



Asia Seeks to Accelerate Transition to Low-Carbon Society

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Washington CORE recently sat down with Craig Steffensen, former North American Representative of the Asian Development Bank (ADB), to discuss international efforts to support carbon reduction. The following article comes out of our conversation.

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The Gateway to a Decarbonized Society: ADB's Energy Transition Mechanism (ETM)

On October 20, 2021, the ADB approved its new energy policy, "Supporting Low-Carbon Transition in Asia and the Pacific". ADB President Masatsugu Asakawa emphasized the need to support efforts to secure reliable and affordable energy through a transition to a low-carbon society. Around the same time, the ADB launched the Energy Transition Mechanism (ETM), an important initiative that aims to accelerate the retirement of coal powered stations and replace them with clean renewable energy sources.

Through the ETM, the ADB hopes to accelerate the achievement of goals announced by the international community at the October/November 2021 United Nations Climate Change Conference, or COP26, in Glasgow. The ADB aims to phase out coal-fired power plants and stimulate investment in renewable energy and clean-tech solutions such as smart grids, and hydrogen and electric vehicles. If the ETM is successful in Asia and the Pacific, other parts of the world such as Latin America and Africa might initiate similar approaches.

The first step in the ETM process is to conduct pre-feasibility studies on coal-fired energy facilities that meet the ETM criteria. Next steps will depend on how the parties agree to proceed. It is likely that a Request for Proposal (RFP) would be prepared to examine the technical, financial, and legal feasibility of reducing a particular coal facility's life cycle by 10-15 years. By arranging lower cost financing to replace current financing, existing loans can be retired early, thereby encouraging investors to respond to the RFPs and lead the energy transition.

Transition in Indonesia, the Philippines, Pakistan and Vietnam

The ETM targets countries with coal-fired power plants. The current focus is on those countries that have been identified as heavy polluters based on their portfolio of energy generation facilities. The ADB, Indonesia, and the Philippines launched their ETM Southeast Asia Partnership in November 2021. The ADB plans to release its initial ETM findings on Indonesia and the Philippines in March 2022. The ADB also announced in December 2021 that Pakistan will participate in the ETM, while Vietnam is under consideration as a participant in the ETM program. Denmark, the United Kingdom, and the United States, as well as institutional investors and private foundations, have expressed their support for the participation of the countries selected by the ETM.

As part of the ETM process, participating countries will be given incentives to retire their coal-fired power plants sooner than planned and switch to renewable energy. The switch will not be immediate but will be phased in an appropriate manner. Indonesia, for example, already has alternative energy facilities such as geothermal, solar, and hydroelectric plants, and will seek to explore and expand its energy options under ETM.

Leveraging Private Sector Financing

The World Bank, ADB, Japan Bank for International Cooperation (JBIC), Japan International Cooperation Agency (JICA) and other multilateral and bilateral frameworks have decades of experience working with private investors to facilitate project development and financing. It is understood that trillions of dollars will be needed to meet the ambitious CO₂ reduction goals set at COP26. It is estimated that \$7.7 trillion in funding has already been identified, but another \$5.2 trillion will be needed by 2050. Multilateral development banks and bilateral partners alone cannot provide anywhere near this amount of funding. As ADB President Asakawa recently noted in an interview with Time magazine, "ETM has the potential to be one of the world's biggest carbon-reduction programs, but it [will] not be possible without the political will of countries, the capital of the private sector, the concern of philanthropies and the knowledge of organizations such as the ADB."



The private sector will therefore need to play a central role in the transition to low-carbon technologies. Businesses are investing in new technologies related to low-carbon or carbon neutral efforts on a massive scale. Tesla, for example, already has a market capitalization of close to \$1 trillion and delivered almost one million electric vehicles in 2021. In addition, there are new sources including impact funds and mission funds such as Amazon's Climate Pledge and Bill Gates' Breakthrough Energy Ventures. Venture capital can facilitate the transition by investing in startup companies that develop renewables and other carbon neutral technologies. The point is private capital can be mobilized to invest in low-carbon technologies that contribute in very important ways to international efforts to move towards a low-carbon/carbon neutral world.

Although the ADB's ETM is only a "drop in the bucket" compared to what is required, the ADB funds will play an important role in the transition to a low-carbon society. Simply shutting down coal-fired power plants is not a solution because doing so could negatively affect communities, disrupting the livelihoods and prospects of local populations. The ADB and its partners can assume important roles in mitigating the impacts on communities affected by the transition.

China's Rapid Movement Towards Transition

According to the International Energy Alliance (IEA) report, China's efforts to reduce CO₂ emissions are underway and its target could be reached before 2030, possibly as early as 2025. If so, China will achieve carbon neutrality earlier than the COP26 target. The IEA is optimistic that China will improve its energy efficiency, expand renewable energy, and reduce coal use.

At COP26, the United States and China agreed to a compromise on key environmental issues. Historically, China and the U.S. have sought to assign blame for Greenhouse Gas (GHG) emissions. Over the past century, the U.S. was the largest GHG emitter while China's rapid, export oriented economic development began much later, in the 1980s. China felt it was being forced to reduce its current GHG emissions and viewed the U.S. as getting a free pass for past emissions. Over time, however, China has come to see efforts to combat climate change as business opportunities for companies that provide cost effective GHG emissions solutions.

Japan's Role in the Transition

The ADB's support for sustainable development has accelerated in recent years. ADB President Asakawa has pledged to provide \$100 billion in climate finance to ADB member countries between 2019 and 2030. To achieve this goal, the ADB will need to work in tandem with development partners.

Japan and the U.S. share a vision for sustainable economic development and quality infrastructure in Asia and the Pacific. The U.S. has supported Japan's leadership role in this regard. The Japanese government is also collaborating and sharing innovative approaches with the governments of participating countries and their civil society including academia, NGOs and private investors.



Craig Steffensen, who currently works as an independent consultant, spent most of his career in positions of increased responsibility at the Asian Development Bank, both in headquarters in Manila and in the field. Moving from Programs Officer to Resident Advisor to Country Director, Mr. Steffensen was ultimately assigned to be the Representative in the North American Representative Office (NARO) in Washington, D.C. At NARO, he supported efforts to mobilize finance for developing member countries and to establish and deepen partnerships with international organizations, academia and the U.S. and Canadian governments. Mr. Steffensen has served in Thailand, Afghanistan, Cambodia, Laos, the Philippines, Kazakhstan and the U.S. and speaks nine languages. Mr. Steffensen received his bachelor's degree at Purdue University and his master's at University of Wisconsin, and served in the Peace Corps in the rural Philippines.

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