



FAIR FINANCE ASIA

ASIAN DEVELOPMENT BANK'S ENERGY TRANSITION MECHANISM

Emerging Social, Environmental, and Rights-Based Considerations

A QUICK GUIDE

MAY 2023



Cirebon 1 coal power plant in Indonesia.
Photo: ResponsiBank Indonesia

This discussion guide is based on a paper titled [“The Asian Development Bank’s Energy Transition Mechanism: Emerging Social, Environmental and Rights-Based Considerations”](#), launched in January 2023 by Fair Finance Asia and NGO Forum on ADB. The paper highlights the following issues with the Asian Development Bank’s Energy Transition Mechanism:

- The mechanism does not require participating governments or companies to suspend the development of planned or under-construction coal power projects and commit to phasing out coal power by 2040, as the Paris Climate Agreement mandates.
- There is a lack of clarity regarding the extent to which the Asian Development Bank’s (ADB) social and environmental safeguards will apply at pilot coal power project sites during retirement (estimated by the ADB to take 10-15 years). Further, it is uncertain if surrounding communities can file grievances under the ADB’s accountability mechanism.
- Community groups, labor rights groups, local union bargaining units, and other concerned civil society groups lack channels to meaningfully shape the terms of coal power project retirement (and hence their future) as negotiations for site-specific retirements occur behind closed doors.
- There is a lack of clarity on the definition of clean energy options to be developed and the parameters for repurposing projects.
- There is a lack of transparency regarding the terms and conditions for coal power project retirement.

KEY QUESTIONS ABOUT THE ADB’S ETM

WHAT IS THE ENERGY TRANSITION MECHANISM (ETM) OF THE ASIAN DEVELOPMENT BANK (ADB)?

The ADB ETM is a top-down financing scheme intended to accelerate the process of retiring coal power from national energy grids and replacing it with other sources of power. As a market-oriented model, it provides financial incentives for coal power operators to decommission or “repurpose” coal power projects (“assets”) before their estimated operational end of life. The ADB plans to work with other financial institutions, governments, corporations, and philanthropies to implement its ETM plans.

The first ETM pilot is being planned in Indonesia, specifically at the Cirebon Unit 1 Coal Power Project (Cirebon 1). There are also plans to launch ETMs in the Philippines, Kazakhstan, Pakistan, and Vietnam.

WHO ARE THE FINANCIERS SUPPORTING THE ETM?

According to the ADB, the Government of Japan (contributing USD 25 million) and the Government of Germany (contributing USD 26 million) are the first and second financing partners of the **ETM Partnership Trust Fund (ETMPTF)**, respectively. The ETMPTF is a multi-partner trust fund established in June 2022 under the ADB’s [Clean Energy Financing Partnership Facility](#) that will mobilize resources to accelerate the transition to clean energy.

Specifically, **The International Partners Group (IPG)** is spearheading the financing of the Cirebon 1 ETM pilot. Indonesia and the other IPG co-leads¹ launched the **Just Energy Transition Partnership (JETP)** during the G20 Summit in Bali, Indonesia, held between November 15-16, 2022. The JETP secretariat was established in February 2023 and will coordinate the mobilization of USD 20 billion in public and private financing over the next three to five years.

The secretariat will also aid the Indonesian government in developing policies and investment plans to achieve Indonesia’s energy transformation objectives, including the Cirebon 1 pilot. **The Glasgow Financial Alliance for Net Zero (GFANZ)** has pledged support for mobilizing private capital for the JETP in Indonesia and Vietnam.

¹ The other co-leads are United States and Japan, and including Canada, Denmark, France, Germany, Italy, Norway, and the United Kingdom.

DOES THE ETM ADHERE TO RIGHTS-BASED FRAMEWORKS AND EXISTING SAFEGUARDS?

The ADB has not made a firm commitment or released a thorough policy analysis indicating that it will adhere to rights-based frameworks. These frameworks include the United Nations Guiding Principles (UNGPs) on Business and Human Rights and International Labor Organizations (ILO) Conventions, such as ILO Convention 169 on Indigenous Peoples' rights to land and territories. Additionally, it is unclear if the ADB's social and environmental safeguards, access to information policies, and accountability mechanism will apply when or if grievances arise.

The application of safeguards surrounding the ETM pilot in Cirebon 1 has already raised several questions and concerns. The retirement or repurposing of this power project is estimated to take 15 years or until 2037. Important questions remain unanswered, such as whether environmental and social safeguard standards will be applied during the interim years before the project is closed and whether surrounding communities and affected workers will have the ability to file grievances under the ADB's Accountability Mechanism.

In October 2022, the ADB clarified that coal power project sites identified for early retirement or repurposing through the ETM would undergo an independent environmental and social audit. The project operating companies would be expected to address any non-compliance in a manner acceptable to the ADB. The ADB suggested that their safeguards apply to each project's area of influence but added that this *“does not include impacts that might occur without the project or independently of the project, or legacy issues”*.²

IS THE ETM ALIGNED WITH CLIMATE SCIENCE IMPERATIVES THAT CALL FOR A COAL PHASE-OUT BY 2040 ACROSS THE REGION?

Although the ADB is seeking commitment from ETM pilot countries to avoid new coal power projects, it continues to support coal power projects already in the pre-permitting, permitting, and planning stages of development and coal power units already under construction.

Furthermore, the ADB has provided technical assistance and direct financing for Liquefied Natural Gas (LNG) power projects and transmission and distribution infrastructure across the region, including where the ETM will be piloted.

The continued support for existing projects and redirection of resources to other forms of fossil fuel is incompatible with climate science imperatives.

WHY MUST COAL POWER PROJECT OPERATORS DISCLOSE INFORMATION ABOUT THEIR RENEGOTIATED POWER PURCHASE AGREEMENTS AND COMMIT TO TRANSPARENCY IN THE DECOMMISSIONING PROCESS?

Disclosure and transparency ensure that operators will not be overpaid and may be held accountable for negative social and environmental impacts affecting workers and communities. This is especially important since the ETM proposes 10 to 15 years to retire coal power plants to ensure market returns.

IS THERE A CLEAR DEFINITION OF CLEAN ENERGY OPTIONS INTO WHICH ENERGY INVESTMENTS CAN BE SHIFTED?

No, there is currently no clear definition or set parameters for repurposing projects, which creates the risk of incentivizing the development of false solutions. These may include waste-to-energy incinerators, facilities that burn woody biomass, projects that replace coal with ammonia/hydrogen, pumped hydropower, carbon capture and storage infrastructure, battery plants, and nickel smelting. Such projects may worsen the unsustainable use of local resources, violating communities' rights. A clear definition of clean energy options would enable coal power projects to be rapidly replaced with renewable energy sources that are not resource intensive.

WHAT IS ONE OF THE MOST URGENT AND PRESSING RISKS FACED BY COMMUNITIES AND CSOS WORKING AROUND COAL POWER PROJECTS TARGETED FOR RETIREMENT?

There is already evidence of reprisals against communities and CSOs who have raised concerns about the planned ADB ETM pilot at Cirebon 1. The ADB needs to clarify how it responds to acts of retaliation against affected communities and CSOs, and how it intends to protect their rights, safety, and well-being. There is an urgent need for the ADB to address this issue, particularly as coal power projects operate under accelerated retirement timelines.

WHY IS IT IMPORTANT TO PRIORITIZE GRANTS OVER LOANS?

Suppose the ADB focuses on loan-based approaches for national utility companies to retire existing projects and invest in clean energy infrastructure. In that case, it will contribute to the growing national debt of developing member countries, thus adding a financial burden to their already high levels of foreign debt. Prioritizing grants instead of loans can help alleviate this burden and support a more sustainable and equitable transition to clean energy.

HOW CAN THE ADB SUPPORT A TIME-BOUND PHASE-OUT OF COAL POWER?

The ADB can assist governments in developing a schedule for phasing out coal by 2040, which includes establishing specific closure dates for each coal power unit. This process should involve consultation with workers' associations and CSOs and must be accompanied by the development of corresponding national policies.

IS THE 'ENERGY TRANSITION' ALREADY UNDERWAY IN ASIA?

No. Instead of transitioning, Asia is experiencing an 'energy addition' due to the slow adoption of climate and energy policies by policymakers, financial regulators, banks, and investors in Asia and beyond. Fossil fuel power projects and their financing continue to operate alongside the growth of renewable energy. This means that although renewable energy generating capacity is increasing, it is being added to the currently dirty and fossil-intensive grids, resulting in no net change in global greenhouse gas emissions.

To learn more about Asia's 'energy addition' conundrum, read FFA's report on Asia's energy sector financial flows, [*“Financing the Just Transition: Powering Asia's Sustainable Energy Future.”*](#)

² See: ADB (2009, June), “Safeguard Policy Statement”. Accessed online.

HOW CAN GOVERNMENTS ENSURE A JUST ENERGY TRANSITION IS ACHIEVED?

Governments play a crucial role in achieving a just energy transition. By developing policies prioritizing climate, energy, and finance and demonstrating strong political will, they are indispensable to accelerating the shift to clean energy. A long-term national transition strategy that applies a rights-based approach is necessary for the effective and accessible safeguarding of all stakeholders. Embedding the justice element in energy transition helps to ensure that international commitments, such as the United Nations Sustainable Development Goals (SDGs) and net-zero carbon emissions, are achieved without leaving anyone behind.

In recognition of this critical role, FFA calls on governments to:

- Embed access to justice elements and adopt a human rights-based approach to national climate, energy, and financial policymaking. This includes gender mainstreaming, Human Rights Due Diligence (HRDD) in decision-making processes, and access to remedy (e.g., including provisions on operational grievance mechanisms for communities and civil society).
- Develop a national energy transition strategy that aligns with climate science imperatives by supporting countries to achieve a swift coal phase-out by 2040.
- Ensure fossil fuel-dependent infrastructure and associated facilities stay out of the investment pipeline. Shifting away from coal power could become an excuse to promote the expansion of LNG infrastructure in the name of energy security in times of transition.
- Meaningfully consult and engage broader community groups, workers' unions, and civil society throughout the ETM process.
- Develop mandatory green and brown taxonomies to define clean energy and environmentally friendly standards and practices while encouraging and supporting transition finance. This approach will discourage the shifting of investments into undefined 'clean energy' and carbon-intensive 'repurposing' technologies, which are false solutions to energy and climate issues. It will also lower the risk of incentivizing the development of such false solutions.
- Proactively consider the risks of reprisals and retaliation to community members and CSOs working in and around coal power projects targeted for retirement.
- Heed calls by national and local social movements in pilot countries for a faster and transparent phase-out of coal power projects, reparations and restitution for coal-affected communities, and broader, more systemic changes to ensure a just transition.



Construction of Cirebon 2.
Photo: ResponsiBank Indonesia

CIVIL SOCIETY ACTION ON ETM: AT A GLANCE

- In Indonesia, the first ETM pilot is being implemented at Cirebon 1, and CSOs participated in the **Strategic Environmental and Social Assessment (SESA)** discussions in late January 2023. On June 12, 2023, the Indonesia JETP Secretariat invited Indonesian CSOs to provide their inputs and recommendations for the comprehensive investment plan. During the discussion, participants identified risks and potential environmental and socio-economic issues, as well as the benefit and opportunities. CSOs also provided recommendations on what kind of policy interventions and governance reforms may be able to support the JETP, particularly working groups in the JETP Secretariat.
- In Pakistan, the ADB circulated the inception report and ETM pre-feasibility study and invited civil society to comment. Civil society responded on April 10, 2023, highlighting gaps in the pre-feasibility reports, including:
 - › **Lack of transparency and openness in engagement:** The pre-feasibility report and regulatory analysis reports are not uploaded on the ADB website, which goes against ADB's engagement policy. Many CSOs and stakeholders who do not have a line of communication with ADB will be left out of the consultation process.
 - › **Need for a broader spectrum of communities:** ADB currently only considers communities directly engaged with assets and owner companies in their assessments of impacted communities. This excludes broader communities affected by pollution from power plants and other polluting assets. The ADB needs to broaden the scope of the Just Transition concept when it comes to engagement with communities for compensation.
 - › **Limitations of Just Transition criteria:** The ADB needs to prioritize the creation of employment opportunities in clean energy projects for affected communities where the polluting assets are located. There is a danger that communities in areas where fossil fuel-based power generation is concentrated will be left behind and remain disadvantaged. To ensure a just energy transition, the ETM model needs to create a cohesive framework for guaranteeing employment opportunities, as there is no certainty that fossil fuel operators will shift to clean energy projects and provide jobs.

› **Problematic exclusion of gas-fired power plants from the ETM process:**

Pakistan's growing reliance on imported LNG is a significant contributor to its deepening economic crisis and security of energy supply, compounded by major global events such as the Russia-Ukraine war. Reliance on imported energy has drained foreign exchange reserves and limited fiscal space. Recently, Pakistan shared plans to accelerate the privatization of two LNG power plants due to difficulties in financing operations. Despite its substantial adverse environmental impacts, including the emission of methane and other toxic sulfates that worsen Pakistan's air pollution issue, the ADB considers gas a transition fuel. This raises an important question about why the ADB does not include gas-fired power plants in its pre-feasibility studies for the ETM pilot in Pakistan.

› **Ambiguous Selection of Power Plants in the Multi-Criteria Analysis (MCA) report:**

The three power plants identified for retirement under MCA are primarily medium capacity, with limited impact on Pakistan's energy mix. Even after these three power plants are retired, thermal power plants will still dominate most of Pakistan's energy mix. More comprehensive aspects, such as the capacity of an asset, lifecycle, and contingencies involved in the ETM stakeholders' engagement process, should have also been considered by ADB for selecting power plants.

- On April 25, 2023, Dawn, one of Pakistan's most prominent English-language newspapers, published the story "Messing up decarbonization", which highlighted the issues raised by civil society. The ADB and its consultant declined to respond or comment stating that "any query should be sent to the Ministry of Climate Change, which is the owner of the ETM project."³
- Civil society representatives from Pakistan, attending the World Bank and International Monetary Fund Spring Meetings held in Washington DC, United States (US), were able to meet with US Treasury representatives who assured them that, under US policy, gas would not be considered as a transition fuel.
- During the 56th ADB Annual Meeting from May 2-5, 2023, civil society representatives from Pakistan presented their findings and stories from national and grassroots consultations and data gathering as part of the official program. Simultaneously, a press release was issued to members of the Pakistani media, highlighting calls for climate justice and the significant air pollution issues caused by coal power plants. The press release also provided an overview of the ADB ETM report.

- In February 2023, CSOs in Japan released a [briefing paper](#) titled "Problems with First Use of ADB Energy Transition Mechanism: Despite so many problems with process and unresolved issues, how can Cirebon Unit 1 coal power plant in Indonesia see a proper early retirement?" The issues highlighted in the paper and the ADB ETM report were shared with the Japanese Ministry of Finance (MoF) and emphasized that the ADB is sidestepping its accountability and safeguarding mechanisms in Cirebon 1. Concerned CSOs have requested that the ADB audit team ensure that broader and more inclusive engagements with affected communities are conducted in Cirebon 1 and that the audit report be disclosed.
- On April 17, 2023, the G7 Environmental Ministers issued a joint statement agreeing to promote the development of clean hydrogen technologies worldwide. The US, UK, and Canadian governments publicly criticized Japan's support for co-firing ammonia in coal-fired power plants, stating that it does not contribute to decarbonization. Japanese civil society groups hope this development will create enough momentum to advocate for excluding ammonia-based technologies from ETM repurposing options. In an upcoming meeting, they plan to raise this issue with Japan's MoF staff.
- On April 26, 2023, a regular meeting took place between Japan's MoF and civil society. During the meeting, the MoF informed civil society that they would not provide JETP support for gas, co-firing of ammonia, carbon capture and storage (CCS)/carbon capture, usage, and storage (CCUS), as the JETP only supports fossil fuel-free/non-fossil fuel technologies. Japan's MoF emphasized that there are diverse ways to achieve the net-zero target and align with the Paris Agreement. However, Japanese civil society organizations cautioned that this implies that the government is considering other pathways to the energy transition, which may involve fossil fuel technologies, such as the ETM and bilateral support.
- In the Philippines, civil society groups have raised concerns about the lack of clarity and transparency regarding the status and updates on the planned ETM pilot in the country.

³ <https://www.dawn.com/news/1749049>

MORE INFORMATION

Read Fair Finance Asia's
**"The Asian Development Bank's Energy Transition Mechanism:
Emerging Social, Environmental and Rights-Based Considerations"**
report via:

<https://bit.ly/3XznddY>

Read Fair Finance Asia's
**"Financing the Just Transition:
Powering Asia's Sustainable Energy Future"** report
via:

<http://bit.ly/3Uz2CnR>

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