



Oxfam comments on the AIIB Energy Strategy: Sustainable Energy for Asia - Issues Note for Discussion

November 2016

General Comments

Oxfam welcomes the opportunity to comment on the Issue Note on “AIIB Energy Strategy: Sustainable Energy for Asia” and submit our inputs for the preparation of the AIIB first Energy Sector Strategy (ESS) draft. We also welcome the announcement that further consultations will be undertaken when the actual draft strategy is produced, and that written summaries of the consultations will be prepared and disclosed in the public domain.

Nevertheless, we recommend and encourage the AIIB Vice Presidency for Policy and Strategy -in their role of leading the development of the ESS- to consider and adopt a more inclusive and open approach for the rest of the consultation process following well-established international practices for the development of international financial institutions’ policies and strategies. These well-established practices¹ for engagement with stakeholders account for longer periods of time –more than a month- for consultations on draft documents to allow and ensure greater participation of stakeholders that otherwise would not have the capacity to engage and submit valuable inputs.

Similarly, in light of best practices, we highly recommend that after each round of consultations that the AIIB not only post on its website the summaries of the consultations, but also include feedback on the comments made in each individual submission received during the consultation period. These small actions would ensure transparency of the process itself as well as of the outcomes of the consultation.

In terms of the geographic scope of the ESS, we are aware that the AIIB has announced expansion of operations to Africa and the Latin America² regions, but note that the Issue Note only focuses on Asia. In light of this, we seek clarification with regard to the regional or global applicability of the ESS.

In general terms, Oxfam also welcomes the positive framing and special attention to embrace the goals of the Paris Agreement and the Sustainable Energy for All (SE4All) initiative, but we recommend that the AIIB further recognizes and embraces the 2030 Agenda for Sustainable Development and its Goals (the SDGs) -that all AIIB founding members have endorsed- as part of the overall framing for the ESS.

1 See for example, [the 2009-2011 IFC’ Performance Standards Review and Update](#), [Review and Update of the World Bank Safeguard Policies](#), [World Bank consultation Guidelines](#)

2 <https://www.ft.com/content/1e53b6fe-3b74-11e6-8716-a4a71e8140b0>

Additionally, we see the recognition of the Nationally-Determined Contributions (NDCs) under the UNFCCC process as a positive approach, as well as the recognition that current mitigation pledges are insufficient to keep a 2°C temperature rise limit -let alone the 1.5°C goal- within reach. In this light, while we welcome the fact that each client's energy needs will be assessed based on the national context and particular conditions, we also emphasize that the translation of the ESS at the national level and into national portfolios should also be informed by the country's emissions' reduction commitments (NDCs) as registered in the UNFCCC, and with a view to significantly further enhance their mitigation ambition.

Consequently, we recommend the AIIB as an institution that sees itself as a "Green Bank" and that seeks to embrace the spirit and the letter of the Paris Agreement, to consider and adopt far more stringent limitations to fossil fuel power generation, in particular regarding expansion of coal-fired power plants which would fatally undermine the temperature goal of the Paris Agreement. The AIIB is in a unique position to build its energy portfolio to reflect the opportunity to leap-frog the fossil fuel-based development paradigm.

In addition, we note that, despite the recognition that a large share of Asian countries' population lack access to electricity (464 million people in 2012), the Issue Note on the Energy Strategy tends to focus on energy constraints for industrial and business activities. Oxfam believes that both need to be addressed and they are not mutually exclusive, yet the solutions proposed to respond to the needs of industry are not necessarily the same as for the needs of the population with no access to energy (in both urban and rural contexts).

For instance, an over-emphasis on grid extension and regional integration do not necessarily improve energy access for all of those without energy access. The lack of access to reliable energy has a particular and differentiated impact on women who still carry the burden of fuel collection and cooking on solid fuels with negative impacts in their safety and health. Therefore, we recommend that the ESS reflects a better balance between finding sustainable solutions for the energy needs of the industrial and business sector, and sustainable solutions for energy access especially for people living in poverty in rural areas at the household and community level.

Energy access and electricity services to households as well as services to schools, primary health clinics, micro and small enterprises have the potential to generate rapid poverty alleviation. It should be noted that across Asia small and micro-enterprises are a major source of livelihoods, especially for those in poverty, thus reliable household level energy access not only meets important domestic needs, but also enables this important economic sector.

Women in many countries in Asia tend to be involved in particular economic and domestic activities that can benefit from reliable and affordable power supply. An analysis of the particular needs of women could lead to project designs that are better at responding to women's needs. Therefore, both approaches -industry & business energy needs and energy access to the poor- need to be balanced and to be addressed in the ESS.

I. On “Proposed objective of the strategy”

We welcome the positive reference to the energy needs of “future generations” in how the AIIB is defining energy sustainability. We stress that in order not to compromise the energy and wider development needs of future generations, it is critical to put in place strong commitments and actions that embrace a far faster, equitable transition to zero-emissions power systems, including the rapid divestment from fossil fuels and scale-up of sustainable renewable energy.

We note that the energy access definition in the Issue Note does not reflect a focus on increasing availability of affordable energy to those who don’t have it. It focuses on commercial viability of energy. While energy needs from industry and business activity need to be addressed, prioritizing infrastructure to this end may compromise or delay the need for investments in sustainable energy access for the energy-poor, for whom lack of energy access hinders development.

In this regard, we recommend that the AIIB adopts the SE4ALL definition for sustainable energy and universal access in order to better capture the sense of urgency and the importance of the issues and challenges facing the energy sector. We believe that expanding the definition of access to reflect the SE4ALL’s Global Tracking Framework multi-tier criteria so it includes other attributes such as energy and water, energy and health, energy and food security and gender among others within a pro-poor approach, rather than an access dimension that refers only to purchase capacity at the national level.

An overarching challenge facing the energy sector is the lack of necessary financial support to end fossil-fuel reliance and leap-frog into sustainable renewable energy supply. In this regard, the AIIB should support developing countries’ low-emissions measures and programs that are conditional on financial support in the Nationally Appropriate Mitigation Actions (NAMAs) Registry and in the Nationally Determined Contributions (NDCs). Accordingly, the ESS should reflect and effectively support the AIIB’s clients in achieving a path of rapidly reducing and ultimately ending greenhouse gas emissions within their energy sector while ensuring energy systems that are accessible to all.

II. On “Proposed overarching goals”

As mentioned above, Oxfam welcomes the AIIB’s embrace of the sustainability goals of the Paris Agreement and the SE4ALL initiative. Oxfam recommends the AIIB further recognize and embrace the Sustainable Development Goals (SDGs) -that all AIIB founding members have endorsed- as part of the overall framing for the ESS. Beyond SDG7 on affordable and clean energy, all of the other SDGs could be promoted by the AIIB’s energy strategy setting the direction for more resilient, low-emissions development.

III. On “Proposed guiding principles”

- “Ensure energy security and equality” is a welcome guiding principle. However, we emphasize that “regional energy infrastructure connectivity projects” within the main grid alone do not necessarily ensure energy security, improve connectivity or provide electricity to the energy-poor. We believe that “reducing energy inequality” necessarily means ensuring universal energy access. Such a goal

will need ambitious investments in the deployment of off-grid energy solutions at a decentralized level targeting the energy-poor, especially in rural areas currently disconnected from the grid. At present, these types of interventions are under-financed, including in Asia. Such investments also have a greater potential to meet the specific domestic and business needs of women, provided that specific attention in consultation, design and implementation are given to ensure the involvement of women. We emphasize that pollution impacts coming from the energy sector are not limited to just indoor combustion of solid fuels. The ESS should also include and address air pollution from coal-fired plants and also the cumulative impacts within the production chain and across the whole lifecycle of all energy technologies.

- “Realize energy efficiency potential” is also a welcome principle, but we note that the proposition that “AIIB (will) focus first on making the most of existing energy infrastructure stocks through rehabilitation and upgrade of existing generation plants with special attention to fossil fuel based ones (...)” will lead to expansion of the life of the plant and hence increase GHG emissions overall, which would be in direct contradiction of the stated objectives of the AIIB. We emphasize that this approach is not aligned with the spirit or objectives of the Paris Agreement or the SE4All initiative. Quite simply, by rehabilitating and extending the lifespan of fossil fuel power generation plants, the world will not meet the temperature target of the Paris Agreements. The ESS should establish specific criteria for a cost/benefit and alternatives analysis of its operations, and adopt strict limitations and stringent conditions to investments in fossil fuel based projects. We recognize and welcome the attention to “aggressive loss reduction programs in power and gas transmission and distribution networks” given the benefits for greater efficiency. Nonetheless it is important to clarify this section further by including parameters and criteria for the selection of upgrading existing generation plants taking into account the necessary rapid transition to zero-emissions power systems. In this way the ESS should target the rapid and equitable phase-out of fossil-fuel dependency and a major acceleration of deployment of sustainable renewable energy.
- In terms of use of financial intermediaries (FIs), Oxfam cautions that the use of FIs imposes significant risks in terms of accountability and transparency. It is vital that strong Environmental and Social Safeguards policies and procedures are in place, as well as experienced staff and effective monitoring and supervision mechanisms, with clear disclosure requirements for FI sub-projects information (project name, location and sector, as well as all environmental and social related documents to assess high and substantial risk subprojects, including monitoring reports). We also recommend having a solid independent accountability and grievances mechanism as well as the use of third party monitoring. We stress that the ESS must apply in its entirety not only to direct investments by the AIIB in the energy sector, but also to indirect financing through FIs.
- In seeking to “Reduce the carbon intensity of energy supply”, Oxfam welcomes the approach of performing specific country assessments in terms of specific energy needs and conditions. We emphasize that the ESS should establish clear criteria and parameters for a country’s energy diagnostic, and identify specific country monitoring indicators to evaluate progress and performance. In this regard, as part of these assessments, Oxfam recommends that the AIIB should include an assessment of the country’s GHG inventory and emissions reduction targets as stated in

their NDCs and communicated to UNFCCC, so as to identify and incorporate targeted support when developing its investment portfolio in each borrowing country. The AIIB's investments in the energy sector, especially as an institution that sees itself as a "Green Bank" should contribute to the rapid, equitable phase-out of fossil-fuel dependency and a major acceleration of deployment of sustainable renewable energy.

- With regards to "Limiting local and regional pollution", Oxfam believes that by adopting stringent restrictions to fossil-fuel based energy investments, especially coal, and by prioritizing investments that promote sustainable renewable energy solutions, the AIIB would not only contribute to the SE4All and Paris Agreement's goals, but it would also significantly avoid current and future expenditures in "Limiting local and regional pollution".
- Oxfam believes that the private sector has a critical role to play in the energy transition. Yet, the proposed principle of "catalyzing private capital" requires solid risk management systems and policies that ensure accountability and transparency. Private capital investments in the energy sector and especially in infrastructure have been marginal especially in developing countries for several reasons. A significant one is the high risk nature of these investments. Risk insurance or guarantees to investors and lenders offered by MDBs and PPPs schemes certainly improve the risk sharing in these types of investments, but they can also promote indirect subsidies for high-emissions projects, through such measures as reduced project preparation cost, low cost of land, and expediting permitting process for PPPs by limiting governance capacity of regulatory agencies and environmental legislation, among others. There is a high risk of diversion of investments to high-emissions operations at the expense of low- and zero-emissions operations.

IV. On "Proposed implementation"

- Oxfam recommends that this section of the proposed ESS should develop in more detail the parameters, criteria and portfolio targets needed to guide the transition towards a zero-emissions energy matrix. As part of these parameters, ESS implementation should take into account AIIB's clients' climate commitments as stated in their Nationally Appropriate Mitigation Actions (NAMAs) and Nationally Determined Contributions (NDCs). In addition, this section of the ESS should clearly establish the use of life cycle GHG analysis, as well as full externalities assessments for projects to prove that they meet the AIIB's own sustainability criteria and targets during its implementation. The development of clear targets would also facilitate the monitoring and progress evaluation of the strategy's implementation in the future.
- In terms of the sectoral issue related to "Power transmission and distribution", we would like to emphasize and reiterate that even though infrastructure connectivity or power grid development is important, especially to ensure energy transfer to demand centers, it does not necessarily ensure security or improve poor people's energy access and connectivity to the electricity grid. However, in terms of energy efficiency, it is important to focus on upgrading the existing grid systems to make them fit for purpose and invest in new decentralized grids that would include use of smart-grid technology. Oxfam also recommends that a core area of intervention should be ambitious and bold

investments in the deployment of decentralized off-grid energy solutions, especially in rural areas disconnected from the main grid.

- On “Renewable energy (RE) investments”: we strongly recommend this be one of the core areas for AIIB interventions in the energy sector especially in terms of direct investment for decentralized off-grid energy solutions. This should be a deliberate and proactive approach within the ESS establishing a rapid growth of investments within a targeted majority share of the AIIB’s energy portfolio, rather than only depend on trust funds to deploy critical resources to scale up RE. We would also like to highlight that when pointing at the untapped potential of hydropower in Asia and stating that “development of hydropower in an environmentally and socially sound manner could contribute to achieving global environmental goals”, a clear note of caution should be included regarding not only the methane emissions from large hydropower reservoirs but also the uncertainties and high vulnerability to climate impacts of hydropower. Oxfam appreciates that the Issue Note puts a special emphasis on the full application of the Environmental and Social Framework and to consider only “selective support for new economically, environmentally and socially justified hydropower projects”, considering lessons learned on the high social and environmental risks like resettlements, land rights and indigenous people’s rights violations, habitat and biodiversity loss among many others associated with large hydropower investments. It is also worth noting that renewable energy projects if not properly designed within an inclusive and transparent process have the potential to provoke similar negative impacts on land and natural resources rights of local communities. Therefore, the full application of the Environmental and Social Framework in all projects is important, and compliance with the criteria established under the World Commission on Dams, which include respect for the Free Prior and Informed Consent of indigenous peoples, the minimum necessary.
- Regarding the Sectoral issue of “Fossil fuel power generation investments”, we strongly recommend that the ESS establishes clear criteria and strong thresholds with strict application to define how and when the exceptional circumstances under which coal –and oil- fired power plants would be considered. In addition, we would like to emphasize that to determine the financial affordability of fossil fuel operations it is critical to include externality costs associated with the high risks and negative environmental and social impacts associated with fossil fuel investments, as identified in the issue note under ‘Cross-cutting’ issues. In light of this, we reiterate our recommendation that the ESS should target a rapid and equitable phase-out of fossil-fuel dependency in accordance with the AIIB’s overarching goal to embrace the Paris Agreement.
- In terms of “Adaptation projects”, we welcome the fact that the Issue Note takes into account the climate-resilience dimension in AIIB’s portfolio development. Yet, “adaptation”, or “climate-resilience” should not be approached by AIIB as a “business line”, but rather as the need to mainstream climate risk management and risk reduction in all AIIB operations. AIIB should integrate climate adaptation measures as a standard good practice of its investment portfolio: considering the projected climate impacts in the future, any infrastructure investment that seeks to be long-lasting, sustainable and responsible should also be climate-resilient. Ensuring that adaptation measures (fit to climate scenarios and vulnerability assessments in a particular country and sector) are in place

should be part of the due-diligence for AIIB. The cost of these measures should be fully integrated in the operations' budget.

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