

Commentaries on

US Treasury's Guidance to MDBs for Engaging with Developing Countries on Coal-Fired Power Generation

The US Treasury's "*Guidance to MDBs for Engaging with Developing Countries on Coal-Fired Power Generation*" is intended to encourage "*no or low-carbon*" energy options prior to a coal-based choice by providing assistance at both a programmatic level and a project level. However, the vagueness of the guidance not only overshadows such an intention, but more profoundly makes the guidance difficult to be followed as expected.

At the programmatic level, the guidance failed to address the long-term carbon issue from a systems perspective. It did recognize the need for local capacity building to evaluate the "*no or low-carbon*" potentials and would provide assistance to develop such a competence. Yet, building the capacities needed to get a low-carbon development plan developed and implemented with the desired efficacy requires a systematic approach. With or without a resulting low-carbon development plan from Copenhagen Climate Conference (COP15) subsequent events, MDBs should help borrowing nations build long-term energy planning capacity for low-carbon development. This can be seen as a strategic step that MDBs would take to phase out carbon-intensive energy solutions such as coal-fired power plants without carbon capture and storage (CCS) (providing that CCS would eventually become a scientifically proven, technologically mature, economically viable and commercially available solution for removing carbon dioxide from carbon combustion streams.)

At the pre-appraisal and appraisal stages of an energy project, the guidance specifies a step-by-step procedure that MDBs should adopt to fully examine "*no or low-carbon*" options before making a deal on coal. This is a positive step. The problem is that several loopholes can be found in the procedure. Specifically, in "*2.1 Alternative analysis*", the guidance suggests that the option of "*more carbon efficient fossil fuel generation*" could be included in the "*no or low-carbon resources*" portfolio. The coverage as defined this way could be interpreted in two possible ways: 1) less carbon intensity embedded in a given fossil-based energy fuel, such as natural gas as opposed to coal; or 2) more energy output per unit of energy input, such as energy efficiency improvements on the supply side, or even combined heat and power (CHP). Moreover, under the category of "*supply side efficiency improvements in other plants*", any measure to improve energy efficiency on the supply side, often covering both generation and transmission systems could justify a proposed project as a "*no or low-carbon*" action, regardless of how much efficiency would be achieved and at which part of the energy supply system. The implication of these policy loopholes is the potential justification for the financing of projects that would otherwise be phased out due to their obsolete generation technologies.

With respect to the "*2.2 Economic Analysis*", it is unclear whether the environmental externalities (seen in footnote 4) will be included in the economic analysis, and whether the CO₂ externality will be treated as an environmental externality. By contrast, some MDBs, such as the World Bank Group (WBG), have explicitly stipulated that the least cost options should take into

AMPLIFYING LOCAL VOICES TO DEMOCRATIZE DEVELOPMENT

account environmental externalities, or even specifically CO₂ externalities as the European Investment Bank (EIB) has noted.

The guidance requires MDBs to make substantial efforts to assist borrowers in seeking external financial resources to cover the incremental costs, should an alternative option to coal turn out to be more expensive. However, it did not set criteria to measure “*substantial efforts*” that MDBs would make to help borrowers find such resources before MDBs could claim a failure and resort to appraising the coal project.

With respect to “offsetting actions”, the actions that were proposed in the guidance might be problematic in both theory and reality. For example, how would one ex-ante evaluate and quantify a policy initiative in terms of the amount of greenhouse gas (GHGs) emissions avoided? This is a risky approach. Policy as a means to create an enabling environment for low-carbon growth can never guarantee the quantity of the resultant GHGs avoided, while its effects can be ex-post evaluated. As BIC stressed in its previous communication with Treasury on this matter, serious potential policy loopholes might be created if the issues related to the proposed “offsetting” actions are not handled prudently. BIC would like to see further efforts from Treasury to work out a detailed offset strategy, elaborating on different options/suggestions to develop offset mechanisms and assessment tools. In addition, greater clarity is needed as to whether all MDBs will apply the harmonized mechanism/approach and tools for monitoring, measuring and verifying offsets. Treasury should indicate which protocol it will encourage MDBs to adopt for GHGs accounting and auditing.

In terms of technology choice for proposed coal-fired power plants to be financed, basically the guidance provides only two broad principles, i.e. using best internationally available technology, and subcritical pulverized coal technology should not be supported. How the best internationally available technology should be defined was not specified. In comparison, some MDBs have already developed a much more detailed procedure and set of criteria, such as the Inter-American Development Bank (IDB).

Lastly, although the guidance stated that the procedures (seen in 2.0) may be applied differently to borrowers in the public sector versus those in the private sector, it did not specify how so.