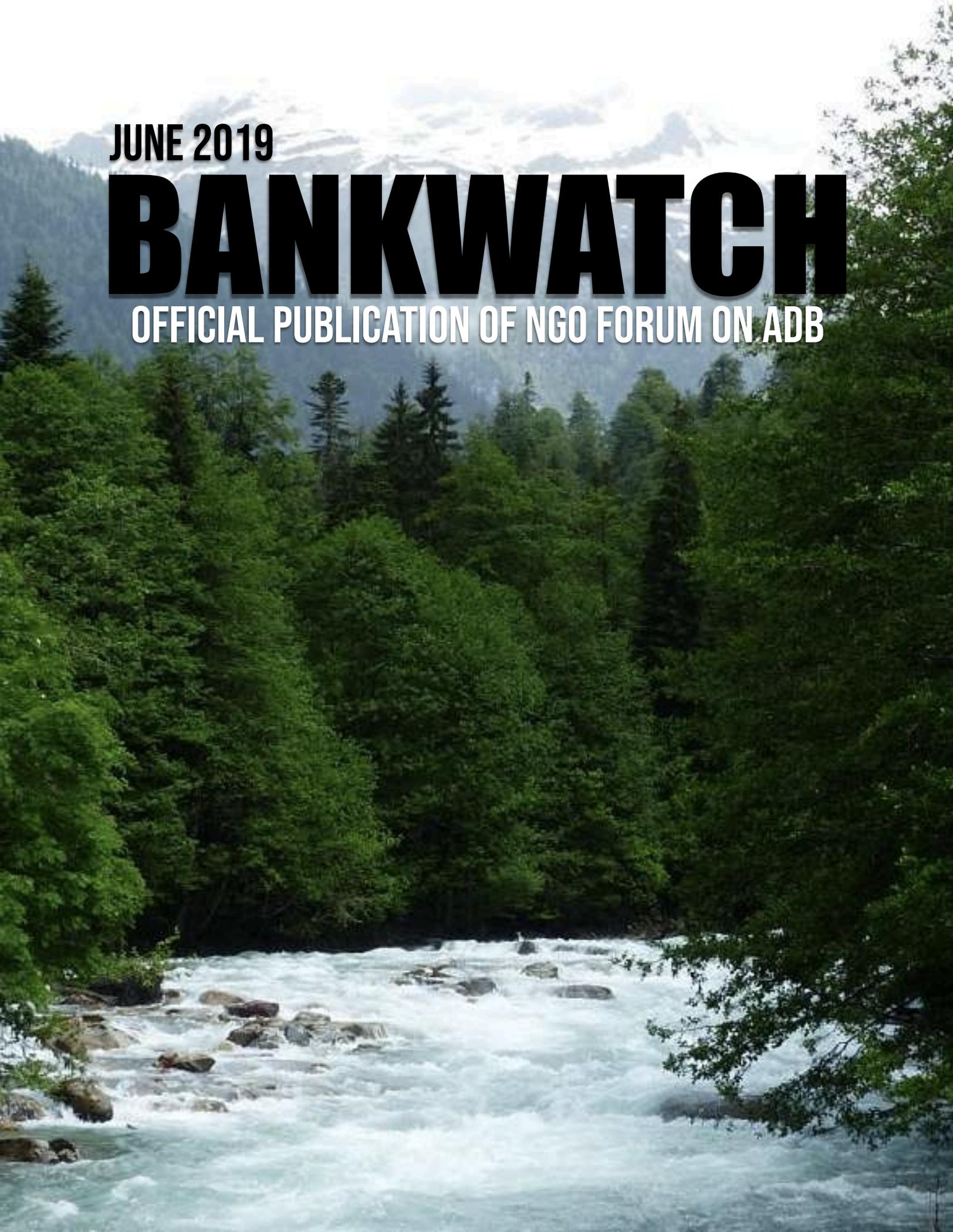


JUNE 2019

BANKWATCH

OFFICIAL PUBLICATION OF NGO FORUM ON ADB



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***** Cover Photo was taken from CEE Bankwatch page on Nenskra hydropower plant, Georgia.**

WORDS FROM THE EXECUTIVE DIRECTOR

Dear Readers,

This is our second BANKWATCH issue for the year 2019, it features articles about the Asian Development Bank (ADB) funded Nenskra Hydropower Project written by CEE Bankwatch and the China funded Kaliwa Dam, written by HARIBON Foundation.

An article about the Electric Power Industry Reform Act (EPIRA) after 18 years is also included in this issue, written by Rene E. Ofreneo from Freedom from Debt Coalition.

Also, this issue features an article about the World Bank fossil fuel problem written by Nezir Sinani, BIC Europe & David Predd, Inclusive Development International.

Lastly, a piece about Debt, geo-economics and geopolitics written by Saurav Raj Pant completes this periods collection of articles.

We hope that you will find the contributions informative and useful in your ongoing campaigns for economic and environmental justice.

Sincerely,



Rayyan Hassan
Executive Director

NOT JUST DIRTY, BUT DEADLY: CAN THE WORLD BANK CLEAN UP ITS FOSSIL FUEL PROBLEM?

Nezir Sinani, BIC Europe & David Predd, Inclusive Development International

The implications are stunning.

The Global Assessment Report on Biodiversity released by the UN last week found that human economic activities, including those driving global warming, threaten a million plant and animal species with extinction — more than ever before in human history. Unless immediate action is taken, experts say the rate of extinction will continue to accelerate. Loss of biodiversity on this scale would be devastating for our planet and pose an existential threat to humankind. Deep transformation of our industrial, energy and food systems is necessary to change the way we use, protect and nurture the earth's resources.

Ending reliance on coal is a particular priority. Coal presents multiple environmental threats that contribute to climate change and biodiversity loss. Carbon emissions from coal burning power plants are a significant source of greenhouse gasses, while coal mining operations destroy forests and ecosystems, adding additional carbon to the atmosphere as dead plant life decays.

International financial institutions, including the World Bank's private-sector arm, the International Finance Corporation (IFC), have an important role to play in the transformation and they need to step up to the plate now. Last year, IFC's Chief Executive Officer Philippe Le Houerou laid out in a blog post a proposed new strategy of leveraging IFC's equity investments in commercial financial institutions to "green" their portfolios over time. Under the strategy, the IFC will coax banks to increase their climate-related lending over the next decade by 30 percent and decrease their coal exposure to zero.

It's a step in the right direction. But given the urgency of the climate crisis, the world's leading multilateral development institution should be doing more to achieve the goals of the Paris Climate Agreement and hasten the transition to a low-carbon economy.

In April, our organizations Inclusive Development International (IDI) and Bank Information Center Europe, along with the Indonesian NGO Jaringan Advokasi Tambang (JATAM), released a

report examining the impact of coal mining in Indonesia, viewed against the backdrop of IFC's proposed 'Green Equity Strategy'.

Coal mining has devastated large parts of Indonesia, the world's second-largest coal exporter. It has decimated the archipelago's globally important rainforests and biodiversity, threatened the country's food security, and displaced thousands of indigenous people from their homes and land. The impacts have been particularly severe in Borneo, Asia's most biodiverse island. Our research for this report took us to a village in Borneo's East Kalimantan province called Keraitan, which is home to the Dayak Basap people.

For generations, the forests of Borneo provided everything the Dayak Basap needed to prosper: game to hunt, water to drink and bathe, and fertile

soil to cultivate rice and vegetables. The Dayak Basap have lived for at least seven generations on a 300-square-kilometer swath of lush jungle near the eastern coast of the island. They are deeply tied to the land and have been good stewards of Borneo's rich biodiversity. But a massive coal mining operation has closed in, destroying ancient rainforests and threatening their way of life.

Ten years ago, the Keraitan community had made the wrenching decision to abandon their original village deeper in the jungle after mining encroached. Now they once again find themselves surrounded by Kaltim Prima Coal, one of the largest open-pit coal mining operations in the world, owned by Bumi Resources. It has poisoned their rivers with mining waste and stripped the land of its forest cover, causing flooding and driving off animals that they relied upon for food.



Ending reliance on coal is a particular priority. Coal presents multiple environmental threats that contribute to climate change and biodiversity loss.





Now the community is living under the constant threat of forced eviction from the mining company, which wants access to the rich deposits of coal under their land. They have been told they will be moved — violently, if needed. They tried to resist the mining giant, even attempting to block the road used by the company’s trucks, but Kaltim Prima Coal uses military and state security apparatus to guard its operation.

Disturbingly, the destructive mining operation threatening Keraitan received indirect funding from the IFC, an institution that is supposed to be devoted to socially and environmentally sustainable development. The IFC, it turns out, is heavily exposed to Indonesia’s coal industry through its financial relationships with commercial banks, including Austria’s Raiffeisen Bank and Axis Bank of India. Six companies active in coal mining in Indonesia have received funds that can

Our investigation has uncovered hidden financial flows to more than 150 companies and projects around the world that have violated human rights, damaged the environment and accelerated climate change, in violation of the IFC’s social and environmental Performance Standards.

The destruction of Borneo’s forests, an important source of carbon sequestration, also has broader implications. Combined with emissions from power plants burning hundreds of millions of tons of Indonesian coal yearly, coal mining is helping to fuel global climate change, which threatens everyone.

be traced back to IFC, including Kaltim Prima Coal.

Our research linking Kaltim Prima Coal to the IFC is part of an ongoing investigation into the IFC’s sprawling and opaque financial-sector portfolio, worth some \$6.4 billion in 2018 alone. While the World Bank Group member



has historically provided direct financing for private-sector projects, it has increasingly outsourced its budget to commercial banks, private equity funds and insurance companies. This new model of development finance has exposed the IFC to a range of harmful corporate activities that fly in the face of the World Bank's sustainable development mandate.

Our investigation has uncovered hidden financial flows to more than 150 companies and projects around the world that have violated human rights, damaged the environment and accelerated climate change, in violation of the IFC's social and environmental Performance Standards. We have been releasing the results of the investigation, which began in 2016, in a series of reports and a comprehensive database.

More than half of the 150 projects uncovered involve new coal plants, including 19 projects in the Philippines that were the subject of a mass complaint to the IFC's Compliance Advisor Ombudsman.

In response to these pressures, the IFC recently unveiled its draft Green Equity Strategy, designed to incentivize its financial sector clients to increase their lending to renewable energy projects and reduce their exposure to coal. The strategy is aimed at commercial banks, private equity funds and other financial institutions in which IFC owns a stake,

or that are seeking investment from IFC.

The World Bank's board met this week to consider the IFC's proposal. We are urging them to make three important changes: 1) ensure that all types of finance to coal mining and power generation companies are covered by the strategy; 2) speed up the timeline of targets, and 3) extend the new rules to other fossil fuels in order to make the strategy commensurate with the urgency of the climate crisis.

A major loophole in the current draft of the Green Equity Strategy, which is open for public comments through May 17, is that it excludes general purpose corporate financing for coal mining companies, which is the way primary way that most coal mines are financed. This loophole means that under its current iteration, the Green Equity Strategy would not include the type of financing that has enabled Kaltim Prima Coal's devastating mining operations in Borneo.

Second, the draft gives the IFC's financial intermediary clients until 2030 to eliminate their coal investments. But the Paris Climate Agreement calls for "making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" and its goal of limiting warming to 1.5°C. According to experts, in order to avoid catastrophic climate impacts, coal use must be completely phased out from the OECD and EU countries by 2030, from China by 2040,

and from the rest of the world by 2050. Given that coal plants have an economic lifetime of 40 years, this means that new coal investments must end now. There is simply no excuse for the World Bank to be invested in banks that aren't ready to immediately stop financing new coal projects.

Finally, for the strategy to be effective, it has to go beyond coal. A recent report by Oil Change International found that even if coal mining was immediately phased out, the emissions from oil and gas fields already in operation would result in more than 1.5°C of warming. If the IFC is serious, as it says, about helping banks to eliminate climate related risks by 2030, then the new rules must also include oil and gas.

As the Global Assessment Report on Biodiversity concludes, the need for economic, social, political and

technological transformation has never been greater. We humans who created this crisis will need to harness every tool at our disposal to save our planet. The World Bank has identified climate change as an “acute threat to global development and efforts to end poverty,” the Bank’s twin objectives. It has committed to helping countries to reach their climate targets and to align its overall portfolio with the Paris Agreement. With its vast resources and enormous influence, the Bank is critically positioned to help us shift away from our deadly dependence on fossil fuels, towards a resilient, low carbon future.

The IFC’s Green Equity Strategy could be a pivotal engine for transformation if it truly rises to the challenge.



RED FLAGS FLY OVER MAJOR HYDROPOWER PROJECT IN GEORGIA

CEE Bankwatch

Justifications for building the 280MW Nenskra hydropower plant in Georgia's mountainous Svaneti region have always been dubious. The project is planned in an area that is geologically volatile and highly prone to avalanches and landslides, and the nearby indigenous communities, who have suffered devastating floods as late as last summer, have been fiercely protesting the plans for fear this massive hydropower plant, with a 125 meter high dam, will deprive them of their traditional livelihoods.

On top of that, situated in the Nakra valley afoot Svaneti's stunning snow-capped mountain ridges, this brutal development would take a heavy toll on the pristine river and forest ecosystems.

But even from a strictly economic standpoint the Nenskra hydropower project is set to become a serious debacle.

Construction costs have already nearly doubled since the initial 2015 estimates, and now stand at over a billion dollars. And all signs are costs will continue rising. Nenskra's project promoter – a joint venture of the Georgian state's

Partnership Fund and Korea's state-owned K-Water – counts on international financial institutions to cover up to three quarters of the project's costs. It's just that they all seem pretty wary of chipping in.

The European Investment Bank has approved a USD 150 million loan for the Nenskra project in early 2018, but 18 months later the loan contract is yet to be signed. The European Bank for Reconstruction and Development has also committed USD 214 million, together with a 5 percent equity share (USD 15 million), in January 2018. But nine months later it announced it is "pausing the process" after it was revealed the project's constructor had abandoned it. Both European banks are also currently looking into complaints lodged by local residents.

In the meantime, the Asian Infrastructure Investment Bank will not decide on its USD 100 million loan before September 2019, and the Asian Development Bank, which considers awarding the project USD 314 million, is still in the process of examining it, not least in light of complaints filed with its grievance mechanism.



Local and international civil society groups – including Bankwatch and its Georgian member group Green Alternative – have consistently been warning the Nenskra hydropower project bears an untenable price tag.

A July 2017 cost-benefit analysis commissioned by the International Financial Corporation on behalf of the Georgian government was one of the first red flags. While this document did not have any estimation of costs, it did show the government had committed to buy electricity from Nenskra at a price of USD 0.08532 per kWh, which is nearly double the current wholesale price for electricity produced in Georgia and imported from abroad.

Then, the fiscal transparency report for Georgia published by the International Monetary Fund in September 2017, sounded the alarm about the threat that the Nenskra project poses to the country's fiscal stability, primarily due to "the government guarantee for a USD internal rate of return (IRR) of 12.5% on equity investments, which if not paid for could result in the government terminating the total contract, at a total cost of 800 million USD plus IRR on 180 million USD of equity (6.2% of GDP plus the IRR)."

And if that wasn't enough, a leaked World Bank report from February 2018 warned that the project could become a severe liability and end up a heavy burden on Georgia's public coffers. This report, commissioned by Georgia's finance ministry, looked into a range of power purchase agreements, mainly for

hydropower projects, to analyse their fiscal costs and their possible impact on energy tariffs in the country.

The report determined that between 2022 and 2041, the Nenskra hydropower plant alone would incur over EUR 1.8 billion in fiscal costs. The report authors expect additional costs – beginning at EUR 113 million a year between 2023 and 2026 – due to exchange rate since electricity tariffs in the power purchase agreements that were examined used US cents, and the Georgian lari is anticipated to see depreciation.

The report goes on to estimate the liabilities to Georgia's electricity operator due to the energy surplus reaching USD 154.2 million by 2041, and cautions that the project's costs could further rise with delays or unplanned expenses.

All these warning signs might explain why the Georgian government has been insisting on keeping both the World Bank analysis and the contract with the project promoter secret. But now that this alarming information has been widely reported by Georgian media, demonstrating how overwhelmingly unsustainable the Nenskra hydroproject is, it is high time for the Georgian governments and the international financiers backing the project to rethink it.

A photograph of four Euro coins in motion against a black background. The coins are captured in various stages of a fall or spin, creating a sense of dynamic movement. One coin is in the upper right, showing its reverse side with the Euro symbol and a map of Europe. Another is in the middle left, showing its blank obverse side. A third is in the lower left, and a fourth is in the upper middle, showing its edge. The coins are set against a dark background, with a light-colored surface visible at the bottom.

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AFTER 18 YEARS, EPIRA FAILED TO GIVE PHL ENERGY SECURITY

Rene E. Ofreneo (Originally published May 2, 2019, Business Mirror)

After hearing for four grueling hours the testimonies of industry power players and government energy officials on April 26, the hard-working chairman of the Senate Committee on Energy was a picture of concern and frustration. Senator Win Gatchalian failed to get any assurance from the hearing participants that no more red/yellow alerts shall be issued by the power industry in the coming El Nino weeks. Nor is there any assurance that brownouts/blackouts shall not occur during or after the mid-term elections. And yes, Philippine electricity prices, among the highest in the world, are bound to rise when the demand spikes up.

Clearly, the Philippines has weak energy security. Simply put, energy security means the uninterrupted and sustained supply of electricity at reasonable prices to meet the needs of all households, offices and businesses. Every country in the world strives to develop a national energy security program, some stretching up to several decades. It is a strategic component in building up national stability, competitiveness and sustainability.

Ironically, energy security is precisely one of the overarching goals of the “Electric Power Industry Reform Act”, or the EPIRA law. The EPIRA was passed in 2001, or 18 years ago. The list of objectives outlined in the EPIRA are truly ennobling:

“a) To ensure and accelerate the total electrification of the country;

“b) To ensure the quality, reliability, security and affordability of the supply of electric power;

“c) To ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;

“d) To enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;

“e) To ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;

“f) To protect the public interest as it is affected by the rates and services of



Photo by Miguel Á. Padriñán

electric utilities and other providers of electric power;

“g) To assure socially and environmentally compatible energy sources and infrastructure;

“h) To promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;

“i) To provide for an orderly and transparent privatization of the assets and liabilities of the National Power Corporation (NPC);

“j) To establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and

“k) To encourage the efficient use of energy and other modalities of demand side management.”

Consumer groups, CSOs and even some LGUs and small business groups have been raising and filing complaints on the failure of the EPIRA to deliver the above promises of the law. In particular, we have seen the continuing rise in electricity rates, especially those charged by Meralco. Which is the reason why there is a proposed bill on “Murang Koryente” and there is a Party-List group that has adopted the monicker “Murang Koryente”.

The unchecked growth of electricity rates is very much related to the failure

of the implementors of the EPIRA to “broaden the ownership base of the power generation, transmission and distribution sectors”. What the implementors of EPIRA did was to transform public monopolies into private monopolies under a program of all-out privatization of the power generation, transmission and distribution sectors. In short, the whole system of power development and marketing is now built around the investment plans of the corporations engaged in the transmission, power generation, distribution and operation of the so-called Wholesale Electricity Spot Market (WESM).

Some distributor companies such as Meralco even source their power from generation companies controlled by the owners of Meralco. One study pointed out that the rates for more than 90 percent of distributed power is based on the non-transparent and hazy relationships between the generation companies and distribution utilities. Which raises questions as to what exactly is the purpose of WESM and how WESM prices are really determined. Paging the PCC of Arsy Balisacan!

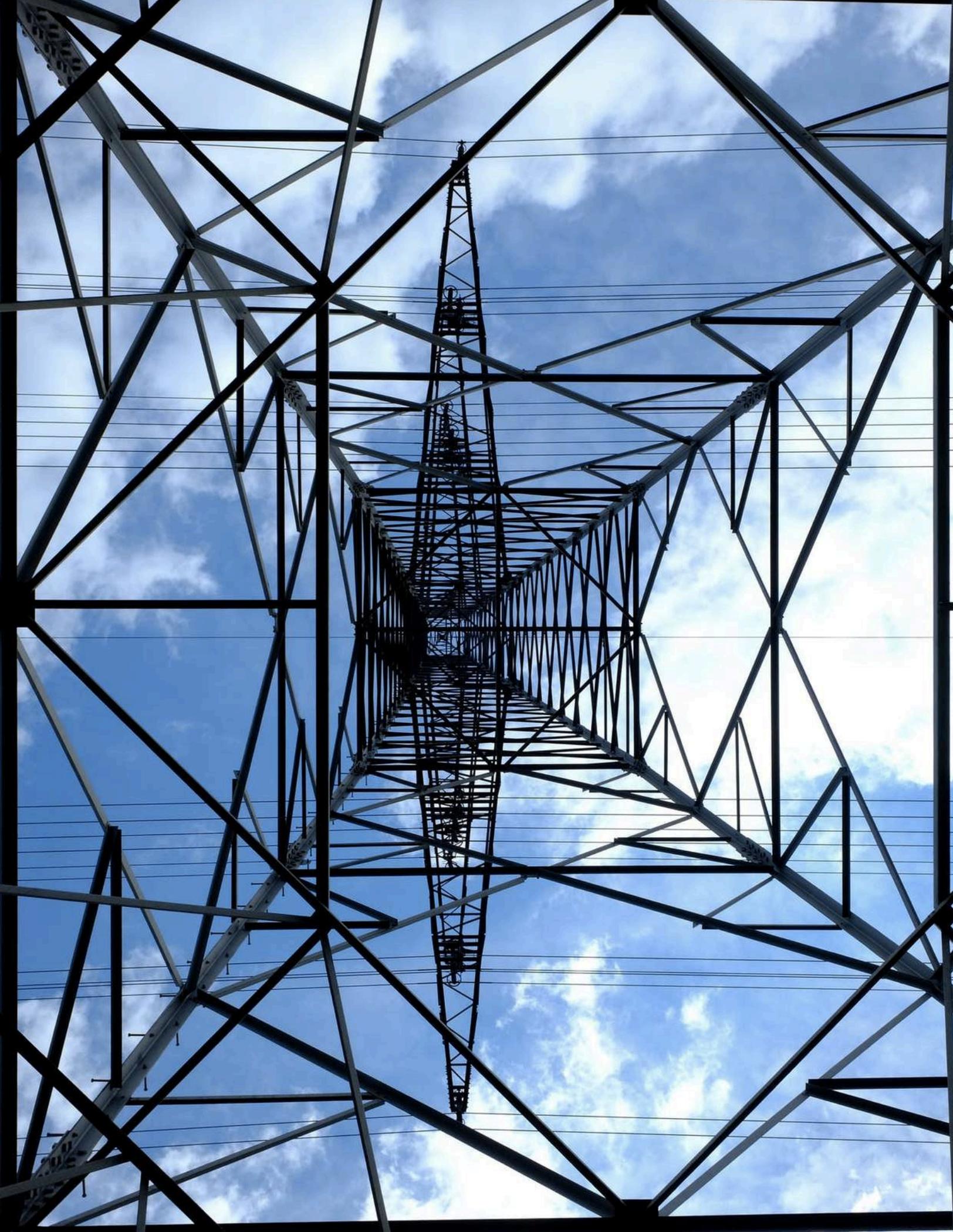
Meantime, the leadership of the Department of Energy (DOE) of the Philippines, treated as a critical and strategic agency in China, Japan and other countries, has been weakened by

the all-out system of privatization. A check at the website of DOE shows that its main function has been reduced to monitoring, nudging and even cajoling the big private sector players. But its power to provide strategic leadership in power development, intervene in areas where the private corporate sector fails and discipline corporations which engage in predatory pricing practices or fail to coordinate with the government on their planned/unplanned power maintenance programs and outages – all these are not spelled out in the DOE TOR. It is also obvious that much of the time of key officials of DOE is eaten up by looking for investors/contractors who can be engaged in different areas of the privatized power development program such as the establishment of new power generation projects.

Meantime too, the Energy Regulatory Commission has been the object of so many complaints coming from the consumer associations, CSOs, trade unions and local business groups. The Mindanao Coalition of Power Consumers has reacted angrily to the failure of the ERC to review the various power supply contracts, 27 in all, involving the generation companies and distribution utilities and purge these contracts with onerous provisions that the Coalition blames for the high prices of power that the people of Mindanao have to endure.

From the foregoing, it is abundantly clear that this is an opportune time for the government, especially the Senate and the House, to undertake a rigorous assessment of the EPIRA based on the failure of the EPIRA to deliver the promises outlined above. There is a need to restore the role of the State as the leader in the overall management of the power development.

There is also a need to truly put people at the center of power development. As a starter, why not put consumer/CSO representatives (non-voting) in the boards of the big transmission, generation and distribution companies, and empower them to give public reports on the true state of power development in the country?



KALIWA DAM WILL DESTROY SIERRA MADRE BIODIVERSITY

HARIBON Foundation

The construction of the multi-billion peso Kaliwa Dam Project will not only have devastating effects on people's lives, it will also ravage the homes of thousands of threatened wildlife species in the Sierra Madre mountain forests including the Critically Endangered Philippine Eagle, environmental group Haribon Foundation said.

Sierra Madre is considered one of the most biodiverse areas and the largest remaining tract of rainforest in the country.

According to the Integrated Biodiversity Assessment Tool (IBAT) curated by BirdLife International, International Union for Conservation of Nature (IUCN) and United Nations Environment Programme World Conservation Monitoring Centre (UNEP-WCMC), the forests and coastline of Presidential Proclamation No. 1636 (series of 1977) is a key habitat to 15 species of amphibians, 334 bird species, 1476 fish species, 963 invertebrate species, 81 mammal species, 50 plant species, and 60 reptile species.

Significant number of species in PP 1636 are considered as Globally Threatened by IUCN, albeit their habitat's protected status. The protected area is home to the Critically Endangered Philippine Eagle in its forested mountains and the Critically Endangered Hawksbill Turtle in its coastlines, among other globally threatened species. In late 2013, when China announced for its ambitious Belt and Road Initiative (BRI), its bilateral relationship with the countries of the world changed in terms of Chinese presence as an investment, import-export and debt parameter.



Photo retrieved from http://cnnphilippines.com/imaging/mte/demo-cnn-new/750x450/dam/cnn/2019/03/15/Kaliwa-Dam/Kaliwa-Dam-5_CNNPH.jpg/jcr:content/Kaliwa-Dam-5_CNNPH.jpg

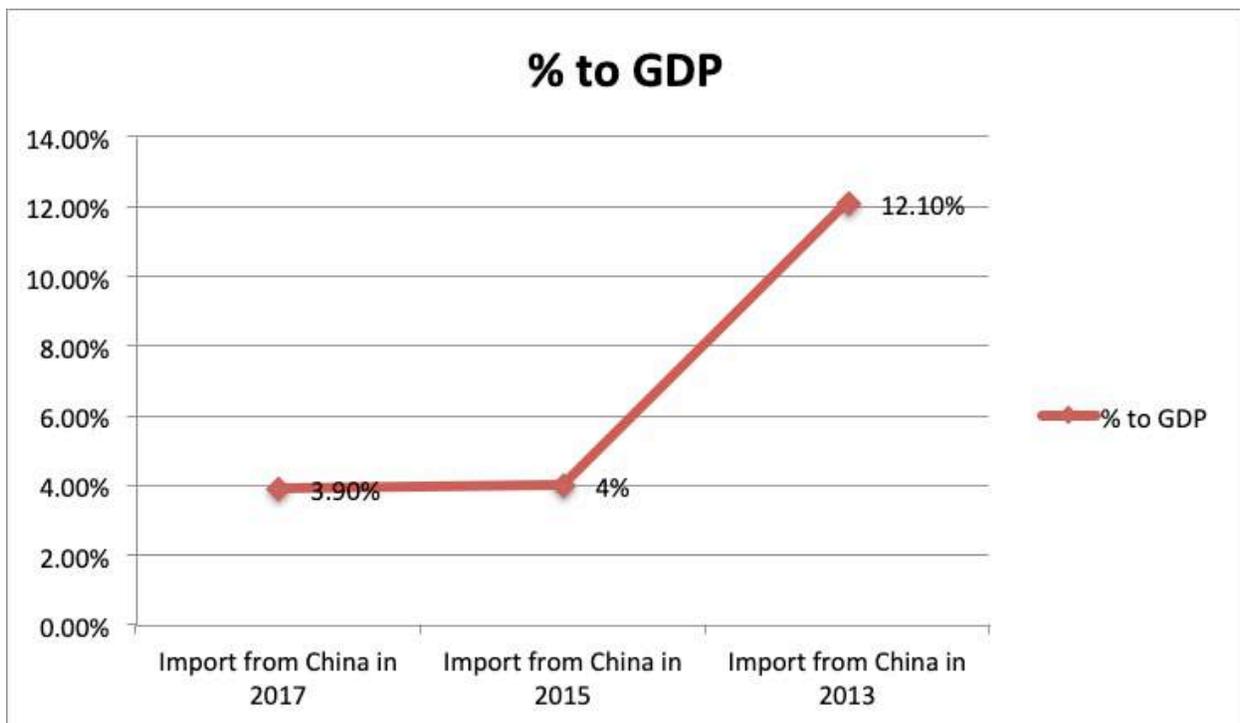
DEBT, GEO-ECONOMICS AND GEOPOLITICS

Saurav Raj Pant

In late 2013, when China announced for its ambitious Belt and Road Initiative (BRI), its bilateral relationship with the countries of the world changed in terms of Chinese presence as an investment, import-export and debt parameter. Here is the list of the few countries whose macro economic data changes after BRI announced in 2013.

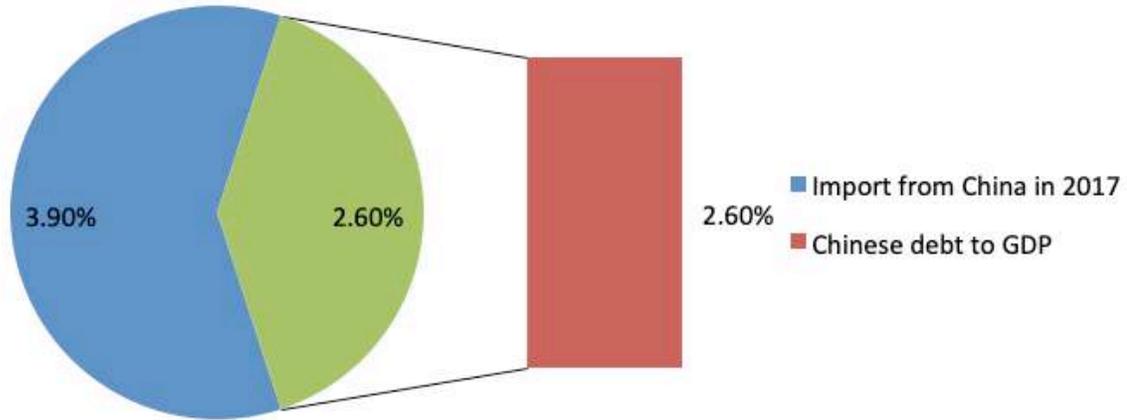
1. Nepal

Nepal import from China was 3.9% of GDP in 2017 comprising 2.6% of Chinese debt to GDP. In 2013, Nepal's import from China was 12.1 % but it had significantly dropped in 2015 to 4% due to earthquake's devastating effect on Nepal-China border connectivity.





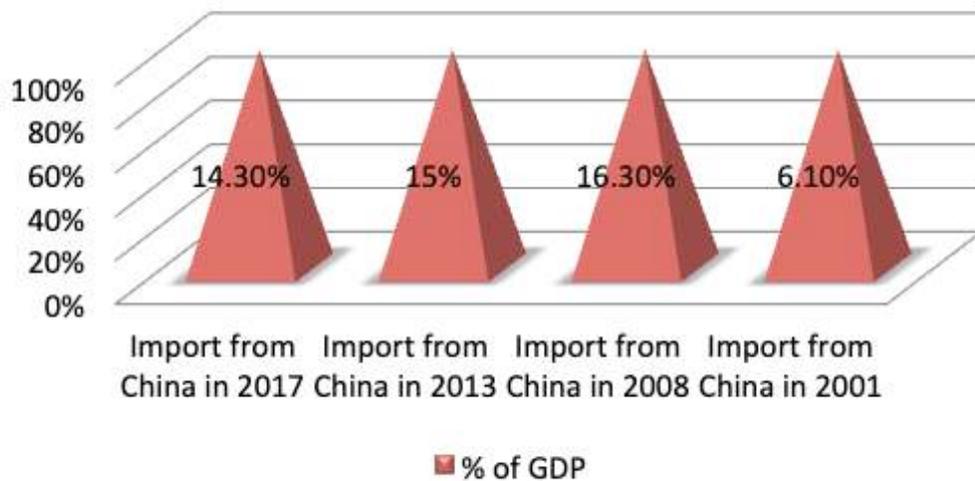
% to GDP

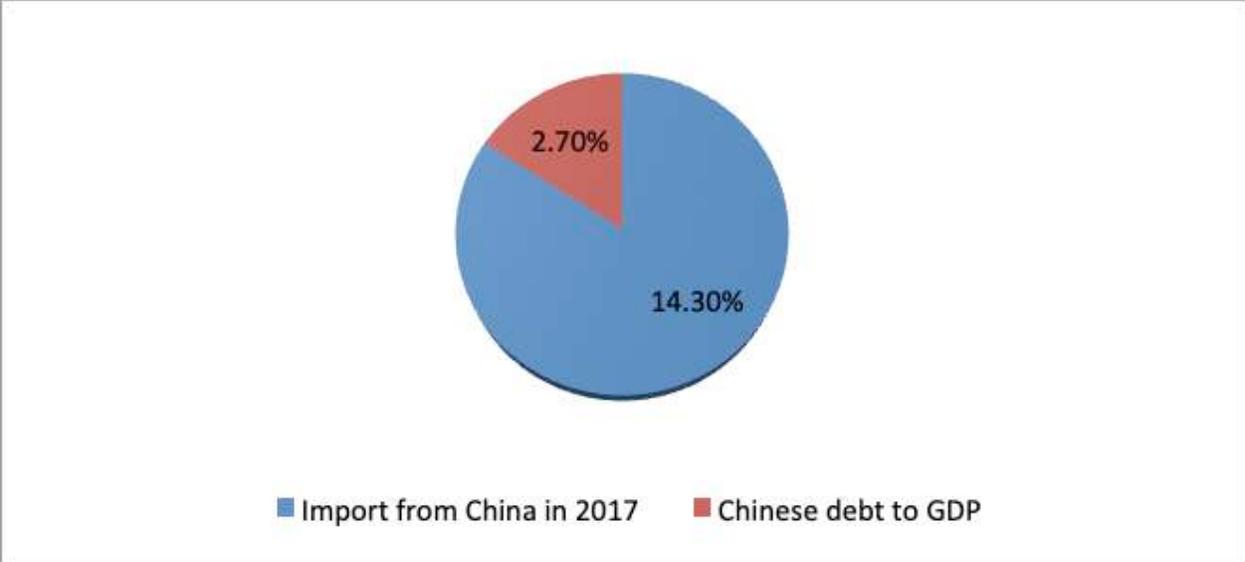


2.Singapore

Singapore import from China was 14.3% of GDP in 2017 comprising 2.7% Chinese debt to GDP. In 2013, its import from China was 15% comparing to 2008, it was 16.8% due to financial crisis. In 2001, import from China was 6.1%.

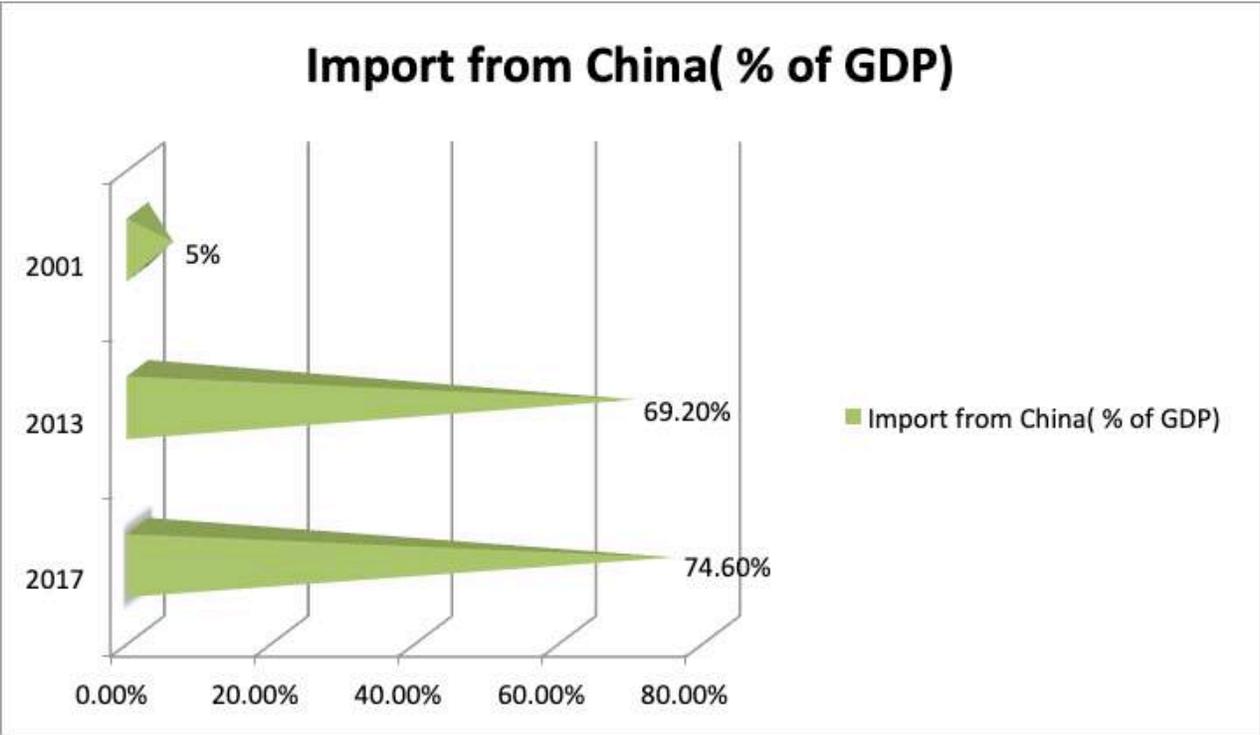
% of GDP



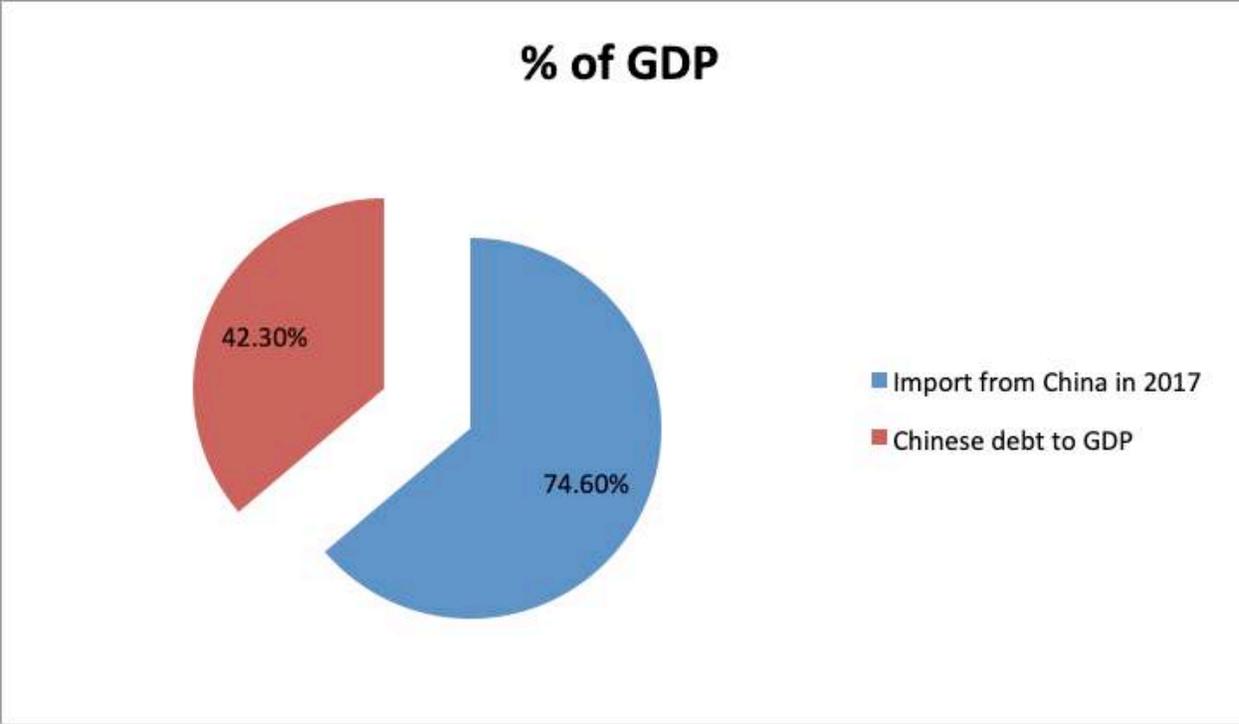


3.Kyrgyzstan

Kyrgyzstan import from China was 74.6% of GDP in 2017 comprising 42.3% Chinese debt to GDP. In 2013, its import from China was 69.2% of GDP comparing to 2001, it was just 5% of GDP.

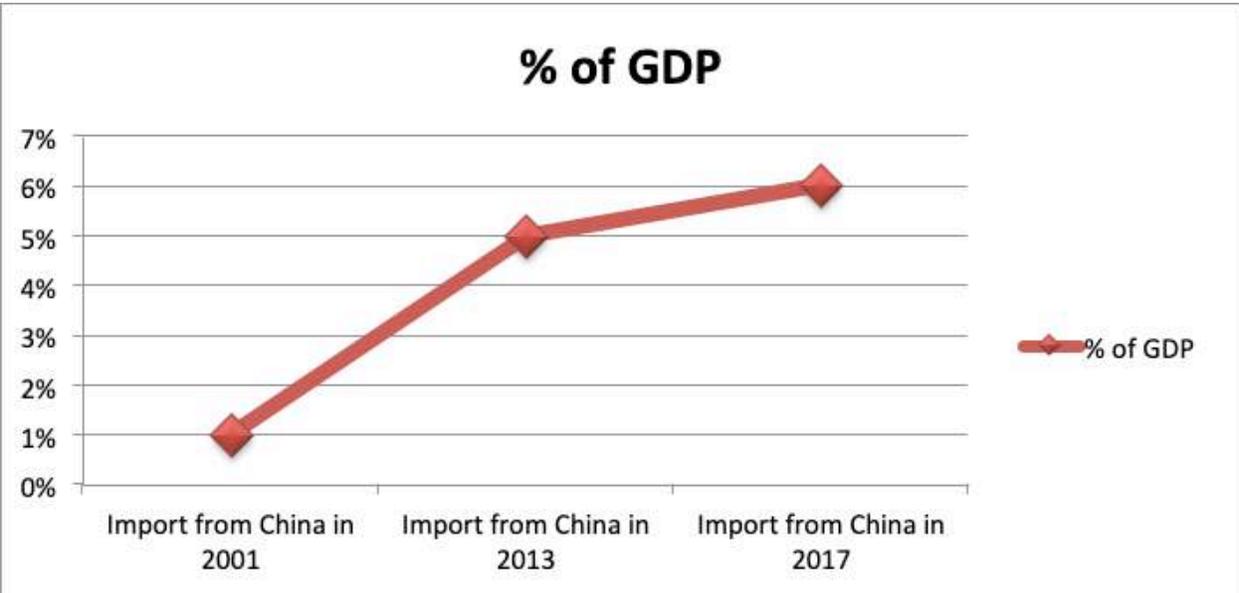






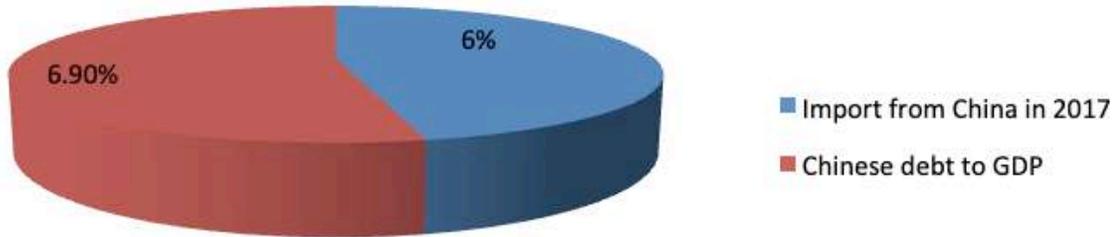
4.Pakistan

Pakistan import from China was 6% of GDP in 2017 comprising 6.9% of Chinese debt to GDP. Its import from China in 2013 was 5% comparing to 1% in 2001.





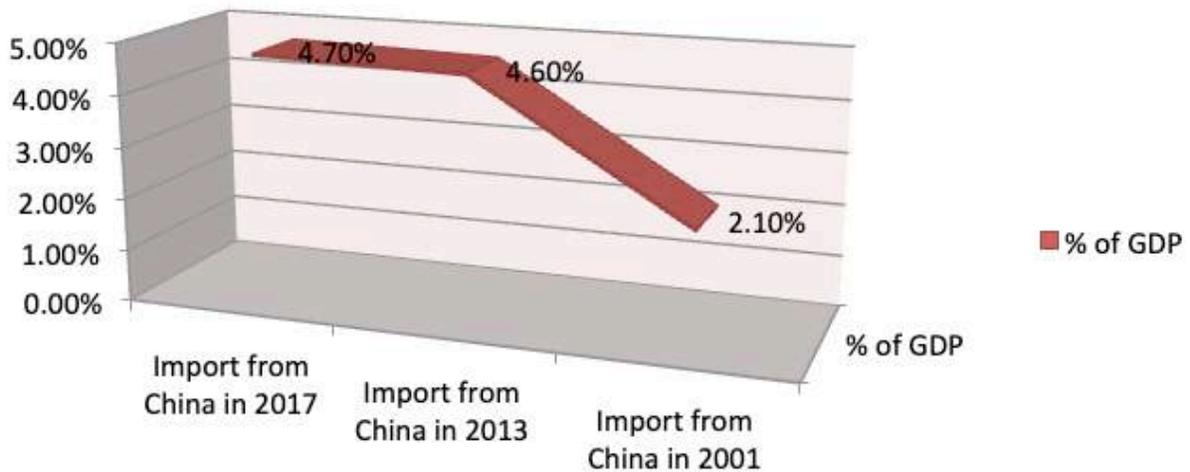
% of GDP



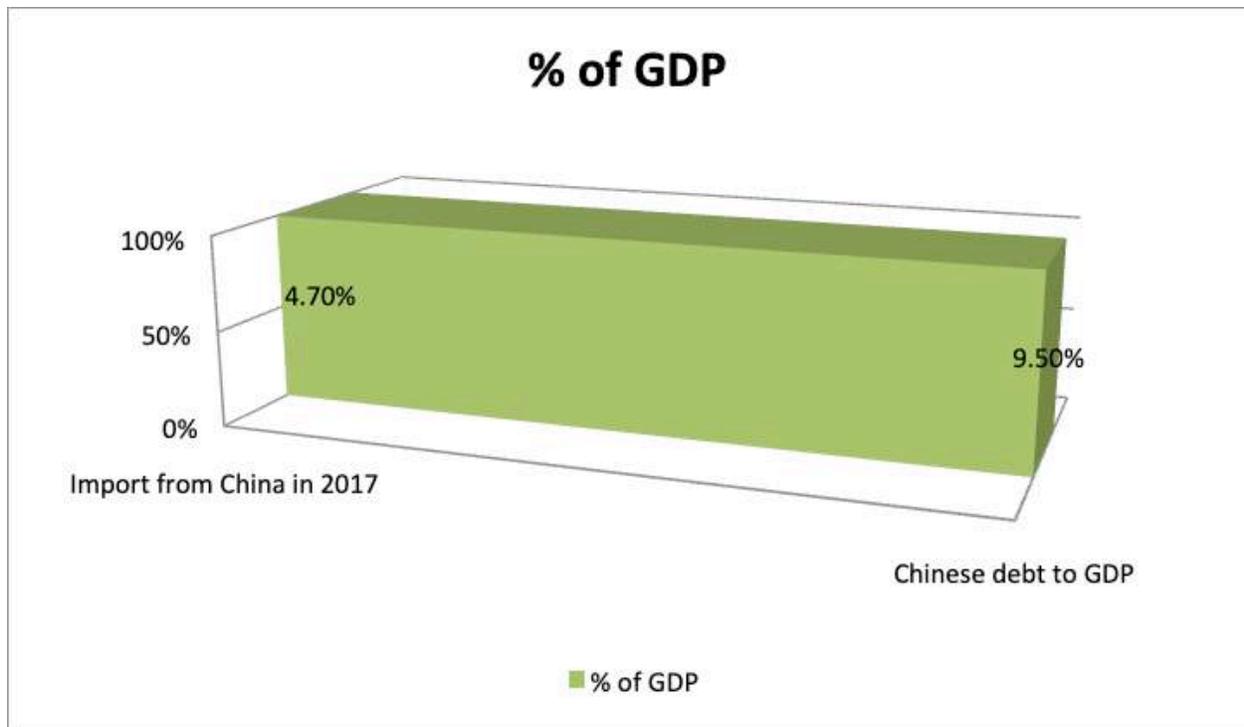
5.SriLanka

Sri Lanka import from China was 4.7% of GDP in 2017 comprising of 9.5% of Chinese debt to GDP. In 2013, its import from China was 4.6% comparing to 2.1% in 2001.

% of GDP







Conclusion

The above 5 countries based on IMF classification representing Advanced Economy (Singapore), Emerging Economy (Pakistan), Low Income Developing Countries (Nepal, Kyrgyzstan) and Lower Middle Income Country (Sri Lanka).

Based on the import % of GDP, Kyrgyzstan's Chinese debt is really high, which shows the country is highly dependent on the Chinese commodities. This suggest, increasing export to degrade growing import generating revenues capable enough to pay Chinese debt. Since, this is a Low Income Developing Countries, it has been seen that import occupies larger volume than exports i.e also in the case of Nepal. China supports infrastructure and industrial development projects in these countries on concessional loans but due to their limited managerial capacity and increasing dolor exchange

rate with the respective currency, the pile of the debt increases. Nepal engagement with China dramatically rose after 2015 with the rise of imports from China and parallel debt. For such import relied economy, 2.6% debt to the GDP from a single country is not sound. Singapore's import from China is higher but its Chinese debt (2.7%) to relatively base on its trade engagement with China. This proves that the sound economy doesn't end up in debt because of financial regularities, higher productivity and skillful manpower and resources.

The picture of Pakistani economy is a grim based on engagement with China. Its debt to China is relatively higher comparing to its trade engagement with China. The current Imran Khan government is trying hard for bail out from many western financial institutions but western financial institutions are reluctant provide loans due to various

geopolitical reasons. In this regards, recently Saudi Arabia had a deal worth of \$200 billion with Pakistan for recovering Pakistani economy from crisis.

The economic story of the Sri-Lanka is also painful. It's debt to China is higher than its relative trade engagement with China. After government won war against LITTE, it was in desperate need of fund to recover from ashes; called China for help. China provided loans but due to low-managerial capacity derived from the decade long war, it can't able to pay the debt resulting to the debt pile.

For advanced economy, its debt is relatively lower than its trade engagement volume. This is due to the fact that, these countries generally don't have to be submissive in any trade deals but for the vulnerable economy their situation is different. To escape from this mess, the deep study of respective country's economy is needed but in very general terms these country should able to export (increase internal productivity) equally to relief from trade deficit resulting to limited pile of debt. At last, debt trap is the geo-economic strategy designed especially for the vulnerable countries to fulfill the geopolitical vested interest of the great powers.

Author is a Kathmandu; Nepal based International Political Economy/ International Relations Researcher

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