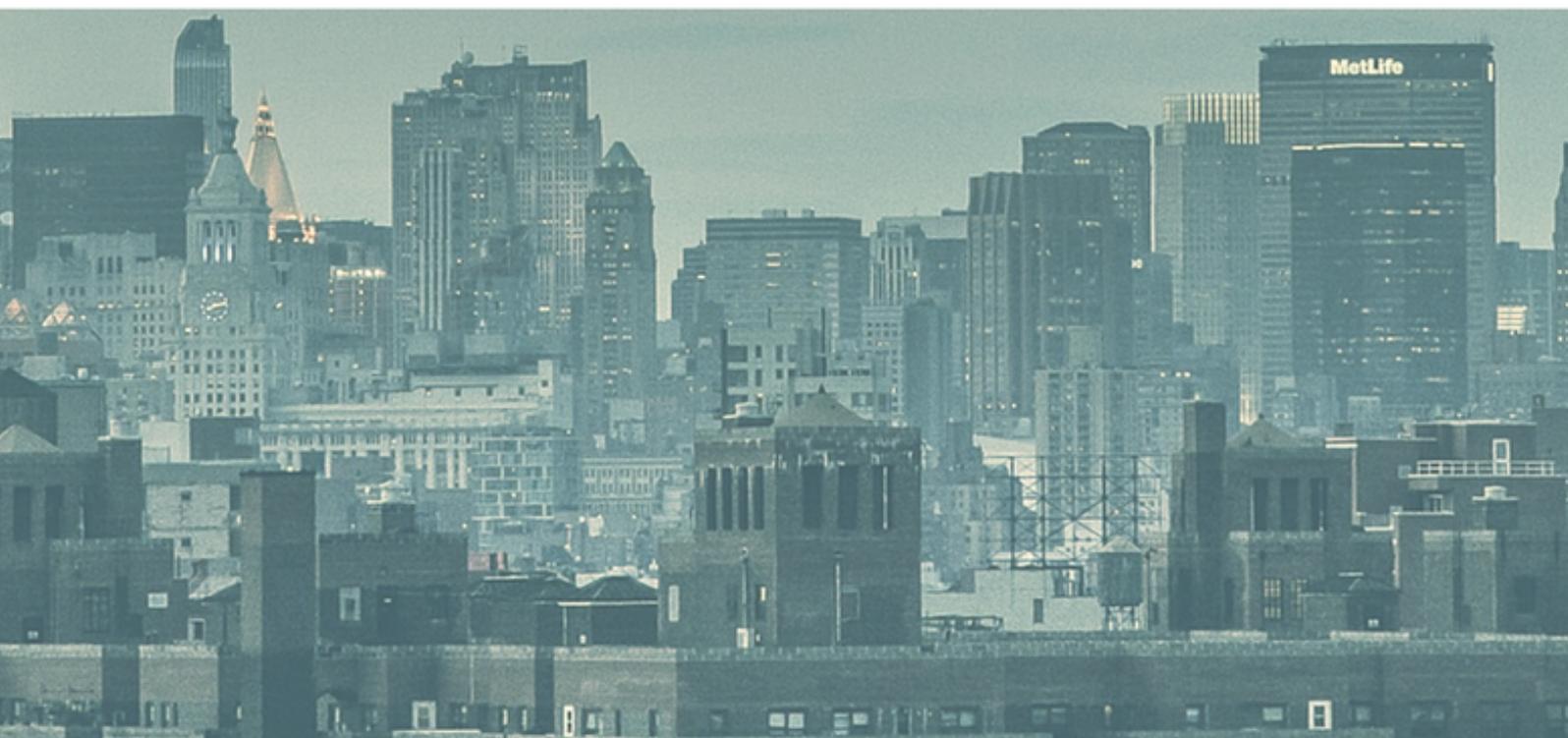


**NGO FORUM ON ADB'S CRITIQUE OF
"AIIB ENERGY STRATEGY:
SUSTAINABLE ENERGY FOR ASIA
ISSUES NOTE FOR DISCUSSION"**

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Executive Director**



PREAMBLE

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The AIIB has just recently released its AIIB Energy Strategy Note for public comments till November 12th 2016. The Bank is holding two rounds of public consultations on the document. “The objective is the consultation process is to shape and inform the development of an Energy Strategy for AIIB. The first round of consultation will inform the preparation of the draft Energy Strategy, which will be submitted for discussion by the Board in December and posted on the website, followed by the second round of consultation in early 2017” (pg 1 AIB ES Note)

The note is essentially structured as follows:

- Outline of proposed objectives
- Goals
- Guiding Principles
- Implementation of the Strategy

The Forum will critique the different components of the above-mentioned structure accordingly throughout this paper.

FORUM'S ASSESSMENT OF THE 'PURPOSE OF THE ISSUES NOTE'

In page 1 titled 'Purpose of the Issues Note' point 2- the AIIB identifies that the 'findings, interpretations and conclusions' expressed in this work are the product of the 'staff' of the Bank and DO NOT reflect the views of AIIB Management and Board of Directors. It also mentions that 'AIIB does not guarantee the accuracy of the data included in this work'.

ANALYSIS: Thereby implying that this note is open to critique and interpretation and may not be considered as the official position of the AIIB Management and Board.

In point 3 the note emphasizes on 'regional economic and social development being

contingent on the provisions of affordable, reliable and sustainable energy'. There is also a mention of many Asian countries of not having access to 'modern' energy.

ANALYSIS: The term 'modern energy' maybe interpreted as a phrase, which implies investment in newer technologies in the energy sector and not necessarily implying a clean or renewable energy technology. The Forum throughout this note will identify key terms in this note, which may signify multiple interpretations leading to guide the Bank's investment in the energy sector.

Point 4 emphasizes on the energy consumption distribution across Asia. The data is from IEA database showing China having 47%, India 12%, OECD Asia 16%, Rest of Asia 25% of the demand.

ANALYSIS: This distribution will be open to speculation, as AIIB is not claiming accuracy of these figures in this note.

Point 5 of the note focuses on the reliance of fossil fuel in Asia, citing that in 2013 Asia's reliance was 5% points higher than the world average, 86% compared to 81% (according to IEA). In order to achieve COP 21 agreements point 5 suggests that Asia has limit its growth to 8000 Mtoe CO2 emissions, but pre COP 21 agreements will lead to 10,000 Mtoe (roughly 9,578 Mtoe).

ANALYSIS: Forum believes these figures will need to be cross validated with IPCC projections and findings before confirming them as strategic milestones. But the recognition to revise the Intended Nationally Determined Contributions (INDCs) in point 5 to achieve COP 21 objectives is duly noted.

Point 6 argues that in order to meet the needs of improved standard of living, urbanization progress, green growth and less energy

intensive countries the key will be to ‘tapping the sizeable potential for energy efficiency in existing infrastructure stock, embodying energy efficiency in new stock and developing renewable energy at affordable cost’.

ANALYSIS: The above point can be interpreted as indicative towards upgrading energy systems of borrowing governments, thereby leading to no shift in the source of energy and risking continued fossil fuel burning and emissions.

ASSESSMENT OF ‘PROPOSED OBJECTIVE OF THE STRATEGY’

The AIB’s proposed strategy is hinged on the notion of Energy Sustainability which is defined in the purview of – ‘adequate and reliable supplies of environmentally and socially acceptable forms of energy at competitive prices without compromising energy needs of future generations’...furthermore the Energy Sustainability is broken down into 3 basic components: Access, Adequate, and Reliable.

Point 8 emphasizes Access to Energy Sustainability from the standpoint of ‘ability to purchase’ energy from domestic and foreign sources on a commercial basis. There is also supplement wording on ‘...with no undue impediments imposed by governments, such as quotas on imports and exports.’

ANALYSIS: On the issue of 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.

In point 8 the notion of Adequate supply of Energy entails needs of consumers within the context of ‘justifying investments in processing, transport and distribution’ in final use of energy.

ANALYSIS: We are concerned that by giving emphasis on ‘justifying investments’ the real needs of the people might be undermined. The fact energy is a public good and a public right are both being jeopardized if the sole criteria of ensuring supply is focusing on justifying its investment. In other words if investing for the real needs of the people are not going to be lucrative to the industries involved in processing, transporting and distributing energy, then will there be no efforts to ensure energy supply for those who desperately need it at the local and household level.

Point 8 focuses on the third aspect of Energy Sustainability, which is Reliability: the note emphasizes on robust systems to ensure uninterrupted flow of energy.

ANALYSIS: this is the same point of investing in energy efficient infrastructure, which has been sighted earlier in the note, as a possible sector of investment. Upgrading existing energy flow systems are some of the ongoing projects funded by AIIB ex: Bangladesh: Distribution System Upgrade and Expansion Project

Point 9 in terms of strategy elaborates on data, which demonstrate the growing consumption and dependence on fossil fuels in Asia (especially non-OECD Asian countries). Moreover data is provided on 2 billion people being without access to non-solid fuels (currently dependent on coal). There is also data provided on increase in CO2 emissions on per capital fuel combustion, which imply Asia's figures growing much faster than global average.

ANALYSIS: From point 9 it is clear that AIIB is fully aware of the Asian 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. 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.

Point 10 marks out two clear overarching goals for AIIB's Energy Strategy as per this note which are –

a) Adherence to the UN GA Resolution 65/51 on Sustainable Energy For All (SEA4ALL), which entails – 'universal access to modern energy services, double share of renewable energy in the global energy mix, and doubling the global rate of improvement in energy efficiency by 2030.'

b) Adherence to the 196 nations approved UNFCCC COP 21, which entails – 'to limit world's rise in average temperature to well below 2 degrees Celsius above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5 degrees Celsius.'

ANALYSIS: these two overarching goals being clearly stated are also important aspects of this note, and will be recognized by civil society as fundamental pillars of AIIB's Energy Strategy and its commitment to being a 'green bank'.

ASSESSMENT OF THE 'PROPOSED GUIDING PRINCIPLES'

In 'Ensure energy security and equality' the note mentions AIIB's support for 'regional energy infrastructure connectivity' on the same token this section also speaks of providing access to those who have little or no access to electricity.

ANALYSIS: These are two completely varied perspectives. In light of point 8 and pushing liberalization of energy import and export it is clear the regional connectivity would ensure trans boundary infrastructure investment. 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 ‘**Realize Energy Efficiency (EE) potential**’ 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 multiples 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.

On ‘**Reduce the carbon intensity of energy supply**’ the note reemphasizes the importance of **gas** as a potential energy investment sector and increasing investments in renewable energy sources.

*ANALYSIS: 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 over investments 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.*

On ‘**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.

On ‘**promote regional cooperation**’ the note identifies the need to ‘take advantage of synergies’ and ‘increase market size’. This agenda also emphasize more competition among manufacturing sectors including R&D. It was also expressed in this section that AIIB founding members (stronger voice being with bigger shareholder countries) stressed the need to increase regional connectivity in energy systems.

ANALYSIS: Regional connectivity has an underlying intention to increase market access with more a trade agenda. It is yet to be established as to how instead of building rural and local electrification systems first regional connectivity is expected to reach the poorest of the poor. The note continues to use general terms without addressing specific gaps on how inclusive energy access will be established through the proposed strategy.

ASSESSMENT OF ‘PROPOSED IMPLEMENTATION’

It is stated in the note that the AIIB’s project selection would be ‘technologically neutral’ with an emphasis on energy security, economic growth with access to poor and reduced emissions being the latter priority. With the broad agenda set the note delves into sectoral issues such as –

‘**Power transmission and distribution**’ where the focus is given on power grid infrastructure as possible high priority area of investment. This falls within the purvey 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.

‘**Energy Efficiency (EE) Investments**’ - On this sectoral investment AIIB identifies its lack of technical assistance loans and grants in building client capacity. The note also identifies that FIs are the means through which EE projects are often facilitated by MDBs. Moreover the note expresses the need to collaborate with other MDBs and bilateral agencies to manifest these projects.

ANALYSIS: Civil society groups have often struggled with FI projects as they are usually opaque in their operations and lack transparency. Without the necessary Bank oversight on FI due diligence on ESF and other areas the use of this modality to move large sums of loans in EE projects is always going to be looked at with scrutiny and skepticism by civil society. Once again the Bank expresses how co-financing will be a strategy of implementation on FI projects on EE leading to

broader questions being raised on which ESF/ Safeguards will apply? Who will be in charge of project monitoring at the ground level and who will ensure transparency and due diligence during operations and post project implementation?

‘RENEWABLE ENERGY INVESTMENTS’- The note identifies wind, solar photovoltaic, run of the river hydropower as the essential technologies through which RE projects will manifest. There are rough estimates that 2/3rd of hydropower sources in Asia are untapped in comparison to 4 countries viable for wind power and 8 countries viable for solar potential.

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’. Given the danger of pitching technology vs technology (e.g. Hydro vs coal), we suggest AIIB develop and operationalize robust energy and power sector planning tools and processes (such as Integrated Resource Planning) that fully internalize environmental and social costs; requiring demand side management and alternatives assessment or options analysis.*

FOSSIL FUEL POWER GENERATION INVESTMENTS- The note describes that in meeting the countries’ energy needs AIIB may consider investments in commercially ‘clean’ technologies such as Gas when available at affordable price, including Coal and Oil fired

power plans 'would be exceptionally' considered...

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 and all future drafts. *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.*

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.

ANALYSIS: *the Forum 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 '..this could be revisited if justified and internationally recognized needs emerge in client countries'.

ANALYSIS: *the Forum expresses its grave concern on this section of the note. Considering Asia's potential for solar, wind and other energy sources 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 near a proposed nuclear project. We note that other multilateral institutions, including the World Bank, IFC and Asian Development Bank ban investments in nuclear power. We urge the AIIB to place nuclear energy on an exclusion list and unequivocally ban AIIB supports for nuclear power*

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: this section of the note is appreciated by the Forum, 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. In case of Adaptation AIIB positions itself as a major source of infrastructure finance, we intend the Bank integrates climate social and environmental risks in choosing investments including climate proofing traditional infrastructure.

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 note as is previously stated is a reflection of AIIB staff therefore is open to interpretation and criticism. In that spirit NGO Forum on ADB feels that the note in its entirety does not provide a clear guideline on how it will achieve its prescribed goals of COP 21 agreements and SE4All. In its implementation the alarming concerns are- its 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. 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 note and it's future drafts.

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 a, grids, storage and sustainable public transport.

We thank the opportunity to comment on this 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.

Sincerely,



RAYYAN HASSAN

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Signed by the following organizations:



USA



INTERNATIONAL



GERMANY



SRI LANKA

ALL INDIA FORUM OF FOREST MOVEMENTS
(AIFFM)



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MONGOLIA



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