SMOKE AND MIRRORS?

An analysis of the Asian Infrastructure Investment Bank's updated Energy Sector Strategy one year on

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Published by Recourse, BRICS Feminist Watch, Latinoamérica Sustentable, Asian Peoples' Movement on Debt and Development (APMDD), and CLEAN (Coastal Livelihood and Environmental Action Network)

December 2023

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EXECUTIVE SUMMARY

The Asian Infrastructure Investment Bank (AIIB) approved an updated version of its first Energy Sector Strategy (ESS) in November 2022. The first iteration, approved in mid-2017, lacked restrictions on fossil fuel investments, even failing to rule out coal, and provided little impetus for borrowers to shift towards renewable energy. As the AIIB announced its intention to review the strategy, the AIIB had invested almost double the amount in fossil fuels as it had in renewable energy.

This report reviews the 2022 ESS and its implementation in its first year. It asks questions about how the ESS has changed since its first iterations, focusing on a select number of areas, including language on fossil fuels versus renewable energy and rights-based issues, such as energy access and gender equality, in line with the Sustainable Development Goals (SDGs). It analyses if and how the AIIB's energy sector portfolio is changing as a result.

The updated ESS brought some positive news. Significantly, the ESS excludes most forms of investments in coal and introduces restrictions for gas and oil financing. There is also increased focus on renewable energy solutions, as well as a commitment to scaling up climate adaptation finance. Other important developments include more explicit focus on rights-based aspects, such as energy access and attention to so-called 'last mile users', recognition of a 'just energy transition', and some additional language on gender.

But despite these promising signs, the 2022 ESS fails to deliver the ambition required by the SDGs and the Paris Agreement's goal to limit global warming to 1.5 degrees Celsius above pre-industrial levels. Importantly, it is clear from the ESS that the AIIB has no intention to fully exclude financing for fossil fuels. For example, while restrictions on fossil gas have been introduced, these are full of loopholes. The first project approved after the ESS came into effect was a greenfield gas power plant. The ESS also lacks clear commitments, including insufficient targets and indicators to drive change in key areas, such as energy access and gender equality. This means that the somewhat improved language risks being no more than window dressing.

The report calls on the AIIB to implement changes in policy and practice, including a revision of the ESS and its Results Management Framework, to fully align with the Paris Agreement and the SDGs, by committing to:


Phase out all direct and indirect support for fossil fuels


Support a just transition towards sustainable renewable energy


Exclude support for false and costly 'solutions'


Include ambitious targets for gender equality and energy access for all


Close loopholes through financial intermediaries

INTRODUCTION

> ***Today, we face a moment of truth. Close to 760 million people still lack access to electricity. Some 2.6 billion people lack access to clean cooking solutions. And how we produce and use energy is the main cause of the climate crisis. Emissions from energy account for about 75 per cent of total greenhouse gas emissions. So, we have a double imperative – to end energy poverty and to limit climate change. And we have an answer that will fulfil both imperatives. Affordable, renewable and sustainable energy for all.***
>
> **António Guterres, UN Secretary General, September 2021**[1]

In November 2022, the Asian Infrastructure Investment Bank (AIIB), the world's newest multilateral development bank (MDB), approved an updated version of its first Energy Sector Strategy (ESS). The AIIB was officially launched in January 2016 with a mission to be 'green', less than a month after the Paris Agreement on climate change was approved. The new Sustainable Development Goals (SDGs), including SDG 7 on energy access for all, came into force in the same month.[2]

Disappointingly the first iteration of the ESS, approved in mid-2017, lacked restrictions on fossil fuel investments, even failing to rule out coal, and provided little impetus for borrowers to shift towards renewable energy.[3] The results were telling. A year and a half later, in late 2018, fossil fuel investments represented almost two-thirds of the value of the AIIB's energy sector project portfolio.[4] While the proportion has since reduced, the pace has been slow. In late 2021, as the AIIB announced its intention to review the strategy, the AIIB had invested almost double the amount in fossil fuels as it had in renewable energy.[5]

The AIIB reviewed the 2017 ESS after it had made its first concrete commitments to address climate change. [6] Most significantly, in January 2021, the AIIB launched its first Corporate Strategy, including a target for 50% of all approved financing to be directed towards climate finance by 2025.[7] Later in 2021 the AIIB announced a new target to become Paris aligned by July 2023.[8] These moves no doubt had an impact on the energy portfolio as well. As the new ESS came into effect, the share of fossil fuels investments of the energy sector portfolio had reduced to represent just over a third of the total value. Renewables were still lagging behind, however, with the largest proportion of energy sector investments going towards transmission and distribution (T&D) projects, where the source of energy is difficult to establish.

Much of the progress is due to broader impetus amongst MDBs' and AIIB shareholders to increase their individual and collective action on climate change. This includes work by a group of MDBs to jointly develop a framework for Paris alignment which formed the basis of the AIIB's own Paris Alignment methodology, released in July this year as the AIIB reached its Paris Alignment deadline. However, civil society has criticised the methodology for not supporting the 1.5°C goal, instead promoting 'business as usual'. This includes further widening the loopholes for fossil fuels, in particular for fossil gas, while undermining the case for sustainable renewable energy options. It also fails to include essential rights-based approaches, such as gender considerations, despite the particularly negative impacts on women from climate change.[9]

The political progress on climate change among the shareholders of the AIIB includes the UK's 2021 Export Finance policy, which commits the country to not provide any further support for the fossil fuel energy sector overseas, also applying to the UK's actions as a member of MDB boards.[10] Moreover, at the 2021 UN climate negotiations, COP26, a number of countries committed to end direct international public finance for unabated coal, oil, and gas by the end of 2022 and to prioritise clean energy finance.[11] Together, these countries represent nearly a quarter of AIIB's voting power. Other MDBs have also raised the bar by strengthening their policies, paving the way for the AIIB to become more progressive. This includes the other Asia-hosted MDB, the Asian Development Bank (ADB), which excluded financing for coal power in its 2021 Energy Policy.[12]

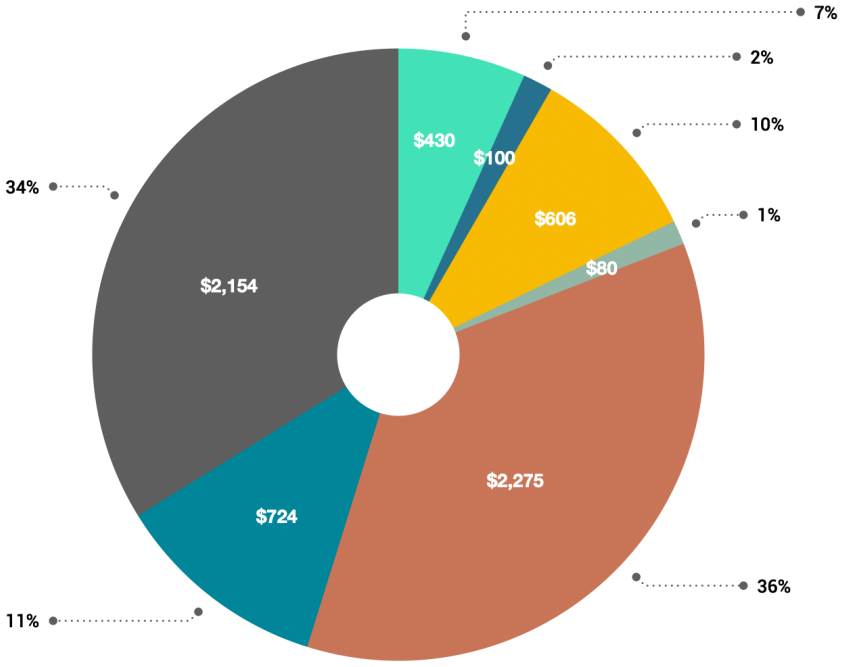
Real change or window dressing?

All of these developments gave hope that the AIIB's revised ESS would be much stronger than the first iteration and indeed, there are some important positive changes. Significantly, following the ADB's example, the AIIB finally formally excludes most forms of investments in coal and introduces restrictions for gas and oil financing in the new ESS. There is also increased focus on renewable energy solutions, as well as a commitment to scaling up climate adaptation finance. Other important developments include a more explicit focus on rights-based aspects, such as energy access and attention to so-called 'last mile users', recognition of a 'just energy transition', and some additional language on gender.

Despite these promising signs, the 2022 ESS fails to deliver the ambition required by the SDGs and the Paris Agreement's goal to limit global warming to 1.5°C above pre-industrial levels. For example, it is clear from the ESS that the AIIB has no intention to fully exclude financing for fossil fuels: "Due to their current dominance, fossil fuels will inevitably continue to play a role in the energy mix of most AIIB members for some time", emphasising countries' "unique circumstances". Other concerning elements are a lack of clear commitments, including insufficient targets and indicators to drive change in key areas, such as energy access and gender equality. For example, there is not a single gender-related indicator in the Results Monitoring Framework (RMF). This means that the somewhat improved language risks being no more than window dressing.

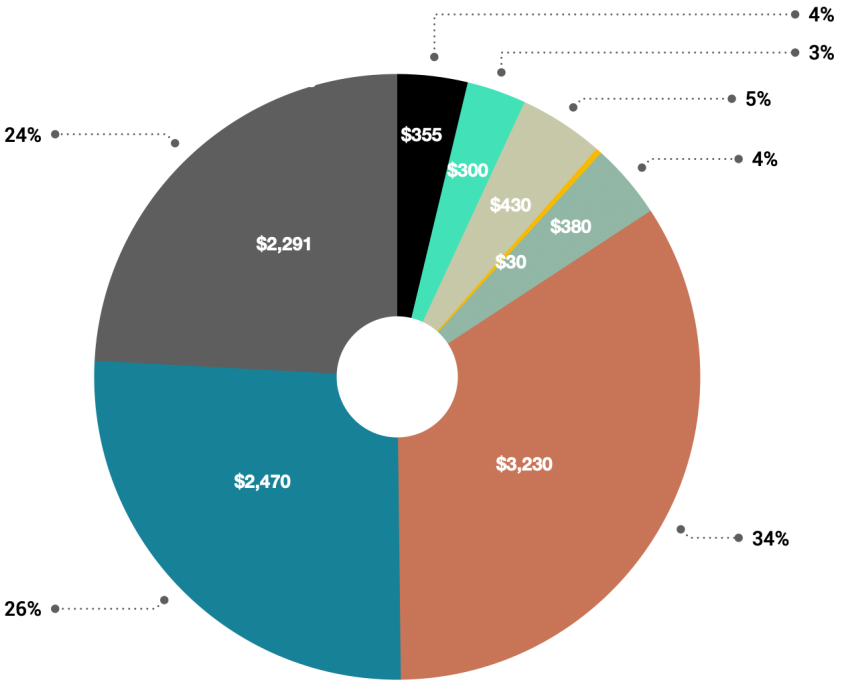
This report reviews the 2022 ESS and its implementation in its first year. It asks questions about how the ESS has changed since its first iterations, focusing on a select number of areas, such as language on fossil fuels versus renewable energy and rights-based issues, such as energy access and gender equality, in line with the SDGs. It also analyses if and how the AIIB's energy sector portfolio is changing as a result. The analysis is based on desk-based research and analysis, and it is important to note that field-based research of the AIIB's project investments might have identified other issues. Finally, the report sets out some recommendations for how the AIIB can address loopholes and strengthen implementation, both for the ESS itself and other relevant policies and strategies.

GRAPH 1 : AIIB project approvals by sector 12 months before and after the new ESS was approved by value in US$ millions



TOTAL : $6,369

AIIB project approvals by sector Dec 21 - Nov 22



TOTAL : $9,486

AIIB project approvals by sector Dec 22 - Nov 23

Fossil fuels · Renewables · Energy Fis · Energy other * · ESG funds · Crisis Recovery Facility (CRF) · Transport · Other

** Energy other includes projects such as transmission and distribution, where the fuel source is not defined*

OVERVIEW OF THE 2022 ENERGY SECTOR STRATEGY

> ***"The 2022 update to the Strategy is made on the cusp of a profound transformation of the global energy landscape, driven by ambitious global, regional, and national goals and commitments to shift to a low- or zero-carbon energy system.***
>
> **ESS 2022, page 3**

The 2022 ESS sets out to address four issues: energy access and affordability; energy sustainability; energy security and market stability; and transitioning to clean energy. Besides a period of public consultation, the ESS was "informed by lessons learned from the implementation of the strategy", including Early Learning Assessments by the AIIB's Complaints-resolution, Evaluation and Integrity Unit (CEIU). These assessments, as well as other learning products, were not shared publicly, hence there is no accessible information on what projects were reviewed, how they were analysed or what specific lessons were learned.

Listed in the ESS as "noteworthy lessons" is a mixture of general observations, rather than reflective and strategic analysis, some which are tilted towards letting 'business as usual' prevail. For example, one lesson notes the growing demand for investments in gas and liquefied natural gas (LNG), "against the backdrop of AIIB Members' commitments to phase down coal", emphasising the "specific benefits" of gas, but without noting the associated impact of greenhouse gas (GHG) emissions.

The most important section of the ESS is the six Guiding Principles, as they shape the indicators for the Results Monitoring Framework (RMF), added as an annex. Most of the titles have not changed substantially since the 2017 ESS – the most significant change is a new title referring to renewable energy, where the previous ESS was primarily focused on lowering carbon intensity. The six principles are:

1. Promote energy access and security;
2. Support transition to a clean energy system (changed from "Reduce the carbon intensity of energy supply");
3. Realise energy efficiency potential;
4. Manage local and regional pollution;
5. Mobilise private capital (changed from "Catalyze private capital"); and
6. Promote connectivity and regional cooperation (amended from "Promote regional cooperation and connectivity").

Concerningly there is no dedicated section on gender, despite the AIIB's commitment to the 2030 Agenda for Sustainable Development, including SDG 5 on gender equality. The 2022 version of the Guiding Principles also includes a new preamble which focuses on climate change, noting that energy is "the dominant contributor to climate change". This aligns with an earlier section in the overview of the "global energy landscape", which further acknowledges that the energy sector is vulnerable to the adverse impacts of climate change, emphasising the importance of investments in adaptation.

Global or Asian strategy?

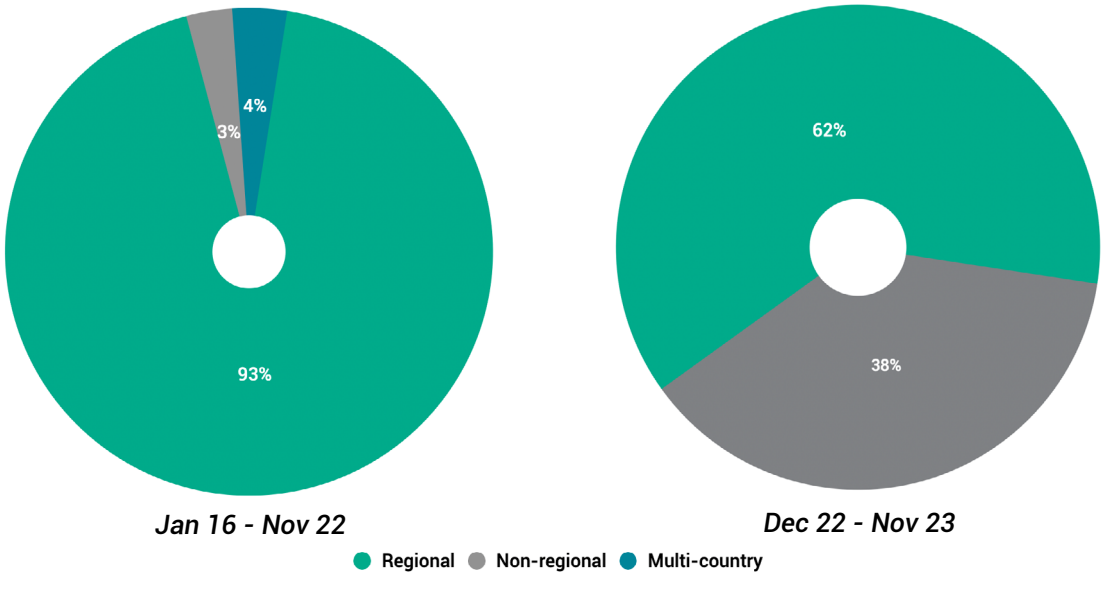
With the new iteration, the ESS has changed its sub-title from "Sustainable Energy for Asia" to "Sustainable Energy for Tomorrow". The strategy explicitly states that it will apply to both regional and non-regional members. This is important as the AIIB's membership is growing, currently standing at 109 countries, and projects now expand across the world, including in Africa and Latin America. At the time of writing the AIIB had 14 members in Africa and six members in Latin America, with several more prospective members per continent.[13] Of all the MDBs only the World Bank has more members.

Despite this, most of the AIIB's analysis and narrative in the 2022 ESS is based on facts and figures representing the Asia region. At the time of approval, countries outside of Asia, including Central Asia, represented less than a third of all projects. But since the updated ESS came into effect, over half of all new energy sector project approvals are outside of Asia, including three projects in Latin America – the first ones in the energy sector.[14] This also highlights the importance of basing the analysis not only on the Asian context, but on other continents where the AIIB operates, too.

While the updated ESS states that it "embraces and is informed by the principles underpinning the 2030 Agenda for Sustainable Development, particularly Sustainable Development Goal 7 (SDG 7), and the Paris Agreement", as well as "science-based international and regional benchmarks", much of the emphasis is on member countries' priorities. This includes to "respect its Members' energy policy decisions and their climate plans". However, the reliance on client country standards and systems can lead to 'downward harmonisation', as the AIIB in effect abdicates responsibility for failures of the borrowers to meet its strategies and policies, as well as global social and environmental goals. For example, it is well known that countries' climate commitments through Nationally Determined Contributions (NDCs) are far off the mark, leading to a trajectory of at least 2.5°C of global warming, rather than the Paris Agreement's stated goal of limiting warming to 1.5°C.[15] For example, Bangladesh's NDC includes new gas power plants and even coal power as part of its commitments.[16]

Concerningly, the 2022 ESS includes a major misconception about the United Nations Framework Convention on Climate Change's (UNFCCC's) principle of Common But Differentiated Responsibilities and Respective Capacities (CBDR-RC): "AIIB will consider the unique circumstances of its Members and strive to build an energy sector portfolio that reflects equity and the principle of common but differentiated responsibilities." But complying with CBRD-RC should not be used as an excuse for a slow or delayed response in countries, for example, where the NDC includes fossil fuels. The UNFCCC's original definition is different, it calls for developed countries to "take the lead in combating climate change and the adverse effects thereof".[17]

GRAPH 2: AIIB energy sector project approvals by value in regional and non-regional member countries



Limits to accountability

The 2022 ESS references the AIIB's 2022 Statement on Retaliation, which outlines how the AIIB will manage the risk of retaliation against those who express critical views about projects.[18] However, there are no publicly available detailed guidelines on how the commitments in the statement are implemented in practice, hence it is unclear what specific measures to protect against retaliation are in place for energy sector projects.

The ESS further muddles the AIIB's approach to broader project accountability. The ESS states that the AIIB's Environmental and Social Framework (ESF) will "guide implementation of the Strategy. The ESF applies to all Bank-supported operations". However, the ESF allows the AIIB to "apply the environmental and social policies and procedures of multilateral development banks (MDBs), bilateral development organizations, and development finance institutions that are cofinancing the Project", subject to the AIIB being satisfied that they are robust enough and consistent with the AIIB's own approach.

Most co-financed projects where the AIIB allows another MDB's environmental and social standards to apply are also not eligible for complaints to the AIIB's independent accountability mechanism, the Project-affected People's Mechanism (PPM). Instead, the accountability mechanism of the lead co-financier receives and investigates complaints, which are reviewed against the environmental and social policy adopted for the project. In these instances communities that have been harmed by the AIIB's investments cannot hold the AIIB accountable for its role in harms caused. As of end of November 2023, just over a third of AIIB direct investments in energy sector projects were not covered by the PPM, since they are co-financed and the AIIB has agreed for the other MDB's accountability mechanisms to take responsibility for complaints.[19]

Another exception is capital market projects, aimed at attracting institutional investors to finance infrastructure development through investments in publicly listed securities. These projects delegate portfolios to a third-party asset manager, which makes decisions about investments in securities traded through capital markets. They use 'ESG Frameworks' which include eligibility criteria to guide the investments. Currently representing almost 4% of the value of the AIIB's overall portfolio, including two projects approved in the last 12 months, they are also not subject to the AIIB's standard disclosure policies. Hence there is no publicly available information on any energy projects that they support, and it is therefore impossible to easily assess whether capital markets projects are supporting fossil fuel projects that it would not support directly.

Another major concern is the lack of a comprehensive set of measurable indicators to track the AIIB's implementation of its identified priorities. This was a serious oversight in the 2017 ESS, making it impossible to track progress in a meaningful way, an issue which the new iteration disappointingly fails to address. For example, the ESS commits to promoting "inclusive access to project benefits for all citizens – irrespective of age, gender location, ethnicity, and other socio-economic characteristics – and particularly for groups which are often marginalized, vulnerable or excluded to services." However, in total the ESS Results Management Framework only includes 11 overarching indicators, none for any of these categories, which means that it is impossible to track progress on an institutional level, nor does it incentivise borrowers to prioritise these aspects.

FOSSIL FUELS – ONE STEP FORWARD, TWO STEPS BACK?

> *To address the climate imperative, mitigation must be regarded as a global concern and measures need to be pursued concurrently to bring down GHG emissions in the energy sector.*
>
> **ESS 2022, page 7**

One of the main criticisms of the first iteration of the ESS was the lack of restrictions on financing for fossil fuels, including coal. It is therefore welcome that the 2022 ESS commits to pay "particular attention to strengthening AIIB's guidance on fossil fuels". Most significantly, the updated ESS at long last bans the AIIB from investing in coal in most circumstances: "AIIB will not finance thermal coal mining, coal-fired power and heating plants or projects that are functionally related to coal. Projects functionally related to coal means associated facilities that are dedicated to enable the mining and use of coal or projects that would not be carried out without dedicated coal-based power supply." This provision has since been integrated into the ESF's exclusion list as well.

This is a crucial step forward. The ban on all financing for coal mining and coal for both power and heating without exclusions is progressive. For example, both the World Bank Group and the European Investment Bank (EIB) have banned investments in coal power, but allow coal used in industrial processes, including for power.[20] [21] The AIIB is aligned with the ADB's 2021 Energy Policy which also does not mention any limitations to its ban on support for coal-fired power generation. The ADB also commits to support the decarbonisation of industrial processes. According to the IPCC, the amount of GHG emissions derived from industrial processes, such as steel and cement, accounted for over a fifth of direct global GHG emissions in 2010 and is growing.[22] Alternative methods are increasingly available and it is important that public finance supports, and does not undermine, these efforts.[23]

The AIIB, however, stops short of explicitly excluding use of coal for other industrial purposes. In response to criticism of the 2017 ESS, the AIIB's President Jin Liqun repeatedly stated that the AIIB would never finance coal. However, research by Recourse, Inclusive Development International (IDI) and the Centre for Research on Multinational Corporations (SOMO) revealed that the AIIB's 2017 investment in the International Finance Corporation (IFC) Emerging Asia Fund has supported both the industrial use of coal and increased extraction from a dedicated coal mine in Myanmar, through a sub-investment in Shwe Taung Cement.[24] It is unclear if coal for combustion in the cement making process is excluded in the 2022 ESS.

New oil and gas restrictions

The 2022 ESS introduces welcome restrictions for financing for both oil and gas. Oil sector investments are excluded, apart from in "exceptional circumstances to improve basic energy access and control GHG emissions from flaring and leakage." According to the ESS, this could include "oil-fired power generation as part of renewable energy hybrid systems to supply clean and reliable energy for small grids in isolated locations, island communities, and temporary disaster response initiatives. Such investments will have to demonstrate that an entirely renewables-based system is not technically or financially feasible", however, further information is needed to fully understand how it would be implemented in practice.

For gas, there are more elaborate restrictions:

"The framework for AIIB's support for natural gas infrastructure is as follows:

i. AIIB will not support gas upstream exploration and drilling activities.

ii. AIIB will support gas mid-stream infrastructure (LNG terminals, storage, and transmission pipelines), natural gas-fired power generation, and downstream (distribution and end-use) facilities under the following specific criteria:

- Investments will 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.
- Investments will not create a risk for carbon lock-in or stranded assets, taking into account a long-term decarbonization trajectory of the Member that is consistent with the mitigation goals of the Paris Agreement.
- Investments will reduce the energy sector's carbon intensity immediately or over time. Appropriate project goals might include, for example, credibly replacing higher carbon fuels, inefficient technologies, or oil- and coal-fired energy facilities, or supporting the integration of renewable energy.
- Investments will represent advanced, state-of-the-art technologies and sector best practices in limiting methane emissions.
- Investments will not displace low-carbon solutions, or a mix of such solutions, that are equally or more technically and economically feasible and are able to provide the service at an equivalent quality and scale as proposed for the natural gas investments.
- Investments will consider the shadow cost of carbon."

Phasing out financing for gas is essential. New fossil gas development is incompatible with 1.5°C as it emits methane, a powerful greenhouse gas that is 80 times more potent at warming than carbon dioxide over a 20-year period.[25] In fact, gas, rather than coal, is currently the main driver of the global increase in carbon dioxide emissions.[26]

While the list of gas restrictions is welcome, it is not detailed enough to understand how assessments are done. Early evidence from the implementation of the 2022 ESS indicates big loopholes. Significantly, less than a month after the new ESS was approved, the AIIB signed off $110m in financing for a new greenfield fossil gas power plant, the 584 megawatt (MW) combined-cycle gas turbine (CCGT) Unique Meghnaghat in Bangladesh.[27] Six months later an even larger greenfield gas power plant was approved, $245m for the 1,560MW CCGT Surkhandarya in Uzbekistan.[28] As of the end of November 2023, the AIIB had financed 11 fossil gas projects worth $2.6bn through direct financing. From the AIIB's launch and up until the 2022 ESS was approved, it had only approved three greenfield gas power plants – the 225MW Myingyan gas power plant in Myanmar in 2016[29], the 220MW Bhola gas power plant in Bangladesh in 2018[30], and the 1,500MW Sirdarya gas power plant in Uzbekistan in 2021.[31] Both are standalone projects, without other MDB co-financiers. Two new approvals of greenfield plants in less than one year therefore send strong signals that something is fundamentally wrong with the 2022 ESS or its interpretation.

In addition, at least six out of 64 financial intermediary (FI) investments are potentially exposed to fossil gas investments. Because of the lack of detailed disclosure of subprojects funded via the AIIB's FI clients, such as banks and private equity funds, the real number of FI investments exposed to fossil gas might be larger. This matters as FI investments represent the largest share of AIIB-approved projects this year to date.

Faulty narrative on 'transition' fuel

One of the reasons why the 2022 ESS is ramping up rather than slowing down investments in gas, despite the new restriction, is linked to language promoting investments in gas in a positive light as a so-called 'transition fuel'. For example, as context to the gas restrictions the ESS states that the AIIB will "focus its funding for natural gas investments on transitional projects linked to Members' energy and climate objectives and decarbonization trajectories." Gas also features strongly in the section on lessons learned, where the first lesson is focused on the increased demand for gas and liquefied natural gas (LNG) investments "against the backdrop of AIIB Members' commitments to phase out coal." This lesson emphasises "specific benefits" to gas projects, including enhanced energy security, reduced pollution and improved efficiency.

There are references to gas as a transition fuel as a vital step towards renewable energy throughout the ESS as well, for example: "transition investments are considered indispensable for enabling emissions reductions, although they themselves do not deliver zero-emissions energy services. Examples include efficiency or flexibility measures that reduce fossil fuel use, fuel switching away from coal or oil to less polluting alternatives, and gas-fired plants that enable higher penetration of variable renewables." Gas is also presented in a more positive light than renewable energy, for example, raising caution about "emerging concerns" related to environmental and social risks of solar, wind and battery storage – no such risks are linked to gas. These concerns are repeated in the sector specific section of the ESS, referencing the "complex and emerging environmental and social issues" related to renewable energy.

As Recourse and others have argued repeatedly, gas as a 'transition fuel' should not be an option as it continues the dependency on fossil fuels. Instead, public finance should prioritise hard to fund but essential projects and processes. Research by the International Institute for Sustainable Development (IISD) reveals that in most countries and cases the majority of gas consumption is associated with uses that already have cost-competitive clean alternatives.[32] This goes against the case for gas as a transition fuel. Furthermore, renewable energy technology and storage is under constant development. For example, battery storage of renewable energy with an effective electric grid and demand management can adequately and cost effectively provide supply side reliability.[33] The continued focus on fossil fuels is a distraction from a genuine just transition to renewable energy – it prevents development of policy and physical infrastructure for renewable energy transition in a country.

Ultimately, gas projects are becoming increasingly risky investments. According to the German Government's Clean Affordable and Secure Energy for Southeast Asia (CASE) project, "Switching from coal to gas brings additional complexities and new economic risks, especially due to potential lock-in. … As the world decarbonises, some of today's investments in gas infrastructure are likely to become stranded assets." The CASE report further explains that comparisons to the US and Europe are unhelpful, since the gas networks were built in a different context: "Given the urgency of climate constraints, the falling cost of renewables and energy storage, and the centrality of flexible generation in the electricity sector, developing a similar network … could expose regional economies to a number of risks. It warns that continuing to invest in gas infrastructure "could crowd out renewable energy from future investment portfolios". [34]

Other IFIs are increasingly taking a stricter approach to gas. For example, the EIB committed to end support for unabated fossil fuels, including gas, by the end of 2021.[35] Other restrictions include a stronger climate test to show that alternatives to gas are not viable rather than just more expensive (e.g. UK)[36] and stricter emission standards, such as EIB's power generation standard for all projects of less than 250 grammes of CO per kilowatt-hour.[37]

Breaking the gas rules: the AIIB's investment in the Unique Meghnaghat gas power project

Less than a month after the 2022 ESS was approved, the AIIB signed off $110m in funding for the "design, financing, engineering, construction, operation and maintenance" of Unique Meghnaghat – a 584MW greenfield gas power plant in Bangladesh. It is unclear how this project meets the new gas criteria. For example, the special purpose vehicle behind the development of the power plant signed a Power Purchase Agreement with the Bangladesh Power Development Board lasting 22 years, which demonstrates long-term carbon lock in, which is no longer allowed under the criteria.

The AIIB's project documentation references Bangladesh's NDC. The NDC includes an aim to implement over 4,000MW of renewable energy, but that this is dependent on "support from the international community".[38] The AIIB notes that renewable energy only represents "a very small fraction" of the current power generation in Bangladesh, listing 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 the most efficient manner". The alternatives analysis in the project's Environmental and Social Impacts Assessment further dismisses renewables as an option calling it a "niche area", that lacks "scale and reliability", in favour of fossil gas.[39]

Despite this being a fossil fuel project, the AIIB labelled it as Paris aligned, over six months before it publicised its own methodology. According to the project documentation, the gas power plant has the potential to operate on 50–100% hydrogen in the future, and therefore will be "net positive in terms of overall CO reduction over the life of the project and is aligned to the Paris Agreement." But hydrogen is not a renewable technology, as it is produced mostly from fossil fuels, requiring a huge amount of energy. While the 2022 ESS stipulates a focus on low- or zero-carbon hydrogen, there is no clarification on what type of hydrogen will be sourced for Unique Meghnaghat. Supporting 'hydrogen-ready' gas power plants should not be used as an excuse to delay the phase out of fossil fuels (see below).

Unique Meghnaghat Combined Cycle Power Plant. Photo by Sarmin Bristy, CLEAN

RENEWABLES – CAUTIOUS PROGRESS

> ***AIIB will support Members to develop renewable energy—hydropower, wind, solar, and other sources—for a swift, smooth, and just transition to a clean and smart power system and to increase access to modern energy through renewables-based decentralized generation and mini- and micro-grids.***
>
> **ESS 2022, page 17**

As fossil fuel investment declines, investments in a renewable future should increase to match countries' needs and give them confidence to move to a sustainable renewable energy economy. Investing in renewable energy makes good business sense. According to the International Energy Agency (IEA), "renewables are set to become the foundation of electricity systems around the world."[40] It further concludes that utility scale solar PV and onshore wind are already the cheapest options for new electricity generation almost everywhere. It is important, however, that the scale up of financing for renewable energy projects avoids repeating the mistakes of fossil fuel investments. This includes, for example, land rights conflict associated with large projects, extractivist and profit-driven energy models, and labour rights issues (see Box on page 13).

In contrast to the first iteration of the ESS, which disappointingly only mentioned renewable energy a few times, it is welcome that this features more prominently in the 2022 ESS. This includes benefits of renewable energy from a climate perspective, significantly including support for sectors harder to decarbonise, such as industrial processes. From an energy security perspective, the ESS recognises that renewable energy is "less exposed to global risks", and from an employment perspective that job creation in the renewable energy sector will soon "outpace job losses in conventional energy sectors". It is also encouraging that the ESS again reiterates support for distributed generation and mini- and micro-grids, including to increase energy access.

However, there are no clear targets included in the RMF nor any comprehensive indicators ensuring that these investments prioritise those most energy poor and vulnerable, including women. This is problematic. For example, as detailed further on, the lack of gender indicators in the previous RMF led to the majority of energy projects failing to consider gender-related issues. Research by BRICS Feminist Watch and Recourse assessing all energy sector projects up until the 2022 ESS was approved revealed a notable absence of gender commitments in AIIB's own project documentation, significantly no project referenced women's access to clean modern energy.[41]

Guided by the 2017 ESS, the AIIB's investments in renewable energy shows an upward but inconsistent trend, and as illustrated earlier the value of these investments remained far behind investments in fossil fuels. Promisingly, since the 2022 ESS came into effect there has been a spur of new renewable energy investments, now representing 30% of the value of the energy sector portfolio, almost on par with fossil fuel projects at 33%. A significant and growing share of this is energy sector FIs that can be classified as renewable energy. These are starting to tilt the balance of the energy sector portfolio from direct to indirect investments.

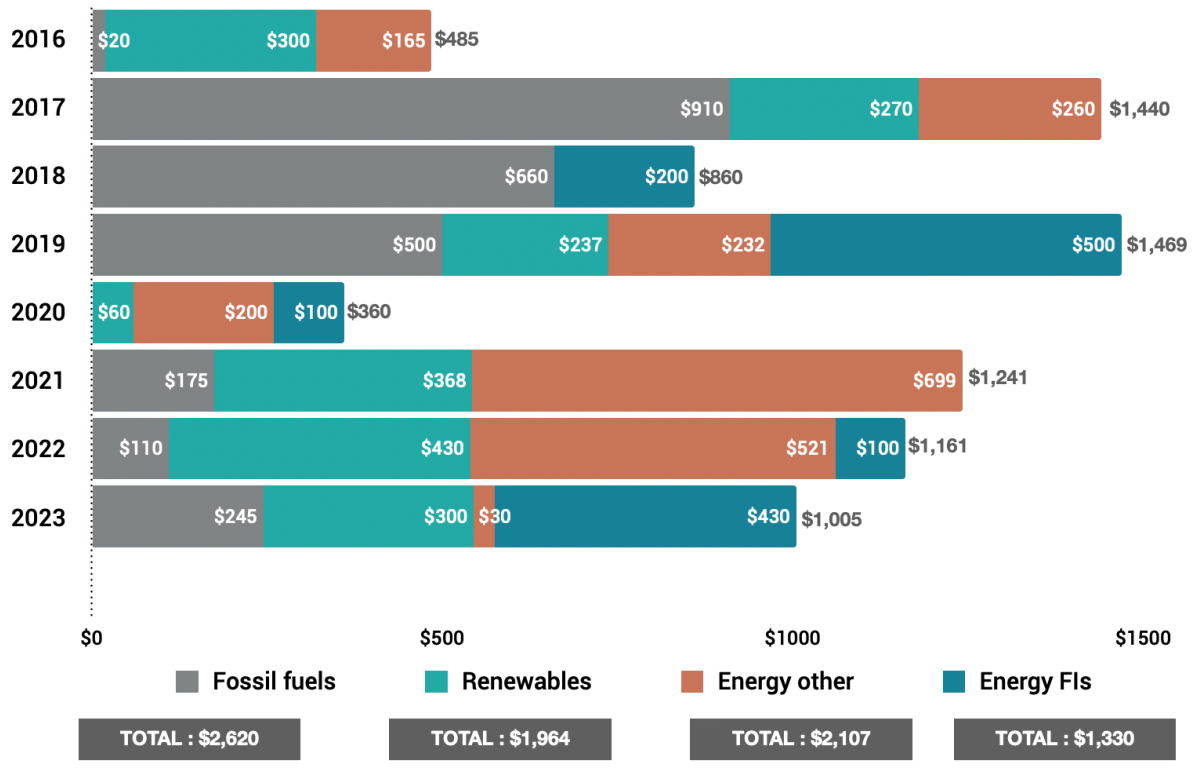
In the past year the AIIB has financed four renewable energy projects directly – two solar and two wind projects, as well as two FI investments which are clearly linked to renewable energy investments, according to available information from the AIIB, and another that includes support for renewable energy. In addition, there are multi-sector FI investments that include support for renewables. In July 2023, the AIIB approved a direct investment in a Georgia financing facility not classified as an FI, with mixed investments: "AIIB investment in the sustainability linked bond will be used to refinance ringfenced renewable energy assets and finance general corporate purposes."[42] The latter is problematic, as this

exposes the AIIB to all investments. The bond prospectus lists a range of different industries, with the largest shares going towards banking and retail pharmacy, and renewables representing a much smaller share.[43]

While it is encouraging that the 2022 ESS seems to mark a shift towards the AIIB investing more in renewables, it is concerning that the ESS at the same time sends mixed messages on the importance and viability of renewable energy, including in a way that justifies continued investments in fossil fuels. Overall, the ESS takes an extremely cautious approach towards renewables, building on largely outdated arguments related to the capacity of renewable energy to address energy security. For example, the ESS warns that "variable renewable energy plants do not supply a consistent flow of electricity the way conventional energy sources do and require other types of resources to balance generation". This is a common argument focusing on the necessity of fossil fuels as key providers of so-called baseload energy.

However, this argument is no longer valid with current technology, with research showing that all countries have the capacity to move to 100% renewable energy grids, and ten countries are already running electric grids without fossil fuel or nuclear power.[44] Analysis by Agora Energiewende and CASE shows how variable renewables can form the core of a flexible system, with "generators, storage and demand-sectors that can rapidly adjust operations according to system needs [and] maintain system stability and reliability". Public financial institutions like the AIIB could play a key part in financing this shift, including to support "modern and interconnected transmission and distribution grids [to] widen the area in which resources are shared".[45]

GRAPH 3: Trends in AIIB energy sector investments, approved projects by value in US$ millions, Jan 2016 - Nov 2023



Putting environmental and social concerns first

The ambivalent and largely negative framing of the capacity of renewable energy to deliver sends mixed signals about the AIIB's commitment to fully shift out of fossil fuels. Countries like Sweden[46] are moving to decarbonise the power sector as this sector has the greatest possibility to go zero carbon quickly given current technology. This will allow time for research and development in other sectors which are harder to decarbonise, but will have to become net zero by 2050. According to the IEA: "Clean electrification is the dominant theme in the early phases of the transformation of the global energy economy together with the quest for improvements in efficiency. Over time, however, continued rapid deployment in these areas needs to be accompanied by clean energy innovation and the widespread use of technologies that are not yet readily available on the market."[47]
It is essential that renewable energy technology be compliant with stringent social and environmental standards. Even though the 2022 ESS claims to build on the principles underpinning the 2030 Agenda for Sustainable Development, it only includes a few references to SDG 7 on energy access for all – other SDGs, like SDG 5 on gender equality, are not mentioned at all. While solar and wind power are considered the most sustainable renewable options, large scale developments must be reviewed for environmental and social sustainability and be subject to local consultation and consent, especially where land grabbing is a risk or the project affects indigenous peoples. Large hydro power and industrial scale biofuels cannot be considered as sustainable renewable energy due to their huge impact on land, nature and people, including displacing food production.

Almost a quarter of the AIIB's renewable energy investments are in large scale projects classified as Category A, meaning significant environmental and social risks. The majority of these are hydropower projects. Negative impacts include land acquisition and resettlement issues, loss of river ecosystems, including loss of habitats and key species, and construction related negative impacts. The last Category A project in the AIIB's energy sector portfolio is a wind power project in Lao, co-financed with the ADB and estimated to negatively impact over 2,100 people, which was approved in November 2022, before the new ESS came into effect.[48] All projects approved since have been Category B, medium risk, or category FI. No projects were classified as low risk, Category C. A further nine energy sector projects are included in the publicly accessible project pipeline, over half of which are Category A.

It is unclear from the 2022 ESS how the AIIB will prioritise between different risky forms of renewable energy technologies. For example, to date the AIIB has only invested in one geothermal project, but the ESS commits to: "Support the development of the significant geothermal resources identified in many AIIB Members, alone or in partnership with other MDBs and bilateral agencies." However, geothermal energy development is associated with a range of risks, and it is important that the AIIB ensures the prevention of negative environmental damages and human rights impacts.

Another risky renewable energy technology is hydropower. The ESS commits to: "Support hydropower that is technically, economically, and financially viable and environmentally and socially sound, in a manner consistent with the provisions of the AIIB's ESF, good practices and lessons learned from other MDBs operating in Asia and elsewhere." The ESF does not exclude large scale hydro, despite the significant risks. This goes against authoritative guidance, such as a statement by UN Rapporteurs noting the devastating impacts on rivers and riverside communities and calling for "governments, the power generation industry and financial institutions to halt planned new large hydropower dams". Instead they call for "the development of other renewable energies with lower social and environmental impacts."[49] The AIIB should therefore exclude financing for large-scale hydro and only support mini-hydro (under 10 megawatts), run-of-river community and grid-connected projects that are developed and managed in a socially and environmentally responsible manner. A move in this direction would require the AIIB to remove controversial projects from its pipeline, such as the Nenskra Hydropower Plant project in Georgia that threatens biodiversity and violates the rights of Indigenous people.[50] It would also call into question other forms of support for large scale hydropower, most significantly the AIIB's recent project preparation grant for the Rogun hydropower plant in Tajikistan, riddled with controversy, including human rights violations in relation to the involuntary resettlement of about 42,000 people.[51] [52]

Scientific, environmental, social and rights-based criteria for renewable energy investments[53]

While renewable energy technologies do not have the climate impacts of fossil fuels, badly implemented renewable energy technologies can have devastating impacts. The transition must 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. For renewable energy projects to meet their potential for positive sustainable development, they must be implemented with the affected communities' consent, respecting people's rights and with strong safeguards to prevent harm. The energy transition should benefit these groups equitably through increased energy access, decent work, enhanced natural environment and thriving local and national economy.

In this context, Recourse recommends that all renewable energy investments should 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
- ☑ Resilience 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, centring 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

ENERGY AND GENDER – NEW BOTTLE, OLD WINE?

> ***Sustainable Development Goals (SDGs) 5 and 7 are inextricably linked, as a lack of energy access disproportionately affects women and girls in the form of health, productivity, unpaid labour, and employment burdens.***
>
> **Sustainable Energy for All, 2020[54]**

Women and girls are often particularly adversely affected by lack of access to clean, renewable modern energy, as well as the impacts of climate change. But many women are also climate champions, especially rural women in the Global South and indigenous women, through their practice of sustainable production and consumption systems. It's therefore essential that gender related concerns are at the centre of both climate change mitigation and adaptation efforts. Women should be recognised as key stakeholders, and their energy needs and women's leadership and roles should be meaningfully included in determining energy sector project plans and development models. Access to energy can lessen the time and effort women spend on tasks, such as fuelwood and water collection. This in turn leaves more time for productive activities, including education and income generation, and improvement in overall health and wellbeing. Women also need access to energy as workers, entrepreneurs, farmers and producers to support all their economic activities. This will simultaneously increase women's ability to adapt to climate change. Women also have the knowledge and skills to play a critical role in mitigating climate change, by facilitating the shift to renewables, particularly in leading and supporting the delivery of off-grid renewable energy solutions.

The 2017 ESS did not include any gender indicators or targets, hence gender related issues were not systematically considered across the energy sector portfolio. Research by BRICS Feminist Watch and Recourse revealed that almost half of the AIIB's approved energy sector projects up until the 2022 ESS came into effect lacked any mention of gender commitments in its project documentation.[55] The ESS review presented an opportunity for the AIIB to rectify this flaw by strengthening the gender language, including clear gender related targets and indicators. During the consultation process for the revised ESS, gender was highlighted as an area of specific concern by several stakeholders, including BRICS Feminist Watch and Recourse.[56]

While there were a few notable modifications to further incorporate gender issues in the 2022 ESS, the AIIB has largely ignored these recommendations. Analysis by BRICS Feminist Watch of the 2022 ESS shows that disappointingly little has changed from the 2017 version. In fact, gender or women are only mentioned in six paragraphs (out of 75 paragraphs in total). While this is more than in the 2017 ESS, the changes are largely superficial. The focus is also largely on 'do no harm', rather than how to 'do some good', such as proactively promoting women's empowerment and gender equality.[57] The AIIB generally adopts a gender-neutral approach that assumes that women and men are equally impacted. This risks incorporating biases in favour of existing gender relations and so tend to disadvantage women.

Overall, it seems that the AIIB has only included three substantive gender-related additions in the revised ESS. This includes a new commitment for the AIIB to "build staff capacity and work with its clients with a view to developing a consistent approach to designing, implementing and measuring the impact of energy sector projects so that they promote gender equality". This commitment was added to a section formerly called "Taking gender into account", now called "Promoting gender equality". This section also includes a new commitment to "support project specific measures to address gender gaps with respect to access to energy". Apart from these amendments, the section looks largely the same as before. While these new commitments are welcome, there is no further explanation of what the 'approach' to energy projects in terms of gender means in practice, or what the energy access 'measures' are or how they will be implemented and monitored.

In the ESS, women's energy needs are reduced to domestic chores, such as cooking. While this is essential to address, not the least since the AIIB has to date not prioritised providing women with clean modern energy for cooking despite similar language in the 2017 ESS, women should also be recognised as economic agents, as producers, farmers, energy managers and as climate champions – as well as managers of land, water and forests. While the AIIB includes a narrative on energy access for women in the 2022 ESS, which is welcome, there is only one energy project in the AIIB's portfolio that include language on this. A more detailed sketching of the gendered impacts of climate change would have strengthened the gender aspect of the ESS. Without an integrated approach to gender, any positive new language is mostly reduced to mere checklist exercises.

Lack of targets and indicators hamper progress

On a more positive note, projects approved since the 2022 ESS came into operation are showing some signs that the AIIB's approach to gender is slowly becoming more informed. In comparison to the year before, the share of energy sector projects that include gender language in the AIIB's own project documentation and matched against at least one of a set of ten gender indicators developed by BRICS Feminist Watch, increased from 35% to 83%. By matching, we mean that the AIIB's own project document or summary included language on gender or women that aligned with a specific indicator (see illustration for full set of indicators). Performance against some individual indicators also improved, for example, half of all new projects included references to women's employment opportunities, up from only 12% in the year before. Energy projects recognising the potential impact of the project on women and girls also increased to 75% under the 2022 ESS, up from 15% for all previously approved energy projects. None of the new energy sector projects matched all of the indicators. Only two projects, one in China and one in Kazakhstan, were able to check off more than five of the indicators. But most projects (83%) received a score of below five indicators matched, with two projects not scoring against any of the gender indicators.

The uneven progress can be linked to the absence of a stand-alone gender policy and to the 2022 RMF, which despite new language in the overall ESS, does not have a single mention of 'gender' or 'women'. The RMF is the main vehicle through which the AIIB will monitor the impact of the ESS, and without any gender related targets and indicators, there are no AIIB-driven incentives for projects to respond to – you can't measure what you don't count. For example, two projects had no gender language at all and another two only matched against one of the indicators. A major concern is that women's access to energy is not mentioned in the AIIB's documentation. Before the 2022 ESS no projects scored against this indicator and while there is now one project that does, the Argentina Tierra del Fuego Energy Transition Support Programme,[58] this is wholly inadequate.

A related issue is that gender standards are not mandated by the AIIB in project selection, planning, or monitoring, but are at best aspirational considerations left for the client's own interpretation and discretion. Infrastructure projects in general and energy sector projects in particular are for the most part perceived by the AIIB as gender neutral – everyone are the same and so everyone benefits equally. Any gender commitments get reduced to a check list or is forgotten, as the project gets implemented. To ensure projects benefit women equally, the AIIB needs to have clear mandated gender standards and a robust gender monitoring mechanisms at all stages of each project.

It is important to note that while the gender indicators give an important overview of how the AIIB prioritises gender in its investments, other issues might arise when investigating the projects directly. For example, the AIIB's documentation on the Unique Meghnaghat gas power project in Bangladesh matches against four of our gender indicators. This is also the only new energy sector project where the AIIB mentions a gender action plan. However, interviews with project-impacted women by the Coastal Livelihoods and Environmental Action Network (CLEAN) reveal that their needs have been far from taken into account. The power plant is causing economic insecurity, damage to properties, health problems, and food insecurity, all impacting particularly negatively on women. 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, such as skin and respiratory problems, are affecting the women and their families. Having a sick family member increases unpaid care work for the women.[59]

The AIIB and gender

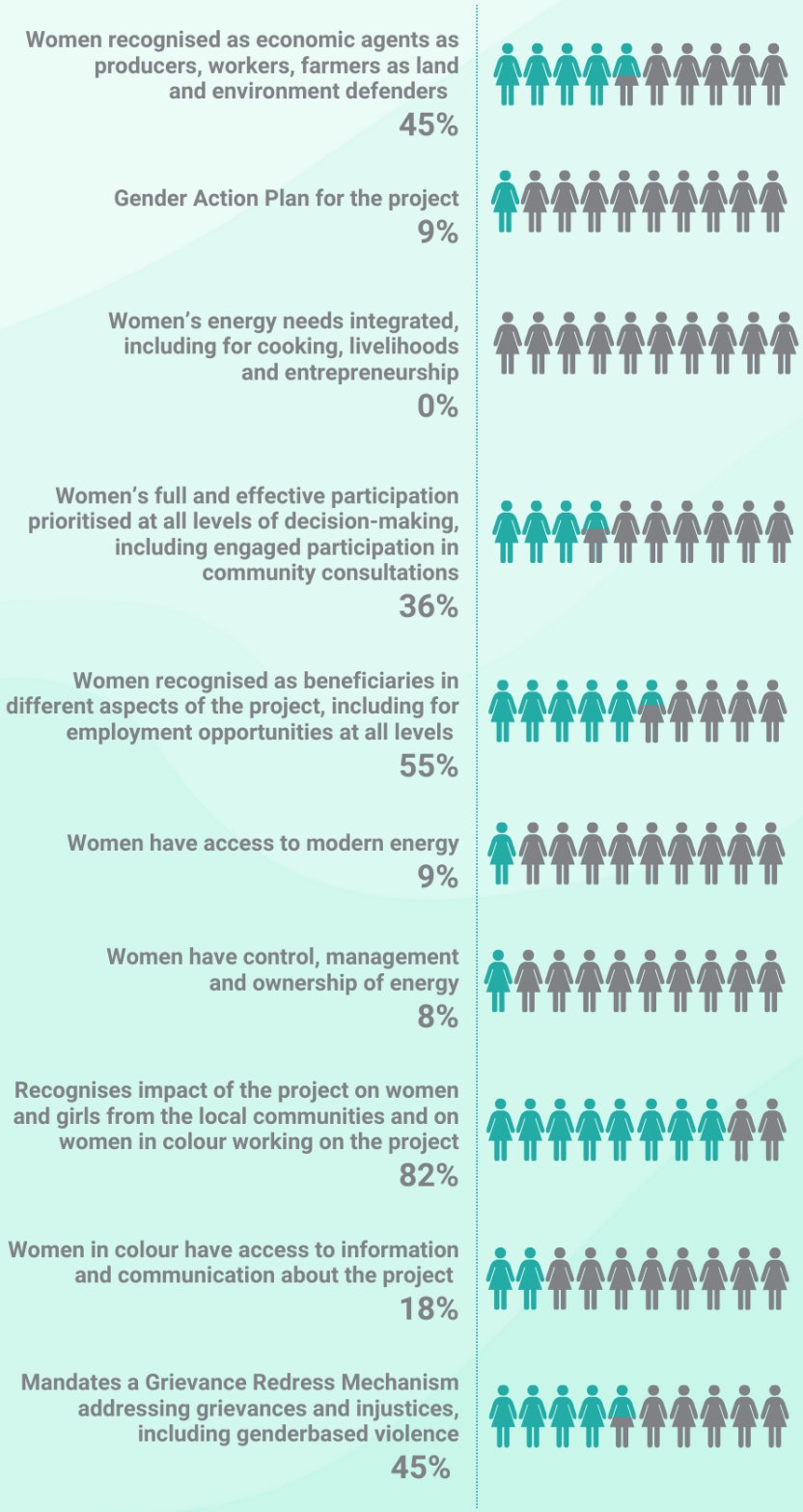
In contrast to other MDBs, the AIIB does not yet have a gender policy or strategy. In its absence, the ESF is the AIIB's key policy framework on gender. The 2021 ESF pays attention to gender-based violence and the need for gender sensitive grievance redress mechanisms and participation of women, which is welcome. It asks clients to look for "gender-specific opportunities"; to collect gender-disaggregated data for baseline analysis; and to undertake a culturally appropriate and gender-sensitive social assessment. It also recognises the complexity of gender issues in land ownership, including the gendered nature of "customary rights to natural resources" and "gender-differentiated sources of livelihoods, including informal ones", that should be factored into resettlement and compensation efforts. However, the ESF fails to detail how this will be actualised. Also, by mainly profiling women as a vulnerable group the ESF avoids addressing historic discrimination and does not incentivise efforts to close gender gaps by ensuring women and girls have equal access to benefits and opportunities from the projects and are recognised as workers, producers, farmers, entrepreneurs – as economic and development stakeholders.

Overall, the ESF puts the responsibility for gender commitments on their clients or on client's country systems. Use of country systems is often justified in response to concerns over national sovereignty. In a positive move, the ESF commits the AIIB to: "Under circumstances in which national law and tenure systems do not recognize the rights of women to hold or exchange property, make provision, to the extent feasible, for women to gain security of tenure.". However, the implementation is unclear on how "to the extent feasible" will be determined. The AIIB has not disclosed how it assesses the level of protection and gender equality and women's empowerment standards of the respective country systems. Research by BRICS Feminist Watch found that when IFIs claim to respect the sovereign rights of client countries, they in fact hide behind the country system concept to allow low gender, human rights or labour standards.[60]

In its 2021 Corporate Strategy the AIIB commits to "enhance its contribution to gender equality in Asia by increasingly incorporating gender considerations into projects, which can be mapped against SDG 5." While welcome, this amounts to little in practice. The only gender related indicator in the associated Corporate Scorecard is about the AIIB's own workforce diversity, measuring the percentage of women amongst professional staff.[61] As of the latest available data, this now amounts to around 40%, but noticeably there is not a single woman at senior management level.[62] The AIIB's new Climate Action Plan (CAP), launched in September 2023, includes more substantive gender language.[63] The CAP recognises women's adverse vulnerability in the context of the climate crisis and elaborates gendered challenges women face due to several factors that impact their ability to adapt to climate change. It notes the importance of including gender norms that shape opportunities for men and women within households and communities in all policy considerations at all levels around mitigation and adoption. It further highlights women as climate agents and the importance of not just reducing adverse impacts of climate change on women but also improving women's livelihoods and economic rights. But again there are no indicators or targets attached, and it is yet unclear how the CAP will get implemented in practice.

The AIIB is also starting to explore so-called Gender Lens Investing, "an investment approach that takes into consideration gender-based factors across the investment process to advance gender equality and better inform investment decisions."[64] In October 2022, the AIIB approved its first investment in a gender focused FI, the Southeast Asia Women's Economic Empowerment Fund (SWEEF), which "intends to make portfolio investments in small and mid-size enterprises in Southeast Asia that are positioned to drive women's economic empowerment and gender equality in the marketplace and in the workplace." To do this SWEEF aims to "incentivize the fund manager to pursue a gender-smart investment strategy and to achieve pre-defined women economic empowerment targets". The AIIB classifies the investment as multisector, covering for example healthcare, education and climate change mitigation and adaptation. The associated Gender return on investment (ROI) tool is a useful component of this fund. However, the overall ambition is unclear. For example, one of the goals is for at least 40% of the portfolio companies to be women-owned or women led, which is a very low target for a women's empowerment fund.[65]

Approved AIIB Energy Projects meeting our gender indicators (%)
Dec 22 - Nov 23



ENERGY ACCESS – FOR WHOM?

> ***Access to affordable and reliable modern energy services is instrumental in underpinning development and expanding economic opportunities for people to improve their lives.***
>
> **ESS 2022, page 12**

Access to energy continues to be a challenge for communities around the world. Globally, almost 800 million people lack electricity and 2.8 billion need clean cooking solutions, figures that are likely to increase due to the impacts of the Covid-19 pandemic.[66] 'Business as usual' approaches to electricity access, focused on generation, transmission and distribution investments in centralised grids, are not connecting enough people fast enough to reach SDG 7. For electricity-poor households and communities living in rural areas, especially for women living and working far from the grid, distributed stand-alone and mini-grid solutions powered by renewables such as wind and solar PV can be deployed more quickly and are the most viable and affordable option for connecting most new households. According to IEA, these distributed solutions powered by renewable energy (DRE) could connect 51% of energy poor people by 2030, with 77% in rural areas.[67]

Both the 2017 and the 2022 ESS identify SDG 7 on energy access as a priority, which is welcome. The 2022 ESS further notes that progress globally "falls far short of the pace required to achieve universal energy access to affordable and reliable modern energy services by 2030". It includes other important elements, such as references to affordability, quality and safety, noting that a significant number of people are still left behind "in particular in rural and hard-to-reach areas", and that many power systems "do not meet the standards for reliability". As with the 2017 ESS, guiding principle one is to "Promote energy access and security", but the 2022 elaborates further, adding for example how traditional fuels can have negative health impacts and extend gender inequality.

Despite these promising signs, there is to date little or no evidence of how energy access has been prioritised or how it has addressed energy poverty in practice. For example, while the 2022 ESS states the importance of "decentralised generation and mini- and micro grids", this commitment was made already in the 2017 ESS without any noticeable impact on the AIIB's project portfolio. The 2022 ESS further commits the AIIB to go beyond 'last mile electrification' and support members to move to "higher service levels of access, ensuring that clean energy services are affordable, of adequate capacity and good quality, available when needed, reliable, convenient, and safe". However, it is unclear which end users will be prioritised. Further, there is only one reference to energy poverty in the whole ESS. In the contextual section, the ESS instead highlights the "reliability required by sophisticated equipment and the connectivity needs of households and businesses".

The 2022 RMF has increased the number of indicators for energy access from its first iteration, but they continue to be very broad and, for example, do not include anything that would assess 'last mile electrification.' Nor does the RMF have any indicator for women's access to energy or clean energy more specifically, as mentioned earlier. Given the AIIB's poor record on energy access to date, this raises questions about how the new ESS will change this trajectory, without any clear guidelines or indicators. It is also not clear what type of energy will be prioritised. A review of 27 countries in Africa and Asia by SEforALL found that much of the increase in public and private commitments to fund universal energy access was for fossil fuel technologies "which will lock those [countries] into decades of carbon emissions and dependence on imported coal", and risk becoming stranded assets.[68] While improved access is important, it needs to focus on sustainable renewable energy options, and basic needs and last mile access must be clear priorities for public finance.

The 2022 ESS includes references to clean cooking, which is a welcome new focus area. Clean cooking is the most neglected but important part of the energy sector and the delivery of SDG 7. The number of families who cook on dirty, polluting fuels such as wood, dung and charcoal remains stubbornly high at over 2.7 million, and 3.4 million people die prematurely because of indoor air pollution predominantly from these cookstoves.[69] But cooking solutions receive by far the least investment, with only about 1.6% of MDB energy finance invested in clean cooking.[70] Directing finance towards energy access, clean cooking and decentralised energy systems can be challenging for multilateral investors due to the generally smaller size of investments required, but it is an essential remit for delivery of the SDGs and should be a marker for success. Public financial institutions need to find a way to invest in clean cooking solutions for a fossil free world, and ensure these solutions are accessible and affordable to the most vulnerable families.

Transmission & Distribution – the hidden emissions

Grid development is an essential precondition for substantive renewable energy integration from both decentralised and utility scale installations. To date, almost a quarter of the value of the AIIB's investments in the energy sector has gone to energy transmission and distribution (T&D) projects, but it is often unclear what type of energy source the projects are linked to. The 2022 ESS section on Power T&D recognises that "substantial investments" are required to achieve SDG 7 on energy access for all and "allow for smooth renewable energy integration into power systems". This recognition is welcome and should prioritise supporting the big shift towards making renewable energy accessible on a large scale.

The AIIB has not approved any new projects in T&D since the 2022 ESS came into effect.

The ESS explicitly identifies "long-distance transmission of renewable electricity both within countries and across borders" as an important element of how to "fully exploit abundant renewable energy resources", but to date none of the AIIB's T&D investments to date explicitly target the renewable energy sector. In contrast, several of the AIIB's investments in T&D are clearly linked to fossil fuel projects, such as the Trans Anatolian Natural Gas Pipeline (TANAP) project approved in 2017. The ESS also argues that T&D investments "are beneficial irrespective of the mix of power generation at the time." The RMF indicator is only focused on kilometres of lines and pipelines, again missing the opportunity of directing financing specifically towards renewable energy. This is a risky strategy that runs counter to the goals of the Paris Agreement. Public finance could instead play a positive role to ensure financing is available to secure energy access without resorting to fossil fuel options.

FALSE AND COSTLY 'SOLUTIONS' DISTRACTING PROGRESS

> ***To address the climate imperative, mitigation must be regarded as a global concern and measures need to be pursued concurrently to bring down GHG emissions in the energy sector.***
>
> **ESS 2022, page 7**

The shift from coal power and other fossil fuels to clean energy will require clear plans and a dedicated focus on a just transition and promotion of investments in sustainable renewable energy alternatives. It is therefore concerning that the 2022 ESS early on ramps up the narrative for carbon dioxide removal technologies, arguing that they will "play a crucial role in counterbalancing residual GHG emissions". This includes support for technologies, such as carbon capture and storage (CCS) and carbon capture, utilisation and storage (CCUS), which could extend the lifespan of fossil fuels projects: "AIIB will support creating readiness, whenever technically feasible, for future integration of CCS technologies in its natural gas projects for power and hard-to-abate sectors. AIIB may also consider investments in financially feasible CCS/CCUS solutions if the applied technologies have passed the demonstration stage."

This reliance on so-called 'false solutions' – largely unproven and costly technologies – as viable options is a dangerous strategy that risks displacing investments urgently needed in the shift away from fossil fuels to renewable energy. For example, a 2021 report by the Tyndall Centre for Climate Change Research demonstrates that CCUS perpetuates the use of fossil fuels.[71] The IPCC warns that overreliance on unproven technologies at scale, such as carbon direct capture to remove CO from the atmosphere or CCUS to remove it from fossil fuel combustion processes, constitutes a major risk to the achievability of the Paris goals.[72] The 2022 ESS does insert some caution: "these abatement technologies are not yet technologically mature and, within the regulatory frameworks of most Members, lack commercial incentives for implementation", yet does not clarify how these concerns will be addressed. Resources are far better targeted at sustainable renewable energy solutions, which are technically proven, dropping in cost continually and do not sustain fossil fuel lock in.

The 2022 ESS endorsement of hydrogen, including for trade, raises concerns over its support for unproven and inefficient technologies that can potentially delay decarbonisation efforts: "AIIB will explore the development of transformative but still high-cost technologies, such as low- or zero-carbon hydrogen production … to contain consumption of fossil fuels and help create a market of scale for such technology." It is therefore not surprising that the AIIB's first energy sector after the new ESS came into operation, the Unique Meghnaghat gas power plant in Bangladesh (see Box on page X), was partly justified as it will be 'hydrogen ready'. The source of the hydrogen is unclear, but will likely be so called 'blue hydrogen' derived from fossil fuels.[73] In August 2023, the AIIB invested in an energy FI in Brazil, the Vinci Climate Change Fund, which includes support for green hydrogen.[74] Around 15% of Brazil's energy mix still relies on fossil fuels (fossil gas, oil and coal) with only 9.6% coming from wind and solar. Supporting clean hydrogen in the country could decrease wind and solar capacity for the power sector only to be used for an export-oriented clean hydrogen industry. Concerningly, the fund does not explicitly exclude all types of investments in fossil fuels either.[75]

The AIIB recently published a report promoting "clean hydrogen" as essential for the low carbon transition and as a good investment prospect. The report includes a number of assumptions, for example, that technology to use clean hydrogen will be ready very soon. According to the report's foreword by the AIIB's Vice President Danny Alexander: "Many developing countries are endowed with vast land and renewable resources and therefore have the potential to produce clean hydrogen at scale for export."[76] The report fails to analyse issues around land rights and safeguards to ensure poor communities are benefiting from and not being undermined and displaced by this rush to produce hydrogen.

Another potential 'solution' highlighted in the 2022 ESS, but not yet put into action, is the AIIB's expressed interest in so-called coal retirement mechanisms: "To assist members with the reduction of coal use, AIIB will support projects that aim at the early retirement of coal plants, replacement of coal with lower-carbon fuel sources, or projects for decommissioning, remediation, and redevelopment of affected coal facility sites and communities." For example, the ADB has set up the Energy Transition Mechanism for this purpose, but it has come under intense criticism from civil society for extending rather than limiting the lifespan of coal power plants.[77] The AIIB should learn lessons from the ADB's experience and CSOs' critiques before becoming involved in this controversial development.

Concerningly, the 2022 ESS also uncritically promotes public-private partnerships (PPPs) referencing MDB experiences: "Innovative approaches have also been initiated using grants and concessional financing to reduce the cost of electricity generated under [PPPs] or to improve risk sharing in PPP ventures" (para 36). It notes the "successful experience" in Asia in particular, but without examples. However, this statement runs counter to the AIIB's own experiences. For example, in 2016 the AIIB invested $20m in Myanmar's Myingyan greenfield gas power plant, a Category A project and the first PPP in the country. Myingyan's Power Purchase Agreement is not publicly available, making it hard to determine whether the terms of the contract and the tariff fees provide good value for money for this impoverished nation. This is not uncommon, most PPP projects suffer from poor transparency, including secrecy around the contracts and the use of non-disclosure agreements.[78] Too often in PPP contracts, risks are transferred to the public – whether the state or citizens – while profit is extracted by the private sector.[79]

FIS – LOOPHOLES OR OPPORTUNITIES?

> ***Financial intermediation is effective in directing additional financial resources, particularly to subsectors needing smaller-scale financing or in markets where AIIB did not have an established reputation.***
>
> **ESS 2022, page 11**

Investments through FIs represent a growing share of the AIIB's portfolio, currently just over 15% of the value of all AIIB investments. When investing in an FI, such as a commercial bank or private equity fund, the AIIB delegates the responsibility to manage social and environmental impacts of subprojects and subinvestments to FI clients. Due to the lack of transparency and long investment chain, this arms-length approach to lending can be very risky. For example, prior to the new ESS coal exclusion policy, the AIIB repeatedly stated that it would not finance coal, but as mentioned earlier, the AIIB still invested in coal for industrial use and increased extraction from a dedicated coal mine, through a subinvestment in Shwe Taung Cement in Myanmar via the IFC Emerging Asia Fund (EAF). The EAF also invested in PVI Holdings in 2021, which only months later insured the Vung Ang coal power plant in Vietnam.[80]

In contrast to the 2017 ESS, after repeated calls from civil society, including Recourse, the 2022 ESS explicitly applies to FIs: "The framework, principles, and approach set out by the Strategy will guide both direct and indirect (such as FI) financing of energy sector operations by AIIB." This is an important change, as it makes it clear to AIIB staff, clients and shareholders that subprojects are not excluded from, for example, the new coal investment exclusion or the new restrictions for investments in gas power projects. While there has been significant improvement in terms of the transparency requirements applied by the AIIB to its FI clients in recent years, lack of disclosure of FI subprojects remains a major problem, however, especially when commercial banks are the client as most disclosure requirements apply to funds, but not to banks.

Since the 2022 ESS was approved, the AIIB has invested $1bn in 14 FIs, including four FIs in the energy sector. In total, energy FIs currently represent almost a fifth of all FI investments, but it is worth noting that other FIs can also have energy projects in their portfolio, including fossil fuels as exemplified above, in particular those listed as 'multi-sector'. Research by Recourse indicates that over a tenth of FI investments approved by the AIIB between 2018 and 2022 could be exposed to fossil gas investments, but the number could be higher due to lack of subproject disclosure. For example, the pipeline of potential sub-projects to be supported by the AIIB's 2022 investment in the IDCOL Multi-Sector On-Lending Facility in Bangladesh includes the FeniPower greenfield gas power plant.[81] Since the 2022 ESS was approved, the AIIB invested $100m in a fund managed by A.P. Moller. Information provided by the AIIB states that the fund's main aim is to leverage "(i) its sector expertise within transport and energy infrastructure, and (ii) its strong regional and global relationships", adding that "the indicative pipeline comprises of greenfield and brownfield investments in ports, renewables, warehousing & logistics and others, across Africa and Asia."[82] Without proper transparency, it is difficult to assess what type of projects these are. While wind power is part of the A.P. Moller group, so is marine transport of, for example, oil and gas.[83]

This continued support for fossil fuels through FIs not only violates the Bank's commitment to the Paris Agreement, but also puts vulnerable communities and women at greater risk. More positive ways of using FIs feature in a 'lessons learned' section in the ESS. This lesson notes that FIs can be "effective in directing additional financial resources, particularly to subsectors needing smaller scale financing or in markets where AIIB did not have an established reputation. AIIB investments into energy-focused private equity funds have also allowed an expansion of available equity while undertaking several innovative capital market transactions increasing investor interest in the broader Asian energy sector". The potential benefits of using FIs to bundle together smaller energy access or clean energy projects, or to achieve portfolio-level shifts in client financing from fossil fuels to clean, are significant.[84] However, there is no information about which FIs the AIIB references here or how the success rate has been assessed. Without full transparency and access to the details of the assessment it is impossible to verify these claims of 'effectiveness' in the AIIB's current portfolio – before or after the implementation of the 2022 ESS.

CONCLUSION AND RECOMMENDATIONS

It is welcome that the 2022 ESS includes a commitment that it will be reviewed no later than 2027. However, in light of the findings above, we urge that certain measures must be put in place much sooner than that. There is a precedent for this to happen. The 2017 ESS was amended less than a year after approval. Likewise, the 2021 ESF was updated with sections of new language in 2022, reflecting the new coal restriction in the ESS, but also incorporating instructions on results-based financing.

There are also other avenues for how the AIIB could change its approach to energy investments to ensure they are environmentally sustainable and rights based. For example, the AIIB's Corporate Strategy is coming up for its mid-term review. The first iteration included the AIIB's first commitments to climate change and on gender, and thus holds the potential to codify a phase out of all fossil fuels and ensure the AIIB fully supports the SDGs. The AIIB also recently released its first Paris Alignment methodology and its first Climate Action Plan. Both were completed without external consultations and disappointingly did not shut any of the loopholes for fossil fuels. Comprehensive stakeholder consultation is essential for all AIIB policy and strategy processes and reviews.

RECOMMENDATIONS

The AIIB should implement changes in policy and practice, including a revision of the ESS and its Results Management Framework to fully align with the Paris Agreement and the SDGs.

Phase out all direct and indirect support for fossil fuels:

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 and risks causing decades of delay and carbon lock-in.

Strengthen the ESS position on the exclusion of coal by ensuring it covers all types of industrial use of fossil fuels, including for coal for combustion in industrial processes.

Support a just transition towards sustainable renewable energy:

Provide clear incentives for sustainable renewable energy and energy efficiency support, building on latest science and economic analysis, including support for distributed renewable energy.

Include ambitious targets for renewable energy support, building on a taxonomy of technologies that are truly sustainable (i.e., respects human rights, land rights, Indigenous peoples rights, etc.), consistent with Recourse's methodology (see Box on page X).

Exclude support for environmentally damaging renewable energy technologies, such as large scale hydropower and industrial scale biofuels.

Exclude support for false and costly 'solutions':

Exclude any project or subproject utilising unproven, risky and expensive technologies, such as carbon capture and storage, which can divert public finance away from a just transition to renewable energy.

Not promote risky financing models, such as PPPs, without ensuring value for money, disclosure of contracts terms and tariffs, and accountability.

Include ambitious targets for gender equality and energy access for all:

Specify clear targets and timelines for its contribution to achieving energy access for all, including sub-targets for gender and vulnerable groups. These measurable indicators should be included in the RMF and cover all areas, including transmission and distribution. The AIIB should communicate and report on these targets in an open and transparent manner.

Require an energy access options analysis, with clear guidelines, to ensure the needs of vulnerable groups and 'last-mile' communities are prioritised. Financing mechanisms should focus on affordability and reach for those most vulnerable, rather than a bias for private sector and market-based options.

Close loopholes through financial intermediaries:

Commit to publishing the name, sector and location of all high and medium risk projects it supports through FIs, to close loopholes for fossil fuel projects, including coal.

Promote FI lending that helps shift private financial flows out of fossil fuels and into sustainable renewable energy, including focus on energy access for all and gender equality.

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