

# Written Submission on Asian Development Bank's (ADB) September 2023 Draft Environmental and Social Framework (ESF)

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## COMMENTS ON ADB’S DRAFT SAFEGUARDS RELATED TO CLIMATE CHANGE: ESS 9 AND ESS 3

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### Introduction

We appreciate ADB’s willingness to strengthen its 2009 *Safeguard Policy Statement (Safeguards)* to better address the complexities of implementing high-impact, environmentally sustainable projects in a changing climate. We particularly appreciate the inclusion of a new stand-alone Climate Change Safeguard (ESS 9), which is essential and long overdue.

Like the current *Safeguards*, the revisions will guide ADB’s risk management for a decade or more. ADB should therefore incorporate existing and emerging best practices to align the goals of climate mitigation, resilience, environmental responsibility, and poverty alleviation in ways that serve the needs of all ADB’s stakeholders. It should aim to make its policies the “gold standard” for other development and private-sector institutions to emulate.

### Guiding principles

The revised Safeguards should aim to capture synergies among ADB’s development and climate objectives under “deeply uncertain” climactic conditions.

The Bank’s climate safeguard should be guided by two core principles. First, climate change will impose a layer of “deep uncertainty” over many investment decisions, which will require more sophisticated assessment and decision-making approaches that, among other things, better integrate stakeholder inputs.<sup>1</sup> (See section 3 below).

Second, ADB’s climate mitigation and adaptation goals are not in tension with its core mission of promoting “a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining

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<sup>1</sup> See, Hellegate, et. al (2012). [Investment Decision Making Under Deep Uncertainty: Application to Climate Change](#), (World Bank); Kalra, et. al. (2014). [Agreeing on Robust Decisions New Processes for Decision Making Under Deep Uncertainty](#), (World Bank).

its efforts to eradicate extreme poverty.” Ample opportunities exist for ADB to support projects that capture synergies among these objectives, particularly through transformational improvements in end-use efficiency of energy, water and other resources. Indeed, capturing these synergies should be a core ADB objective, and a primary goal of the revised *Safeguards*.

To incorporate these two insights, the revised *Safeguards* should:

- Adopt best practices on project selection, appraisal, and alternatives assessment that fully account for the costs, risks and uncertainties of climate change;
- Narrowly focus the Bank’s efforts on targeting “win-win-win solutions” that are robust under a range of potential climate scenarios and that will create environmental benefits while advancing development, adaptation, and mitigation;<sup>2</sup> and
- Exclude support for activities with significant tradeoffs among these goals.

## **ESS 9: CLIMATE CHANGE**

### **1. ESS 9’s “Objectives” should be broadened and aligned with the mitigation hierarchy.**

The proposed Objectives (Section II) are to “minimize absolute and relative GHG emissions attributable to a project,” “monitor and report project-related GHG emissions,” and “manage project-related climate risks and contribute to enhancing climate resilience.” This is far too narrow and lacks ambition.

First, ESS 9 should cover more than just “projects”; it should cover all ADB programs, including program-based and performance-based lending and financial intermediary support.

Second, ADB’s objective should be to ensure that all the activities it supports follow best practices and are worthy of emulation. They should be net-zero emissions, hyper-efficient, and resilient to even the worst climate scenarios. They should accelerate a just transition to a clean economy. They should use only the best available technologies.

Third, the objective contradicts the mitigation hierarchy that applies to all other pollutants and impacts, in which the first goal is to “avoid” rather than “minimize” emissions and impacts.

### **2. The greenhouse gas reduction requirements should be strengthened. (paras. 4, 8-11)**

**Para. 4** provides that “Where a project emits GHG, the borrower/client will promote the reduction of such project-related GHG emissions, *in a manner proportionate to the nature and scale of the project operations and impacts.*” (emphasis added). This standardless ad-hoc approach is inconsistent with para. 8’s requirement that clients consider specific types of alternatives to reduce their emissions. It should be deleted.

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<sup>2</sup> See, e.g., World Bank (2010). [\*2010 Environment Strategy: Analytical Background Papers: Assessing the Environmental Co-Benefits of Climate Change Actions\*](#), at 4.

**Para. 8**, which sets out the substantive mitigation requirements, should be strengthened by:

- **Requiring rigorous alternatives assessments** using life-cycle analysis of emissions to ensure that there are no feasible, lower-carbon alternatives to meeting the same development objectives. Alternative assessments should not be mere *pro-forma* exercises intended only to justify the proposed project.<sup>3</sup> Done well, they can point ADB and its borrower/clients towards cheaper, cleaner, and more pro-development alternatives;<sup>4</sup>
- **Requiring clients to “avoid” emissions** in accordance with the mitigation hierarchy. ESS 9 requires that borrower/clients only “minimize” greenhouse gas emissions. But for all other pollutants and impacts, they must “avoid” emissions and impacts as the “first priority,” and minimize adverse impacts and pollution only where avoidance is “not possible.” (ESS 3, Objectives IIa and b, para 18; preamble; ESS 1, para. 29). Greenhouse gases should be treated the same as other pollutants, and avoidance should be the priority. Moreover, once avoidance and minimization strategies have been exhausted, the mitigation hierarchy and a true Paris-aligned approach require residual emissions to be offset, so that ADB-supported projects achieve “net-zero” emissions. (ESS 1, para 30.).
- **Clarifying expectations around “relative emissions”** and explaining the circumstances in which ADB will support projects with positive relative emissions. ADB should require negative relative emissions, or at least create a strong presumption requiring proponents to justify positive relative emissions.

**Para. 10** should require best-practice carbon accounting methodologies, not whatever ADB is willing to accept on a case-by-case basis. Para 10’s *ad hoc* approach is inconsistent with ADB’s goal of harmonizing best practices carbon accounting standards across the IFIs (Vision, para. 6).

The social cost of those quantified emissions should also be assessed. The social cost of carbon should be included in the economic rate of return analysis, and ADB should not support projects whose total economic costs, including carbon impacts, exceed anticipated benefits.

### **3. The resilience and adaptation provisions should be strengthened. (paras 5, 7, 12-14)**

Rigorous assessment and management of climate-related risks are critical to ensure that supported projects remain viable, deliver their intended development benefits, and enhance the resilience of local communities and ecosystems as climactic conditions change over time. Towards this end:

**Para. 7** should be clearer that affected communities will have a meaningful voice in articulating their resilience priorities and devising measures to address them.

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<sup>3</sup> Colleagues have previously provided ADB with [recommendations](#) on conducting robust alternatives assessments.

<sup>4</sup> In the energy sector, for example, rigorous alternatives assessments that compare demand- and supply-side options, such as integrated resource planning tools, should be used to ensure that the lowest carbon alternatives are selected. These assessments should identify a technology-neutral development objective (such as meeting peak demand or expanding access to basic electricity services) and evaluate portfolios of clean energy and energy efficiency resources that can meet those needs instead of new or existing fossil fuel power plants. Shwisberg, et. al (2021). [How to Build Clean Energy Portfolios: A Practical Guide to Next-Generation Procurement Practices](#), RMI.

**Para. 12** should provide clearer direction to clients on assessing and managing direct project impacts, such as how water stress, severe weather events, and other climate impacts will affect project viability and development effectiveness. It should also address indirect impacts, such as how project operations and business plans will be affected as climate change alters the local economy and resource base. And it should address transition and regulatory impacts, including how the responses of relevant markets and regulators will impact project outcomes.

**Para. 12** should also provide more clarity on how borrower/clients should assess the risks that their activities may affect the ability of host communities and ecosystems to adapt to climactic changes. For example, they should assess the impacts of the project on the resilience of affected ecosystems and their capacity to provide ecosystem services to local communities. This assessment should disaggregate impacts on the poorest and most vulnerable and consider the cumulative effects that the project and other existing and future projects may have on climate resiliency.

**Para. 12** should also incorporate new planning and assessment approaches to address growing climate uncertainty. Because historical weather patterns may no longer be a reliable guide to future conditions, and it may not be possible to assign probabilities to various climate scenarios, potential outcomes and project alternatives must be assessed under conditions of “deep uncertainty.”<sup>5</sup>

In order to identify choices that will be robust under various climate scenarios, decision-making processes must (a) identify the vulnerabilities of a proposal and its alternatives to a range of performance criteria and risks; (b) identify a set of potential climate change scenarios (e.g., low, medium, and high) and evaluate the performance of each alternative under each scenario; and (c) identify which plans are robust to the futures deemed likely or otherwise important to consider.

Effective strategies to manage climate uncertainty focus on:

- **No-regrets investments** that can succeed even if initial assumptions about climactic conditions prove to be in error;
- **Flexible and reversible investments** that allow for course correction to address erroneous climate forecasts;
- **Investments with shorter time horizons** to avoid long-term lock-in of maladaptive initiatives; and
- **Expanding safety margins** to reduce vulnerability.<sup>6</sup>

Critically, such processes require deeper public consultation to determine “which project vulnerabilities to consider, which performance metrics suggest success, acceptable levels of risk, and which possible scenarios to evaluate. The stakeholder process is an opportunity to further fortify the project against uncertainty, as a variety of viewpoints and concerns can simultaneously be addressed in distinct scenarios.”<sup>7</sup>

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<sup>5</sup> See, Hellegate, et. al (2012). [\*Investment Decision Making Under Deep Uncertainty: Application to Climate Change\*](#), (World Bank); Kalra, et. al. (2014). [\*Agreeing on Robust Decisions New Processes for Decision Making Under Deep Uncertainty\*](#), (World Bank).

<sup>6</sup> Hellegate, et. al., at 16-17.

<sup>7</sup> Hellegate, et. al., at 10.

**Para. 13** should rule out support for projects that are unviable (or too risky) under a changing climate. Yet, the current version only requires the borrower/client to address adaptation and resilience in project design and implementation “*where technically and financially feasible and proportionate to the nature and scale of a project....*” (emphasis added).

This is not an effective approach to managing climate risk. It means that ADB could support projects whose benefits will not be realized given anticipated climate impacts, or projects that will undermine the resiliency of their neighbors, if making them resilient would be too cumbersome or expensive. It is not clear why such projects should go forward with their climate risks unaddressed.

#### **4. The prohibited activities list should be expanded to include other climate-damaging technologies and practices.**

The updated *Safeguards* should exclude all categories of greenhouse gas-intensive projects that are incompatible with 1.5°C trajectories under the latest science and analysis. For example, they should preclude support for (a) new fossil fuel-based electricity generation; (b) projects that produce hydrofluorocarbons and other super-pollutants; (c) projects that compromise large carbon sinks, such as those that involve large-scale land clearing and soil degradation; and (d) projects that use the highest emitting practices and technologies in energy, agriculture and other greenhouse gas intensive sectors. ADB should solicit public and expert comments to develop appropriate sectoral standards and implement the revised exclusions at the same time as the revised Safeguards.

#### **5. Public disclosure and monitoring requirements should be expanded.**

All of the carbon accounting, impact assessments, and risk mitigation plans required under ESS 9 should be available for public review and comment prior to Board approval.

Management should provide the Board with regular reports on the implementation of ESS 9 to enable the Board to better understand what additional measures and resources might be needed to successfully support borrower/clients in dealing with a rapidly changing climate.

#### **6. Borrower/client capacity to assess and manage climate risks should be supported.**

To ensure good outcomes, ADB may need to assist borrower/clients that lack the capacity to conduct such complex climate impact assessments and implement appropriate mitigation plans.

### **ESS 3: RESOURCE CONSERVATION AND POLLUTION PREVENTION**

#### **7. ESS 3 should encourage an “efficiency first” approach to project selection.**

Increasing resource efficiency, particularly in the energy sector, is essential for simultaneously advancing development, environmental, and climate objectives. The International Energy Agency has noted that energy efficiency improvements offer enormous opportunities to advance macro-economic development, strengthen public budgets, improve health, increase industrial

productivity, and advance energy security and affordability.<sup>8</sup> Others have found that improving end-use efficiency can do more, faster, cleaner and at lower (often negative) cost and risk to help countries meet their energy and resource needs than other approaches.<sup>9</sup>

Despite these benefits, ESS 3 does not steer investments towards an “efficiency first” approach to project selection. Instead, it focuses only on improving efficiency within the context of the proposed project and its implementation. This is a serious oversight.

**Paras. 8, 12 and 13** should require that energy-, water-, and other resource-intensive projects undergo a rigorous alternatives assessment to determine if the services that they will provide can be delivered through more efficient approaches, including demand-side alternatives.

Once a specific project has been identified, **Para. 12** should treat improved energy efficiency as a core avoidance strategy that should be prioritized wherever possible under the mitigation hierarchy. But unlike the analogous water conservation provisions in Para. 13, Para. 12 does not require avoidance through energy efficiency. Instead, it requires borrower/clients only to “optimize energy use.” Para. 12 should require energy-intensive projects to undertake an efficiency audit to identify and capture opportunities to reduce resource use and improve efficiency.<sup>10</sup>

**8. ESS 3 should require the use of best available technologies to improve resource efficiency.**

**Para. 10** should adopt minimum performance standards for the material inputs and equipment used on ADB projects. Dirty or inferior technologies should not be used in buildings, heavy equipment, steel and other resource inputs and energy or water consuming devices. Para 10 should create a strong presumption that borrower/clients will use “best available technologies” unless they show that such technologies are not appropriate to the project circumstances.

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<sup>8</sup> International Energy Agency (2014). [Capturing the Multiple Benefits of Energy Efficiency](#); International Energy Agency (2022). [The Value of Urgent Action on Energy Efficiency](#).

<sup>9</sup> U.N. Secretary General’s Advisory Group on Energy and Climate Change (2010). [Energy for a Sustainable Future](#); Lovins, A. (2005). [Energy End-Use Efficiency](#).

<sup>10</sup> EBRD supports such energy efficiency efforts through its [Sustainable Energy Initiative](#).