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STILL BANKROLLING CLIMATE CHANGE: HOW MDBs SUPPORT FOSSIL GAS THROUGH FINANCIAL INTERMEDIARY INVESTMENTS

Multilateral Development Banks (MDBs) as public finance institutions, must do their part to address climate change by raising their financing and aligning their investments with the Paris Agreement goal of keeping warming within 1.5 degrees Celsius. Between 2017 and 2023, MDBs, including the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), and the International Finance Corporation (IFC) took steps to align their investments with the Paris Agreement. During the 2017 One Planet Summit in Paris, MDBs jointly committed to align their financial flows with the Paris Agreement. Six years later, the MDBs adopted the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment. However, MDBs are still dragging their feet towards genuine Paris Alignment by continuing to fund mid- and downstream fossil gas projects, and failing to be more transparent in their financial intermediary lending, which has become another channel for public finance to leak into fossil fuels, including coal.

This briefing paper will explain why and how financial intermediary lending leads to funding fossil fuel projects, focusing on fossil gas projects. It then proposes a set of recommendations for the MDBs to genuinely align their investments with the Paris Agreement.

WHAT IS FINANCIAL INTERMEDIARY LENDING AND HOW DOES IT LEAD TO FUNDING FOSSIL FUELS?

Financial intermediary investments are a form of indirect financing involving mainly private sector and some public clients that can take the form of equity investments, general purpose loans, project-related loans, bond purchases, corporate investments, or guarantees. Financial intermediaries (FIs), such as commercial banks, private equity funds, or non-banking financial institutions such as insurance firms or microfinance organisations receive investments from MDBs, such as the IFC, the ADB and the AIIB, which they then invest in subprojects typically implemented at the country or regional levels covered by the financial intermediary's scope of operations.

This type of lending delegates the responsibility of managing the social and environmental impacts of subprojects to FI clients. As the MDBs ramp up their efforts to attract private sector investments, FI investments have come to represent billions of dollars in their portfolios. In 2022, FIs constituted around $745m, or almost half (49%), of ADB's non-sovereign investments approved in the same year[1]; around $1.63bn, or more than a third (32%), of AIIB's investments; and around $6.91bn, or more than half, of the IFC's long-term investment commitments for its financial year 2022.[2]

This arms-length approach to lending by MDBs can risk leading to human rights violations and undermining national or global climate commitments because of the lack of transparency, the potential dilution of safeguards as the investment chain gets longer, as well as the profit-driven bottom lines of the private sector, which can run against development objectives.

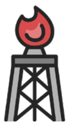
Such is the case of IFC's investment in the Rizal Commercial Banking Corporation (RCBC). In 2011, IFC signed a $48.31m equity investment in RCBC. The bank then financed at least 10 new coal-fired power plants in the country from 2011 to 2019 and failed to apply the IFC's Performance Standards in these subprojects[3] The complaint filed by the affected communities and civil society campaigners at the Compliance Advisor Ombudsman (CAO) included absence of/inadequate public consultations, pollution, loss of biodiversity, negative impacts on livelihoods, involuntary resettlement and displacement of indigenous peoples.[4]

Civil society campaigning was instrumental in pushing MDBs to begin to exclude coal in their direct and indirect lending. For example, the commitment to not finance coal projects under most circumstances is present in the ADB's 2021 Energy Policy and the AIIB's 2022 Energy Sector Strategy. AIIB's 2022 Energy Sector Strategy and its updated Environmental and Social Exclusion List prohibit the bank from investing in coal and projects functionally related to coal, including through FIs. Both ADB and AIIB have also introduced requirements for financing of gas projects and will not support any upstream gas projects such as natural gas exploration or drilling activities.[5]

To address equity clients, the IFC piloted its Green Equity Approach (GEA) in 2019 and officially launched it in 2020. The GEA intended to help FI clients reduce exposure to coal investments by half by 2025, and to zero, or near zero, by 2030. However, even after signing up for the pilot of the GEA and the duty to abide by the Performance Standards, IFC client Hana Bank Indonesia financed the development of the huge Java 9 and 10 coal plants in Banten Province, Indonesia. Between 2007 and 2019, IFC invested $65m in equity and loans in Hana Bank. In 2020, Hana Bank joined a syndicate of banks that financed Java 9 and 10. The bank provided a $56m loan to the developer PT Indo Raya Tenaga for the project. Affected communities filed a case at the CAO, citing pollution, respiratory problems, and negative impacts on livelihoods.[6] In 2023, the IFC updated its GEA to explicitly mention for the first time that IFC's new equity clients must not support new coal projects once IFC becomes an investor.[7] However, the revised GEA still does not include fossil gas in its excluded investments, as well as captive coal power.[8]

MDBs have also announced their commitment to align all financial flows, including indirect finance, with the objectives of the Paris Agreement. The process of designing a methodology to do this took the MDBs almost six years after they first announced their commitment in 2017.[9] In June 2023, the MDBs released the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment. These principles guide the MDBs in aligning their direct and indirect investments to the overall mitigation and adaptation goals of the Paris Agreement. However, the Joint MDB Methodological Principles for financial intermediaries still allow support for fossil gas projects in at least three ways:

Not categorising fossil gas as a universally non-aligned activity. Fossil gas is not included in the list of universally non-aligned activities. This exclusion list is currently limited to the extraction of and electricity generation from coal and peat. It also does not cover oil and coal for industrial use, such as captive coal.



Allowing support for fossil gas projects as long as they are "consistent" with countries' transition to low-greenhouse gas (GHG) development pathways and countries' climate policies. According to the 2022 United Nations Environment Programme's (UNEP) Emissions Gap Report, the current combined Nationally Determined Contribution (NDC) pledges by countries will result in a planetary warming of at least 2.4°C.[10] Some NDCs still allow for new high emissions from fossil fuels, including gas power.

Allowing funding to FI clients with fossil fuel exposures as long as they commit to adopt a "credible" Paris Alignment Action Plan. However, this pathway towards reduction of exposure to fossil fuels currently does not have a target timeline that is aligned with the climate science-backed need to reduce carbon pollution and fossil fuel use by nearly two-thirds by 2035 to prevent the worst impacts of climate change.[11]

The MDBs justify continued investments in fossil gas as a bridge fuel to renewable energy and as a replacement for dirtier fossil fuels such as use of coal and oil for power, heating and cooking because they claim it emits lower levels of carbon than coal power plants. However, the reality is that fossil gas is a high carbon emitting fossil fuel that contributes to climate change, causing devastating floods, droughts, and other extreme weather events that negatively impact communities, especially in developing countries. It also emits methane, a powerful greenhouse gas that is 80 times more potent at warming than carbon dioxide over a 20-year period. Moreover, financing fossil gas projects has led to human rights violations, widening of gender inequalities, and environmental destruction in communities where they are built.[12]

The following analysis provides further details on how MDBs are still exposed to financing fossil gas, specifically through FIs. In particular, it reviews the FI portfolios of the ADB, AIIB, and IFC from 2018 – the year after the MDBs first announced their commitment to aligning their financial flows with the Paris Agreement – to end 2022. Some case examples are also presented after the data. Publicly available information from sources such as the MDBs' project disclosure websites (AIIB's Project Summary Information, ADB's Project Data Sheet and Report and Recommendation of the President, and the IFC's Summary of Investment Information), annual reports, financial statements, and websites of the FIs, as well as news reports, were used to investigate the FIs' activities supporting fossil gas at the time/after the projects were approved by the MDBs. A draft of this publication was submitted to ADB, AIIB, and the IFC for comment, which were taken into consideration during the finalisation. Unfortunately, the list of FI investments is likely to be the tip of the iceberg in terms of FI investments with potential exposure to gas and other fossil fuel due to the lack of transparency in the disclosure of FI subprojects.[13]

ASIAN INFRASTRUCTURE INVESTMENT BANK

The AIIB invested in 48 FI projects between 2018 and 2022. This amounts to $6.045bn or 17.9%, of AIIB's investments in the same period. Most investments cover multi-sector and multi-country projects. The AIIB's FI portfolio lacks sufficient disclosure in financial intermediary investments, especially on which FI subprojects were funded.

The AIIB released its own Methodology for Assessing the Alignment of AIIB Investment Operations with the Paris Agreement in July 2023.[14] The AIIB's Paris Alignment Methodology is built on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment, and therefore contains the same loopholes that allow public funding for fossil gas. Moreover, the AIIB's Energy Sector Strategy, updated in November 2022, reinforces these loopholes by permitting support for mid- and downstream fossil gas projects, subject to a set of criteria, arguing that fossil gas will help countries transition into renewable energy. The AIIB's first Energy Sector Strategy had no restrictions on any type of fossil fuels.

Sector	
Multi-sector	20
CRF-Finance/Liquidity	16
Energy	7
Digital Infrastructure/ Technology	3
Transport/Roads	1
Urban	1

Location	
Multicountry	17
West Europe-Central Asia	11
South Asia	8
East and Southeast Asia	8
Middle East-Africa	2
Latin America	2

AIIB Project	Type of Investment	Financing Approval Date	Possible Fossil Gas Exposure
National Bank of Egypt (NBE) On-Lending Facility for Infrastructure (Egypt, Multi-sector) (000258)	Loan ($150m)	12 December 2019	The objective is to enhance the growth in investments into infrastructure in Egypt. NBE has investments in oil and gas projects. In 2020, Midor Electricity (MidElec) received a loan from a consortium of banks led by NBE to boost the capacity of the power plant in the Middle East Oil Refinery (MIDOR) NBE also financed multiple fossil gas projects in 2021.
Keppel Asia Infrastructure Fund (Multicountry, Multi-sector) (000342)	Equity ($150m)	April 2020	The fund will invest in Singapore's Sakra Liquified Natural Gas (LNG) CCGT hydrogen-ready power plant. The fund invested in Gimi MS Corporation, owner of the Gimi LNG Carrier. The Corporation will be responsible for the development and conversion of the vessel from an LNG Carrier to a FLNG vessel to be deployed to the Greater Tortue Ahmeyim field, offshore Mauritania and Senegal.
Global Infrastructure Partners Emerging Markets Fund I ("GIP EM" or the "Fund") (Multicountry, Multi-sector) (000355)	Equity ($150m)	10 June 2021	In August 2022, GIP EM acquired Saavi Energia from Actis. Saavi Energia operates several fossil gas power projects in Mexico. GIP buys Mexican gas platform from Actis for EM fund GIP Acquires Saavi Energia, a leading Independent Power Generator in Mexico
IDCOL Multi-Sector On-Lending Facility (Bangladesh, Multi-sector) (000344)	Loan ($200m)	24 March 24, 2022	Included in IDCOL's project pipeline is the 600MW Fenipower LNG power plant. Power generation from fossil fuels, including fossil gas, comprise more than 40% of IDCOL's loan portfolio in 2021.
Rakiza Fund I (Multicountry, Multi-sector) (000432)	Equity ($50m)	9 November 2022	Rakiza Fund I information profile mentions oil and gas as among its target sectors.

When asked for clarification, AIIB said "Rakiza Fund I, which was approved on a timeline very close to the approval of AIIB's updated Energy Sector Strategy (ESS), includes covenants to align with the updated ESS. This implies an exclusion of oil sector investments and relevant requirements for gas sector investments for AIIB funding."

Case Example: **IDCOL Multi-Sector On-Lending Facility**

Country: Bangladesh

AIIB Project Cost/Financing Amount: $200m (Loan)

Investment Type: FI

Status: Approved

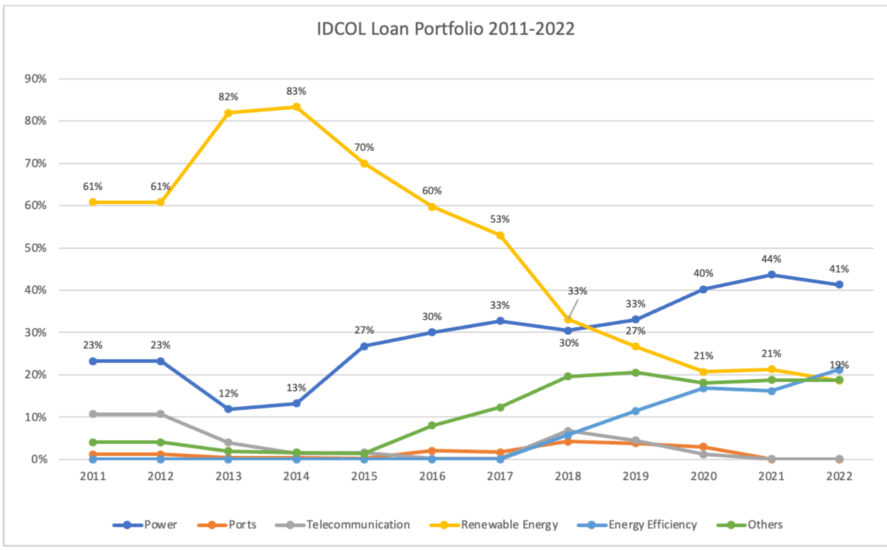
Project Board Approval Date: 24 March 2022

The Infrastructure Development Company Limited (IDCOL) is a nationally owned finance institution in Bangladesh that supports the private sector through energy sector investments. Since its inception in 1997, IDCOL has built a long track record of investing in small-scale renewables, most notably in rooftop solar and mini-grid projects. But at the same time, IDCOL also has exposure to heavy-fuel oil and gas infrastructure projects. Between 2002 to 2021, IDCOL financed more than 20 fossil energy gas projects, including one LNG terminal, 11 gas power plants, eight heavy fuel oil (HFO) power plants, and four dual fuel power plants (gas and either HFO or high speed diesel). Between 2018 and 2020, IDCOL disbursed around $70m to finance the Bhola 220MW gas/HSD power plant which has displaced 2,000 families and has caused significant environmental damage.[15] More fossil gas projects are underway as IDCOL has approved and is acting as lead arranger for several other gas and HFO power plants.

In March 2022, the AIIB's Board approved a $200m loan to IDCOL, a financial intermediary. AIIB promotes this loan as a "green" investment, to support subprojects in power generation, renewable and low-carbon electricity. However, the project document[16] confirms that the AIIB loan can be used for fossil gas projects: "IDCOL will be targeting several small and large-scale renewable energy projects as well as gas power plants which will deliver greenhouse gas emission benefits against current grid emission factor." Among the list of pipeline projects where the AIIB loan will be used is the greenfield 600MW LNG and gas power plant in Chattagram operated by FeniPower.[17]

Allowing AIIB funds to be used to support fossil gas projects in Bangladesh contributes to undermining the goals of the Paris Agreement and to a situation of carbon lock-in for the Bangladesh power sector. According to Hasan Mehedi, secretary of the Bangladesh Working Group on External Debt, an alliance of 43 local organisations, "there's no gas to supply new power plants. Bangladesh will need to rely on costly LNG imports. It is not justified and ridiculous."

AIIB's loan to IDCOL can potentially further crowd out renewable energy from IDCOL's loan portfolio and lock in gas and oil energy. Since 2015, loans to gas and oil projects have continued to increase in IDCOL's portfolio while at the same time, funding for renewables decreased. In 2022, loans to gas and oil energy projects eventually occupied the largest share in IDCOL's loan portfolio. Rather than encouraging IDCOL to expand its renewables portfolio, the AIIB's investment has instead helped expand investments in fossil gas and oil.



ASIAN DEVELOPMENT BANK

The ADB approved 69 non-sovereign FI projects between 2018 and 2022.[18] This amounts to $5.127bn in investments, or more than half (56%) of the amount of non-sovereign investments approved by the ADB in the same period. According to ADB's classification, most of these investments were for small and medium enterprises (SMEs) and various infrastructure projects. Out of these 69 non-sovereign FI investments between 2018 and 2022, only two have their subprojects disclosed on the ADB website (Creador IV (52067-001) and OrbiMed Asia Partners IV (54042-001). According to the ADB, Category A subprojects financed through FIs are required to comply with ADB's Safeguards Requirements (SRs)[19] including SR1 on Environment, SR2 on Involuntary Resettlement, and SR3 on Indigenous Peoples. There is also a 120-day disclosure requirement for Category A subprojects prior to board decision. Due to these extensive and lengthy processes, ADB says financing through FIs has not involved Category A projects, with an exception of financing through Clifford Capital, under which the ADB says it would only finance such projects that ADB has already directly financed and which comply with ADB safeguards and social requirements.

The ADB committed to "achieve full alignment of its new sovereign operations by 1 July 2023. Alignment of its new nonsovereign operations will reach at least 85% by 1 July 2023 and 100% by 1 July 2025."[20] The ADB has suggested that the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment "guide ADB's own detailed implementation of its Paris alignment commitment".[21] However, the public remains left in the dark in terms of how exactly the ADB intends to align its investments to the Paris Agreement as the bank has yet to disclose its own guidance note on how it applies the Joint MDB Methodological Principles on its investments.

Type of investment	
Loan	34
Equity	25
Debt Security	5
Guarantee	2
Loan/Guarantee	2
Debt Security/Equity	1

Risk category	FI	FI-C
Environment category	51	18
Indigenous peoples category	22	47
Involuntary resettlement category	28	41

Location	
East & Southeast Asia	25
Regional	20
South Asia	14
West Europe-Central Asia	9
Pacific	1

Sectors	
SMEs	27
Infrastructure and investment funds	20
Finance sector development	8
Inclusive finance	5
Banking systems and nonbank financial institutions	3
Housing finance	3
Trade finance	3
Industry and trade sector development	2
Renewable energy, energy efficiency and conservation	2
Health system development	2
Urban public transport	1
Education sector development	1
Money and capital markets	1

ADB Project	Type of Investment	Risk Category[22]	Financing Approval Date	Possible Fossil Gas Exposure
Proposed Additional Capital Contribution Credit Guarantee and Investment Facility (CGIF) (Regional) (44908-015)	Equity ($50m)	Environment-FI Indigenous peoples-FI Involuntary resettlement-FI	26 June 2019	ADB made equity investments of $130m in 2010 and $50m in 2019 to CGIF. The CGIF issued guarantees to bonds issued by Siamgas and Petrochemicals Public Company Limited in December 2018.
Asian Sustainable Infrastructure Mobilisation Project (Regional) (53397-001)	Equity ($50m from ADB, $45m from Leading Asia's Private Infrastructure Fund)	Environment-A Indigenous peoples-A Involuntary resettlement-A	8 July 2020	Clifford Capital Holdings is the project implementer. In 2021, Clifford Capital joined a syndicated loan to fund the Barossa FPSO. In the same year, Clifford Capital also underwrote a $100m facility for Keppel's associated company, Floatel, which provides floating accommodation to the oil and gas industry.

ADB commented that these two projects were approved before its 2021 Energy Policy which includes strict requirements for fossil gas and oil investments. However, the bank did not say if these projects would have not been approved if the 2021 Energy Policy had applied. ADB also denies investing in Floatel as the bank ring-fences its use of proceeds, but did not elaborate on how its equity investment in Clifford is ring-fenced.

Case Example: Asian Sustainable Infrastructure Mobilisation Project | Clifford Capital Holdings

Country: Regional

ADB Project Cost/Financing Amount: $50m from ADB's ordinary capital resources (Equity), $45m from the Leading Asia's Private Infrastructure Fund (Equity)

Investment Type: FI

Status: Approved

Project Board Approval Date: 8 July 2020

Clifford Capital Holdings (CCH) is a private holding company established in Singapore. Among its shareholders are Temasek, Prudential, the ADB, SMBC, Standard Chartered, DBS, and Manulife.[23] It owns 100% of the Clifford Capital Pte. Ltd. (CCPL), which provides finance to greenfield and brownfield infrastructure assets globally. CCH also has 70% shares in the Bayfront Infrastructure Management Pte. Ltd. The conglomerate was heavily exposed to oil and gas investments even before ADB's investment. Among the projects that Clifford financed before ADB's investment in July 2020 are the Sembcorp's Sirajganj gas power plant (Bangladesh), the Gimi floating liquefied natural gas vessel, Summit Power International's LNG terminal in Moheskhali, Bangladesh, and an oil-fired power plant in Gazipur, Bangladesh.[24]

In 2015, ADB approved $262.20m to develop the Myingyan Natural Gas Power Project in Myanmar. This includes a political risk guarantee and a B loan participation for commercial lenders (including CCPL) to mobilise long-term, private capital into Myanmar's first private sector independent power producer (IPP).[25] Concerns raised by civil society groups at the time included the fact that viable alternative project options, such as wind and solar, were not considered.[26]

More recently, in 2021, Clifford Capital invested $116m in a syndicated loan led by the Macquarie Group to fund the Barossa Floating Production Storage and Offloading (FPSO).[27] The Barossa FPSO is part of the controversial Barossa Gas Field Project located in the Timor Sea, 300km north of Darwin, in Australia's Northern Territory. Traditional Owners of the Tiwi Islands and local civil society organisations have protested the lack of adequate consultation by Santos, the Barossa Gas Field Project operator, and launched a legal case to try to halt its development.[28] At the time of writing, the Barossa Gas Field Project is in regulatory limbo after its drilling permit was revoked by the Australian Federal Court following a decision to side with the Tiwi Traditional Owners' legal claims over the failure of the company to conduct adequate consultation about the impacts of the project on areas considered ancestral domain. However, the Barossa FPSO, which was awarded as a separate contract to BW Offshore, is still undergoing construction.[29]

According to the ADB, Clifford Capital did not use ADB funds in the Barossa FPSO. However, this remains to be verified until ADB clarifies its procedure of ring-fencing its equity investments, which typically exposes an investor to its client's entire portfolio.

INTERNATIONAL FINANCE CORPORATION

IFC has the largest FI lending portfolio among the three banks. Between 2018 and 2022, IFC disclosed 844 active projects, of which 447, or 53%, are FIs. These FI projects comprise 60.7% ($39.56bn) of the value of IFC's disclosed active investments during the same time period.[30] Majority of these (97%) are categorised as having medium to low risks (FI-2 and FI-3).

The IFC follows the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations for Intermediated Financing released in June 2023. Similar to the ADB, the IFC is yet to release its own Paris Alignment methodology. As mentioned above, these principles still allow MDBs to offer loans for the development of fossil gas projects if evaluated as "consistent" with countries' transition to low-greenhouse gas (GHG) development pathways and countries' climate policies, and to provide financing to FI clients with fossil fuel exposures as long as the recipients commit to adopting a "credible" Paris Alignment pathway.

The IFC has implemented several improvements in the subproject disclosures of its investments in FIs. However, these disclosures are limited. Private equity funds' disclosure of Category A projects started in 2012, as required by the Access to Information Policy (AIP). Disclosure of information on Category B investee companies started in November 2014 and is based on IFC's voluntary commitment to the Board, but not required by the AIP. New equity investments in commercial banks, including with existing clients (excluding rights issues arising from existing equity commitments previously approved by IFC's Board of Directors) from July 2020, are required to disclose Category A subprojects committed after IFC's investment. New senior bonds issued by commercial banks where IFC is the sole investor, and senior loans to commercial banks to which the IFC committed funds, starting July 2020 are required disclose Category A subprojects, as well as Category B subprojects consisting of a corporate loan or a project finance loan of $20m equivalent or more that would be considered as financing "climate-related activities" and is funded by the proceeds from IFC's senior bond or senior loan.

These commitments effectively exclude guarantees and trade finance from disclosure requirements. For example, IFC issued loans and guarantees under its Global Trade Liquidity Program (GTLP) to CitiBank and Sumitomo Mitsui Banking Corporation (SMBC) between 2018 and 2022. However, aside from directly financing fossil gas projects, these banks are also involved in financing the LNG trade. SMBC is one of the mandated lead arrangers of Gunvor's $1.565bn LNG syndicated borrowing base facility. Meanwhile, Citibank provided Kogas with a trade import loan for LNG. Without transparency, it will not be clear how much goes into fossil fuel activities under the GTLP.

Sector	
Commercial banking	190
Venture funds	65
Other nonbank FIs	43
Others	41
Growth equity funds	39
Microfinance and small business	35
Mortgage institutions	16
Distressed assets	11
Leasing services	10
Insurance	6

Location	
Asia Pacific	162
Latin America and the Caribbean	105
Africa	98
Europe	47
Middle East	13
World	31

Type of investment	
Loan	264
Equity	147
Guarantee	22
Risk Management	10
Blank	13

Risk classification	
FI-1	13
FI-2	334
FI-3	109

IFC Project	Type and Amount of Investment	Risk Category	Approval Date	Possible Fossil Gas Exposure
Synergy II (Synergy Private Equity Fund II LP, Western Africa Region) (40184)	Equity ($20m)	FI-2	5 January 2018	The fund has included Bell Oil & Gas and Quest Oil and Engineering Services in its portfolio since July 2018. Both companies provide services to the oil and gas industry.
CBC Equity & Gender DPR (Commercial Bank of Ceylon PLC, Sri Lanka) (42600)	Equity ($15 million) Loan ($50 million)	FI-2	27 February 2020	In 2021, CBC joined a syndicated loan that financed Sri Lanka's first LNG power plant.
SILK (PVI Holdings, Vietnam) (40075)	Equity ($7.48 million)	FI-1	13 April 2021	PVI Insurance offers insurance for the oil and gas industry. Additionally, in October 2021, after the IFC's investment, PVI insured a new coal power plant – the 1,200MW Vung Ang 2 project in Vietnam. The AIIB is also exposed to PVI's coal investments through the IFC Emerging Asia Fund (EAF) which includes PVI in its portfolio since August 2021. AIIB invested $150m (equity) in the EAF in 2017.

WCS Crisis Response Access Bank PLC (Access Bank PLC, Nigeria) (44047)	Loan ($50m)	FI-2	26 June 2020	According to the Summary of Investment Information (SSI) , the loan "will support the Bank in increasing its lending to FMCG[31] companies importing raw materials, petroleum products, goods and commodities traders, corporates and Small and Medium Enterprises." Loans to corporates are included in the targets for on-lending by the project. Access Bank's 2021 Annual Report shows the bank disbursed loans and advances to unspecified oil and gas companies both in 2021 and 2020. Additionally, according to Bank Track, Access Bank participated in corporate loans through export credit agencies in the form of debt packages that were signed to finance the expansion of the Nigeria LNG project.
WCS CR Zenith (Zenith Bank PLC, Nigeria) (45971)	Loan ($250m)	FI-2	3 June 2022	According to the SSI, the "project will enable the Bank to provide working capital and trade finance facilities to enterprises in Nigeria, including MSMEs impacted by COVID-19." It will also "support the Bank in increasing its lending to traders, corporates and Small and Medium Enterprises." The bank's finance report indicates loans to unspecified oil and gas activities in 2022 and 2023.
ADIB - Egypt Sub. Debt (Abu Dhabi Islamic Bank-Egypt SAE) (37076)	Loan ($50m)	FI-1	4 May 2022	According to the IFC's Summary of Investment Information, "The project is a Tier II subordinated financing to ADIBE to increase the capital at the bank level, with relatively high exposure to corporate financing and substantial exposure to business activities with potential adverse environmental and social risks, including oil and gas, petroleum and petrochemicals, pharmaceuticals, construction, real estate development, and building materials and metallurgical industries." Loans to corporates are included in the targets for on-lending by the project.
DCM SRT MERIDIAN BNPP (BNP Paribas, World) (46881)	Guarantee ($50m)	FI-2	22 December, 2022	The project will support select portfolio transactions of BNP Paribas, primarily in trade finance, with up to 30% in corporate finance. Although BNP Paribas has a new oil and gas sector policy, it still funds fossil gas projects.

RSF HSBC BD (HSBC Bangladesh) (40874)	Guarantee ($100m)	FI-2	8 May, 2020	HSBC Bangladesh provided letters of credit and short term loans to United Power Generation & Distribution Company Ltd and its subsidiaries between 2021 and 2022 (see Annual Report 2021-22).

IFC approved loans convertible to equity for these three FIs below. Once converted to equity, IFC will be exposed to these FIs fossil fuel investments, including on fossil gas.

IFC Project	Type and Amount of Investment	Risk Category	Approval Date	Possible Fossil Gas Exposure
UzPSB Debt (JSCB Uzpromstroybank, Uzbekistan) (43561)	Loan ($75m) (convertible to equity)	FI-1	17 June 2021	UzPSB provides banking services and financing to core industrial corporates and their large investment projects in the petrochemical, biochemical, oil and gas, mining, energy, light industry, construction, engineering and transport sectors. If converted to equity, IFC will be exposed to UzPSB's fossil gas investments.
Forte Convertible (Forte, Cambodia) (44741)	Loan ($15m) (convertible to equity)	FI-2	28 April 2022	The funds will be used to strengthen Forte's capital position, expand its product suite and enhance reach within and outside Cambodia. Forte provides insurance for the oil and gas industry.
SeABank Convert (Southeast Asia Commercial Joint Stock Bank, Vietnam) (46462)	Loan ($75m) (convertible to equity)	FI-2	31 May 2022	If converted to equity, the IFC will be exposed to SeABank's oil and fossil gas investments. In 2022, SeABank released another long-term loan to PV Gas amounting to VND 895.66bn (approx $37.74m). SeABank's financial report for the last quarter of 2022 shows that it had long-term investments in five PV Oil Joint Stock Companies (JSCs) in 2021 and 2022. SeABank's long term investments in PV Oil JSC amounted to VND 44.77bn (approx $1.89m) in both 2021 and 2022. The Bank also had long-term investments in Phu My Oil Processing JSC at VND 11bn (approx $463,000) in both 2021 and 2022.

The two investments below are found to have exposures to coal and oil, respectively.

IFC Project	Type of Investment	Risk	Approval Date	Possible Fossil Gas Exposure
KEB Hana Indonesia Rights Issue IV (PT Bank KEB Hana, Indonesia) (42034)	Equity ($15.36m)	FI-2	11 March, 2019	Together with a syndicate of banks, Hana Bank Financed Java 9&10 coal fired-power plants in Indonesia in July 2020.
Project Autumn (Equity Group Holdings PLC, Kenya) (46166)	Equity ($84.05m)	FI-1	21 December, 2021	Equity Bank Uganda, a subsidiary, signed a Memorandum of Understanding with the Uganda National Oil Company (UNOC) which is involved with the East African Crude Oil Pipeline. IFC denies there are any financial links between its investment in Equity Group and the EACOP project.

In response to this report, the IFC clarified that in terms of debt clients, restrictions on use of proceeds from IFC's loans would apply, contractually obligating those clients to use IFC's financing for specific sectors, meaning that those loans could not be used for financing fossil fuels. Additionally, some of these loans exclude higher-risk activities such as the DCM SRT MERIDIAN BNPP.

Case Example: CBC Equity & Gender DPR

Country: Sri Lanka

IFC Financing: $15m (Equity); $50m (Loan)

Status: Approved

Project Board Approval Date: 27 February 2020

The Commercial Bank of Ceylon (CBC) is one of Sri Lanka's largest private banks and has overseas subsidiaries operating in Bangladesh, Maldives, and Myanmar. In 2020, a $65m investment ($15m equity, $50m loan) was approved by the IFC. CBC is a long-term client of the IFC. Between 2003 and 2020, the IFC invested some $394.87m in loans, equities, and guarantees. In 2022, the IFC held 7.11% of the 17,022 ordinary voting shares of the CBC.[32] The IFC also holds other shares in the bank through the IFC Emerging Asia Fund (3.67%)[33], and the IFC Financial Institutions Growth Fund (3.67%). Combined, IFC-related shares amount to 14.45%, which makes the IFC the second largest shareholder after the 18.95% collectively-owned shares of entities related to the State of Sri Lanka (including the Employees' Provident Fund, Employees' Trust Fund Board, and the Sri Lanka Insurance Corporation). The AIIB is also exposed to investments made by the CBC through the IFC Emerging Asia Fund wherein it invested $150m equity in 2017.[34]

In November 2021, CBC joined a syndicated loan facility led by Hatton National Bank to finance the 350 Megawatt LNG power plant by Sobadhanavi Ltd, a subsidiary of Lakdhanavi Ltd.[35] The LNG power plant is currently under construction in Kerawalapitiya and it is the first of its kind in Sri Lanka. The amount of loan agreements signed by the banks was not disclosed. Aside from this 350MW LNG plant, the government of Sri Lanka plans to add at least six other LNG power projects based on its 2023–2042 Long Term Generation Expansion Plan.[36] Included in these are the planned LNG terminal with an floating storage regasification unit in the coast of Kerawalapitiya that will supply the LNG power plants with the imported fossil fuel.

Concerns on building LNG projects in Kerawalapitiya have been voiced by civil society. Center for Environmental Justice (CEJ) commented that the LNG projects in Kerawalapitiya will damage the biodiversity-rich Muthurajawela marshland and negatively impact the marshland's flood-retaining capacity.[37] Building the planned LNG terminal will also negatively impact the marine environment as well as the livelihoods of the fisherfolk in the area. According to CEJ, the Sri Lankan government cannot meet its commitments of having 70% renewable energy based electricity production by 2030, and to be carbon neutral by 2050, if the planned LNG projects are built.

ON RING-FENCING OF MDBs' FUNDS IN FI INVESTMENTS

When asked to comment on the list of projects that are potentially exposed to fossil gas projects, ADB, AIIB, and the IFC mentioned some form of ring-fencing for their funds. AIIB, for example, mentioned that the Rakiza Fund I has an implied exclusion of oil sector investments and relevant requirements for gas sector investments for AIIB funding because it includes covenants to align with the 2021 Energy Sector Strategy. The ADB said that Clifford Capital Holdings, where the bank is an equity holder, ring-fences its funds and therefore were not used in the mentioned fossil gas projects. IFC said that use of proceeds from IFC's loans is restricted to specific sectors which do not include fossil fuels.

However, the lack of transparency over the terms of agreements made by the MDBs with their clients and the lack of detailed up-to-date information provided in their disclosures websites prevent the public from verifying if indeed their ring-fencing is tight – if investments, including loans and equities that are supposedly ring-fenced, do indeed exclude fossil fuel projects, including fossil gas.[38] Even assuming that the ring-fencing of MDBs' investments can be traced back to specific projects other than fossil fuels, FI clients are still free to invest in activities that support fossil fuels. In effect, the MDBs' investment may have freed up funds for these activities instead of phasing them out from their portfolios. For example, IFC signed a $100m loan for bonds to be issued by BDO Unibank, Inc. (BDO) to finance climate projects such as water conservation, wastewater treatment, and other blue projects. BDO, however, financed First Gen Corporation's Avion OCGT, the latest gas-plant to go online in the Philippines.[39] On 28 October 2020, IFC signed a $150m loan for a funded risk sharing facility with MUFG Bank, Ltd. for senior loans that MUFG provides to banks in the Europe and Central Asia region, predominantly in Turkey. IFC approved another $25m to MUFG on 20 June 2022 (pending signing) for the same purpose. According to the IFC, MUFG will use the funds provided by IFC to invest in new Sustainable Energy Finance ("SEF") projects. MUFG, the largest bank in Japan and one of the world's largest, is known for supporting fossil gas, coal, and oil projects in various countries.[40]

WHAT THE MDBs MUST DO TO STOP BANKROLLING FOSSIL GAS AND OTHER FOSSIL FUELS THROUGH FIS

The MDBs should live up to their commitment to the Paris Agreement. However, their continued funding of fossil gas including through FIs runs counter to this commitment as fossil gas not only worsens climate change but also harms human rights and widens gender inequalities in their surrounding communities.[41] Poor transparency in FI subproject disclosures also makes it difficult to ascertain the MDBs' total support for fossil fuels. In order to better align their portfolios with the need to limit global warming to 1.5ºC and respect the rights of affected communities, the MDBs must:

Stop funding fossil gas. Include fossil gas projects in the list of universally non-aligned investments in the Joint MDB Methodological Principles. Exclude support for fossil gas investments, including through FIs, in the MDBs' energy sector policies and strategies, and bank-specific Paris alignment methodologies and guidance notes.

Close loopholes in financial intermediary lending, including through underwriting and trade finance, that allow continued financing of coal, fossil gas, and oil projects.

Ensure transparency and full, prior public disclosure of all energy projects funded by the MDBs through financial intermediaries. MDBs should disclose the name, sector and location of these subprojects on their websites as well as clients' websites.

MDBs must improve the transparency around how their ring-fenced investments are working in practice. At present, it is near impossible to tell from the MDBs' disclosure website how their ring-fencing excludes support for fossil fuels. The MDBs, should, at the very least, commit to publishing summarised details of agreements made with FIs, and the details of subprojects publicly on their websites so that it is possible to better scrutinise the impact of these investments.

Channel FI investments towards sustainable distributed renewable energy access for communities living in poverty. Ensure that renewable energy subprojects financed through FIs do no harm, and uphold and respect the rights of communities in the surrounding areas (including around associated facilities), especially women and other marginalised groups (including Indigenous Peoples and sexual minorities).

Address past harms and the calls for remedy and reparations for communities affected by fossil fuel projects including those financed through FIs. MDBs must be held to account for past harms caused by fossil fuel investments they have supported over the years. To address these issues, the MDBs should commit to work with their clients to ensure remedies, redress and reparations are provided and future harms are prevented in consultation with affected communities, particularly addressing any issues raised by women as well as other marginalised groups (including Indigenous Peoples and sexual minorities).

ENDNOTES

1 ADB. (2022). *2022 Annual portfolio performance report.* https://www.adb.org/sites/default/files/institutional-document/878401/appr-2022.pdf, page 79. Calculations made by comparing the value of approved non-sovereign FI projects in 2022, ($745m) with the total value of approved non-sovereign projects in 2022 ($1516m).

2 IFC. (2022). *Stepping up in a time of uncertainty. 2022 Annual report.* https://www.ifc.org/content/dam/ifc/doc/2023/IFC-AR22.pdf, page 15

3 CAO. (2021). *Compliance investigation report. IFC Investments in Rizal Commercial Banking Corporation (RCBC).* https://www.cao-ombudsman.org/sites/default/files/downloads/CAO%20Compliance%20Investigation_RCBC-01_Philippines_Nov%202021.pdf

4 Ibid.

5 For the ADB, these restrictions include i) No other low-carbon or zero-carbon technology, or combination thereof, can provide the same service at an equivalent or lower cost at a comparable scale; (ii) The project's operating lifetime is consistent with the carbon stabilisation trajectory aiming to achieve carbon neutrality by about 2050, and by a time set by DMCs that is consistent with their NDCs. The project also avoids long-term lock-in into carbon infrastructure and the associated risk of creating stranded assets; (iii) The project is economically viable considering the social cost of carbon and an operating lifetime consistent with condition (ii). (Information provided by ADB staff on 13 November 2023.

6 *Java 9 and 10 complaint.* https://www.inclusivedevelopment.net/wp-content/uploads/2023/09/Java-9-and-10_CAO-complaint.pdf

7 IFC. (2023, March 8). *Greening equity investments in financial institutions.* https://www.ifc.org/en/insights-reports/2023/greening-equity-investments-in-financial-institutions

8 See example on Obi Island's captive coal power plant. Jong, H. N. (2023, August 10). C*aptive to coal: Indonesia to burn even more fossil fuel for green tech. Mongabay.* https://news.mongabay.com/2023/08/captive-to-coal-indonesia-to-burn-even-more-fossil-fuel-for-green-tech

9 *Together Major Development Finance Institutions Align Financial Flows with the Paris Agreement*. (2017). https://www.worldbank.org/en/news/statement/2017/12/12/together-major-development-finance-institutions-align-financial-flows-with-the-paris-agreement

10 UNEP (2022) *Emissions gap report 2022.* https://www.unep.org/interactive/emissions-gap-report/2022/

11 IPCC quoted in Borenstein, S., & Jordans, F. (2023, March 20). H*umanity can still stop worst consequences of climate change, but time is running out, IPCC warns.* https://www.pbs.org/newshour/science/hum

12 For examples, see BWGED, CLEAN, Recourse, & NGO Forum on ADB. (2022). *Unique Meghnaghat LNG power plant building on fabricated causes and draining Bangladesh's economy* and Zuckerman, E., Bercher, T. M., Donaldson, C., Geary, K., & Kjell, P. (2020). *Unmet gender promises: Making IFI policies and projects deliver on gender equal rights.* https://genderaction.org/docs/Unmet_Gender_Promises_Report.pdf

13 For analysis on the AIIB's transparency on FI subprojects, see Recourse, et al. (2023). *Roadblocks to accountability: Addressing the accessibility crisis in the Asian Infrastructure Investment Bank's review of its Project-affected People's Mechanism.* https://re-course.org/wp-content/uploads/2023/09/Roadblocks-to-accountability-FINAL-compressed.pdf

14 AIIB. (2023). Methodology for Assessing the Alignment of AIIB Investment Operations with the Paris Agreement. https://www.aiib.org/en/how-we-work/paris-alignment/overview.html

15 In 2018, the AIIB directly invested $60m in the Bhola IPP project (000057). Because of its negative social and environmental impacts, affected communities and civil society filed a complaint with the AIIB. NGO Forum on ADB. (2022, April 11). *CSOs file 1st formal complaint against AIIB regarding Bhola Gas Power Plant (Bhola IPP).* https://www.forum-adb.org/post/csos-file-1st-formal-complaint-against-aiib-regarding-bhola-gas-power-plant-bhola-ipp. A critique of how the AIIB Project-affected People's Mechanism can be read here:https://re-course.org/newsupdates/roadblocks-to-accountability-csos-call-on-aiib-to-fix-accessibility-crisis-in-ppm-review/

16 AIIB. (2022). *Bangladesh: IDCOL Multi-Sector On-Lending Facility.* https://www.aiib.org/en/projects/details/2022/approved/Bangladesh-IDCOL-Multi-Sector-On-Lending-Facility.html

17 *IDCOL Loan Project Document.* (30, March 2022). Accessed from: https://www.aiib.org/en/projects/details/2022/_download/bangladesh/AIIB-Bangladesh-PD-P000344_IDCOL-Multi-Sector-On-Lending-Facility.pdf . Annex 7 lists FeniPower and Unique Meghnaghat gas power plants as part of the pipeline projects. Hower, Unique Meghnaghat will no longer need IDCOL's financing according to AIIB and will be removed from the project pipeline.

18 Extracted from the information provided by the ADB on approved non-sovereign FIs approved between 2010 to June 20, 2023. The list contains non-sovereign projects that were approved and are active between 2018 to 2022. Projects that are still active in this period but were approved before 2018 are not included. For example, ADB equity investment in Indonesia Infrastructure Finance in 2009 and is still recorded as "active". This project has funded four LNG projects, including the Tangguh LNG expansion in West Papua.

19 This is based on the 2009 ADB Safeguard Policy Statement. https://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf. As of writing, the ADB is in the process of creating its new Environmental and Social Framework

20 ADB. (2023, June 20). *MDBs Agree Principles for Aligning Financial Flows with Paris Agreement Goals*. https://www.adb.org/news/mdbs-agree-principles-aligning-financial-flows-paris-agreement-goals

21 Ibid

22 As of writing, the ADB is in the process of consulting on its draft Environmental and Social Framework. The risk categorisation of ADB FI investments in this document is based on the 2009 SPS.

23 https://www.cliffordcapitalholdings.sg/about

24 See Clifford Capital's project page https://www.cliffordcap.sg/projects

25 ADB. (2020). *Proposed equity investment and administration of equity investment Clifford Capital Holdings Pte. Ltd. Asian Sustainable Infrastructure Mobilization Project (Regional).* https://www.adb.org/sites/default/files/project-documents/53397/53397-001-rrp-en.pdf

26 For a detailed report on the Myingyan project, see Recourse. (2020). *In the Dark: Secrecy and the Myingyan Public-Private Partnership gas power plant.* https://www.re-course.org/news/in-the-dark-secrecy-and-the-myingyan-public-private-partnership-gas-power-plant.

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29 Cavcic, M. (2023, August 28). *Construction of BW Offshore's Australia-bound FPSO remains on track. Offshore Energy.* https://www.offshore-energy.biz/construction-of-bw-offshores-australia-bound-fpso-remains-on-track/

30 Data based on disclosed projects at the IFC's https://disclosures.ifc.org/.

31 Fast-moving consumer goods

32 Commercial Bank of Ceylon. (2022). *In Context: Weathering a Perfect Storm. 2022 Annual Report.* https://www.combank.lk/financials/annual-report/17/2022

33 IFC Emerging Asia Fund's website in 2023 indicates it has exited from Commercial Bank of Ceylon. https://www.ifcamc.org/funds/ifc-emerging-asia-fund

34 AIIB. (2017). *Multicountry: International Finance Corporation Emerging Asia Fund.* https://www.aiib.org/en/projects/details/2017/approved/Multicountry-International-Finance-Corporation-Emerging-Asia-Fund.html

35 Hatton National Bank. (2021, November). *HNB partners with power sector pioneer Lakdhanavi Ltd as the Arranger and the Lead Banker to finance.* https://www.hnb.net/media-center/2021/hnb-partners-with-power-sector-pioneer-lakdhanavi-ltd-as-the-arranger-and-the-lead-banker-to-finance-sri-lanka-s-first-ever-lng-based-combined-cycle-power-plant

36 Ceylon Electricity Board. (2023). *CEB Long Term Generation Expansion Plan 2023-2042.* https://www.ceb.lk/publication-media/planing-documents/121/en

37 Kuruwita, R. (2021, July 22). *Environmentalists punch holes in EIA on Muthurajawela land reclamation. The Island.* https://island.lk/environmentalists-punch-holes-in-eia-on-muthurajawela-land-reclamation/

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