



Comments on AIIB Energy Sector Strategy

As UK and EU-based civil society organisations working on development and climate change issues with partners in the Asia region, we welcome the further opportunity to comment on the AIIB's draft Energy Sector Strategy (ESS), following our submission on the Issues Note in November 2016.

The ESS will be a cornerstone of operationalising the AIIB's commitment to be a 'lean, green and clean' investor. It presents a golden opportunity for the AIIB as a new investor without legacy issues to learn lessons and improve on existing MDB and other IFI support for energy. The new ESS can support Asian countries to transform their energy sectors in line with meeting their international commitments under the Paris Climate Agreement and Agenda 2030 for Sustainable Development (SDGs).

Summary

- We welcome the AIIB's recognition that its future support for energy should be aligned with the commitments agreed by governments under international agreements, namely the Paris Climate Agreement, particularly efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels; Agenda 2030, particularly SDG7 on ensuring affordable, reliable, sustainable and modern energy for all by 2030; and with the SE4ALL initiative. One of the overarching objectives of the Paris Agreement is to make 'finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development.' The AIIB has huge role to play in transforming Asia's energy sector in line with these goals.
- ESS principles, objectives and proposed implementation approaches must be fit for purpose in terms of delivering on the goals. This requires that AIIB staff and management have the requisite capacity and incentives. The results management framework (RMF) for the ESS is also crucial in terms of driving investments and tracking their impact. As currently outline, we do not think the RMF is fit for purpose. It will not incentivize the right kind of investments for delivery of the ESS' over-arching goals, nor enable the AIIB to track progress on the three proposed Outcomes.
- The ESS should adopt a strong presumption against supporting high carbon energy investments and prioritise support to enable countries to shift or leapfrog to renewable, efficient energy for power generation as soon as possible, and scale up investment in distributed RE and clean cooking solutions for energy access, in line with a 1.5 degree pathway and net zero emissions by 2050. Support for already highly-subsidised fossil fuel technologies, and large-scale hydro power, which also carry high environmental and social risks, is inconsistent with the goals of the ESS. Such investments are also not the best options for ending energy poverty in the region.
- The ESS should apply this approach to its whole portfolio, with GHG accounting and emissions reduction targets, also implement a clear and consistent screening process for individual investments with robust safeguards for mitigating climate, environmental and social risks. This must apply not only to direct energy support but also to indirect support through financial intermediaries (FIs), in order to avoid loopholes permitting fossil-fuel lock-in and potential breach of ESS standards, given the specific risks inherent in lending through FIs. Transparent monitoring and reporting against the RMF must apply to all forms of lending.
- It is important that the AIIB Board, including the UK, and the management takes ownership of, and is fully committed to, the principles and approaches outlined in the final strategy. The ESS must be based on



accurate data and up-to-date expert analysis that is transparently sourced. The ESS should also take fully into account the views of civil society in donor and client countries, along with those of other stakeholders through a transparent and meaningful consultation process and reporting framework for the ESS.

Detailed comments

Principle 1: Promote energy access and security

- We very much welcome the commitment in the ESS to help client countries achieve SDG7. Access to a *range* of energy services is essential for poverty reduction and development, from household lighting, heating and cooking services, community services such as health clinics and schools and also energy for productive activities such as farming and running micro/small businesses. Given the scale of the challenge in the region - particularly as relates to cooking poverty¹ - AIIB investment could be a game changer and also catalyse greater action by other MDBs.
- To be usable, as SDG7 highlights, energy services need to be reliable, affordable and sustainable. For this reason, while we welcome the reference to reliability in approach (ii) (para. 22), this should also prioritise support for ensuring services are affordable and sustainable. We also welcome the fact that the ESS recognises the need for energy services to be *safe*, especially given the significant health impacts from indoor air pollution due to cooking with solid fuels (para 22; iii).
- AIIB support must be at scale, evidence-based and targeted to deliver the maximum impact. Energy access investments cannot be an 'add-on' to the core energy portfolio of the AIIB but must fully integrated into its national and regional support, and particularly through support for client countries' energy sector planning. In particular, given the gendered impacts of energy poverty, especially in relation to cooking poverty, the AIIB should develop a clear action plan to address this as part of the ESS.
- Supporting Asian countries to reach SDG7 by 2030 requires an approach focussed not on adding generation capacity but on *connecting* energy poor people to usable energy services. According to the Asian Development Bank (ADB), 18% of developing Asia has no access to electricity. Globally, electricity poor communities who live close to the central grid face technical barriers as well as cost issues and governance issues that often prevent connection. Adding generation capacity will not overcome these barriers.
- For electricity-poor households and communities living in rural areas, far from the grid, distributed stand-alone and mini-grid solutions powered by renewables such as wind and solar PV can be deployed more quickly and are the most viable and affordable option for connecting most new households. According to the International Energy Agency (IEA), two thirds of the investment needed to reach universal access by 2030 should go to such distributed solutions².
- This evidence should inform the AIIB's investment priorities and approaches for supporting delivery of SDG7. Currently, regional MDBs and the WBG spend only a small proportion of their total energy support on access - with most of this going to power generation - and an even smaller amount to the distributed

¹ As the AIIB's Energy Sector Strategy Issues Note (November 2016) highlighted, 71% of the world's population without clean and safe cooking live in Asia - or just under half of the region's population (47%).

² The IEA estimated the amount needed for distributed solutions to be US\$23 billion per year. IEA, 2011.



electricity and clean cooking solutions needed by the vast majority of energy poor people³. The AIIB can play a crucial leadership role in ensuring this energy poverty investment gap is filled. This could include funding the upfront costs of new connections to the centralized grid, as well as working with other stakeholders to develop innovative and appropriate financing instruments to reach different segments of poor end-users plus offering a balance of loan and grant funding to support early stage and small-scale distributed energy projects.

- Secondly the AIIB should support member countries to access policy and technical assistance to strengthen their enabling environments to incentivise investment in distributed electricity and clean cooking solutions, as well as rationalising tariffs to reflect the true costs of supplying on-grid power, and to develop the human and institutional capacity required at the national and local levels to deliver SDG7.
- Thirdly, the AIIB should support inclusive national energy planning processes and participation of energy poor communities in designing and delivering energy services so they are tailored to meet end-user needs, rather than a 'one size fits all' approach. This is crucial for demand management and for ensuring the financial, social and environmental sustainability of energy services. Due diligence on specific access investments also needs to go beyond risk mitigation to include social and environmental impact assessment including taking into account the gendered impacts of energy poverty.
- Finally, the AIIB must invest in building the right staff capacity and internal incentives to deliver the right kind of support to client countries to meet SDG. In particular, we are concerned that the current RMF outputs and indicators are not fit for purpose in terms of delivering on SDG7 and proposed Outcome 1 of the ESS (see comments on **Results Management Framework** below).

Principle 2: Realize Energy Efficiency potential

- We strongly support the AIIB's view that there is huge potential to support energy efficiency (EE) and energy conservation in the region. Such investments can play a huge role in decarbonising the energy system both globally, and regionally in Asia, by mitigating emissions and reducing overall energy consumption. They can also provide services to households and industry and create sustainable jobs⁴. Most of these investments will largely be cost-neutral or have negative costs, i.e. investments will pay back or save money over time through reduced fuel expenditure.
- EE is a particularly important sector for AIIB client countries. Asian developing countries (and Russia) still have from 50% to 200% higher energy use per GDP than the EU⁵. Estimates of global annual investments in EE range from between \$US 220 billion⁶ to US\$360 billion⁷. Even to meet the IEA's scenario for keeping

³ None of the MDBs and WBG dedicated more than 2% of their total energy portfolio to distributed energy solutions over the three year period 2012-14. In the case of the ADB, while it deserves credit for some early efforts to highlight energy access investment including through its "Energy for All" partnership set up in 2008, its funding for energy access and off-grid and mini-grid clean energy is still well below recommended levels (just under 25% of total portfolio for access and only 2% for distributed solutions) and is dwindling. OCI and Sierra Club, 2016. *Still Failing to Solve Energy Poverty: International Public Finance for Distributed Clean Energy Gets another F.*

⁴ In 2014, the EE and energy conservation sector accounted for 7-8 million jobs worldwide, mostly in construction and buildings (new-build and retrofit) but an increasing part in producing "A" - type efficient electric and ICT products. It is assumed that per one million US\$ investment in energy efficiency, particularly efficient buildings, about 20 jobs are being maintained/generated in the US (<http://aceee.org/files/pdf/fact-sheet/ee-job-creation.pdf>). Given the higher purchase power parity in developing countries and poor ones in particular, this specific job creation number per unit investment is certainly higher in developing Asia.

⁵ IEA, 2016. World Energy Outlook (WEO).

⁶ Ibid.

⁷ HSBC & ECOFYS, 2014. See: <http://www.ecofys.com/en/publication/sizing-energy-efficiency-investment/>



below 2 degrees of warming (450 scenario) - itself insufficient to meet the Paris Agreement goals as it gives only a weak chance of staying below 2 degrees, let alone a 1.5 degree pathway - investments need to grow to an average of \$US 1.4 trillion annually between now and 2040.

- However, there is also progress in this area. In 2015, global energy intensity improved by 1.8% - almost twice the rate of the last decade - contributing to the stabilisation of energy-related CO₂ emissions. This was mostly due to large energy efficiency regulation and investments in China. The AIIB could build on this positive regional progress by offering concerted support for scale-up of EE investment in client countries.
- Asia`s cities are growing fast, with a larger urban population with higher incomes that need clean and reliable cooling and heating systems, as well as sustainable mass transport. This offers a huge opportunity for the AIIB to contribute to the investment needed for highly energy efficient buildings and public transport that can boost economic prosperity – with the added health benefit of reducing currently severe levels of urban air pollution in Asian megacities (**see also comments on Principle 4**).
- AIIB could also support the production of energy efficient electric motors, which today consume about 35% of all global final electricity demand (70% in industry). 40% of all global industrial electric motor demand occurs in China and is also growing rapidly in India and developing South East Asia⁸.
- *Resource efficiency*: Beyond the buildings, transport and manufacturing sectors, there are extraordinary opportunities for end-use efficiency initiatives. This should be a core strategy of the AIIB. For instance, AIIB should prioritize an end-use oriented approach to the delivery of utility services in all of its activities, including by precluding support for expansion of energy or water services where could be more advantageously delivered through improved end-use efficiency. This strategy has already proven effective in prioritizing energy investments through a project ‘loading order’ where efficiency projects are given first priority, followed in succession by those with the lowest gC/MW impact.⁹

Principle 3: Reduce the carbon intensity of energy supply

- We welcome the AIIB’s aim of supporting clients ‘to reduce the carbon intensity of energy to help them achieve their long-term climate goals provided in the Paris Agreement’ and to ‘transition to sustainable, low-carbon energy and internationally agreed targets.’ This ultimately requires moving to net zero emissions by 2050. The ESS must support this goal both through its overall investment approach (whole energy portfolio approach) and support for individual energy investments.
- Current MDB business-as-usual approaches are not sufficiently ambitious to support efforts to remain limit warming to 1.5 degrees. The AIIB as a new bank with no legacy issues can play a crucial role here. All AIIB support, whether financial, policy or technical support, should be aligned with the goals of supporting clients to avoid carbon lock-in and shift or leapfrog to renewable, efficient energy systems, as well as deliver universal energy access by 2030.

⁸ The energy efficiency potential for all electric motors use is about 40% compared to a BAU scenario, and would save more than 3000 TWh annually worldwide and annually by 2040 (equivalent to 15% of present global power consumption). To achieve this, investments of about \$US 25 billion annually are required on average until 2040 (for the 450 ppm scenario). IEA, 2016. World Energy Outlook (WEO).

⁹ *Implementing California’s Loading Order for Electricity Resources*. (2005). California Energy Commission, CEC-400-2005-043 <http://www.energy.ca.gov/2005publications/CEC-400-2005-043/CEC-400-2005-043.PDF>



- The AIIB has the opportunity to building an institutional culture from the outset that is fit for purpose to deliver this goal, and will position it as a leader among the MDBs. Staff and management must also have the right skill sets, expertise and also the right incentives to be able to offer client countries appropriate support when planning individual investments, as well as integrated overall energy planning, as the ESS itself recognises.
- A clear and consistent screening process for individual investments must also be developed to ensure they align with delivering the AIIB’s over-arching goals, along with robust safeguards for mitigating climate, environmental and social risks. In this respect, the AIIB should follow as a minimum the environmental and climate protection policies adopted by the EIB in 2013. Screening criteria and safeguards must apply equally to direct forms of investment as well as indirect investments through intermediaries (see **Principle 5** below).
- In line with the above, it is not clear that the implementation approaches proposed in the ESS will deliver energy pathways for client countries consistent with reaching net zero emissions by 2050, as they include ongoing support for fossil fuels, including coal, and a focus on large-scale hydro, as well as leaving the door open for supporting life extensions of nuclear power plants. There is a high risk that the draft strategy would mean AIIB’s support for energy will not deliver on the AIIB’s over-arching goals of supporting the Paris Agreement and the SDGs.
- In particular, we disagree with the presumption in para 36 that fossil fuels will necessarily continue to play a role in client countries’ energy mix and the implication that the AIIB will support high carbon lock-in. The terminology used is also very vague and references to ‘replacing less efficient capacity’ and to ‘commercially available least-carbon technology’ are very unhelpful. The key criterion for AIIB support should be the lifetime emissions of any new energy infrastructure rather than its relative efficiency compared with older infrastructure. It is also unclear what methodology, criteria and decision-making processes would be used to determine: (a) which countries would be eligible for support for carbon-efficient oil and coal-fired power plants in specific cases; and (b) whether alternative low-carbon infrastructure is viable or affordable in low income countries. Transparent discussion around, and disclosure of, what kind of methodologies, assessments and decision-making processes are envisaged is critical.

Support for coal infrastructure incompatible with a 1.5 degrees trajectory

- There is growing consensus that public financing of high carbon-emitting projects is incompatible with supporting global development goals, including the Paris commitment target of pursuing efforts to limit warming to 1.5°C¹⁰. According to recent analysis, the EU and OECD need to end coal use by 2030, China by 2040 and rest of world by 2050¹¹. The life time CO₂ emissions from unabated coal plants built from now onwards are incompatible with the Paris objectives, and can only be reduced through reduced operations and early closure (which would result in stranded assets).

¹⁰ According to the WEO, between now and 2040 there is room for only 780 GW of unabated coal power generation for a 50% chance of keeping below 2 degrees Celsius of global warming. This means that even if all new coal plants were embargoed today, two-thirds of the world’s current coal fleet would still need to be retired by 2040 in order for the global temperature to stay within 2°C. A Paris-compatible scenario of limiting warming to 1.5 degrees would imply more ambitious action still.

¹¹ Climate Analytics, 2017. See: <http://climateanalytics.org/publications/2016/implications-of-the-paris-agreement-for-coal-use-in-the-power-sector.html>



- A number of international financial institutions and governments, have already introduced restrictions on, or excluded, coal financing. The World Bank¹² and the European Investment Bank¹³ have adopted stringent limitations on public financing for coal plants, as well as Countries including China¹⁴, the United Kingdom¹⁵, Germany¹⁶, France¹⁷, Netherlands¹⁸, and the Nordic Countries¹⁹.
- Public financing of coal projects may also come in the form of support for the associated infrastructure upon which a coal plant depends, such as mines, ports and rail links, and transmission and distribution networks. Following best international practice, the AIIB should strictly limit finance for associated facilities specifically designed for mining or transporting coal, or for facilitating the transmission and distribution of electricity from a new coal-fired power plant.

Support for hydropower

- As a first step, in terms of operationalising its welcome commitment to learn lessons from the experience of MDB lending to date, the AIIB should commission an independent review of the track record of MDB support for hydropower in Asia with the aim of understanding and integrating the lessons learned from their experience into its ESS.
- In line with the evidence to date, it is our view that the AIIB should adopt a prohibition on hydropower projects on the mainstream of major rivers. AIIB should only finance large hydropower projects selected through a rigorous energy planning process and robust consideration of all project options, including their relative energy poverty-reducing impacts. In summary, only projects that meet the criteria established under the World Commission on Dams should be financed²⁰.
- All hydropower projects of whatever size should be evaluated with a full costing of technical, financial, environmental, social and climate risks. River basin level-planning that assesses the cumulative impacts of projects should be a prerequisite for consideration of individual project options. Rehabilitation and

¹² The Bank will only support coal projects in 'rare circumstances', where there are no feasible alternatives available to meet basic energy needs and other sources of financing are absent. Projects must undergo rigorous alternatives assessment and least cost analysis to demonstrate necessity. World Bank, 2013. *Toward a Sustainable Energy Future for All: Directions for the World Bank Group's Energy Sector*.

¹³ Except in rare circumstances, EIB will only fund coal plants that meet an emission performance standard (EPS) of 550gCO₂/kwh, which effectively requires the deployment of carbon capture and sequestration. Plants that exceed this standard can only be funded (a) where the plant would contribute to security of supply on isolated energy systems, and there is no economically viable alternative; or (b) in the poorest countries, where it can be demonstrated that the project will have a significant and material positive impact on poverty alleviation and economic development. EIB, 2013. *Energy Lending Criteria*.

¹⁴ China has agreed to adopt policies to strictly control public investment in international projects with high pollution and carbon emissions.

¹⁵ The UK has committed to "end support for public financing of new coal-fired power plants overseas, except in rare circumstances," and to work "to secure the support of other countries and Multilateral Development Banks (MDBs) to adopt similar policies." The U.K has established strict requirements for its "rare circumstances" exception, including that the project must: (a) be located in an IDA-only eligible country; (b) prove it will reduce poverty; (c) have shown that low carbon alternatives are not feasible; and (d) be part of a credible low-carbon development pathway; and (e) use best available technology.

¹⁶ Germany has ended support for coal plants through the development arm of the KfW bank and restricted the bank's export credit arm IPEX financing for new coal plants.

¹⁷ France has ended support from both its development and export credit agencies for coal projects that do not use carbon capture and storage.

¹⁸ The Netherlands has committed to "end support for public financing of new coal-fired power plants abroad except in rare circumstances" including through bilateral and multilateral channels.

¹⁹ Finland, Iceland, Norway, and Sweden have pledged to end "public financing for new coal-fired power plants overseas, except in rare circumstances," and to work to "secure the support of ...multilateral development banks to adopt similar policies."

²⁰ The principles include: The need to assess all available options for meeting water and energy needs before proceeding with a dam project; Demonstrating public acceptance and requiring free, prior and informed consent of affected indigenous peoples; Fixing problems from existing dams before building new ones; Managing downstream impacts and environmental flows; Sharing benefits with affected people; and Ensuring compliance with project agreements.



increased efficiency of existing hydro-power plants should be explored preferentially over new project development.

- Development of hydropower should also be based on the recipient country's national energy strategy, aligned with international commitments to climate and environmental protection, sustainable development. Strategic social and environmental impact assessment (SEIA) should be integrated into sectoral planning, including of the impacts of climate change on future hydropower generation levels and the sustainability of the overall energy mix. We also support an approach where, based on the SEIA of the river basin management plans, 'no go zones' are established where hydropower development is prohibited²¹.

Support for nuclear power

- We very much welcome the commitment in the ESS not to support financing of nuclear power plants. However, the reference to 'very special cases of support in safety enhancement/upgrading' where the Bank could possibly consider engagement leaves open a loophole for financing lifetime extensions of nuclear plants²². This is clearly at odds with best practice at other MDB and IFIs which restrict support for nuclear power. This includes the World Bank, which has a clear ban on financing nuclear projects.

Principle 4: Local and regional pollution management

- We welcome the AIIB's recognition of the direct correlation between pollution from fossil fuel-based power generation - especially from coal-fired plants - and negative human health and environmental impacts. According to the IEA, around 90% of global air pollution and related deaths are from energy use, notably from burning fossil fuels and biomass for cooking. More than two thirds of those dying from outdoor air pollution (3 million) live in developing Asia. According to the IEA, 'air pollution in many of the region's growing cities continues to be a major public health hazard and, indeed, to affect a larger share of an increasingly urban population'²³.
- The goal of reducing local and regional air pollution and introducing pollution management in Asia should be prioritized in the ESS with assessment of the likely pollution impacts used as a screening criteria for all energy investments.

Principle 5: Catalyse private capital

- The draft ESS highlights the need to mobilise private capital, building on lessons learned from other MDBs, and to explore innovative models to catalyse private investments to support infrastructure in Asia, including PPPs. The AIIB's commitment to learn lessons and ensure costs and risks are appropriately shared by stakeholders is welcome, particularly given the extensive documentation of how the risks and costs of PPP projects have overwhelmingly been borne by the poorest and most vulnerable groups. The

²¹ 'No go zones' should include river stretches located in, or having direct impact on, existing or proposed protected areas, including IUCN categories I-IV, areas protected within national categorization systems, nationally recognised important biodiversity areas not currently protected or proposed to be protected, as well as river stretches located in areas with high conservation value/importance territories (eg upstream areas of rivers, riparian floodplains, intact or virgin forests, mountainous wetlands, habitats of rare and endangered species and subspecies).

²² Such a case is well illustrated by the lifetime extension programme in Ukraine, which is financed under the guise of 'safety improvements'. See: <http://bankwatch.org/our-work/projects/nuclear-power-plant-safety-upgrades-ukraine>.

²³ IEA, 2016. WEO. Almost half of all global SO₂ emissions derive from developing Asia (India, China & South East Asia), mostly from industry and power sector. In developing Asia the main culprits for NO_x emissions are the power sector and industrial manufacturing. More than 60% of all small particulate matter (PM_{2.5}) are emitted in developing Asia, mainly from inefficient domestic biomass burning but also industrial use.



commitment also needs to extend to sharing benefits, as well as costs and risks.

- Recent research has demonstrated how PPPs in vital public service areas such as water, health and infrastructure can inflate costs to governments and unfairly distribute risks and benefits²⁴. Unfortunately, the AIIB's first PPP project in Myanmar - the Myingyan combined cycle gas power project – raises similar concerns. It appears local communities will be negatively impacted by the project, without any clarity over compensation, and will also not benefit from the electricity generated.
- Lending through financial intermediaries (FIs) often obfuscates the end use and impacts of the investment, as well as diluting the effective application of environmental and social standards. Recent research has revealed that the IFC financing via intermediaries supported over 40 coal projects since 2013, despite a commitment by the World Bank Group not to fund coal except in rare circumstances²⁵. This example of the risk posed by lack of accountability of FIs to the climate and development goals outlined in the ESS is even more pertinent given that the AIIB's Board will is about to consider approving the AIIB's first financial intermediary project in Indonesia, the Regional Infrastructure Development Fund.
- The ESS restrictions and standards must explicitly apply not only to direct financing by the AIIB to energy projects but also to indirect financing through intermediaries, so that loopholes for funding fossil fuel lock-in are closed. It must also recognize the specific risks inherent in lending through FIs - in particular, the difficulty in ensuring FIs apply the AIIB's environmental and social standards to sub-projects, and the lack of transparency around FI investments, which could lead to energy investments being pursued in breach of AIIB standards.

Principle 6: Promote regional cooperation and connectivity

- Regional cooperation and connectivity should rightly be priorities for the AIIB. Large scale renewable energy expansion, including utility scale power and distributed solutions, along with electrification of transport require increased and higher quality grid transmission development. Public finance from the AIIB can help reduce the costs and region-specific risks for the large capital investment needed to develop an interconnected energy system based on renewable sources²⁶.
- Moving towards grid based and distributed renewable energy electricity generation, and aligning generation with changes in electricity demand profiles as households and other final consumers make increasing use of electricity for heat and transport, highlights the need for cross border interconnections, energy storage and for other balancing technologies to better match supply and demand regionally, and also ensure a competitive energy supply to consumers.
- Previous MDB interventions in support of such regional, cross-boundary and large-scale investments have often run into problems related to their adverse environmental and social impacts. For example, long-distance transboundary pipelines and hydro projects face opposition in many parts of the world causing

²⁴ Oxfam has shown how a PPP hospital in Lesotho ended up claiming over half the country's health budget (<https://www.oxfam.org/en/research/dangerous-diversion>); and its research into mega-PPPs in Africa demonstrates that 'Mega-PPPs can be risky, and can skew the benefits of investment towards the more powerful, while the risks fall on the poorest and most vulnerable.' (<http://policy-practice.oxfam.org.uk/publications/moral-hazard-mega-public-private-partnerships-in-african-agriculture-325221>).

²⁵ Inclusive Development International et al, 2016. See: <http://www.bankinformationcenter.org/world-bank-secretly-funding-coal-explosion-in-asia/>

²⁶ The estimated aggregate investment over the next 20 years in grid infrastructure in non-OECD Asian countries (mostly in China and India) required to meet the IEA's 450 Scenario is around \$US 2.6 trillion. Around two third of this is required mainly for local distribution (low voltage). IEA, 2016. WEO.



delays, budget overruns, and post-impact complaints assessment related costs. For this reason, it is essential that the AIIB put in place robust environmental and social assessments and safeguards for such investments.

Sectoral Approach

- The proposed support in the ESS for gas as a ‘transitional fuel’ is of particular concern. Any transitional support for gas must be proportionate to – and demonstrably consistent with - the targeted and rapid phase-out of fossil fuels and scale up of renewable and efficient energy systems required order to meet the objective of keeping the limit of 1.5 degrees of warming²⁷. Support for capital-intensive gas infrastructure, such as pipelines, LNG terminals and storage plants, would lock in a fossil-fuel based model of energy production for decades in Asia and beyond, rather than (as above) supporting client countries to pursue a decarbonisation strategy for their economies. Finally, there are considerable environmental, social and human rights risks associated with gas development, as with other large-scale fossil fuel projects.

Results Management Framework

- The RMF must enable the AIIB and external stakeholders to evaluate whether its over-arching goals of keeping the limit of 1.5 degrees in line with the Paris Agreement, and delivering Agenda 2030, especially SDG7, are being met. The 3 specific Outcomes proposed by the ESS require outputs and indicators that are fit for purpose in terms of tracking and reporting on the impacts of AIIB energy investments. As currently proposed, the RMF will not allow the AIIB to track whether these outcomes are being delivered. Given the importance of the RMF for the overall success of the ESS, we would propose that a more in-depth consultation on the RMF be carried out with stakeholders.
- In terms of Outcome 1 on *Reduction of Energy Inequality*, as per the comments on **Principle 1**, the biggest challenge to achieving universal energy access is not generating much greater amounts of energy but getting it to those who have it least. There is a growing consensus that this also requires new ways of defining and measuring energy access, moving beyond defining access as a basic household electricity connection to track the *usability* of energy services across a range of attributes: affordability, reliability, safety, sufficiency and energy that is of good enough quality. This is also crucial to track the equity dimension of investments and ensure that ‘no-one is left behind’ – a key aim of Agenda 2030. **Principle 2** of the ESS appears to recognize this when it states that ‘[p]rosperity and wellbeing can no longer be gauged by the consumption of energy but by the services derived from it’.
- For these reasons, it is concerning that the current outcome indicators (*increase of population with access to modern energy services & increase in primary energy consumption per capita in low and lower-middle income countries*) do not tell us whether energy poor people are being *connected* to energy services that are usable and therefore will not incentivise the right interventions, nor enable the AIIB and stakeholders to track progress on reducing energy inequality.

²⁷ Economic analysis by the Stockholm Environment Institute (SEI) cautions that gas might be an even bigger candidate for delivering long-term carbon lock-in than coal because gas (and oil) infrastructure is more expensive and therefore potentially has higher risks of sunk investments and meets less support for an eventual phase out compared to coal by decision makers and industry SEI, 2015. . See: <https://www.sei-international.org/mediamanager/documents/Publications/Climate/SEI-DB-2015-Carbon-lock-in-supply-side.pdf>.

- Similarly, the proposed outputs (*increase in total energy infrastructure investments in Asia & increase in energy infrastructure share of GDP*) and output indicators on: *increase in total energy infrastructure finance, PS investments leveraged, MW of power generated & KM of transmission and distribution lines* only tell us about aggregate amounts of financing, sources of financing, and generating or transmission capacity added. They do not tell us whether these interventions result in energy poverty reducing impact by connecting people to affordable, reliable, sustainable and safe energy services. Finally, all these indicators pertain to electricity access and none to access to clean and safe cooking solutions - the biggest form of energy poverty and a critical development problem in developing Asia, as the ESS highlights.
- The **Global Tracking Framework** developed by the World Bank for the SE4ALL initiative, one of the ESS' framework goals, takes an innovative 'multi-tier' approach to defining access and has been designed to measure progress across the range of attributes of a usable energy service, including quality, affordability, safety and reliability²⁸. The AIIB could be a leader in terms of MDB support for SDG7/SE4ALL by operationalizing the GTF approach through its RMF, ensuring that its access support results in real energy-poverty reducing impact.
- In line with this, we would suggest that alternative outcome indicators such as the following could be considered: Indicator 1: *Percentage of population (%) with access to electricity of at least Tier 3 of the Global Tracking Framework* (see above); Indicator 2: *Percentage of population (%) with access to clean and efficient cooking fuels and technology*²⁹. It would also be advisable for the ESS to work with client countries to develop country-specific energy access plans with specific indicators on electricity and cooking access. Specific indicators are also needed to ensure adequate investment in distributed renewables and clean and safe cooking solutions – according to the IEA, where the bulk of access investment needs to flow to meet SDG7. Organisations such as the Global Clean Cookstoves Alliance can provide expert advice on safe cooking indicators, including health indicators related to indoor pollution, such as *mortality rate attributed to household and ambient air pollution*³⁰.
- Regarding Outcome 3 on *Reduction of carbon intensity of energy supply*, we recommend the inclusion of GHG accounting and reporting of emissions reduction targets within AIIB's portfolio. While we welcome the important reference to 'regular monitoring and reporting of portfolio composition', it is monitoring and reporting on the progress and performance of the energy portfolio in relation to the framework and principles governing the ESS that is crucial. The ESS must develop a robust baseline for monitoring progress towards a less carbon intensive energy mix of AIIB's client countries. To operationalise this, the ESS should develop clear criteria and parameters, including through its RMF outputs and indicators, to ensure that country energy diagnostics are carried out, and identify country-specific monitoring indicators to evaluate individual country progress and performance.

²⁸ See: <http://trackingenergy4all.worldbank.org/>.

²⁹ CAFOD and other development groups working on energy access proposed in the context of SDG7 discussions that for household, productive and community uses, GTF tier 3 should act as the minimum level of access that can produce real development impact Tier 3 for household electricity comprises a low but adequate level of electricity which is affordable, reliable and available for eight hours a day, a package of energy services including lighting, phone charging, radio and television and an electric fan, food processing applications or a washing machine. For productive uses, Tier 3 would allow for the use of, for example, a sewing machine, a drilling machine or a potter's wheel. For cooking, we proposed GTF tier 4 should be the minimum level of access for cooking, given new evidence from the World Health Organisation on the devastating health impacts of indoor air pollution from cooking. Tier 4 would mean at least the use of a stove which either uses non-solid fuel, or a very high-quality biomass stove which is well-vented. For further information, please see *Measuring what matters in the Energy SDG* by the ACCESS Coalition of CSOs, 2015.

³⁰ See for instance, Energia and GCCA, 2015. *ENSURING THE INCLUSION OF CLEAN COOKING IN THE SDG INDICATOR FRAMEWORK*