

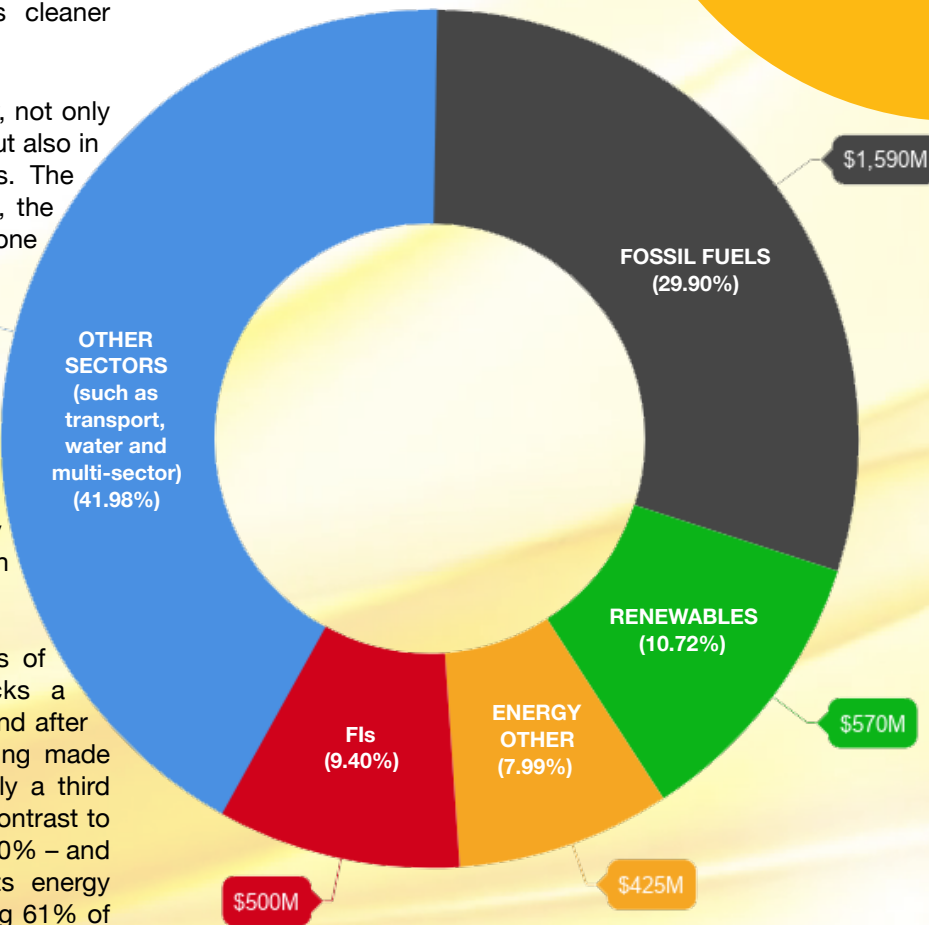
September 2018

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.

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 fuels.

But the AIIB is yet to walk the talk in terms of investing where it matters. The ESS lacks a prohibition against fossil fuels, or even coal. And after over two and a half years of operation, having made over US\$5 billion worth of investments, nearly a third has backed fossil fuels. This stands in sharp contrast to its investment in renewables at only just over 10% – and this primarily into large-scale projects. In its energy sector portfolio this translates into a staggering 61% of investments towards fossil fuels, against only 22% for renewables. And this is not counting support for fossil fuels invested indirectly by AIIB through financial intermediaries (see next page). In one 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 new greenfield gas power plant.

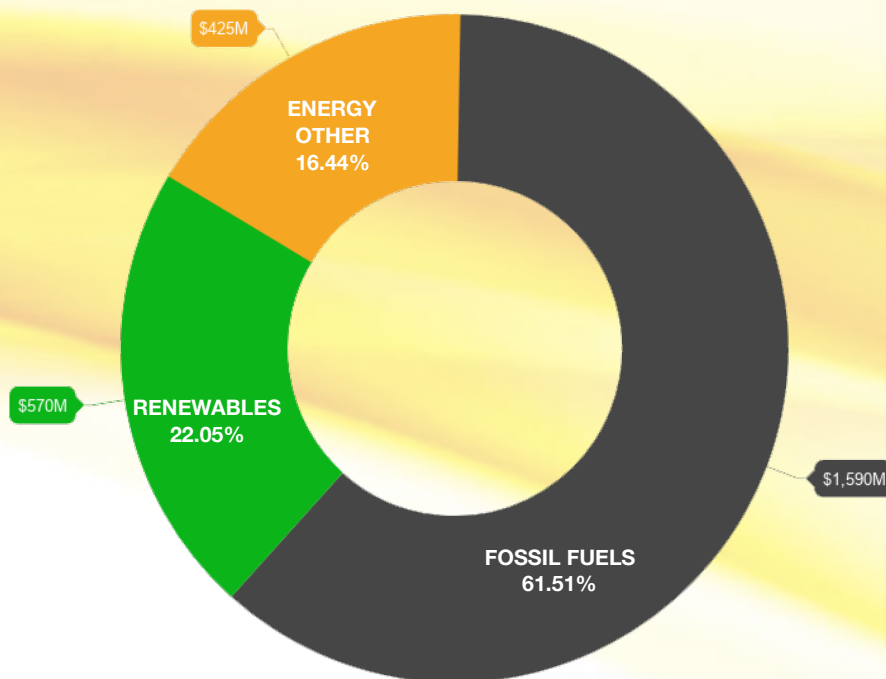


GRAPH 1: TOTAL AIIB PORTFOLIO BY INVESTMENT TYPE

## The myth of gas as a transition fuel

AIIB's 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



**GRAPH 2: AIIB ENERGY SECTOR INVESTMENTS**

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

## Financial intermediaries and fossil fuels

The figures for AIIB's investments in fossil fuels in Graphs 1 and 2 only include **direct** fossil fuel 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 the capital in 'subprojects' or 'subclients.' This model is used extensively by MDBs as a way to help mobilise funds and attract private capital, but it 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 investment in an FI called the IFC Emerging Asia Fund (EAF). EAF makes investments across all sectors in emerging markets.

To date EAF has made three investments, two of which back fossil fuels:

- **Summit Power International:** The largest independent power producer in Bangladesh, which owns and operates 13 power plants in the country, all of which are run on heavy fuel oil and liquefied natural gas, with no renewable energy projects in operation.
- **Shwe Taung Cement Company (STC):** EAF's funding goes towards expansion of a cement plant in Myanmar, including a new kiln fuelled by coal as well as increased extraction from the associated coal mine that supplies the plant, more than doubling its yearly output and quadrupling GHG emissions to over two million tonnes CO2 equivalent per year.

Read more in '[Moving beyond rhetoric: How the AIIB can close the loophole on fossil fuels](#)' by BIC Europe and Inclusive Development International

## What the AIIB needs to do now

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 recent commitment to end upstream financing for oil and gas extraction, and making a plan to phase out investment in fossil fuels by 2020.
- 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](http://bigshiftglobal.org/aiib)

References: [Moving beyond rhetoric: How the AIIB can close the loophole on fossil fuels](#) by BIC Europe and Inclusive Development International | [Risky venture: The AIIB's hands off approach to funding infrastructure in India](#) by BIC Europe and Centre for Financial Accountability | [The AIIB's energy opportunity: How the Asian Infrastructure Investment Bank's energy lending can chart a new path of sustainable development](#) by Oxfam | [Debunked: The G20 clean gas myth](#) by Oil Change International | [World Energy Investment 2018](#) by International Energy Agency