

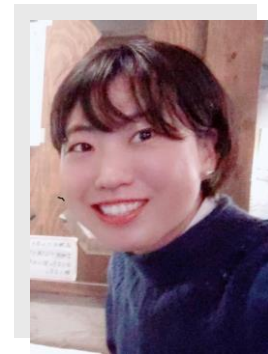
Student blog posts in the context of
“Sustainable, resilient, and inclusive
societies beyond COVID-19”

Will donors’ coal finance policy towards developing nations be an effective solution for tackling climate change challenges?

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“Hundreds of millions of people in Asia still have no or limited access to electricity while growing electricity demand. Some countries plan to fill the demand-supply gaps by coal-fired generation, but bilateral donors and multilateral development banks (MDBs) exit from financing coal-fired plants to tackle climate change challenges. Will this coal-exit policy be effective in changing developing nations’ coal policies? The answer is as yet unknown. But there shall be a solid and clear strategy shared among all financiers. Otherwise, it may bring a negative impact on the region.”



Climate change has been recognized as one of the most important and urgent global challenges over the past several years. Both advanced and developing nations are equally responsible for taking measures to tackle such challenges. Asian Development Bank (ADB), one of the Multilateral Development Banks (MDBs), announced an exit from financing coal-fired power and heat plants. The announcement is stated in its [draft energy policy paper](#) released in May 2021. Instead, ADB will assist developing member countries by promoting regional cooperation aimed at energy sector reform to phase out coal usage.

On the other hand, ADB’s developing member countries still need to invest in electricity infrastructure. ADB estimates that [400 million people](#) lack access to electricity in Asia and the Pacific region. It is necessary to reach people without electricity connections and increase the total electricity supply. International Energy Agency (IEA) estimates that due to economic growth in Southeast Asia, the electricity demand will rise by [50%](#) in 2030 compared to the 2019 level. Countries like Indonesia, the Philippines, and Vietnam plan to invest in new coal-fired plants to secure electricity supply in their national energy policies.

Since these policies preceded the ADB’s exit policy announcement, ADB and other major financiers now support energy policy shifts to reduce the number of coal-related projects. However, it is unknown whether such support leads to policy shifts and improved efficiency in electricity use and thus reduces the need to rely on coal

by developing nations.

With the coal exit of bilateral donors and MDBs, developing nations may try to find their own way to achieve their goals. Developing countries may procure and build coal-fired power plants without any environmental measures in the worst-case scenario. This will lead to continued greenhouse gas emissions over a long period. The concerted efforts to tackle climate change challenges will be quickly canceled out.

Withdrawing from fossil fuels, especially coal as an energy source, is ideal for tackling climate change challenges. Actually, there is a global trend for international organizations or multinational companies to discourage or preclude the use of coal altogether. Until recently, some banks or insurance companies left some spaces to finance or give insurance for coal-related projects under certain conditions. But they are now shifting their policies toward not accepting any projects and exiting the field. Will such an aggressive goal chasing be successful?

Some developing nations still consider investing in new coal-fired plants despite the global trend and a possible MDB support for energy sector reform. In light of this, a transitional period to accept a certain amount of coal-fired generation with reliable environmental measures may need to be considered the second-best option to help reduce greenhouse gas emissions. However, the second-best approach will be effectively feasible only when agreed upon among advanced and developing nations and supported by bilateral donors and MDBs.

Reaching an agreement is no easy task, as shown by the G20's failure to agree upon crucial climate change commitments in their final communique in [July 2021](#). G7 members tried to elicit cooperation to achieve the Paris Agreement goals from other G20 members, especially China, India, and Russia. But the gap remains as to their positions on coal-fired plants.

No numerical targets for reducing carbon emissions or coal-fired plants have been agreed upon for developing nations. At the same time, there remain opportunities to procure coal-fired plants without environmental measures. For now, it is essential to look closely at developing nations' decisions not to run counter to the moves toward climate change actions.

About the author

Kaho Matsuura is a second-year master's student at The University of Tokyo's Graduate School of Public Policy. She had worked in a Japanese private manufacturing company in the power sector for five years. Her interest in policymaking and evaluation of hard infrastructure projects, especially the power and energy sectors in developing countries.

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