



Oxfam comments on the AIIB Energy Sector Strategy

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General Comments

Oxfam welcomes again the opportunity to comment on the discussion draft “AIIB Energy Sector Strategy: Sustainable Energy for Asia” We also welcome the effort by the AIIB to made public in their website a “Summary of Comments on Energy Issues Note”.

Oxfam appreciates and welcomes the maintenance and assurance -from the Issues Note to the discussion draft- of AIIB’s commitment, positive framing and special attention to embrace the goals of the Paris Agreement, the Sustainable Energy for All (SE4All) initiative including the 2030 Agenda for Sustainable Development and its Goals (the SDGs) as part of the overall “framework for the Bank to support its client countries to i) develop and improve their energy infrastructure and facilitate their transition to a less carbon-intense energy mix; and ii) meet their goals and commitments under these global initiatives.” We particularly welcome the Bank’s stated support to assist its client countries “to meet their Nationally Determined Commitments (NDCs) under the Paris Agreement and to reap the benefits of new technologies and innovation.”

We also welcome the section on “Lessons Learned from MDB Energy Sector in Asia” to identify areas where AIIB’s contribution and support can make the most of its potential value added in the region. Nonetheless, the review of the active Asia portfolios of the MDBs does not capture or take into account a desegregated analysis of MDB’s support to independent off-grid solutions, local connectivity or support for sustainable solutions for energy access especially for people living in poverty in rural areas including at the household and community level. Similarly, it appears to not desegregate large hydro operations from the MDB’s portfolio on renewable energy making it difficult to understand where the opportunities and potential coordination are to scale up investments in renewable energy. The review is not clear in identifying where the gaps are in terms of supporting client countries in their efforts to effectively transition to a less carbon and sustainable economy and where the potential niches are to maximize AIIB’s value added. On the contrary, it seems to over-emphasize on-grid extension, transmission and distribution as well as oil and gas extraction as an area with “ample opportunities for investments”.

Accordingly, for the Energy Sector Strategy to be consistent with the Bank’s “Lean, Clean and Green” core values, and to truly embrace the spirit and the letter of the Paris Agreement, Oxfam strongly recommends –again- the AIIB to consider and adopt far more stringent limitations to fossil fuel power generation, transmission and distribution, in particular regarding the expansion of coal-fired power plants, including measures that extend the lifespan of existing power plants, which would fatally undermine the temperature goal of the Paris Agreement. The AIIB is clearly in a unique position to build

its energy portfolio to reflect a decision and commitment to grasp the opportunity to leap-frog the fossil fuel-based development paradigm. Hence, the Bank's energy strategy should explicitly include a commitment to ensure that all its financing a) shall be demonstrably consistent with Paris Agreement's aim to hold warming well below 2°C and to pursue efforts to keep temperature increase at below 1.5°C over pre-industrial levels and b) shall positively contribute to reducing emissions to net zero in the second half of the century. The strategy should also explicitly reflect the findings of the IPCC AR5 that cost efficient emission pathways for below-2°C scenarios require that the power sector is emissions-free no later than 2050, and most probably earlier for a below-1.5°C scenario. In this context Oxfam notes that the 450ppm scenario of the IEA cited throughout the draft strategy is not a well-below-2°C scenario, much less a below-1.5°C scenario.

1. On "Proposed Objective of the Energy Sector Strategy"

Oxfam welcomes the assurance of AIIB's commitment to embrace the goals of the Paris Agreement and the Sustainable Energy for All (SE4All) initiative. In addition to these global initiatives, we also appreciate and welcomes the inclusion of the 2030 Agenda for Sustainable Development and its Goals (the SDGs) as part of the overall "framework for the Bank to support its client countries to i) develop and improve their energy infrastructure and facilitate their transition to a less carbon-intensive energy mix; and ii) meet their goals and commitments under these global initiatives." Oxfam suggests to add a third item iii) contribute to the overall aims of these global initiatives, including the Paris Agreement's aims to hold warming well below 2°C, pursuing efforts to keep warming to below 1.5°C. Oxfam considers this qualification important given that the combined effect of countries' goals and commitments under the Paris Agreement are not sufficient to meet the Agreement's stated aims and objectives.

We believe these global initiatives effectively provide the AIIB with a framework and principles for its Energy Sector Strategy. In addition, however, as part of the Bank's three thematic priorities it is also evident and important for the AIIB to clearly define what constitutes a "sustainable infrastructure" within its Energy Strategy. A clear definition of "sustainable infrastructure" will effectively guide the Bank's energy sector engagement and portfolio to support its client countries transition to a less carbon-intensive energy mix. Such definition should embrace and reflect a commitment to far faster, equitable transition to zero-emissions within the energy sector while ensuring energy systems that are accessible to all. It should also reflect a focus on increasing availability of affordable energy to those who don't have it and for whom lack of energy access hinders development. Finally, the definition should also reflect a sense of urgency for the rapid divestment from fossil fuels and scale-up of sustainable renewable energy.

Within the objective of the energy strategy, we also welcome the reference for "regular monitoring and reporting of portfolio composition" which is important, nonetheless, as important if not even more important is monitoring and reporting progress and performance of the Bank's energy portfolio in compliance with the framework and principles governing the Energy Sector Strategy. For this, it is also critical for the energy strategy to require a robust baseline to monitor and report progress towards a less carbon intensive energy mix of AIIB's client countries.

2. On "Proposed Guiding Principles"

Principle 1: Promote energy access and security.

Oxfam welcomes the new language and reference to achieving universal electricity access for basic human needs as well as the commitment for Bank financing supporting clients in achieving SDG7. Such a goal will need ambitious investments in the deployment of off-grid energy solutions at a decentralized level targeting the energy-poor and most vulnerable, especially in rural areas currently disconnected from the grid. AIIB can make a real difference in this area. It is also critical to ensure sustainability entails affordability and availability of energy for those who currently have little or no access. Considerations of security of supply should be made with all users as those who currently have no access. Security of supply should also consider fit for purpose in the present but relevance in low carbon world. At present, these types of interventions are under-financed, including in Asia. Such investments 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. In terms of energy pollution, Oxfam would like to emphasize again that pollution impacts coming from the energy sector are not limited to just indoor combustion of solid fuels. Consequently, the Energy Strategy should also include and address air pollution from coal-fired plants, methane leakage and also the cumulative impacts within the production chain and across the whole lifecycle of all energy technologies.

Principle 2: Realize Energy Efficiency potential.

Oxfam recognizes and welcomes the commitment to an aggressive loss reduction and energy efficiency support to its client countries. Nonetheless, we would also like to recommend the explicit mention of related pro-poor Demand-side Measures (DSM) for energy efficiency in addition to industry and programs in power and gas transmission and distribution networks. DSM on energy efficiency is critical to limit the planet's average temperature to well below 2 degrees and below 1.5°C. We would recommend that efficiency is built into the system rather than retrofit so encourage the bank's new infrastructure investments and associated investments to be best available with regards to efficiency standards.

Additionally, we recommend that the proposed focus to make the most of existing energy infrastructure stocks be further clarified by including parameters and criteria for the selection of upgrading existing generation plants taking into account the urgent rapid transition to zero-emissions power systems. The identification and selection of existing generation plants for rehabilitation and/or upgrade without clear parameters and specific criteria will lead to the expansion of the life of the plant and hence increase GHG emissions overall. Under these circumstances, this approach will not be aligned with the spirit and objectives of the Paris Agreement.

The Energy Strategy should target the rapid and equitable phase-out of fossil-fuel dependency and a major acceleration of deployment of sustainable renewable energy. Any actions that aim at rehabilitating and thus extending the lifespan of fossil fuel power generation plants, will make it harder, more costly, or even impossible for the world to meet the temperature target of the Paris Agreements. The Energy Strategy should establish specific criteria for a cost/benefit and alternatives analysis of its operations, including the costs of climate change and all other externalities such as social and environmental

damages on-site or elsewhere (e.g. where coal is mined for coal power projects), and adopt strict limitations and stringent conditions to investments in fossil fuel based projects.

In terms of use of financial intermediaries (FIs), Oxfam cautions that the use of FIs imposes significant risks in terms of accountability and transparency and adherence to the Environmental and Social Framework's safeguards. It is critical that strong transparency and disclosure policies, procedures and requirements are in place for financial intermediary's sub-projects document information to be accessible to the public (project name, location and sector, as well as all environmental and social impact assessments related documents 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 AIIB's Environmental and Social Framework, and the Energy Sector Strategy, must apply in entirety not only to direct investments but also to indirect financing through FIs.

Principle 3: Reduce the carbon intensity of energy supply.

Oxfam welcomes the Bank's commitment to "support clients to reduce the carbon intensity of energy to help them achieve their long-term climate goals provided in the Paris Agreement." Yet, Oxfam suggests that this should be complemented by a commitment to contribute to the overall aims and objectives of the Paris Agreement, including its temperature goals and the objective to reach net zero emissions in the second half of the century. Oxfam considers such a commitment to the global aims important given that the collective effort of individual climate goals by countries are not yet sufficient to implement the Paris Agreement. Alternatively, the current wording could be changed to "... help them make their long-term climate goals increasingly consistent with the Paris Agreement." Oxfam also agrees that "energy infrastructure investments need to be reshaped to meet the Paris Agreement goals", and this reshaping means a rapid and drastic phase-out of fossil-fuel investments and dependency, and a major acceleration of deployment of sustainable renewable energy.

We emphasize that it is critical for the Energy Strategy to require a robust baseline to monitor and report progress towards a less carbon intensive energy mix of AIIB's client countries. Accordingly, the Energy Strategy should also establish clear criteria and parameters for the Bank to perform a country's energy diagnostic, and identify specific country monitoring indicators to evaluate progress and performance. As part of the country energy diagnostic, 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 client country. Finally, we disagree with the statement that "fossil fuels will continue to play a significant role in the energy mix of most member countries." It is important to emphasize again that continue support to fossil fuels investments, especially coal, will not be aligned with the spirit and objectives of the Paris Agreement.

Principle 4: Local and regional pollution management.

The impacts of the energy sector pollution are significant at two levels: on the atmosphere causing a warming effect in the planet leading to increasingly severe climate change impacts and damages, and the health and wellbeing of people and communities. As stated by the Energy Strategy draft, most

efforts are trying to address emissions of fossil fuel power generation, especially coal fired plants. It is important to note that coal is not only polluting but because of coal mining and coal energy dependence on water, 44% of current plants, and 45% of planned coal power plants, are areas that are in a state of water stress – where water use is already considered to be having significant ecosystem impacts¹.

The global oil and gas sector is the largest industrial source of emissions of methane,² a potent greenhouse gas that has an atmospheric warming effect approximately 80 times that of carbon dioxide.³ Methane is also a precursor gas to tropospheric ozone – a major component of smog – which can lead to serious lung and cardiovascular disease, particularly in children and the elderly, and negative impacts on crop yields.⁴ Within the oil and gas sector, gas flaring remains a common practice⁵ and methane leakage is a significant problem across the value chain of natural gas production and distribution that can offset many of the perceived climate benefits.⁶ Although touted as a “bridge fuel” for countries as they transition away from more polluting sources of energy such as coal, toward cleaner sources like solar and wind power, investments in oil and gas projects should be considered in light of their positive and negative impacts on communities⁷ and strive to facilitate additional investments in cleaner, renewable sources of energy.

Oxfam believes that by adopting stringent restrictions to fossil-fuel based energy investments, especially coal, by ensuring that oil and natural gas projects are managed to minimize negative environmental and social impacts, and by prioritizing significant and rapid investments that promote sustainable renewable energy solutions, the AIIB would not only contribute to the SE4All, SDG7 and the Paris Agreement’s goals, but it would also significantly contribute and support efforts in reducing, limiting and mitigating local and regional pollution.

Principle 5: Catalyze private capital.

Oxfam believes that the private sector has a critical role to play in the energy transition. The proposed principle of “catalyzing private capital” should explicitly clarify that risk assessment and management is not limited to fiduciary risks, but includes environmental and social risks. Additionally, AIIB also needs to ensure that cost and risk sharing of PPPs are not passed onto communities and end users of energy and services derived from it. 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. High rates of return, risk insurance or guarantees to investors and lenders offered by MDBs and PPPs schemes certainly improve the short term risk sharing in these types of investments, but they can also promote perverse accounting incentives, indirect subsidies for high-

¹ <http://www.greenpeace.org/international/Global/international/publications/climate/2016/The-Great-Water-Grab.pdf>

² U.S. EPA - <https://www.epa.gov/ghgemissions/overview-greenhouse-gases#methane>

³ IPCC (2013) - https://www.ipcc.ch/pdf/assessment-report/ar5/wg1/WG1AR5_Chapter08_FINAL.pdf

⁴ Climate and Clean Air Coalition - <http://www.ccacoalition.org/en/slcps/methane> & <http://www.ccacoalition.org/en/slcps/tropospheric-ozone>

⁵ For example, see World Bank - <http://www.worldbank.org/en/programs/zero-routine-flaring-by-2030>

⁶ Environmental Defense Fund (EDF) - <https://www.edf.org/energy/methaneleakage>

⁷ For example, see <http://www.yaleclimateconnections.org/2016/08/is-natural-gas-a-bridge-fuel/>

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 also a high risk of diversion of investments to high-emissions operations at the expense of low- and zero-emissions operations. Public and private cooperation modalities should be explored and identified according to the needs of the people and by sustainable development considerations and not driven by creative accounting measures with high risk of long term fiscal problems. We recommend that the Bank should support and encourage government and public oversight of all private sector involvement, to ensure transparency and accountability to all stakeholders

Principle 6: Promote regional cooperation and connectivity.

Oxfam welcomes the proposed engagement with client countries to foster greater use of renewable energy resources. Accordingly, we recommend AIIB to make a priority the potential renewable energy synergy opportunities existing at the regional level with a view to strengthen collaboration and the facilitation of the exchange of knowledge and technologies among AIIB's client countries to make renewable energy more affordable and replicable across the region, and event other regions as well.

3. On "Proposed implementation"

Oxfam recommends that this section of the proposed Energy Strategy should develop in more detail the parameters, criteria and portfolio targets needed to guide the transition towards a zero-emissions energy mix. The Energy Strategy should establish for its implementation clear criteria and parameters for the Bank to perform country energy diagnostics, and identify specific country monitoring indicators to evaluate progress and performance. Accordingly, these country energy diagnostics should include an assessment of the country's GHG inventory and emissions reduction targets and climate commitments as stated in their Nationally Appropriate Mitigation Actions (NAMAs) and Nationally Determined Contributions (NDCs) and communicated to UNFCCC. Only then the Energy Strategy would be able to identify and incorporate targeted support when developing its investment portfolio in each client country.

In addition, this section of the Energy Strategy 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. We emphasize that is critical for the Energy Strategy to require a robust baseline to monitor and report progress towards a less carbon intensive energy mix of AIIB's client countries.

1. Power transmission and distribution. In light to our previous submission, we need to 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, improve poor people's energy access or promote regional cooperation. We recommend emphasizing renewable energy synergy opportunities at the regional level to promote and strengthen regional cooperation. This means that actions in the area of transmission and distribution should always made to

contribute to the expansion of renewable energies and the gradual transition away from fossil fuels. We also believe that focusing on upgrading the existing grid systems in terms of efficiency and to make them fit for purpose as well as invest in new decentralized grids that would include use of smart-grid technology is critical. 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. As mentioned above, we recommend the establishment of clear parameters and criteria for the selection of upgrading systems contributing to the urgent rapid transition to zero-emissions power systems.

2. Energy Efficiency (EE) investments. The improvement of existing energy generation stocks by implementing loss reduction programs and upgrades on the regulation systems and fuel consumption is important; nonetheless without clear parameters and specific criteria for the strategic selection of existing plants for upgrading will simply expand the life of the plant and hence increase GHG emissions overall. This approach has to be balanced and proportionate to a targeted and rapid phase-out of fossil-fuel dependency and a major acceleration of deployment of sustainable renewable energy. In this context, priority should be given to pro-poor demand-side efficiency actions and those areas of intervention that remain beneficial also in the context of a transformation of the supply side (i.e. transitioning away from fossil fuel to renewable energy power). We recommend for the Energy Strategy to establish the clear parameters and criteria to guide the selection of future rehabilitation/upgrade operations through a cost/benefit and alternatives analysis of its operations, and simultaneously adopt strict limitations and stringent conditions to investments in fossil fuel based projects. Otherwise, without clear criteria and parameters the rehabilitation/upgrade operations of existing energy generation stocks will not be aligned with the spirit and objectives of the Paris Agreement.
3. Renewable energy (RE) investments. Oxfam welcomes the emphasis on “proactively” support its clients in the deployment of RE investment. We recommend this type of investment be the core area for AIIB interventions in the energy sector especially in terms of direct investments to increase access to modern energy through decentralized off-grid energy solutions. The AIIB’s Energy Strategy should establish a targeted rapid growth of investments for RE share of its energy portfolio to deploy critical resources to scale up RE. We welcome the emphasis of only supporting hydropower when is “technically, economically, financially and socially viable” and the full application of the Environmental and Social Framework as well as lessons learned from other MDBs 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 but also the uncertainties and high vulnerability to climate impacts of hydropower. We also suggest that the Energy Strategy adopts the criteria established under the World Commission on Dams, which include respect for the Free Prior and Informed Consent of indigenous peoples as the minimum necessary. We also think it is worth to emphasize again 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. Accordingly, the full application of the Environmental and Social Framework in all projects is critical.

4. Local and regional pollution management. AIIB should consider incorporating economic valuation of local environmental externality costs into cost/benefit and alternative analysis for all projects, and not just being limited to pollution management.
5. Fossil fuel power generation investments. We disagree with the statement that “fossil fuels will continue to play a significant role in the energy mix of most member countries.” It is important to emphasize again that continue support to fossil fuels investments, especially coal, will not be aligned with the spirit and objectives of the Paris Agreement. We strongly recommend that the Energy Strategy 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. It is definitively not sufficient simple criteria of replacing existing less efficient capacity or no viable or affordable alternative especially if not including externality costs associated with the high risks and negative environmental and social impacts associated with fossil fuel investments in the cost/benefit and alternative assessments of AIIB’s operations. Finally, we would like to reiterate our recommendation that the Energy Strategy should target a rapid and drastic phase-out of fossil-fuel dependency in accordance with the AIIB’s overarching goal to embrace the Paris Agreement.
6. Oil and natural gas processing, transportation and distribution. We recommend that the proposed focus for rehabilitation and upgrading of natural gas transportation, storage and distribution be considered under clear parameters and criteria for selection taking into account their positive and negative impacts on communities, and ensuring that such interventions are demonstrably consistent with gradually phasing out fossil fuel use and the Paris Agreement’s objectives, striving to facilitate additional investments in cleaner, renewable sources of energy. The global oil and gas sector is the largest industrial source of emissions of methane, a potent greenhouse gas that has an atmospheric warming effect approximately 80 times that of carbon dioxide. Methane is also a precursor gas to tropospheric ozone – a major component of smog – which can lead to serious lung and cardiovascular disease, particularly in children and the elderly, and negative impacts on crop yields. Within the oil and gas sector, gas flaring remains a common practice and methane leakage is a significant problem across the value chain of natural gas production and distribution that can offset many of the perceived climate benefits. The support of natural gas to facilitate the transition to less carbon intensive energy mix and power sector should be balanced and proportionate to a targeted and rapid phase-out of fossil-fuel dependency and a major acceleration of deployment of sustainable renewable energy as well as increase in energy efficiency to reduce wastage and reduce demand.
7. Adaptation projects. We recommend the AIIB to mainstream adaptation into all Bank operations as a mandatory requirement as opposed to just a “business line” or supporting other MDBs and partners. 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.

4. On Cross-Cutting Issues

Oxfam welcomes the consideration to discuss and test the robustness of the assumptions used to determine the appropriate discount rates, carbon prices and environmental externality costs of its projects' economic analysis. We recommend making this requirement explicit within its operating procedures as well as the full application of transparency and information disclosure procedures through the different phases of project conception, preparation, evaluation, implementation and supervision. Similarly, Oxfam welcomes the intention and commitment to promote collaborative approaches and inter-sectoral coordination among the Bank's other infrastructure strategies and subsectors. Inter-sectoral coordination is especially critical and significant in terms of mainstreaming energy efficiency and promoting off-grid and independent energy solutions across the Bank's operations in transport infrastructure, industrial, rural and urban development.

Given the Bank's mission to be lean, many of the structures to be cross cutting may not sit within the bank's formal structure. It is important then that the Bank continue to expand and develop a consultative relationship with all stakeholders, affected communities, civil society, and governments.

5. On Results Monitoring Framework

Oxfam welcomes the inclusion of a Results Monitoring Framework to monitor outcomes and outputs indicators and the alignment of its portfolio with the Energy Strategy. Correspondingly we welcome the reduction of energy inequality as an important outcome as well as tracking the per capita energy consumption in low and lower-middle income countries in the proposed results monitoring framework. Regarding the proposed outputs, especially in terms of number of connected households, Oxfam believes that the "inferred access" methodology is not the most appropriate to capture the true connectivity at the household level. Additionally we recommend specifying the tracking of household connectivity in low and lower-middle income countries as well. Finally, we recommend the inclusion in the result monitoring framework the share of investments supporting off-grid energy compared to total energy portfolio as well as GHG accounting and reporting of emissions reduction targets within AIB's portfolio.

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