

NO PARIS: **How the AIIB's Paris alignment methodology fails the people and the climate**



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INTRODUCTION

The Asian Infrastructure Investment Bank (AIIB) has committed to align all of its new investments with the goals of the Paris Agreement on climate change from 1 July 2023.¹ As it reached this deadline, the AIIB published its first “Methodology for assessing the alignment of AIIB investment operations with the Paris Agreement”.²

Public finance institutions have an important role to play both as funders and standard setters in the transition away from fossil fuels and towards sustainable renewable energy options, in line with the Paris Agreement’s goals. However, despite the urgency to combat climate change, public finance flows to fossil fuels are still greater than those for climate adaptation and mitigation.³

The AIIB came into operation in early 2016, only weeks after the Paris Agreement was adopted, committing to be “lean, clean and green”.⁴ Without the fossil fuel heavy legacies of the already established MDBs, it had a prime opportunity to align with the Paris Agreement from scratch in both policy and practice. But instead, the AIIB largely copied the other MDBs’ ‘business as usual’ approaches, even failing to restrict investments in fossil fuels in its first Energy Sector Strategy (ESS) from 2017. The results were telling: as of the end of 2021 the AIIB had invested almost \$2.3 billion in fossil fuels, representing close to half of the energy portfolio, against only a quarter for renewable energy.⁵ This figure excludes finance through financial intermediaries (FIs).

The second iteration of the ESS, approved in November 2022, finally moved the needle in the right direction by excluding financing for coal in most circumstances and by introducing restrictions on oil and gas financing, but still leaves huge loopholes. Significantly, the updated ESS puts a strong emphasis on gas as a ‘transition fuel’ with loose restrictions. 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”.⁶

The AIIB’s Paris alignment methodology builds on efforts by a group of MDBs to develop a joint framework and principles for alignment, however, disappointingly these do not contribute to the Paris Agreement’s goal to reduce global warming to 1.5°C in a meaningful way. Instead, they reduce Paris alignment to a box ticking exercise, without accountability to the urgent steps the world must take to avoid catastrophic climate change. First and foremost, they do not prevent investments in fossil fuels, and significant loopholes for other kinds of unsustainable and greenhouse gas (GHG) intensive financing are numerous. Against this background, the individual MDB methodologies present an opportunity to raise the bar and cover these concerning gaps both in the joint approach and in their own policies and strategies, such as the AIIB’s ESS.

In March 2023, in the void of a public consultation on the AIIB’s draft Paris alignment methodology, three civil society organisations – Recourse, BRICS Feminist Watch and CLEAN (Coastal Livelihood and Environmental Action Network) – published a report outlining what the AIIB’s Paris alignment methodology should include called *Beyond Paris: How the AIIB can align its policy and practice to the Paris Agreement*.⁷ This briefing examines the AIIB’s Paris alignment methodology against some of the main benchmarks in the *Beyond Paris* report. It finds that the AIIB has failed to seize the opportunity to develop a robust methodology that closes the gaps in the joint MDB principles. Instead, the AIIB’s Paris alignment methodology sets out to justify ‘business-as-usual’, including further widening the loopholes for fossil fuels, in particular for fossil gas. It also fails to include essential rights-based approaches in the alignment methodology, such as gender considerations, despite the particularly negative impacts on women from climate change, while undermining the case for sustainable renewable energy options.

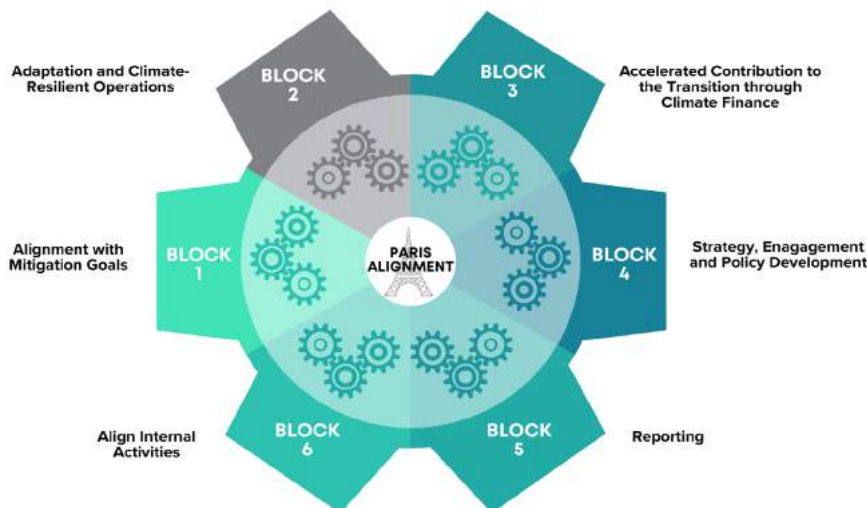
The MDB Paris alignment methodology and the AIIB

The AIIB's commitment to become Paris aligned stems from a 2017 initiative by a group of MDBs, including the AIIB, to align their financial flows with the objectives of the Paris Agreement. This was followed by a decision in 2018 to develop a joint framework for Paris alignment. Building on this framework, and after much delay, the group finally published a set of principles for assessing Paris alignment in June 2023, for both climate mitigation and adaptation, and with separate methodologies for different types of financing. These principles form a core part of individual MDBs' own Paris alignment methodologies, such as the AIIB's.

The MDBs' joint assessment framework for Paris alignment consists of six building blocks (BBs, see illustration below). The MDB joint methodological principles focus on assessment against BB1 on mitigation and BB2 on adaptation, with dedicated sections on different types of financing. However, the principles do not rule out financing for all fossil fuels in the list of universally non-aligned activities: only extraction and electricity generation from coal and peat. All other activities, including financing for oil and gas, can be considered Paris aligned, either if they are included in the universally aligned list or if they comply with a set of so-called "specific assessment criteria" (SC). However, some of these criteria are not aligned with the Paris Agreement's 1.5°C goal. For example, this includes assessments against member countries' Nationally Determined Contributions (NDCs), but this is a false measure – analysis has found that these are far off the mark, resulting in at least 2.4°C warming.⁸ For example, Bangladesh's NDC includes new gas power plants and even coal power as part of its commitments.⁹

The AIIB's own Paris alignment methodology follows this approach, but only includes sections on direct and intermediated financing. For other types of financing, such as policy-based lending which the AIIB only provides under specific circumstances, it applies the joint MDB methodology.¹⁰ The AIIB's methodology also replicates the MDB principles' lists of what are considered to be universally aligned and non-aligned activities with the Paris Agreement, but adds "additional approaches for specific sector/sub-sectors" in two annexes: one for BB1 and one for BB2. The annexes introduce guidance and criteria to be considered for a list of sectors, based on the AIIB's policies and other priorities. The BB1 sectors are energy, transport, waste-to-energy, and data centre projects. Sub-sectors include, for example, hydropower, gas-fired power generation and airport infrastructure. The BB2 sectors listed are energy, water supply and sanitation, transport, and urban development. The document notes that further sectors or sub-sectors "will be added as the Bank expands its business".

The six building blocks of the MDB Joint Methodological Framework for Paris alignment



BEYOND PARIS 1: STOP BACKING FOSSILS



“There are gaps between projected emissions from implemented policies and those from NDCs and finance flows fall short of the levels needed to meet climate goals across all sectors and regions.”

- Intergovernmental Panel on Climate Change, March 2023³⁵

✘ Big loopholes for fossil gas

As the MDB framework and principles have substantial weaknesses, significantly by only firmly excluding coal and peat investments, the AIIB’s own methodology could help cover the gaps towards alignment with the Paris Agreement’s 1.5°C goal. On a positive note, in the sector specific guidance (see page 4), the methodology includes a sub-section on fossil fuels, which details the main restrictions from the 2022 ESS regarding investments in coal, oil and upstream gas, which will also apply to the Paris alignment methodology.

However, rather than introducing further restrictions, the methodology includes a dedicated section on “natural gas-fired power generation”, with new criteria and further guidance. This sub-section is largely phrased to promote rather than restrict further investments in gas, often through unhelpful and unverified arguments against renewable energy. This includes language arguing the case for gas as a ‘transition fuel’, for example: “AIIB takes a selective approach and prioritizes gas power investments that meet crucial development needs while also facilitating the transition to low-carbon energy” and “A gas-fired power plant can have value for the country’s energy transition by enabling a higher penetration of variable renewable electricity.”

With the urgency of the climate crisis, it is no longer appropriate to continue to use vague, loosely defined terms like ‘low-carbon’, ‘transition fuel’, or ‘greening’. While specific conditions can vary from country to country, as renewable energy technology and storage develops, there are no longer any justifiable reasons to continue to support gas over renewable energy, not the least for public finance. For example, battery storage of renewable energy with an effective electric grid and demand management can adequately and cost effectively provide supply side reliability.¹¹ The continued focus on fossil fuels is a distraction from a real just transition to renewable energy - it prevents development of policy and physical infrastructure for renewable energy transition in a country.

The methodology does include a requirement to assess contractual obligations, such as Power Purchase Agreements, that go beyond target decarbonisation deadlines and that could lead to ‘carbon lock-in’. It also includes a caution that a project should not prevent lower-carbon alternatives, but limits the application of this restriction by listing what the methodology considers to be justifiable constraints, such as high cost, technical barriers, inadequate institutional support, and weaknesses in the power grid.

The methodology argues that alternative solutions to gas “should be compared under conditions where it would provide system-level service to consumers that is equivalent to what the project would provide.” These arguments have several flaws. Firstly, it is unclear who the ‘consumers’ are and whether it will prioritise contributions towards Sustainable Development Goal (SDG) 7 on energy access for all. In its 2020 Corporate Strategy, the AIIB commits to support “its members’ efforts to achieve the SDGs”. The Paris alignment methodology should prioritise SDG 7, with a particular focus on vulnerable energy poor communities, including a gender focus contributing to SDG 5 on gender equality. Yet, there is no mention of the SDGs in the Paris alignment methodology. Secondly, it is a flawed argument that gas should be promoted over renewable energy based on cost comparisons. This is exactly where public finance can make a difference, allowing harder-to-finance sustainable renewable energy options to take priority rather than business as usual fossil fuel-heavy alternatives.

❌ **False solutions encouraged**

The methodology also leaves the door open for largely unproven and costly false solutions, such as carbon capture and storage (CCS) and carbon capture, use and storage (CCUS), to be automatically aligned: “CCS and related technologies are ... deemed aligned with the Paris Agreement provided they do not extend the lifetime or enable an increase in production of related upstream oil or gas production ... and lead to a substantial decrease in net GHG emissions.” This again risks diverting financing away from proven renewable energy technologies, such as solar and wind. The IPCC warns that overreliance on unproven technologies at scale, such as carbon direct capture to remove CO₂ from the atmosphere or CCUS to remove it from fossil fuel combustion processes, constitutes a major risk to the achievability of the Paris goals.¹²

❌ **Support for GHG intensive infrastructure projects allowed**

Other problematic elements include dedicated sections on other GHG intensive projects, such as airport infrastructure. Despite recognising that aviation is a “growing and hard-to-abate industry”, currently representing 2.5% of global CO₂ emissions, the methodology allows for airport infrastructure projects to be considered Paris aligned, as long as they do not lead to “capacity expansion”. Should this be the case, the project can still qualify subject to it meeting a set of criteria, including assessment against the NDC. The methodology even calls airports “future-proofed”, as they could “accommodate the infrastructure enhancements required to enable the deployment of a future lower-carbon fleet, once available.” However, it does not further restrict the AIIB’s support as Paris aligned until such ‘lower-carbon’ options are available. Consequently, one of the first projects approved after the AIIB’s Paris alignment deadline was an airport expansion project in China.¹³

Why Paris alignment means no more fossil gas

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”.¹⁴ New fossil gas development is incompatible with the Paris Agreement’s 1.5°C degree goal as it emits methane, a powerful GHG that is 80 times more potent at warming than carbon dioxide over a 20-year period.¹⁵ In fact, gas, rather than coal, is now the main driver of the global increase in carbon dioxide emissions. Furthermore, in a 2022 report, IEA argued that utility scale solar PV and onshore wind are already the cheapest options for new electricity generation almost everywhere. This goes against the case for gas as a transition fuel. 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.¹⁶

As of the end of August 2023, the AIIB had financed 11 fossil gas projects through direct financing, almost half of which are greenfield gas power plants. At least six out of 64 financial intermediary (FI) investments are also potentially exposed to fossil gas investments. Because of poor transparency of the FI subprojects, the real number of FI investments exposed to fossil gas might be larger. The loose restrictions for gas in the AIIB’s updated ESS means that gas financing is continuing. For example, one of the criteria in the ESS for continued use of gas is a country’s NDC, despite the fact that the combined NDC pledges are highly inadequate for limiting global warming to the Paris Agreement’s 1.5°C goal (see page 4). Another criteria is that the investment “will not create a risk for carbon lock-in or stranded assets”, however, this has not stopped the AIIB from funding two greenfield gas power plants after the updated ESS was approved. This support for fossil gas not only violates the AIIB’s commitment to the Paris Agreement, but also puts vulnerable communities at greater risk, including women (see page 11).

BEYOND PARIS 2: DO NO HARM

✘ No requirement for financial intermediaries to be fully aligned

To ensure that Paris aligned investments do not contribute to harm, it is essential that the AIIB's methodology has transparency and accountability at its heart. This is particularly important for financing through financial intermediaries (FIs), a growing share of the AIIB's portfolio where the AIIB essentially 'outsources' funding decisions to commercial banks or private equity funds, which in turn invest capital in 'subprojects' or 'subclients'. This 'hands-off' approach can result in risky investments.

For example, prior to the new ESS coal exclusion policy, the AIIB repeatedly stated that it would not finance coal. However, research by Recourse, Inclusive Development International (IDI) and the Centre for Research on Multinational Corporations (SOMO) revealed that the AIIB's investment in the International Finance Corporation (IFC) Emerging Asia Fund supported both the use of coal for industrial use and increased extraction from a dedicated coal mine, through a sub-investment in Shwe Taung Cement in Myanmar.¹⁷ While the AIIB's 2021 Environmental and Social Framework (ESF) improved FI due diligence, further reforms are necessary, such as mandatory disclosure of subprojects. This is essential as lending through FIs represents a large and growing share of the AIIB's portfolio. As of the end of August 2023, the AIIB's FI projects represented almost a third of the AIIB's total portfolio. These investments amounted to nearly \$7.5 billion, or almost a fifth of the value of all projects approved.

The AIIB's Paris alignment methodology largely follows the MDB joint principles for intermediated investments, with separate requirements for transaction-based versus counterparty-based investments. The former generally applies to FI investments where the specific activities are known and the latter where there is insufficient information, for example, for equity investments and where the project pipeline is unknown. Each type of investment is then assessed against BB1 and BB2 criteria, however, the two types can also be mixed.

It is important to note that the AIIB does not require an FI to be Paris aligned for the AIIB to be able to invest. According to the AIIB's methodology, it is "designed to support and enable FI clients to: a. Improve their systems and processes for the management of transition and material physical climate risks; and b. Adopt policies and strategies that will enable them to be consistent with the objectives of the Paris Agreement within the jurisdiction where they operate." While the methodology requires clients to commit to action plans, this largely forward looking approach makes it questionable whether new FI investments should already be considered Paris aligned, thus whether the AIIB can claim to have met its 1 July 2023 deadline to align all of its operations with the Paris Agreement. Other MDBs, such as the World Bank Group and the Asian Development Bank, are using a phased approach, only committing to all new direct investments to be Paris aligned in the first instance.

✘ No clear timelines or disclosure of tools for FI Paris Alignment Action Plans

Both types of intermediated investments may require development of a Paris Alignment Action Plan (PAAP). This provides a big loophole for climate risky sub investments to continue, which the methodology recognises: "If the assessment determines that the FI client is highly exposed to physical and/or transition climate risks and does not have an adequate climate risk management system, the operation can still be considered Paris aligned, provided the FI client commits to developing a credible and verifiable PAAP". Clients are required to report back "periodically", but there are no further instructions for how often this will be done or in what format. Further, there are references to tools available to clients, such as an FI questionnaire and a climate risk management matrix, but these are not available in the methodology. Without clear targets, timelines and transparency, the PAAP risks being nothing more than rhetoric.

❌ **Loopholes for trade finance and other risky financing**

The methodology includes other loopholes, such as a list of “automatically aligned activities” for BB2 under the transaction based approach, “given their low level of exposure to physical climate risks”, which builds on a similar list in the joint MDB methodology. For the AIIB these are: “trade, supply chain and diversified SME financing; geographically dispersed mortgages; mobile assets with limited climate risk exposure; investments widely dispersed across sectors and countries; and other investments with low climate risk exposure”. However, the methodology does not include an explanation of how the AIIB has determined that these types of investments are without any climate risks. For example, both the IFC and the ADB have used trade finance to support the oil and gas industry.¹⁸

❌ **Controversial large-scale hydropower projects allowed**

Other concerns from a ‘do no harm’ perspective include permission for large scale hydropower to be “automatically [Paris Agreement] aligned ... if corresponding GHG emissions are confirmed to be negligible” under BB1. BB2 criteria also need to be considered but while the GHG condition is important, other key considerations should take centre stage as well. Large-scale hydropower has a well-documented reputation for environmental and social damage, as well as undermining human and indigenous rights.¹⁹ For example, emissions should be assessed using a project lifecycle approach to account for significant sources of emissions released over time, inclusive of – but not limited to – construction, land clearing and inundation of land, the initial pulse of GHG releases in the first 20 years of project operation, and the increasing emissions from eutrophication in reservoirs as dams age, as well as decommissioning.²⁰ For these reasons, a renewable energy transition taxonomy developed by Recourse excludes large-scale hydropower.²¹

Slow or no disclosure of Paris alignment assessments

According to the AIIB’s methodology, “all AIIB investment operations should include a confirmation in the project approval document that the operation has been assessed as [Paris Agreement] aligned, based on best available information at the time of assessment.” However, it does not commit to ensure this information is comprehensive and publicly available in a timely manner. A review of the first ten projects approved since the 1 July 2023 deadline shows that this information is not available in the project summary. This is normally the first information posted on the AIIB’s website, both as a separate document and as general project information. Instead, the general public has to wait until the full project document is posted. This is normally several weeks after project approval for direct investments. For FIs, disclosure is even worse. Out of the whole FI portfolio approved as of mid-August this year, the AIIB had only disclosed project documents for a fifth of the projects.

This means that there is currently no way to quickly get an overview of the Paris alignment assessment for a specific project. More importantly, this means that such information is not publicly available before a project is approved. Hence there is no way for civil society to challenge any substandard assessments prior to approval. This is a serious omission that must be addressed as a matter of urgency for the AIIB’s Paris alignment process to be considered transparent and robust.

BEYOND PARIS 3: AIM TO DO GOOD



“Acknowledging that climate change is a common concern of humankind, Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity.”

- Paris Agreement, December 2015²²

✘ No rights-based approach

The Paris Agreement is not only about emissions reduction. It also emphasises that action on climate change must “respect, promote and consider ... obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity.” It also notes the importance of a just transition and recognition of ‘climate justice’. These elements should not be read in isolation, but be front and centre for Paris alignment. However, disappointingly, the AIIB’s alignment methodology makes no mention of justice and rights of any kind. Nor does it include any recognition of important aspects in the shift to a Paris aligned society, such as principles of a just transition. This is also important for renewable energy investments, which should be guided by a rights-based approach. The AIIB argues that these issues are covered in the joint MDB principles and in other AIIB policies, however, there are no such cross references in the methodology. Additionally, the AIIB’s policies have been criticised repeatedly for a lack of a rights based approach.²³

✘ No inclusion of gender

Significantly, there is not a single mention of gender or SDG 5 on gender equality, despite the fact that it is well-known that climate change impacts negatively on women in particular.²⁴ Women are generally more vulnerable to and less able to adapt to the impacts of climate change compared to men. For example, women are 14 times more likely to die from climate related disasters, such as hurricanes, typhoons, cyclones, or floods.²⁵ This can be due to lack of access to information on impending disasters, discouragement to learn lifesaving skills such as swimming and climbing trees, clothing that hinders easy mobility, as well as being more responsible for saving children. A lack of power in decision-making also makes it difficult for women to evacuate to safety without their husbands’ or elders’ consent during disasters.²⁶ In the aftermath of disasters, gender-based violence can increase, while women’s spending and consumption of food can reduce, compared with men’s.²⁷ While women in general are marginalised in employment in the energy sector, the renewable energy industry fares better at employing women. Globally, a third of the workers in the renewable energy industry are women, compared to just over a fifth in the energy sector overall.²⁸ For the AIIB’s Paris alignment methodology to be gender inclusive, it should encourage policy and financial support to be channelled to projects that directly enhance women’s rights.

✘ No focus on energy access for all

SDG 7 on energy access for all is also not referenced. Large-scale fossil fuel projects often produce energy for industries and already-connected households at the expense of the communities, which instead often bear the costs of loss of access to lands and environmental destruction. Access to energy is not guaranteed, despite the importance for women in particular. For example, the villages impacted by the AIIB-supported Myingyan gas power plant project in Myanmar did not gain connection to the

grid, instead they had to pay themselves.²⁹ A November 2022 review by BRICS Feminist Watch and Recourse of the AIIB's energy sector portfolio revealed that none of the projects prioritised energy access for women.³⁰

To support energy access, the Paris alignment methodology should prioritise technologies such as Distributed Renewable Energy (DRE), which bypasses the need for extensive transmission infrastructure to provide energy access to those living without it. DRE has an important role to play in the just transition to renewable energy because of its potential to facilitate women's empowerment and address energy poverty for women and their communities. For example, in rural India, solar water pumps and solar silk spinning machines have been able to lighten women's domestic work and enhance their livelihoods.³¹

✘ **Misconception of Common But Differentiated Responsibilities and Respective Capacities**

Other opportunities to 'do good' are undermined by misinterpretations of key concepts. Concerningly the methodology includes a major misconception about the United Nations Framework Convention on Climate Change's principle of Common But Differentiated Responsibilities and Respective Capacities (CBDR-RC). In the methodology this concept is used to allow different approaches in different countries: "As a result, an operation that would be deemed inconsistent in one country context might be deemed consistent in another context." Framed this way, this could allow, for example, further financing for fossil fuels. But CBDR-RC in fact means that we have a common responsibility to keep to the 1.5°C limit, and that richer countries with greater capability need to provide the means of implementation for this urgent transition in countries with low capability. According to the UNFCCC: "the developed country Parties should take the lead in combating climate change and the adverse effects thereof".³² It does not mean a slow or delayed response in any country.

✘ **Lack of rigour and timeline**

The overall lack of rigour in the Paris alignment methodology is concerning. For example, it cautions that assessments will be based on "a judgement call" and that "the outcome of the assessment will be based on the best available information at the time it is conducted". The methodology includes a commitment to updates and welcomes feedback, however, it is not clear how input will be considered, nor is there any indication of a timeline – just a reference for updates to be done "periodically"³³. Again, we reiterate our disappointment with the lack of consultation on drafts of this methodology, which could have helped avoiding many of the pitfalls of this methodology. For example, the European Bank for Reconstruction and Development allowed input both before and after it released its draft Paris alignment methodology.³⁴ To allow constructive feedback, the Paris alignment methodology should list milestones and deadlines for input, as well as clarification on processes for consideration of these. The AIIB should also actively reach out to civil society in borrowing countries, including vulnerable project affected communities, to seek feedback and input.



"Local people are suffering from various diseases such as allergies, respiratory problems, sneezing, etc. Sand comes in the wind and then flies into the house ... Our economic circumstances don't allow us to bear the cost of that kind of treatment. We don't want a power plant; we want a healthy life."

- Local woman impacted by the Unique Meghnaghat gas power plant, interviewed by CLEAN

Gender impacts of the Unique Meghnaghat gas power plant in Bangladesh

In December 2022, the AIIB approved a \$110 million loan for Unique Meghnaghat, a 584 Megawatt (MW) liquefied natural gas (LNG)-based power plant in Bangladesh. Controversially, the AIIB claimed that the investment was Paris aligned even though it had not yet made its Paris alignment methodology public and despite the project having a lifespan of 20 to 30 years, presenting a clear risk of carbon lock in. Additionally, the power plant's construction phase has resulted in several human rights violations, including land grabbing and the destruction of the local environment on which the surrounding communities depend for their livelihoods. These impacts are borne disproportionately by women who have less access and control over land compared with men.

Women in the community are mostly responsible for domestic tasks and are also heavily dependent on the natural resources in their community for water, food, hygiene, and fuel for cooking and heating. The power plant has caused economic insecurity, damage to their properties, health problems, and food insecurity. As an example, the ongoing construction is blocking access to the river and causing water pollution, depriving the women of access to clean water for drinking, cooking, and hygiene. The company has also dumped sand on the roads and adjacent lands, which has made the land unsuitable for vegetables which the women grow to feed their families. Health problems related to the sand are affecting the women and their families. A sick family member increases unpaid care work for the women.



NEXT STEPS FOR PARIS ALIGNMENT

While the AIIB's commitment to align all of its activities with the Paris Agreement by 1 July 2023 was commendable, the lack of rigour in the resulting methodology is not. As this briefing shows, the first iteration of the AIIB's Paris alignment methodology is far off the mark. In fact, rather than changing its operations to support the 1.5°C goal, the methodology seems set to promote 'business as usual', with very few significant restrictions.

We call on the AIIB to update and strengthen the Paris alignment methodology, including to:

1 | Stop backing fossils

- a. The Paris alignment methodology should expand the universally non-aligned list to exclude all fossil fuels, including investments in fossil gas, as well as other investments that increase GHG emissions. The continued focus on fossil fuels is a distraction from a real just transition to renewable energy - it prevents development of policy and physical infrastructure for renewable energy transition in a country. This will cause decades of delay and lock-in.
- b. The methodology must ensure that AIIB finance for the energy sector supports countries towards a just transition to fully sustainable, renewable energy systems, including support for borrower countries to make ambitious progress towards the Paris Agreement's 1.5°C goal.
- c. The sector specific guidelines should rule out Paris alignment for false solutions, such as CCUS, that are costly and risk distracting financing away from sustainable renewable energy options.

2 | Do no harm

- a. The Paris alignment requirements for intermediated finance must be strengthened to close loopholes, including requiring clear timelines for full alignment and disclosure of tools and assessments. Loopholes for trade finance and other risky financing must be closed. Furthermore, FI transparency must be improved, including a requirement for the AIIB to disclose the name, sector(s) and location of higher risk FI clients. FI clients' Paris alignment plans must be rigorous and include clear timelines and targets to reach Paris alignment.
- b. New specific criteria on gender equality, in line with SDG 5, should be added to the Paris alignment methodology, to avoid reinforcing existing gendered exclusions and stereotypes, and directly and/or indirectly contributing to an increase in gender gap as opposed to proactively reducing it while addressing underlying inequality structures and power imbalances. Women should have equal access to all opportunities and benefits at all levels of the projects.
- c. Large-scale hydropower projects should be added to the universally non-aligned list, due to the high risks to people and the environment.

3 | Aim to do good

- a. The Paris alignment methodology should promote a rights-based approach, in line with the Paris Agreement's original intention, including specific attention to vulnerable communities and a just transition.
- b. A new specific criterion should be added to the Paris alignment methodology for relevant energy investments to explicitly support achievement of SDG 7 on energy access for all and SDG 5 on gender equality, with a focus on women's access to energy.
- c. The Paris alignment methodology should list clear milestones and deadlines for input, with transparent, public and inclusive processes. The AIIB should actively reach out to civil society, especially in borrowing countries, including project affected communities, to seek feedback and input. Moreover, the methodology must require full transparency on project Paris alignment assessments, to be published on the AIIB's website as projects enter the pipeline for approval.

Endnotes

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