strategy. This provision should be removed from the current note. There can be no future investments in Coal and Oil if COP 21 agreements of less than 2 degrees Celsius as mentioned in the objective sections are to be achieved. An opportunity lies with AIIB here to be a truly green bank by making a formal commitment to abandon investments in Coal and Oil fired power plants. This will not only set a tone among other MDBs but also establish AIIB as a leader in Asian development finance, which looks to truly ensure Energy Sustainability for all with respect to the survival of the planet and its intricate life support systems.*

Consequently AIIB's investment in retrofitting old coal plants with new technologies may lead to stagnation in their future transition to renewable energy sources. Retrofitting old coal plants will lead investments to be 'locked in' for ten to fifteen years, thereby forcing a delay in shift to renewable energy (as funds for R & D in renewable energy will be tied in to old coal projects).

OIL AND NATURAL GAS PROCESSING, TRANSPORTATION AND DISTRIBUTION

The note emphasizes the need for private sector investments in this sector. AIIB recognizes that some governments in Asia have public agencies in national and subnational levels, which are leading the distribution of energy systems. The Strategy further states 'The Bank proposes to consider development, rehabilitation and upgrading of natural gas transportation (including storage) and distribution networks...'

Analysis: *The Forum urges the AIIB to consider gas only as a transitioning energy source towards renewables. With the aim of the NDCs and the COP 21 commitments clearly stated at the onset the need for AIIB to provide clear projections on energy mix and transition to renewable energy is integral to the sustainability of its Strategy and mandate. The Forum also re-emphasizes the need for providing energy access to the most marginalized. As the social contract between state and*

citizen is the core foundation of governance the need to strengthen existing publicly led distribution systems is imperative for energy reaching the one's without access. To this end AIIB should refocus its implementation strategy and not encourage private sector investment, which is often driven by a trade and market increase agenda. This increased privatization in the distribution system will disenfranchise the poor as inherently user fees and SPVs will be dominate the sector, pushing the public user out. The ramifications of inequality and energy injustice will exacerbate through this practice leading to mass social instability and questioning of the AIIBs energy investment agenda.

NUCLEAR POWER GENERATION

The note elaborates that AIIB will not consider investment in nuclear energy at this stage. But the note states 'Should demand arise for very special cases of support in safety enhancement/upgrading, the Bank could possibly consider engagement.'

Analysis: *The Forum expresses its grave concern on this section of the note. Considering Asia's potential for solar, wind moving towards high-risk nuclear energy investment would be dangerous. The leakage of Fukushima continues to pollute the Pacific ocean and is a clear warning to us all on the long term ramifications of the threats residing within nuclear energy. The other issue of concern will be the health and safety hazards of the workers, communities and ecosystems nearing a proposed nuclear project. With inequality, lack of education and rural community populations residing in most Asian countries, nuclear energy technology remains a vague undiscovered notion. Its unseen threat is mostly underscored and thus resulting peoples lack of awareness of its potential dangers to life and ecosystem.*

ADAPTATION PROJECTS

The note describes how AIIB is looking to invest in climate change adaptation projects as part of its Energy Strategy. It also recognizes that adaptation is an emerging business line, which can be supplemented with grant facilities, such as GEF and other MDBs.

Analysis: *The Forum appreciates this section of the note, as adaptation remains grossly underfunded by most MDBs including the ADB. A concerned focus on funding adaptation projects will lead to community resilience to*

climate change and a better chance at reducing global emissions.

CROSS CUTTING ISSUES

In this section the note emphasizes that green energy investments require – new approaches to evaluate economic viability b) highly skilled and diversified teams c) solid knowledge base d) effective coordinate across sectorial departments. The note goes into detail of incorporating carbon pricing into its economic valuation systems and models; with significance given to other studies by MDBs and country/regional studies. Once again in terms of diversified teams and skilled personnel the Bank reinforces the need to higher strong ‘hydropower technical expertise’ as a focal point. The note also recognizes that AIIB has ‘no capacity to engage in knowledge based and policy dialogue activities’.

Analysis: *At the scale in which the Bank intends to invest it is alarming that AIIB does not have a knowledge management system. Apart from borrowing clients and investors the AIIB has not engaged in debate and discourse with civil society, local communities, academics and researchers as a part of the policy dialogue formulation and practice. This lack of bottom up learning from the ground will lead the AIIB to be blind sided, and this is one aspect of the Bank, which has been a clear limitation in its comparison to other MDBs. If AIIB were to contextualize the long-term impact of its lending and operations it needs to have a closer connectivity with those who will be the project affected. To this end robust and transparent engagement with civil society will ensure the AIIB to be more effective as a lender both in terms of social and environmental responsibility as well as in achieving its long-term objectives.*

CONCLUDING REMARKS

This draft in general terms can be considered as an improvement from the first issue note. Yet in its implementation the alarming concerns which prevail since the first draft are- its continued support for private sector investment in energy distribution and energy efficiency and its implications on access to the poor; alarming support for Coal and Oil as viable investment options, along with the over emphasis on funding environmentally and socially destructive large hydropower projects under the name of Renewable Energy. **There still remains a clear omission of recognizing Environmental and Social Risks; this is further marked by no mention of Compliance to AIIB ESF, PIIP and Accountability Mechanisms.** The adherence and compliance to ESF, PIIP and all AIIB Policies must be clearly stated in the AIIB Energy Strategy.

Furthermore, even though the note states that AIIB is not considering Nuclear Energy it still retains a caveat to do so in the future. There remain no clear mechanisms, which ensure the public comments to be received in this draft will be integrated, and no identification on which agency of the AIIB will do so. There is also no clear indication on timelines or mechanisms of consultation with NGO Forum on ADB and civil society in general over this ESS.

Civil society organizations and grassroots groups within NGO Forum on ADB and others across Asia oppose any financing, may that be grants or loans, by the AIIB and any other public financial institution for all kinds of fossil fuel and nuclear infrastructure both upstream mining and transport as well as downstream usage. In order to meet the objectives agreed in the Paris Agreement for staying well below 2 degree C warming. We support public funding in the energy sector to be scaled up solely for sustainable renewables, energy efficiency and useful infrastructure such as, grids, storage and sustainable public transport.

We thank the opportunity to comment on this 2nd draft but remain in the dark whether our valid and urgent concerns will be heard and addressed with due importance by the AIIB Management and Board of Director. We hope that AIIB provides us with the necessary mechanisms to input into the ESS meaningfully as we look forward to future communications from your end.

SIGNED AND ENDORSED BY:



INDIGENOUS PERSPCTIVES - INDIA

