AIIB and fossil fuels

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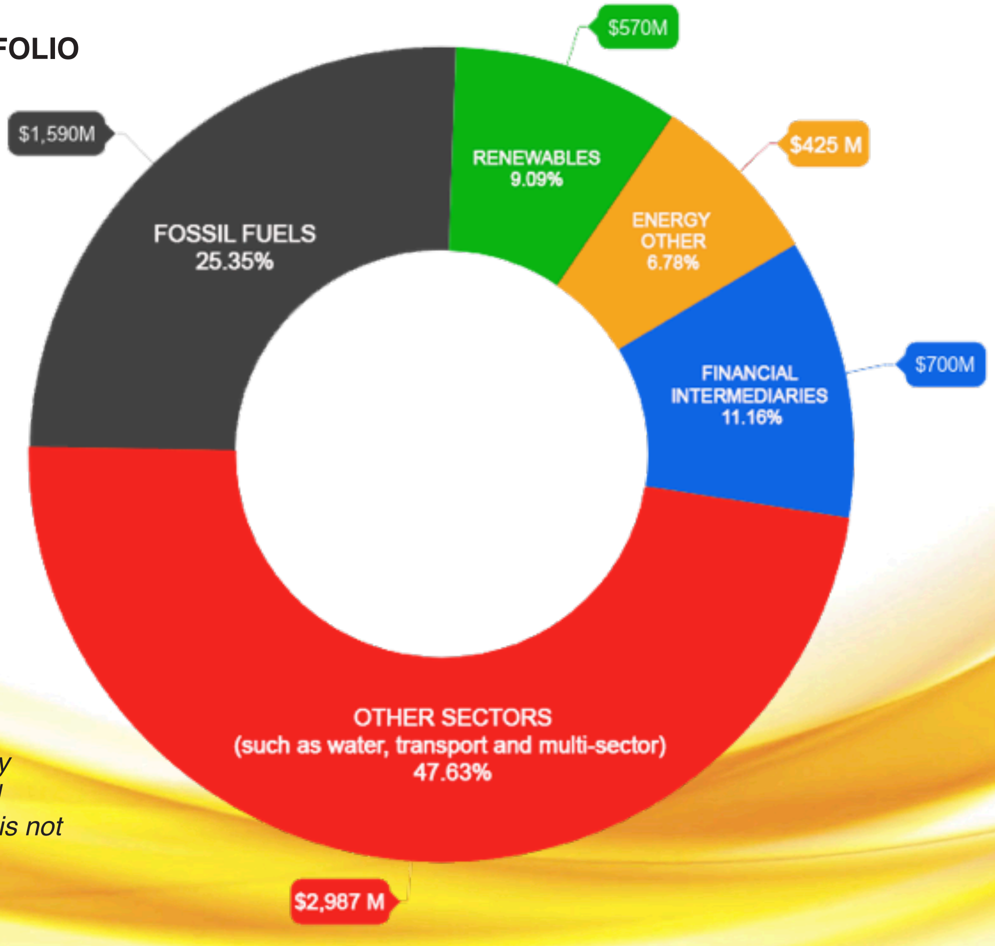
Despite the urgency of tackling climate change and the promising commitments made in the 2015 Paris Agreement, global investments in renewables and energy efficiency declined in 2017. Meanwhile, the share of fossil fuels in energy supply investments rose slightly, as well as spending in upstream oil and gas. This is a worrying sign that the global shift towards cleaner energy sources is stalling.

Development finance has a crucial role to play, not only in directly financing the shift to clean energy, but also in sending the right signals to private investors. The world's newest multilateral development bank, the Asian Infrastructure Investment Bank (AIIB), is one such development financier.

The AIIB is standing at the crossroads. Its commitment to be 'green' and towards the implementation of the Paris Agreement is encouraging, and its 2017 Energy Sector Strategy (ESS) emphasises the importance of renewable energy and energy efficiency to achieve these goals. It could play a key part in tilting the balance towards clean and more efficient energy.

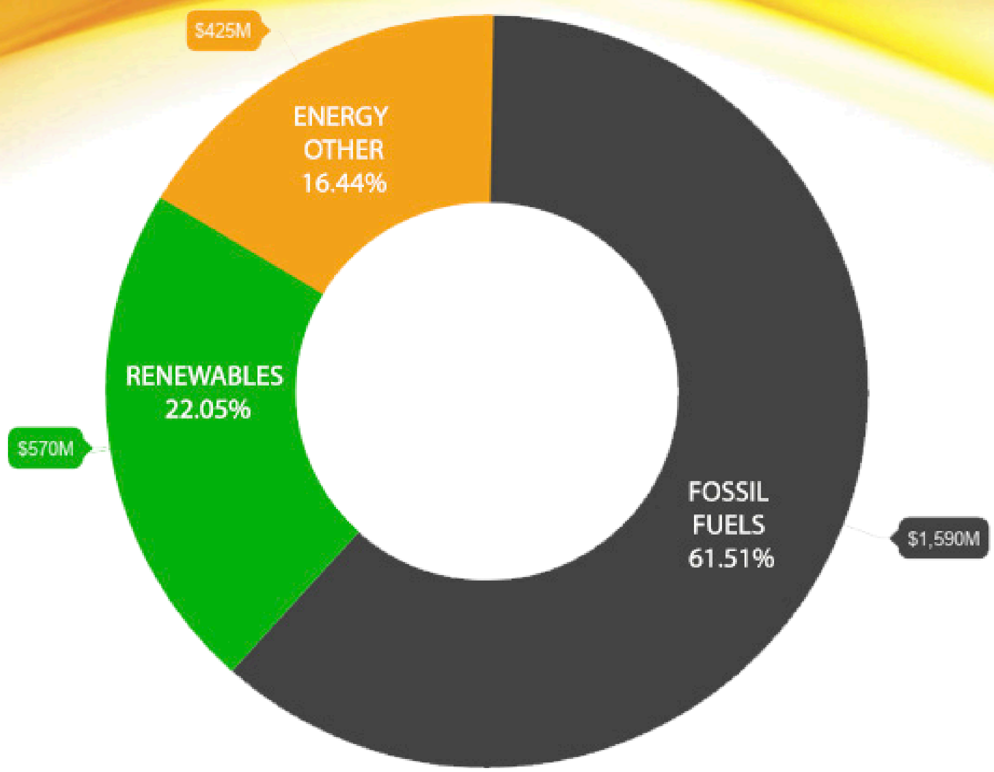
But the AIIB is yet to put its commitments into action through its investments. The ESS lacks a prohibition against fossil fuels, or even coal. And after nearly three years of operation, having approved over US$6 billion worth of expenditures, **over a quarter of investments have backed fossil fuels**. This stands in sharp contrast to its investment in renewables at only just over 9% – and this primarily into large-scale projects.

GRAPH 1: TOTAL AIIB PORTFOLIO BY INVESTMENT TYPE



Note: Energy other includes energy projects, such as transmission and distribution, where the fuel source is not defined.

AIIB's energy portfolio



GRAPH 2: AIIB ENERGY SECTOR INVESTMENTS

Note: Energy other includes energy projects, such as transmission and distribution, where the fuel source is not defined.

The AIIB's investments in the energy sector to date demonstrate a worrying trend. A staggering 61% of investments goes towards fossil fuels, against only 22% for renewables. And this is not counting the AIIB's indirect investments through financial intermediaries, a form of lending in which it is often unclear where the funding ends up. Some sub-projects backed by the AIIB through FIs also involve fossil fuels (see next page).

This stands in direct contradition to the AIIB's commitment to help countries get on a low-carbon path. For example, instead of helping Bangladesh to scale up renewable energy, almost half of the AIIB's total direct investments in this climate-vulnerable country supports fossil fuels, including a direct investment in a new greenfield gas power plant. In addition, AIIB has made indirect investments in several more, as detailed on the next page.

The myth of gas as a transition fuel

The majority of AIIB's energy funding goes towards natural gas. This focus on gas, including two greenfield powerplants, is inconsistent with its commitments to address climate change. Oil Change International (2018) outlines five key reasons why gas should not be used as a transition fuel:

1. Fossil fuels must be phased out, not increased, to reach climate goals
2. Investments in gas can displace investments in renewables
3. Gas as back up to renewables is not necessary
4. New gas plants lock in emissions for 40+ years
5. New gas fields are inconsistent with the Paris climate goals

Financial intermediaries and fossil fuels

The figures for AIIB's investments in fossil fuels in Graph 1 and 2 only include direct investments, not those made indirectly through financial intermediaries (FIs). And yet these can be substantial. Unlike direct investments in a company or project, FI investments essentially 'outsource' funding decisions to commercial banks or private equity funds, which in turn invest in sub-projects or sub-clients.

The FI model is used extensively by MDBs as a way to help mobilise funds and attract private capital. AIIB currently channels over a tenth of its funding through FIs. But this comes with high risks due to its 'hands-off' approach, creating a significant loophole where financing of coal and other fossil fuel projects can occur through the back door.

Emerging Asia Fund – backing oil, gas and coal

In 2017, the AIIB approved a US$150 million equity investment in an FI called the Emerging Asia Fund (EAF), set up by the World Bank's private sector arm, the International Finance Corporation (IFC). It makes investments across all sectors in emerging markets in Asia. To date the EAF has confirmed four investments, two of which back fossil fuels: Summit Power International and Shwe Taung Cement Company, operating in Bangladesh and Myanmar respectively.

Summit Power

Summit Power International - a holding company incorporated in Singapore which operates in Bangladesh through its subsidiary Summit Power Ltd. - is the largest independent power producer in Bangladesh, and currently owns and operates 15 power plants in the country. To date, all of its power plants are run on heavy fuel oil (HFO) or liquefied natural gas, with no renewable energy projects in operation nor in the list of planned projects listed on the company's website.

In 2016, EAF invested US$37 million in Summit. According to the press release announcing the investment it will help Summit "to install greenfield electricity generation plans". Forthcoming plants indicated in the documentation include two HFO plants, one gas and one dual fuel - but no renewable energy. There is no information on GHG emissions from these, apart from the dual fuel plant - Meghnaghat II - which the IFC estimates will contribute with between 3.3% to 6.4% of Bangladesh total GHG emissions from the electricity sector.

Shwe Taung Cement

In early 2018, the EAF invested US$20 million in the Shwe Taung Cement Company (STC) in Myanmar. The investment funds will fund increased cement production, including through a new kiln which will increase output from 1,500 to 4,000 tons of cement per day. The kiln is fuelled by coal, and according to the IFC the associated greenhouse gas (GHG) emissions will nearly quadruple as a result to two million tons of CO2e per year.

Moreover, the expansion of the plant will require increased extraction from the coal mine that supplies it exclusively from 60,000 to 150,000 tons per year, more than doubling its output, with supplementary coal purchases from other suppliers also likely. To date, there is no available information about the the increase in GHG emissions associated with the coal mine.

The expansion of the plant and mine will also exacerbate other environmental and social problems, including water and air pollution, and biodiversity impacts.

How the AIIB can clean up its act

AIIB should live up to its 'green' promise by:

- Ending all AIIB investments in coal mines and coal power - including those funded indirectly and for power generation or industrial uses, plus facilities such as transmission lines and railways or ports primarily meant for the transportation of coal.

- Matching the World Bank's commitment to end upstream financing for oil and gas extraction, and making a plan to phase out investment in fossil fuels by 2020.

- Requiring all FI clients, old and new, to track and disclose coal and other fossil fuel investments; not investing in clients with more than 5% portfolio exposure to coal; and investing only in FI clients who commit to develop a portfolio decarbonisation plan within a year of investment, which aims to achieve emissions reductions in line with targets set under the Paris Climate Agreement.

- Ensuring all energy projects funded by the AIIB help lift more people out of energy poverty in a sustainable way, especially by scaling up support for decentralised renewable electricity and clean cooking solutions. This should exclude large hydro dams which can cause extensive social and environmental harms.

TAKE ACTION The Big Shift bigshiftglobal.org/aiib

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