

Beyond Paris:

How the AIIB can align its policies and practices to the climate challenge





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Introduction

A [report](#) by Oil Change International and Friends of the Earth U.S. reveals that between 2019 and 2021 the G20 countries and multilateral development banks (MDBs) provided at least \$55 billion per year in international public finance for fossil fuels. This is almost twice the support provided for clean energy, which averaged only \$29 billion per year.

There is an [urgent need](#) to plug the investment gap for wind and solar. According to the International Institute for Sustainable Development (IISD), more than \$830 billion annually is needed by 2030 to build enough wind and solar energy to stay below 1.5 degrees Celsius (°C) global warming. However, current government and investor policies are only expected to deliver less than \$380 billion per year. Most of these investments are needed in middle- and low-income countries to support development and energy access needs.

Public finance has a crucial role to play in catalysing the shift from fossil fuels to sustainable renewable energy. Apart from providing project finance, multilateral development banks (MDBs), like the Asian Infrastructure Investment Bank (AIIB), are [triple A credit rated](#) and bring confidence for other investors to contribute. MDBs' private sector operations mobilise capital from other lenders and investors - both private and public - through loan participations, parallel loans and other means. MDBs also act as standard-setters – bringing social and environmental safeguards into development project implementation.

Public finance is scarce and must be used efficiently and effectively to target priority sectors to enable the just energy transition. This means entirely ending support for fossil fuels, and catalysing the shift to sustainable, renewable energy that puts people and planet front and centre.

This paper asks whether the AIIB is up to the challenge. The signals are not promising. As of the end of January 2023, the AIIB has invested almost \$2.4 billion in gas projects, excluding indirect finance, representing almost 40 percent of its energy portfolio. The AIIB's newly-agreed Energy Sector Strategy paves the way for further support for fossil gas, classifying it as a transition energy source. In December 2022, the AIIB's President approved an investment of \$110 million for the [Unique Meghnaghat IPP](#), a 584 Megawatt (MW) greenfield gas power plant in Bangladesh. The AIIB labelled this huge new fossil fuel project 'Paris aligned'.

The AIIB is currently developing a methodology to align its investments with the Paris Agreement on climate change, with a deadline of July 2023. While the goal of the Paris Agreement - of keeping global warming to below 1.5°C - is essential, the content of the Agreement and the country pledges that contribute to it are insufficient as they would result in [at least 2.4°C warming](#). This is why this report calls for the AIIB - and other MDBs - to go 'beyond Paris'.

This report examines the obstacles to the AIIB realising its stated climate ambitions, in both its policies and practices. By continuing to finance fossil fuels it will not contribute sufficiently to the transformation needed. It must also address issues of justice and implement a rights-based approach. We call on the AIIB to be truly transformative, to accelerate the shift from fossil fuels to sustainable renewable energy that puts people and planet at the heart of development.

The climate challenge

United Nations (UN) Secretary-General António Guterres concluded last year's climate negotiations in Egypt, the UN Framework Convention on Climate Change (UNFCCC) Conference of Parties (COP) 27, with a [stark warning](#):

“The planet is still in the emergency room... The world still needs a giant leap on climate ambition. The red line we must not cross is the line that takes our planet over the 1.5 degree temperature limit. To have any hope of keeping to 1.5, we need to massively invest in renewables and end our addiction to fossil fuels.”

The message could not be clearer. The role of public finance was also under scrutiny, with the [final statement](#) from COP 27 highlighting the need for reform of Multilateral Development Bank (MDB) lending practices and priorities to meet the climate crisis.

A [2022 UNFCCC report](#) summarised current pledges by its 193 members. Combined implementation of those pledges by national governments put the world on track for a 2.5 degrees Celsius (2.5°C) warmer world by the end of the century. To limit global warming to 1.5°C, which is the goal of the 2015 Paris Agreement on climate change, the UN's Intergovernmental Panel on Climate Change (IPCC) indicates that carbon dioxide (CO₂) emissions [must decline by 45%](#) compared to 2010 levels by 2030, in order to reach 'net zero' by 2050.

The question is whether the MDBs, including the AIIB, are up to the challenge. And it is a massive challenge. Public finance could and should be one of the tools the world's governments use to catalyse and accelerate this needed shift away from fossil fuels and towards sustainable renewable energy. But much like countries' current climate pledges, MDBs' current policies and practices fall woefully short. The AIIB is no exception.

The MDBs came together in 2017 to announce their vision to align financial flows with the Paris Agreement. Their Joint MDB Working Group on Paris alignment has since produced a [framework](#) to guide the implementation of this alignment for direct investment - the framework for indirect investment is yet to be agreed. The framework forms the basis for individual MDBs' own Paris alignment methodologies, under development or already approved. Though this collaborative approach is welcome, the ambition of this framework is not equal to the challenge. The framework outlines activities that are not compatible with the 1.5°C and therefore cannot be viewed as 'Paris aligned'. For example, although this list rules out coal - which is a bare minimum move that should simply be expected - it singularly fails to mention other fossil fuels, significantly oil and gas.

Figure 1. MDBs' Building Blocks Approach to Paris Alignment

1	<p>Alignment with Mitigation Goals Operations consistent with national low-emissions development pathways and compatible with objectives of the Paris Agreement.</p>
2	<p>Adaptation and Climate-Resilient Operations Operations systematically screened for climate resilience. Support increase in clients' ability to adapt to climate change.</p>
3	<p>Accelerated Contribution to the Transition Through Climate Finance Further, scale up climate finance, operationalize new approaches to support NDCs, and accelerate realization of ambitions agreed under UNFCCC and in line with science-based evidence identified by IPCC.</p>
4	<p>Strategy, Engagement and Policy Development Develop new services to support clients putting in place long-term strategies for lowemissions and climate-resilient development while ensuring consistency with SDGs</p>
5	<p>Reporting Develop tools and methods for characterizing, monitoring and reporting on Paris-aligned activities</p>
6	<p>Align Internal Activities Progressively ensure that internal operations, including facilities and other internal policies, are in line with the Paris Agreement.</p>

What the MDB Paris Alignment framework excludes

- Mining of thermal coal
- Electricity generation from coal
- Extraction of peat
- Electricity generation from peat

Source: Joint MDB Working Group on Paris Alignment

Given the weakness of the MDB framework, the major MDBs, such as the World Bank, the Asian Development Bank (ADB) and the AIIB still view fossil gas as a ‘transition fuel’, despite the many flaws in this approach (see box below). The World Bank’s [Climate Change Action Plan](#) 2021-25 refers to gas as “aligned in countries where there are urgent energy demands and no short-term renewable energy alternatives to reliably serve such demand.” The ADB’s new Energy Policy, agreed in 2021, claims that “Natural gas can, under some conditions, offer a lower-carbon alternative to more polluting fuels—such as coal and oil in power and heat generation—and provide flexible resources to allow more renewable energy to be integrated into the grid.” As for the AIIB, which agreed its new [Energy Sector Strategy](#) (ESS) at the end of 2022, the bank relies heavily on defining fossil gas as a necessary transition fuel:

“Increasing natural gas use instead of oil and coal has helped many developed economies reduce carbon emissions and air pollution. The transition strategies of many developing countries in the region also plan for natural gas to play a transitional role in their energy systems, especially in hard-to-abate end-use sectors. Gas-fired power can also offer flexibility for balancing the variability of renewable energy and thus enable a higher share of renewables in the electricity generation mix.”

Why fossil gas is not a ‘transition fuel’

MDBs must align their financing with the Paris Agreement. To do this they must recognise that fossil gas cannot be considered a ‘transition’ fuel to cleaner energy systems. Rather it is another carbon intensive high emitting fossil fuel that is potentially diverting funds from sustainable renewable alternatives.

Fossil gas is harmful because:

- ▶ There is significant leakage of methane from the processing, transport, regasification and consumption of gas. Methane is 83 to 86 times stronger over 20 years than CO₂ as a greenhouse gas. Fossil gas affects air quality and hazardous air pollutants have harmful effects on health and the environment.
- ▶ Fossil gas infrastructure, including pipelines, leak harmful chemicals into the environment and water supplies.
- ▶ Increasing reliance on imported liquefied natural gas (LNG) leaves countries vulnerable to unreliable and unaffordable energy sources. For example, the annual average LNG price in Asian spot markets more than doubled from 2021 to 2022.

Public finance promotes confidence in fossil gas project viability, encouraging private sector investment in this harmful energy source. MDBs should therefore:

- ▶ Urgently redirect finance away from fossil gas to align both private investment and public policy with the Paris Agreement goal of keeping global warming below 1.5°C.
- ▶ Divert public finance to deliver a rapid, inclusive transition away from coal and to sustainable, renewable energy sources.
- ▶ Invest in the expansion of energy storage infrastructure and grid modernisation to accelerate the renewable energy transition.
- ▶ Exclude support for unproven expensive technologies and false solutions like coal gasification, blue hydrogen and Carbon Capture, Utilisation and Storage (CCUS) that continue to justify fossil fuel exploitation and new fossil fuel power generation.

One common problem with all MDBs' criteria on whether to support a fossil gas project is that they call for an assessment of whether the project is in line with the country's Nationally Determined Contributions (NDC) pledge. However, the [2022 United Nations Environment Programme's \(UNEP\) Emissions Gap Report](#) showed that the combined NDC pledges will result in a planetary warming of at least 2.4°C warming. Giving the go-ahead to a new gas-fired power plant on the grounds it contributes to or at least does not undermine that country's NDC therefore means not aligning with the Paris agreement goal.

This is a fundamental flaw at the heart of the MDBs' approach, and one to which the AIIB is not immune: the bank's new ESS has as its first criterion in deciding to back gas infrastructure: "Investments will not conflict with, or will actively contribute to, the achievement of a Member's climate policy and commitments including its NDC, LTS [Long-Term Strategy] and net zero/carbon neutrality pledges."

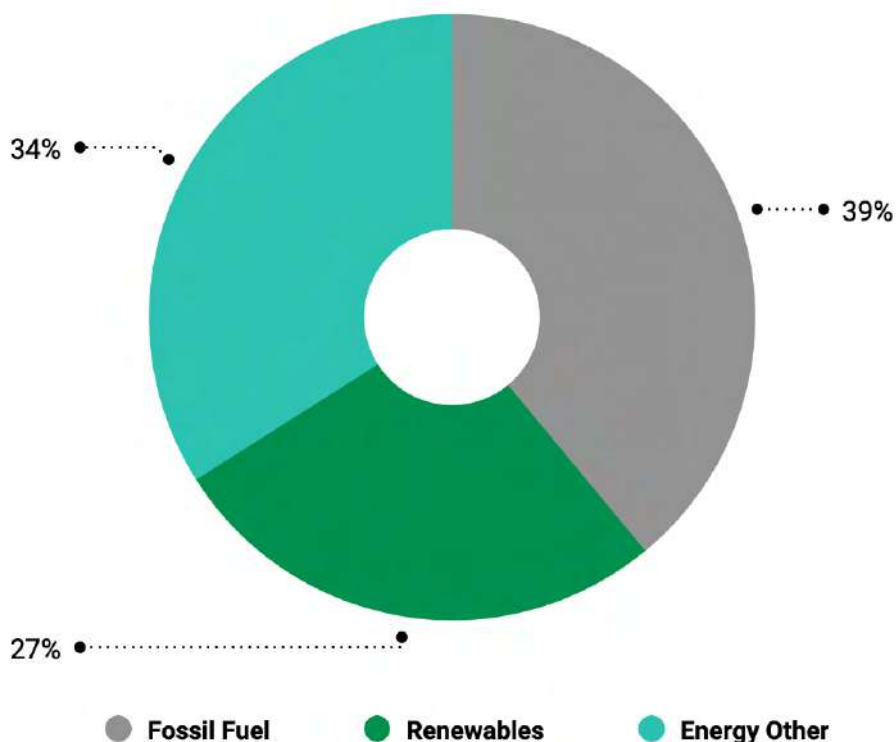
The AIIB's problem with fossil fuels

The AIIB was launched in early 2016, just over a month after governments adopted the Paris Agreement. In his inauguration speech, [AIIB President Jin Liqun](#) committed the AIIB to doing its "best to protect the environment" and to running the AIIB as an organisation which is "lean, clean and green". Despite these promising commitments, and despite the AIIB being created without the high carbon legacy of other MDBs, it has to date failed to put its 'green' aspirations into practice.

The AIIB's first [Energy Sector Strategy \(ESS\)](#), approved in June 2017, set the tone for a fossil fuel focused - rather than 'green' - new MDB. The ESS was widely criticised as failing to introduce exclusions on the funding of fossil fuel projects, particularly those involving coal. This not only contravened the Paris Agreement, but also went against other institutions, such as the [World Bank](#), which had in 2013 outlined tight restrictions on financing for coal power.

The results are telling. As of the end of January 2023, the AIIB had invested almost \$2.4 billion in gas projects, excluding indirect finance, representing almost 40 percent of its energy portfolio. While this proportion has dropped from over 60 percent in 2018, it remains a significant share. This includes financing for the controversial greenfield [Bhola gas power plant](#) in Bangladesh, which has caused widespread social and environmental harms, and the [Myingyan gas power plant](#) in Myanmar, which MDBs chose to support over wind and solar alternatives. Moreover, the bank's renewable energy share has not grown proportionally and now represents just over a quarter of the energy portfolio. The remaining 34 percent include projects such as transmission and distribution, where the fuel source is mixed or not defined.

Figure 2: The AIIB's Energy Sector investments as of end of January 2023



Note: 'Energy other' includes projects such as transmission and distribution, where the fuel source is mixed or not defined

Source: Asian Infrastructure Investment Bank, Our projects: https://www.aiib.org/en/projects/list/year/All/member/All/sector/Energy/financing_type/All/status/Approved (accessed 27 February 2023)

Ever since the approval of the first ESS, President Jin has repeatedly stated that AIIB would not finance coal. However, this is not true. Research by Recourse, Inclusive Development International (IDI) and the Centre for Research on Multinational Corporations (SOMO) revealed that the AIIB invested in the International Finance Corporation (IFC) [Emerging Asia Fund](#) in 2017, which in turn invested in Shwe Taung Cement in early 2018 - a project in Myanmar involving both the [use of coal](#) in the industrial process, nearly quadrupling greenhouse gas emissions from the cement plant, and increased extraction from a dedicated coalmine.

This form of financial intermediary (FI) investment, where the AIIB essentially 'outsources' funding decisions to commercial banks or private equity funds, which in turn invest capital in 'subprojects' or 'subclients', represents a growing share of the AIIB's overall portfolio—almost doubling in value over the past four years. In response to civil society and shareholder concerns, the AIIB strengthened the language on FI due diligence in its revised [Environmental and Social Framework \(ESF\)](#), which came into effect in October 2021. However, further reforms are necessary to improve FI transparency and accountability, given how high risk this form of 'hands-off' investment is, and the risk of funds ending up backing fossil fuels.

Another form of indirect financing also raises concerns about how the AIIB may end up providing support to fossil fuels. In 2019, the AIIB began to invest in capital markets projects, aimed at attracting institutional investors to finance infrastructure development in Asia. These operations delegate portfolios to a third-party asset manager, which makes decisions about investments in securities traded through capital markets. The updated ESF added new sections related to capital market projects. However, it states that these projects require “an appropriate ESG [Environmental, Social and Governance] framework against which environmental and social risks can be addressed.” These frameworks are applied “in lieu” of applying the bank’s Environmental and Social Policy. Capital market projects are not subject to the bank’s standard disclosure policies and the bank has provided extremely limited information on the contents of the project portfolios, i.e. which companies or projects AIIB funds have been invested in via these projects.

The AIIB finally approved an updated ESS in November 2022, after a review lasting almost a year. This resulted in a long-awaited formal ban on coal investments in most circumstances. However, this is the bare minimum needed to address climate change and become Paris aligned, as well as to be in line with most other MDBs. The updated ESS states that it will “guide” indirect financing of energy sector operations. However, with minimal disclosure on this type of project, it is impossible for civil society to assess the extent to which this is happening in practice. As with standard FI investments, disclosure and transparency is vital in order to guarantee AIIB funds do not end up indirectly supporting fossil fuel projects it would not support directly.

Unfortunately, fossil fuels still feature strongly in the updated ESS, sending mixed signals about the AIIB’s priorities. Significantly, the draft puts a strong emphasis on gas as a ‘transition fuel’ with loose restrictions. This includes a justification for continued support for gas based on a country’s NDC, despite that the combined NDC pledges are estimated to lead to a 2.4°C warming, as mentioned earlier. Another criteria is that the investment “will not create a risk for carbon lock-in or stranded assets”, but as we will see below, this did not stop the AIIB from funding a greenfield gas power plant after the updated ESS was approved. The references to renewable energy are on the other hand in many cases associated with caution, for example, raising doubts about “availability, process, and secure supply chains of critical minerals”.

In its 2021 report [Net Zero by 2050](#), the International Energy Agency (IEA) concluded ‘there is no need for investments in new fossil fuel supply’—not just coal but also ‘no new oil and natural gas’. In fact, gas, rather than coal, is now the main driver of the [global increase in carbon dioxide emissions](#). In a 2022 report, IEA concludes that utility-scale solar PV and onshore wind are already the [cheapest options](#) for new electricity generation almost everywhere. Clinging on to the narrative of gas as a transition fuel leaves the AIIB behind the curve. The [European Investment Bank](#), which is at the forefront of Paris alignment among MDBs, is already phasing out support for all fossil fuel energy projects, including gas, in both direct and indirect investing.

Concerningly, as the ESS review was ongoing in 2022 the AIIB added two new greenfield gas projects into its proposed projects pipeline —one in Bangladesh and [one in Uzbekistan](#). The Bangladesh project, [Unique Meghnaghat Independent Power Producer](#) (IPP), not only became the first energy project that the AIIB approved after the updated ESS was

approved, it is also the first project that the AIIB has labelled as Paris aligned. This sends troubling and disappointing messages on how the AIIB interprets Paris alignment and its role in the fight against climate change.

The missing gender dimension

The energy sector is the largest contributor to global greenhouse gas emissions, and therefore holds an important key for combating climate change. Climate change impacts everyone, but differently and unequally. Gender inequalities exacerbate women's vulnerability to the impacts of climate change and their ability to adapt, as they can limit women's political voice, economic opportunities, and access to resources and services, such as health and education. On the other hand, women hold important knowledge for both mitigating and adapting to climate change. Women are often at the frontline of the impacts, for example, being responsible for managing water and energy needs at the household level, and their voices, knowledge, perspectives, expertise and needs should be taken into account. Addressing climate change and aligning with the Paris Agreement's 1.5°C goal must therefore go hand in hand with efforts to address gender equality and empower women and girls.

BRICS Feminist Watch and Recourse conducted desk based analysis to review the project documentation for all 42 approved projects in AIIB's energy portfolio as of end of 2022 against a list of ten gender indicators. The indicators, which were developed by BRICS Feminist Watch, include whether women are recognised as beneficiaries to the project, if they have control, management and ownership of modern energy and whether the project has a Gender Action Plan. Out of these 42 projects, totalling over \$7 billion in investment, almost half – 17 projects worth almost \$2.4 billion - did not have any gender language in the available project documents.

Out of the 25 projects that did, none matched against all the indicators. In fact the highest scoring project met only seven of the ten indicators, with most approved projects meeting no more than two to three. None of the projects included specific language on energy access for women, despite the AIIB's stated commitment to the Sustainable Development Goals which prioritise gender equality and energy access for women and girls. Only three of the approved projects referred to women's specific energy needs. The most common reference to women was related to participation, such as in consultations. References to Gender Action Plans were available only for eight of the projects that scored against the gender indicators. This is wholly inadequate as Gender Action Plans should be a mandatory requirement for all projects.

The research identified no clear pattern of how projects delivered against the indicators depending on when they were approved. Nor was there a particular trend in terms of projects in specific countries matching considerably better than others against the indicators. It is noticeable, however, that only one out of seven FI projects included gender references in the publicly available project documentation. The roots of this gender-blindness may lie in the fact that, in contrast to other MDBs, the AIIB has to date not developed a gender policy, strategy or action plan. The lack of a policy is also clear in the updated ESS, which commits to take gender "into account", but without including any targets, indicators or other measures to allow monitoring and accountability. It is essential that this fundamental gap is addressed in both policy and practice, including in the AIIB's Paris alignment methodology.

Paris aligned? The Unique Meghnaghat gas power plant in Bangladesh

In December 2022, the AIIB approved \$110 million in funding for [Unique Meghnaghat IPP](#) to support the “design, financing, engineering, construction, operation and maintenance” of a 584 Megawatt (MW) greenfield gas power plant in Bangladesh.

This project is controversial on several levels. Significantly, this is the first time the AIIB has labelled a project as Paris aligned, but without having published its own methodology let alone held public consultations on it. The AIIB’s justification for this label in the project information is unclear. According to Bangladesh’s NDC, the country aims to implement 4114.3 MW of renewable energy, but this is dependent on “support from the international community”. The AIIB references the NDC, and notes that renewable energy only represents “a very small fraction” of the current power generation in Bangladesh, listing a number of reasons, such as “limited grid network capacity” and “variability”. But rather than supporting Bangladesh to scale up renewables, the AIIB justifies its support for fossil gas since “given the constraints, the government has taken initiatives to increase usage of gas in most efficient manner”. This includes the potential conversion of the gas turbine to operate on 50-100% hydrogen in the future. The AIIB concludes that the project therefore will be “net positive in terms of overall CO₂ reduction over the life of the project and is aligned to the Paris Agreement.”

Secondly, this is the first project to be approved under the AIIB’s updated ESS, which for the first time introduced restrictions on financing for gas. The updated ESS commits the AIIB to only support gas-fired power generation if it fulfils a set of criteria, including that it must “not conflict with, or will actively contribute to, the achievement of a Member’s climate policy and commitments including its NDC, LTS and net zero/carbon neutrality pledges” and “not create a risk for carbon lock-in or stranded assets.”

Based on the explicit need for support to scale up renewables in Bangladesh’s NDC and the life span of a greenfield gas power plant, which is normally [25-30 years](#), it seems obvious that the AIIB’s investment in Unique Meghnaghat does not fulfil these criteria. The special purpose vehicle behind the development of the power plant has signed a Power Purchase Agreement with the Bangladesh Power Development Board lasting 22 years, which demonstrates long-term carbon lock in. It is also worth emphasising that [hydrogen is not a renewable technology](#), but is produced mostly from fossil fuels, such as gas, requiring a huge amount of energy. Supporting ‘hydrogen-ready’ gas power plants should not be used as an excuse to delay the phase out of fossil fuels.

Thirdly, this project was approved without proper oversight by the AIIB’s Board, through the so-called [Accountability Framework](#). This fast tracking framework allows the AIIB’s President to approve projects if they comply with specified criteria, including that they fall under a certain financial threshold, which the Unique project does, and provided that a similar project has already been funded by the AIIB in the country. In this case, the AIIB had approved a greenfield gas power project in 2018, the [controversial Bhola IPP](#), which led communities to lodge the first ever complaint to the AIIB’s accountability mechanism, the Project-affected Peoples Mechanism (PPM). It is highly concerning

that the AIIB and its shareholders are prepared to let a project with an environmental and social risk rating Category A, such as Unique Meghnaghat, meaning that it is “likely to have significant environmental and social impacts that are irreversible, cumulative, diverse or unprecedented”, be pushed through in this manner.

Finally, groups in Bangladesh question information in the Unique Meghnaghat’s [Environmental and Social Impact Assessment](#) (ESIA) that “a ‘no project scenario’ would result in power shortage in the country”. According to [research by Coastal Livelihood and Environmental Action Network \(CLEAN\)](#), a Bangladeshi NGO, the plant will in fact contribute to current over capacity. At present, there is also not enough gas to supply the plant. The plant therefore risks becoming a stranded asset, while leaving the Bangladeshi government further out of pocket, as it will still have to pay the capacity charge for the project, which is what the government must pay whether or not electricity is produced upon the commissioning of a power plant. The ESIA explores support for renewable energy as an alternative technology, but calls this a “niche area” and dismisses this option in favour of comparing different types of fossil fuels and ultimately choosing gas, since “the country does not have the expertise and infrastructure for large scale [renewable energy] generation”. Again, this is where public financing, such as from the AIIB, could play a key role in building capacity and providing finance for the necessary infrastructure to help enable a just transition to renewables, rather than supporting ‘business as usual’ and the fossil fuel economy.

Accountability Framework: anything but accountable

The delegation of project approval from the Board to the AIIB’s President (and therefore essentially management), which the misnamed [Accountability Framework](#) (AF) permits, is highly problematic. A joint statement by over 60 NGOs greeted the AIIB’s proposed AF with dismay, stating:

“This decision goes to the heart of the question of governance at the Bank. Board members are accountable to their constituent governments, shareholders of the AIIB, for their decisions. Shareholder governments in turn are responsible to their citizens for ensuring that the Bank upholds its environmental and social standards in its lending operations. In essence, the project approval process by the Board provides an opportunity for civil society and potentially affected communities to raise their concerns with their representatives, to ensure decisions are well-informed and take account of potential harms.”

Despite these objections, the AIIB put the AF into practice in 2019; however, few projects were approved through this fast tracking process in the initial years, partly due to a relatively low financial threshold for eligibility. Following an internal review, the AIIB raised the threshold for the AF in 2022. This increase, coupled with more projects being eligible by not being the first investment in a country or sector, is now starting to open the floodgates for project approvals through the AF outside of proper Board oversight. This raises serious risks and accountability questions, as significantly there are no restrictions for Category A high risk investments to be approved through the AF, such as Unique Meghnaghat.

Moreover, CLEAN claims that the project has already caused harm to local communities, with a flawed land acquisition process. Discrepancies in figures reveal that a third of the land for the plant, which is already under construction, was grabbed illegally by project developers. Landowners report being harassed by representatives for the project developer, Unique Meghnaghat Power Limited, into selling their land and being paid well below the market rate, which is against the law.

“AIIB’s funding for the Unique Meghnaghat gas power plant is expanding fossil fuel energy and damaging the environment, while increasing Bangladesh’s debt. Women’s livelihoods are at stake as they have lost access to land and water due to the plant. If AIIB is serious about aligning with the Paris Agreement and supporting gender equality, it must stop funding gas, including Unique Meghnaghat.”

- Sarmin Bristy

CLEAN (Coastal Livelihood and Environmental Action Network)



Photo by Sarmin Akter Bristy/CLEAN

Financing fossil fuels via intermediaries - the case of IDCOL in Bangladesh

Bangladesh gas power plants could also be funded by the AIIB through a financial intermediary, as sub projects of the Infrastructure Development Company Limited (IDCOL). IDCOL is a nationally owned finance institution in Bangladesh that supports the private sector through investments in infrastructure, particularly energy. Since its inception in 1997, it has built a long track record of investing in small-scale renewables, most notably in rooftop solar and mini-grid projects. But at the same time, IDCOL has exposure to heavy-fuel oil and gas infrastructure projects.

In March 2022, the AIIB Board approved a \$200 million loan to IDCOL. The AIIB promotes this as a “green” investment, to support sub projects in power generation, renewable and low-carbon electricity. But the AIIB has not specified that its loan to IDCOL must be directed towards renewable energy specifically, such as bundling small-scale renewables for energy access. Moreover, while the AIIB excludes coal mining, coal transportation and coal-fired power plants from IDCOL support, as well as projects involving high-speed diesel, it sets no explicit limitations on financing of other fossil fuels, such as gas.

Indeed the AIIB’s project documents indicate that the bank’s financing for IDCOL could go towards gas: “IDCOL will be targeting several small and large-scale renewable energy projects as well as gas power plants.” The documentation further lists two gas projects for potential funding: Unique Meghnaghat and another LNG and gas power plant in Chattagram to be developed by Fenipower. The AIIB commits to conduct prior review and approval of the first three and all Category A high risk sub projects. It also notes that Category A sub projects that are already supported by the AIIB through direct financing will be automatically eligible for IDCOL financing. This now includes Unique Meghnaghat, however, the AIIB has told Recourse that this project has reached financial closure and is no longer in IDCOL’s pipeline.

The project document suggests that the loan is aligned with the AIIB’s ESS “by reducing carbon intensity of energy supply and mobilizing private capital by investing in e.g., renewable energy and gas power plants.” The ESS has since been updated to introduce restrictions for gas financing, but as the AIIB’s direct investment in Unique Meghnaghat indicates, the criteria are full of loopholes and open to interpretation.

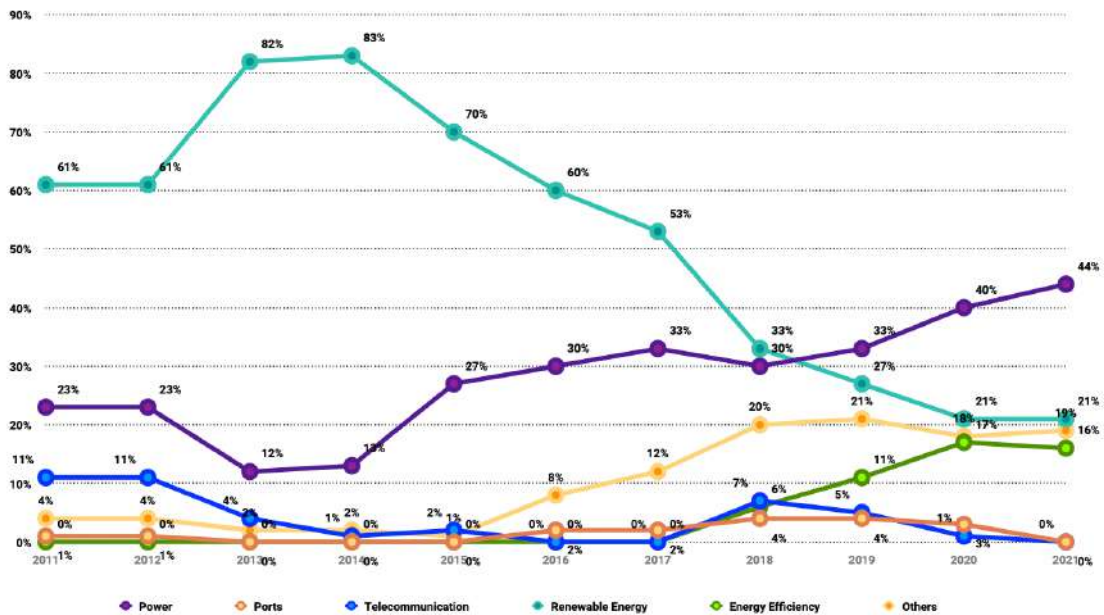
Between 2002 to 2021, IDCOL financed more than 20 fossil gas projects, including one LNG terminal, 11 gas power plants, eight heavy fuel oil (HFO) power plants, and four dual fuel (gas and either HFO or high speed diesel). More are underway as IDCOL has approved and is acting as lead arranger for several other gas and HFO power plants¹.

The AIIB’s loan to IDCOL also runs the risk of crowding out renewable energy from IDCOL’s portfolio and lock in further gas and oil investments. Since 2015, loans to gas and oil projects continued to increase in IDCOL’s portfolio, while at the same time funding for renewables decreased. By 2021, loans to gas and oil energy projects held the largest share in IDCOL’s loan portfolio.

If the AIIB allows its funding to support gas-fired power projects in IDCOL’s pipeline, it would again act against its new principles for gas financing by allowing carbon lock-in and a risk of stranded assets, while also acting against the goals of the Paris Agreement.

¹ Extracted from <https://idcol.org/home/power#> and IDCOL’s annual reports.

Figure 3. IDCOL's decreasing financing for renewable energy.



The purple line indicates loans for ‘conventional power’ while the green line is for ‘renewable energy’.

Source: Data is based on IDCOL's annual reports from 2011 to 2021 and website on its financial highlights. <https://idcol.org/home/fhlights>

Aiming beyond Paris: how the AIIB can meet the climate challenge

Principles for Paris alignment

The AIIB has committed to align all its new investments with the Paris Agreement on climate change by July 2023. Presumably, the AIIB will release its methodology explaining how it will align its direct and indirect investments by this date. A crucial first step for each MDB that is now developing its own Paris alignment methodology, building on the joint framework, is to open up this process for public input. The European Bank for Reconstruction and Development (EBRD) held a consultation meeting on its methodology in January 2022, followed by an expert roundtable, then invited written comments on its draft methodology. There is no reason why other MDBs should not follow suit.

In August 2022, 32 non governmental organisations (NGOs) [wrote](#) to the AIIB's senior management to urge the bank to consult civil society on its methodology. The groups wrote that the climate crisis was such that “it is crucial that the AIIB's methodology be publicly disclosed in draft format and open for consultation with a wide range of sectors, including civil society groups.” In its response, the AIIB stated “We strongly agree with you on the urgency of tackling the challenge of climate change and we are committed to addressing this challenge in partnership with public and private sector players” - however, no commitment to consult on the methodology was forthcoming.

Without public input and scrutiny, the AIIB's Paris alignment methodology risks being a narrowly technical document that ignores wider justice issues and still allows for fossil fuel support - as seems likely from the bank's updated ESS. The challenge of shifting finance from fossil fuels to sustainable renewable energy - which any Paris alignment methodology must tackle - is not merely a matter of reducing emissions - though it is essential to do so by ruling out support for fossil fuels. To focus on reducing emissions while ignoring the current systemic injustice at the heart of our economic system will not deliver the scale of transformation needed.

Yes, the methodology should first determine whether an investment passes the litmus test of being effective on its own terms, and if it contributes to tackling the climate crisis in a lasting and sustainable way. However, being green is not solely a question of narrowly supporting only climate-compatible investments, such as those that reduce emissions. The methodology must also consider whether an investment supports equity at a deeper level: by benefiting people and the planet at the same time, by being transparent and inclusive, by promoting gender equality, by doing no harm and by respecting and advancing human rights.

This is the true meaning of Paris alignment. The preamble to the [Paris Agreement](#) includes an acknowledgement "that climate change is a common concern of humankind" and that "Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights." The Paris Agreement also [adopted measures](#) to promote gender equality and participation, sustainable development, and poverty eradication. In other words, as UN special rapporteur on human rights and the environment [John Knox](#) has said, "Governments do not check their human rights obligations at the door when they respond to climate change."

Recourse, together with partners from around the world, has put forward a set of [principles](#) to ensure MDBs' Paris alignment efforts put people and planet at their core. These include: ramping up support for sustainable renewable energy; enabling a just transition; closing any loopholes that continue to allow fossil fuel investment; being accountable for harms caused by past fossil fuel projects, including offering remedy; and ensuring a rights-based approach. MDBs' Paris alignment methodologies must prioritise the protection and promotion of human rights, including the rights of marginalised communities, such as people of colour, LGBT, Indigenous Peoples, women, youth, children and people with disabilities. MDBs must prioritise addressing energy poverty, including through decentralised renewable energy provision; and renewable energy infrastructure, supply chains and operation should never come at the expense of human rights (see box on page 17).

Scientific, environmental, social and rights-based criteria for renewable energy investments

While there is an urgent need to shift from fossil fuels to renewable sources of energy, this transition should happen in a way that does not further place the burden and costs on communities who have done the least to cause it - women, indigenous, marginalised peoples - either when land is used for renewable energy projects or resources mined for the minerals necessary for the transition. Also, it should occur without further burdening low-income countries with increased debt. Rather the energy transition should benefit these groups through increased energy access, decent work, enhanced natural environment and thriving local and national economy. In this context, all renewable energy investments must be driven by scientific, and social, rights-based criteria, as follows:

Science-based taxonomy must ensure environmental integrity by delivering:

- ▶ Climate change mitigation, Paris aligned to a 1.5°C trajectory
- ▶ Resilient to the impact of climate change
- ▶ Sustainable use and protection of water, marine and forest resources
- ▶ Pollution prevention and control
- ▶ Protection of healthy ecosystems

In addition, it must meet social and human rights criteria:

- ▶ Safeguards compliance
- ▶ Respects the needs and concerns of local communities, centering them in the development of energy options and prioritising the voices of women, vulnerable and marginalised people and indigenous communities.
- ▶ Free, prior and informed consent (FPIC) of Indigenous Peoples
- ▶ Upholds human rights, decent work principles, and land rights of impacted communities
- ▶ Access to functioning and independent grievance redress mechanisms

While renewable energy technologies do not have the climate impacts of fossil fuels, badly implemented renewable energy technologies can lead to devastating impacts. For renewable energy projects to meet their potential for positive sustainable development, they must be implemented with the communities, respecting people's rights and implementing strong safeguards to prevent harm.

Source: Recourse (2023). Harnessing public finance potential to create renewable energy economies: Methodology to assess WBG progress in supporting the transition to sustainable, renewable economies

Working paper on aligning intermediary investments with the Paris Agreement

A coalition bringing together World Resources Institute, Germanwatch, and New Climate Institute, has published a technical guide for how IFIs could align their FI investments with the Paris Agreement. Such guides can provide helpful technical support, tailored to the many different kinds of FI client and types of FI investments. The guide includes decision trees for investments, and bases decision-making on four pillars: mitigation, adaptation and resilience, governance, and transparency. Usefully, under the mitigation and adaptation pillars, the guide applies to the sub-project level – tracking what the FI client actually does – with governance and transparency at the institutional level.

Source: World Resources Institute, Germanwatch, New Climate Institute, June 2021

Counting, defining and disclosing climate finance

In its Corporate Strategy, the AIIB commits that at least 50% of its financing approvals will be climate finance by 2025. By the end of 2021 the AIIB was already close to reaching its target, with 48% of approved financing during that year defined as ‘climate finance’, or \$2.9 billion. Projects funded under the AIIB’s Covid-19 Crisis Response Facility are excluded, meaning that the 48% does not include all of the AIIB’s project approvals for 2021. With these included, the \$2.9 billion figure would represent 30% of financing approvals instead. Out of what the AIIB reported as climate finance, 78% went towards climate mitigation, with the remaining 22% being adaptation finance or both. A third went to transport projects, followed by a fifth for energy and the remaining labelled as urban, water and finance.

This seems like significant progress towards a commendable and ambitious target, but to fully understand what it means in practice, it is important to understand how ‘climate finance’ is defined. The definition of ‘climate finance’ builds on methodologies developed by the MDBs to track their climate commitments, one for [climate mitigation](#) and one for [climate adaptation](#). There are only a few exclusions of what definitely cannot be counted as climate finance: “activities in support of upstream and midstream activities in the fossil fuel industry, electricity generation from coal or peat, and those that lead to deforestation”.

While this rules out, for example, support for greenfield gas power plants, the MDB climate finance definition does not automatically exclude activities associated with GHG emissions. Instead, they have to qualify by being “negative- or very-low-emission activities”, “transitional activities which are still part of the GHG-emissive systems” or “enabling activities”. For example, brownfield energy-efficiency improvement in energy production is eligible, including production processes involving “combustion of fossil fuel without carbon capture or utilisation” as long as it is possible to demonstrate that no viable lower-carbon alternatives are available. Both greenfield and brownfield waste to energy projects are eligible, as long as significant net GHG emissions reductions can be verified.

According to the MDB methodology for counting climate finance, mitigation activities must “be disaggregated from non-mitigation activities as far as reasonably possible so that a clear correlation between financial flows and the actual mitigation activity can be established” and adaptation activities must address climate change vulnerability directly. Besides case studies, the AIIB has not published a list of the specific projects that it classifies partly or fully as ‘climate finance’, making it difficult to assess the validity of its claims. This lack of transparency is not unique to the AIIB, but further undermines trust in the validity of the figures. An [Oxfam analysis](#) found that the World Bank had inflated its climate finance figures for 2020 by as much as 225 percent. Oxfam attributed the misleading accounting to issues such as projects with less climate focus than reported and loans being reported without taking repayments into account.

In its [Sustainable Development Bonds Impact Report 2021](#), the AIIB claims that nearly 60% of projects approved in 2021 had “some portion of financing contributing to climate mitigation or adaptation”. However, this figure is not directly comparable to the 50% target, as it refers to number of projects rather than level of financing. Out of the seven projects the AIIB uses as case studies, one represents over a third of the total climate finance for that year – a flood emergency project in China, which is also the biggest AIIB loan to date. The other projects include financing for metro rail in India, a waste to energy generation project in Turkey and a power distribution project in Indonesia.

The fact that the MDB methodology allows for some GHG emissions raises questions on how much of MDB contributions to climate finance truly supports the goals of the Paris Agreement. On top of this, the lack of transparency on what projects are counted is concerning, evading scrutiny of what the AIIB’s progress towards its 50% target means in reality. Until these issues are addressed, the climate finance target and progress towards it seems misleading in terms of genuine attempts to address the climate crisis.

How the AIIB can go ‘Beyond Paris’: Conclusion and recommendations

This report asks if the AIIB is up to the challenge to address the climate crisis in policy and practice, including the urgent need to accelerate the shift from fossil fuels to sustainable renewable energy that puts people and the planet at the heart of development. It finds several obstacles for the AIIB to realise its stated climate ambitions, in both its policies and practice, including missed opportunities to be truly transformational. These include big loopholes allowing continued support for fossil gas in the ESS and a troubling approval of a greenfield gas power plant as ‘Paris aligned’.

The bank may point to its growing renewable energy portfolio, but as long as it takes away with one hand what it gives with the other - by financing fossil fuels - it will not contribute sufficiently to the transformation needed. Nor does the bank adequately address issues of justice and a rights-based approach in its investing: it is one of the only MDBs not to have a gender policy, and its accountability mechanism, the Project-affected People’s Mechanism, has [proven inaccessible](#) to affected communities.

As the AIIB finalises its Paris alignment methodology, it is critical that it learns from these concerning developments. The AIIB's methodology should be based on the premise that public finance must prioritise sustainable renewable energy, stop funding fossil fuels and end consideration of gas as a transition fuel. The time left to achieve this shift necessitates urgent action, and scarce public funds should no longer prop up dirty and outdated technologies.

But the methodology must also be built on principles of climate justice and rights. Given the limited scale of public investment resources for sustainable development and climate finance, it is a matter of efficiency, effectiveness and equity that it needs to set the highest bar with respect to good governance; applying, safeguarding and advancing environmental and social standards; and actively promoting social inclusion and poverty reduction, gender-responsiveness and human rights.

Put simply, climate finance and truly Paris-aligned investments should fulfill three fundamental criteria:



It must not support fossil fuels;



It must do no harm by preventing human rights abuses and negative social and environmental impacts;



It should aim to do good by addressing inequalities and generating broader benefits for affected people and communities, creating accountability for sustained climate impacts and contributing to larger paradigm shifts in the financial system.

Recommendations

For the AIIB to honour its commitment to be Paris aligned, adhering to the 1.5°C goal and beyond, in its Paris alignment methodology and other policies and practice, it should:



Stop backing fossils

To align with the Paris Agreement's 1.5°C goal, the AIIB's Paris alignment methodology must:

- ▶ **Stop all direct and indirect investment in all fossil fuels, including through FI and capital markets investments.** In May 2021, the [International Energy Agency](#) concluded that "there is no need for investments in new fossil fuel supply in our net zero pathway". That means no new coal, no new oil, and no new fossil gas.
- ▶ Include a requirement for all existing and new FI clients to **track and disclose any fossil fuel, or fossil fuel-related infrastructure investments.**

- ▶ Require the AIIB to only invest in FI clients who commit to develop a **portfolio decarbonisation plan** and publicly disclose it, to achieve emissions reductions in line with the 1.5°C goal.
- ▶ Ensure that **none of the AIIB's new FI investments results in an increase in fossil fuel use**: whether for power generation or industrial uses, or for associated facilities such as transmission lines and railways or ports primarily meant for the transportation of coal.
- ▶ Require that any project involving the **expansion of fossil fuel use be subject to Board and not President approval** through the Accountability Framework. This includes power plants, the infrastructure that supports them and fossil fuels for industrial use, as well as any Category A - high risk - projects and high-risk FI investments.
- ▶ **Set out a strategy to address its existing portfolio**. The AIIB has stated that its methodology will apply to all new finance after July 2023. However, this leaves an existing portfolio of currently \$40 billion unaddressed. For example, the IFC's [Greening Equity Approach](#) applies to existing equity clients, and how it will support them to exit coal.
- ▶ Ensure that progress towards the AIIB's 50% **climate finance target excludes any fossil fuel** related investments and that the calculations are fully transparent and publicly accessible.



Do no harm

To ensure the AIIB's investments do no harm, the AIIB's Paris alignment methodology must:

- ▶ **Improve transparency** to ensure the AIIB remains accountable to its commitments, including requiring the AIIB to disclose the name, sector(s) and location of higher risk FI clients financed via FIs both on the AIIB's website and on the FI client's website. The AIIB should also disclose its involvement in sub-projects at the project sites, ensuring that it is clearly visible and understandable to affected communities, including women and girls, to enable anyone harmed by projects to access grievance, accountability and redress mechanisms.
- ▶ Require more **stringent project monitoring and supervision**, in particular of high-risk clients and FI sub-projects. The AIIB should support clients to adopt Environmental and Social Management Systems that match the AIIB's own standards, and support them in implementation of those standards. This includes ensuring AIIB's standards are included in contracts with sub-project developers.
- ▶ Ensure that the AIIB **addresses past harms and support the right to remedy and reparations**. The AIIB must be held to account for past harms caused by fossil fuel investments it has supported over the years. To address this, the AIIB should commit to work with its clients in ensuring remedy is provided and future harms are prevented in consultation with local communities, including women.



Aim to do good

For the Paris alignment methodology to do good, it must:

- ▶ **Support a Just Transition, away from fossil fuels to sustainable renewable energy**, that contributes to energy access for all and that does no harm to the environment or communities, including women. The Just Transition should be based on the principles of social justice, meaningful work, self-determination, reducing consumption and promoting ecological resilience in addressing the climate emergency. Dangerous or damaging false solutions, such as fossil hydrogen, CCUS and large dams, must be avoided.
- ▶ Mandate **climate-compatible investments that provide multiple benefits** addressing the intersection of climate change impacts with those of other crises (biodiversity, health, poverty and social exclusion) and that can be sustained post-investment. Such benefits include biodiversity and ecosystem protection through support of traditional and Indigenous knowledge and approaches, especially knowledge held by women, securing land tenure of indigenous and local communities, providing fair and safe jobs and economic opportunities for all people, with a focus on the most marginalised and efforts to overcome intersectional societal and systemic discriminations.
- ▶ Require **gender-responsive implementation of investments**. This not only means that investments must avoid reinforcing existing gendered exclusions and stereotypes (for example the gender-segregated division of labour and access to employment) but contribute to addressing underlying inequality structures and power imbalances, and reducing gender stereotypes, stigmas and gaps. It also means that investments should ensure women have equal access to all opportunities and benefits of the projects.
- ▶ Safeguard the **protection and promotion of human rights**, as an intentional priority and mandatory investment criterion to be fulfilled for AIIB support. This includes a focus on the inclusion and benefits for especially marginalised communities and population groups, such as people of colour, Indigenous Peoples, women, and people with disabilities.
- ▶ Require **screening of investments against adaptive capacity** criteria: the AIIB should identify where there is potential for its investments to build adaptive capacity among communities, with a focus on women. For example, communities that rely on natural resources have been developing methods to cope with environmental change for generations; however, adapting to predicted climate change presents a major challenge. Adaptation should aim to strengthen traditional coping mechanisms and optimise current systems while building flexibility to cope with the uncertainties posed by climate change.
- ▶ Include a commitment for **regular, evidence-based reviews of the methodology** to examine its efficacy, to ensure existing and future investments made by the AIIB are truly green: that they do no harm, prevent human rights abuses and negative social and environmental impacts, and promote gender equity, while ensuring meaningful consultations with civil society and affected communities throughout the planning, implementation and monitoring of investments.

Finally, we repeat [our call](#) for the AIIB to **open up its Paris alignment methodology for public consultation**. How the AIIB aligns its investments with Paris is a matter of public interest and should therefore be subject to public scrutiny and input. The EBRD has shown that it is possible - and preferable - to invite public comment on its methodology, and the AIIB should do the same in the short time it has left before the July 2023 deadline. In its recently [published methodology](#), the EBRD has also committed to **review the methodology at least annually** and furthermore, to consult publicly on any major changes. The AIIB would do well to emulate this example.



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