What Would Adam Smith Say About the Rush by Banks to Stop Funding Coal Power Plants?

BY TILAK K. DOSHI

Adam Smith famously said that **"I have never known much good done by those who affected to trade for the public good."** Nowhere is the merit of the great sage's insight more evident than in the veritable parade of banks that have rushed to end the financing of new coal power plants.

The reasoning among banks follows the familiar corporate social responsibility (CSR) route. CSR initiatives by banks call for investment or loan decisions based not on risks and rewards in a competitive market, but on judgment by corporate management on what is in the interest of society.

Larry Fink, chief executive of the world's largest asset management company, BlackRock, with US$6 trillion under management, recently called on the private sector to be more heavily involved in broader societal challenges.

Banks are rushing to end the funding of new coal power plants, based on corporate social responsibility (CSR)

Such challenges include workforce diversity, community engagement and, not least, environmental challenges. Banks seem to have agreed with Fink's call, and in Southeast Asia, this has taken a particular turn against coal power projects.

Over 90 per cent of coal power plants under construction are in Asia. After China and India, Southeast Asia is the region most invested in expanding coal-fired power generation. With a population of 650 million people, the region has some 65 million people without access to electricity and 250 million people still depend on traditional biomass - cow dung, crop residues, foraged wood and charcoal - for cooking and heating.

The region's governments have responded by planning over 170 gigawatts of new coal power projects. Coal represents the cheapest source of power and countries such as Indonesia and Vietnam with large populations have domestic sources of coal and are important exporters of the resource.

Intense campaigning by pressure groups such as the Sierra Club, Greenpeace, 350.org and Friends of the Earth have forced multilateral banks such as the World Bank and the Asian Development Bank as well as their private sector counterparts to stop funding coal power plants under the banner of mitigating climate change.

"If Vietnam goes forward with 40GW of coal, if the entire region implements the coal-based plans right now, I think we are finished," said the World Bank's President Jim Yong Kim. "That would spell disaster for us and our planet."

Perhaps the most pernicious aspect of banks' CSR initiatives is the vilifying of the increased use of fossil fuels to provide grid-based electricity. Development aid, multilateral finance and private sector project funding criteria - guided by a bias in favour of green technologies and notions of sustainable development - are imposing policies that are disastrous for the well-being of the most vulnerable populations in Southeast Asia and elsewhere in the developing world.

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The rush to "save the climate" by banning coal power plants is leading to appalling impacts on human health. Indoor air pollution – caused by burning solid biomass for cooking and heating in households that do not have access to grid electricity and cleaner cooking fuels such as natural gas – is a leading cause of deaths in developing countries.

Coal power plants are still needed by many people in the developing economies of Southeast Asia

Close to 4 million people die prematurely from illness attributable to household air pollution each year, according to the World Health Organisation.

Governments in developing countries retain their legitimacy by promoting economic growth and raising the material standards of living for the mass of their citizens. Countries that have achieved rapid growth and higher per capita incomes such as China and India also face pressures to reduce air pollution which have become a major public health problem.

As the experience of the now-developed countries have shown, these problems have been resolved by available technologies, including high-efficiency, low-emission coal and natural gas-fuelled power plants, and cleaner transport and cooking fuels.

But this path is now being blocked by the private banks and their multilateral counterparts which disparage the use of fossil fuels in the cause of mitigating climate change.

This foreclosure to the established pattern of economic development is sanctioned by fulsome support for renewable energy technologies such as wind and solar as part of the "sustainable development" mantra. Private sector banks have become enthusiastic supporters of renewable energy even when such projects require subsidies from developing country governments that can ill-afford them.

It is commonly assumed that intermittent sources of renewable energy are viable substitutes for gridsupplied power based on fossil fuels. Claims are often made that wind and solar power are already competitive with fossil fuels and an endless stream of "green" success stories permeate the media. Yet, modern economic growth has not shown a single instance of a country successfully developing without the concomitant use of fossil fuels.

While many international banks, multilateral agencies and activist environmental groups now insist that less developed countries follow an untenable path to development by curtailing the use of fossil fuels, the competition to fund coal power projects in Southeast Asia is keen among the Chinese and Japanese banks.

It is perhaps instructive that the African Development Bank broke ranks recently with its World Bank and Asian Development Bank counterparts, in supporting coal-fired power projects in Nigeria, Kenya and elsewhere.

It is also encouraging that the current U.S. administration, competing against China's aggressive infrastructure investment drive in Asia and elsewhere, is supporting advanced, low-emission coal-powered projects in a "new energy realism" espoused by Energy Secretary Rick Perry.

One imagines that Adam Smith would have approved.

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