

Dangerous Distractions

Why the Asian Infrastructure
Investment Bank must help turn the
tide on fossil fuels in Bangladesh



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Cover photo: Bhola IPP gas and diesel dual fuel power plant

Photo credit: Coastal Livelihood and Environmental Action Network (CLEAN)

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Executive summary

From the very beginning, the Asian Infrastructure Investment Bank (AIIB) committed to being “green” and to support the implementation of the Paris Agreement on climate change. But despite these laudable ambitions, it is yet to turn them into reality.

The true test for determining the AIIB’s commitment to battling climate change is its track record of lending to date: its portfolio of approved projects. This reveals a troubling picture. Three years after the bank opened, fully 20% of the AIIB’s portfolio is directly backing fossil fuel projects, in particular natural gas. The AIIB is also channelling funds through financial intermediaries (FIs) – lending to third parties, such as infrastructure funds – resulting in some sub-investments backing fossil fuels and even coal.

In contrast, the share of the AIIB’s investments going towards renewable energy is small – only 8% of the overall portfolio.

The AIIB’s heavy focus on gas shows that the bank is not just treating it as a transition fuel. Rather, gas has become the AIIB’s default option and thus a dangerous distraction from the urgent need to fund renewables. Another trend is funding for energy transmission and distribution, where the impact on the climate depends on which sources of power these systems serve.

This report tests the AIIB’s green credentials in two ways: by reviewing its policies and practices regarding fossil fuels; and by exploring its lending portfolio in Bangladesh, one of the world’s most climate vulnerable countries.

To date, the AIIB has focused on the energy sector in its investments in Bangladesh. The bank had a clear choice when investing in Bangladesh: whether to support the Bangladeshi government’s commendable drive for sustainable energy and energy access for the poor, or to back its contradictory plans for energy-fuelled economic growth at any cost.

A review of the AIIB’s five projects in Bangladesh - including one FI investment – reveals that none sets out to support Bangladesh’s agenda to fight climate change and energy access for all. Instead the AIIB investments show a heavy bias towards fossil fuels, including a greenfield gas power plant. The AIIB’s investment in an FI with a subproject in Bangladesh backs a company that only has gas and heavy fuel oil plants in its portfolio. Not one of the AIIB’s Bangladesh investments supports renewable energy.

As the AIIB continues to develop its policies and strategies, and as its portfolio grows, it must steer a clear path away from fossil fuels and towards a more sustainable future. This report calls on the AIIB to set a new trajectory, where it truly recognises the commitments it has made – to be ‘green’ and to support global initiatives, such as the Paris Agreement – both in policy and practice. It provides recommendations for the AIIB on an institutional level and for its operations in Bangladesh specifically. The AIIB has the potential to help in the desperately needed financial shift from fossils to a low carbon, pro-poor future. There are just 11 years to make this shift, according to the Intergovernmental Panel on Climate Change: is the AIIB up to the challenge?



View over Summit Barisal Power Plant

Introduction

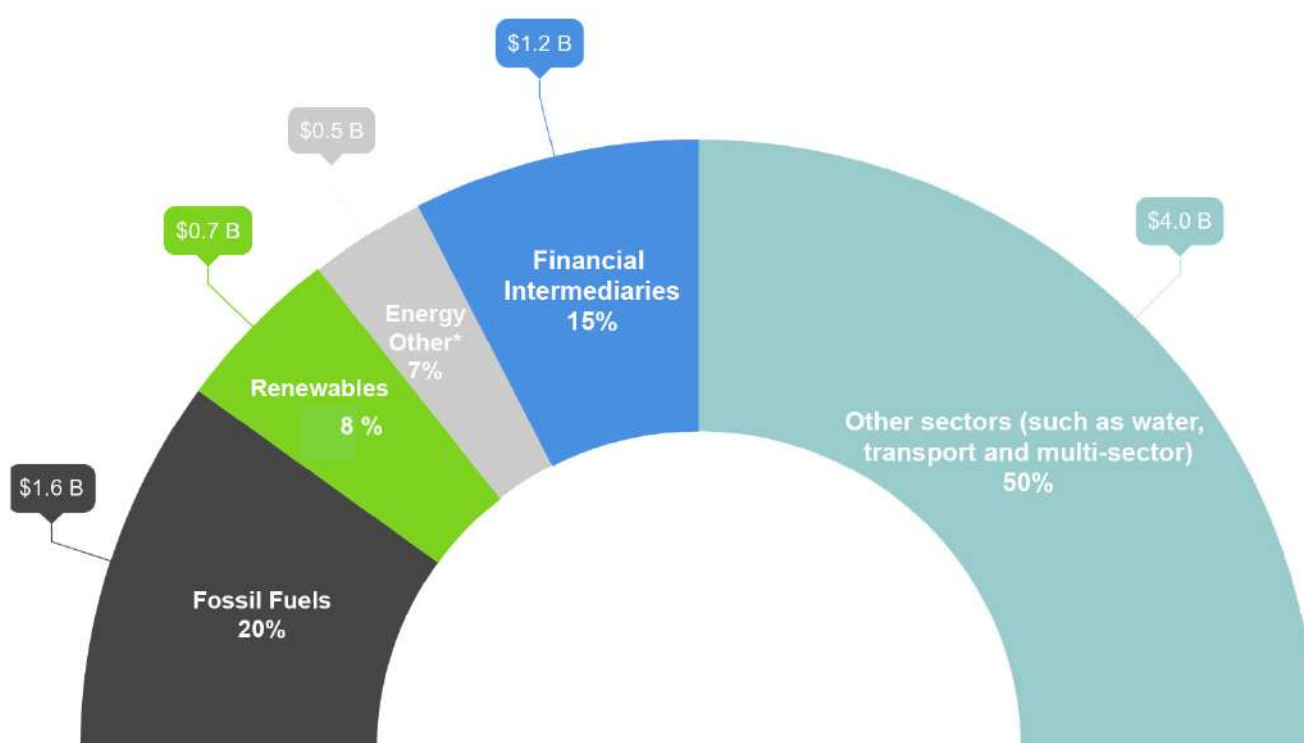
The Asian Infrastructure Investment Bank (AIIB) officially began operations in January 2016, hot on the heels of the Paris Agreement on climate change, signed by countries around the world less than a month before.¹ The urgency of tackling climate change is becoming more and more evident. The most recent report from the Intergovernmental Panel on Climate Change (IPCC) confirmed that the impacts of climate change are already underway and warned that “rapid, far-reaching and unprecedented changes in all aspects of society” are required to limit global warming to 1.5°C. This means that global human-made carbon emissions need to be reduced by at least a 45% by 2030, based on 2010 levels.²

From the very beginning, the AIIB announced its core values to be “lean, clean and green.”³ Its 2017 Energy Sector Strategy (ESS) reiterated these values and made them more specific, including for the AIIB to help client countries to “meet their goals and commitments” under the Paris Agreement, Sustainable Energy for All and the 2030 Agenda for Sustainable Development, which outlines the Sustainable Development Goals (SDGs).⁴ Early on, it joined other multilateral development banks (MDBs) in committing to efforts to achieve the SDGs and to align their activities with the Paris Agreement.⁵

Despite these laudable ambitions, it remains unclear how the AIIB will turn its core value to be “green” into reality. As of mid-2019, the AIIB had signed off 40 investments worth just over US\$8 billion – but 20% of the funding went directly to fossil fuel projects. This translates into almost two thirds of the AIIB’s energy sector portfolio supporting fossil fuels, excluding indirect investments through financial intermediaries. In contrast, the share of investments going towards renewable energy is small – only 8% of the overall portfolio.⁶

This report sets out to test the AIIB’s green credentials by reviewing its policies and practices regarding fossil fuels and by looking in more depth at its lending portfolio in Bangladesh, one of the world’s most climate vulnerable countries. Bangladesh is one of the founding members of the AIIB and also one of the first countries to ratify the Paris Agreement.⁷ To date, all approved AIIB projects in Bangladesh fall in the energy sector - representing almost 30% of all energy projects or 15% in terms of financing - but none goes towards renewable energy.

AIIB’s total investment portfolio



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

Source: AIIB Approved Projects, June 2019, <https://www.aiib.org/en/projects/approved/index.html>

“Lofty goals and the use of catchy buzz words cannot replace a robust set of implementation guidelines, tools and criteria” **- Germanwatch et al. 2018**

The AIIB and the battle against climate change

The Paris Agreement calls for “an effective and progressive response to the urgent threat of climate change”. It commits signatories to pursue efforts to limit the global temperature increase to 1.5°C above pre-industrial levels, which includes aligning finance flows with “a pathway towards low greenhouse gas emissions and climate-resilient development.”⁸

Despite early commitments to be “green” and to align its activities with the Paris Agreement, there is little evidence of how the AIIB seeks to translate these ambitions into practice in its policies and operations. Even though the ESS emphasises the importance of renewable energy and sets out to move member countries “toward a low-carbon energy mix”, it provides exceptions for both oil and coal fired power plants, if they are deemed “carbon efficient” and fulfil other vague criteria. This leaves the AIIB trailing behind other institutions, such as the World Bank, which ruled out lending for coal projects in 2013. In 2017 the World Bank expanded its commitment to exclude all upstream oil and gas activities by 2020 – though both commitments have exceptions.⁹ A 2018 study by Germanwatch found that the AIIB has not yet put the basic principles in place for aligning with the Paris Agreement.¹⁰ Equally, while the ESS sets out to “support clients in achieving” SDG 7 on energy access, information on concrete measures for how the AIIB will contribute to this or the achievement of any of the other SDGs is not publicly available.¹¹

In contrast to most other MDBs, the AIIB is yet to set out a clear plan of action on how it will ensure its activities are contributing to the battle against climate change, rather than undermining it. For example, while the Asian Development Bank (ADB) has come under heavy criticism for its continued reliance on investments in fossil fuels¹², it outlines its direction for supporting climate change adaptation and mitigation actions in a framework covering 2017-2030.¹³ This provides a useful benchmark by which to judge the institution’s ambitions in theory and practice. The AIIB’s lack of a clear statement of direction, outlining priorities and pathways, means that it is hard to

understand its trajectory for aligning with the Paris Agreement and beyond. Moverover, it means it has little concrete to contribute when it seeks to collaborate with others, such as in the joint efforts of the MDBs to align their activities with the goals of the Paris Agreement, of which the AIIB is a member, as announced in December 2018.¹⁴

The main source we can use to assess the AIIB’s track record to date is its portfolio of approved projects.¹⁵ By June 2019, the AIIB has approved 40 projects, out of which just over a third are in the energy sector. A review of these reveals a heavy reliance on fossil fuels, in particular natural gas. The AIIB has also increased its funding through financial intermediaries (FIs) – that is, its lending to third parties, such as infrastructure and private equity funds – resulting in some sub-investments backing fossil fuels and even supporting the industrial use and extraction of coal.¹⁶ Another trend is funding for energy transmission and distribution, where the impact on the climate depends on which sources of power these systems serve. These three trends are further explored below.

Natural gas – a dangerous distraction

All of the AIIB’s direct investments in fossil fuels support natural gas. While the ESS promotes renewable energy, it also takes a strong stance in favour of gas-fired power generation as an important option for assisting with “a country’s transition to sustainable, low-carbon energy and internationally agreed targets.” Moreover, the ESS states that the AIIB will “consider development, rehabilitation and upgrading of natural gas transportation (including storage) and distribution networks, and control of gas leakage, to foster greater use of gas during the transition to a less carbon-intensive energy mix/power sector”. The focus on gas is also spelled out in the ESS’ results management framework, where the aim to “promote regional cooperation and connectivity” is measured by the amount of investment going towards “cross-border trade of electricity and natural gas.”

There are a number of reasons why gas is not a vi-

able option for the transition to a 1.5°C world. Natural gas emits carbon dioxide as well as methane, both potent greenhouse gases. Adding to this are the emissions associated with the transport of Liquefied Natural Gas (LNG).¹⁷ Oil Change International¹⁸ outlines five other key reasons why gas should not be considered a transition fuel:

1. “Climate goals require the power sector to be decarbonised by mid-century. This means fossil gas use must be phased out, not increased.
2. Wind and solar are now cheaper than coal and fossil gas in many regions. This means new fossil gas capacity often displaces new wind and solar rather than old coal.
3. Claims that fossil gas supports renewable energy development are false. The cheapest fossil gas generation technology, Combined Cycle Gas Turbine, is designed for baseload operation, not intermittent peaking. Regardless, most grids are far from renewable energy penetration levels that would require back up. Storage and demand response technologies will be ready to step in by the time they are required.
4. Companies building multibillion-dollar fossil gas infrastructure today expect to operate these assets for 30 years or more. Emissions goals mean this expectation cannot be met.
5. The coal, oil, and fossil gas in currently producing and under-construction projects are enough to exceed climate goals. Opening new fossil gas fields is inconsistent with the Paris goals.”¹⁹

The AIIB’s bias towards gas is reflected in its portfolio, which includes two greenfield gas power plants – one in Bangladesh and one in Myanmar – as well as a number of other gas-related projects, including the controversial Trans Anatolian Gas Pipeline Project (TANAP) in Azerbaijan.²⁰ The AIIB’s significant focus on gas to date, with much less investment going towards renewable energy, shows that the bank is not just treating gas as a transition fuel – it has become the default option and thus a dangerous distraction.

Financial intermediaries – financing fossils by the back door

Tracking the AIIB’s direct investments only shows part of the picture of its bias towards fossil fuels. To get a true picture it is important to also look at the

AIIB’s indirect investments – those made through FIs. Unlike direct investments in a company or project on the ground, an FI investment essentially ‘outsources’ funding decisions to a third party, which in turn invests the capital in sub-projects or sub-clients. This model is used extensively by MDBs as a way to help mobilise funds and attract private capital, but it comes with significant risks due to its ‘hands off’ approach.²¹

The AIIB made its first investments into FIs in 2017. FI lending now makes up a 15% share – worth \$1.2 billion - of the AIIB’s overall portfolio.²² However, there is little information available on what happens to the money once it has been disbursed to the FI client. The AIIB’s disclosure requirements are poor, especially for this type of lending. For example, the AIIB does not disclose FI sub-projects on its website and the information available about the FI itself is limited. There are some defined limitations to the type and industry of FI sub-projects that can be funded²³, but all other decision-making regarding the sub-projects, such as selection, approval and monitoring, is delegated to the FI client involved. These institutions often lack robust policies and capacity to manage the social and environmental risks of the projects they fund. The only exception is sub-projects considered high risk, in which case the bank “undertakes selective supervision and monitoring” – but this is not a blanket commitment.²⁴

In early 2018, as a result of civil society pressure, the AIIB committed to ensuring that both itself and its FI clients would release information about FI sub-projects including “relevant social and environmental documentation” in a manner “proportionate to the associated environmental and social risks and impacts”.²⁵ To date, the AIIB has not disclosed information on any of the sub-projects its FI clients support.

The AIIB’s lending through FIs hit the news in 2018, when it was revealed that one of its sub-investments through the IFC Emerging Asia Fund, into the Shwe Taung Cement company in Myanmar, supports increased use of coal.²⁶ The expansion of a cement plant, including a new coal-fuelled kiln, is expected to contribute to the plant more than doubling its GHG emissions. Moreover, it will require more coal to be extracted from an associated mine, more than doubling its yearly output, in a very sensitive habitat.²⁷

The AIIB is not the only MDB being caught out funding coal or other destructive projects “through the back door” of its FI lending. Research from 2016 found that the International Finance Corporation (IFC, the World

Bank's private sector lending arm) had indirectly funded more than 40 coal projects since the World Bank Group introduced its virtual ban on coal.²⁸ The IFC is now moving rapidly to close this loophole, announcing a series of reforms in late 2018, including a new Green Equity Strategy that aims to reduce its FI coal exposure to zero.²⁹ The IFC is also considering measures to steer its FI clients away from coal entirely. Civil society organisations (CSOs) have urged the AIIB to learn from the IFC's example and reduce its exposure to coal.³⁰

Transmission and distribution – the missing emissions

Just over half of the AIIB's energy sector projects focus on energy transmission and distribution (T&D), either as the main aim or as part of the overall project. This is in line with other MDBs, for example, T&D represents approximately half of the ADB's and a third of the World Bank's energy sector investments. Yet many methodologies that assess the impacts of the energy sector on climate change only focus on limited elements of T&D, such as reductions of electricity losses. For the energy sector to align with the Paris Agreement it is imperative that emissions from T&D investments are fully taken into account. Methodologies for estimating these emissions are

evolving.³¹

There are two main categories of T&D: technologies that support a specific type of power generation source and those where the sources of the power are less obvious.³² It is more straightforward to estimate emissions in the first category, where they can be linked either to the location for power generation or to a defined boundary of the project.³³ A T&D investment that is dedicated to transmitting electricity from a generation source powered by fossil fuels cannot be considered to be in alignment with the Paris Agreement.³⁴ T&D systems are in themselves also vulnerable to climate change effects, such as storm winds or heavy flooding.³⁵

AIIB investments to date include the controversial Trans Anatolian Natural Gas Pipeline (TANAP), a high risk project to build a natural gas pipeline from Azerbaijan to Turkey, with the ultimate goal to supply gas to Europe.³⁶ In January this year, a group of civil society organisations submitted a complaint to the European Investment Bank (EIB), another investor in TANAP, to challenge the lack of a comprehensive climate impact assessment related to its investment. The case is currently being reviewed by the EIB's Complaints Mechanism.³⁷

AIIB's environmental and social safeguards: protecting the climate?

The AIIB adopted its Environmental and Social Framework (ESF), including standards and an environmental and social exclusion list, in February 2016. In 2017 it added an Environmental and Social Policy Directive to help implement the ESF.

In its ESF, the AIIB recognises both countries' commitments under the Paris Agreement and its own responsibility to support that Agreement. It commits to "prioritise investments promoting greenhouse gas emission neutral and climate resilient infrastructure, including actions for reducing emissions, climate proofing and promotion of renewable energy." Under Environmental and Social Standard 1, which applies to projects that have "adverse environmental risks and impacts or social risks and impacts (or both)", the AIIB is required to "assess potential trans-boundary and global impacts, including climate change, as they relate to the project". For example, projects should be designed and implemented so that they minimise emissions in line with the Paris Agreement. This includes a review of alternatives under the project to ensure efforts to meet the NDCs are met.

However, there are significant weaknesses. It lacks in detail, as well as clear and mandatory implementation rules. For example, it does not stipulate any GHG reporting requirements or project related GHG emission thresholds upon which additional measures are required, which for example the IFC requires under its Performance Standards.¹²² As with the Energy Sector Strategy, it does not exclude support for fossil fuels. Moreover, the ESF only applies to a limited number of the AIIB's current portfolio; most significantly co-financed projects are excluded, representing over half of all approved projects, where the other financiers' standards apply rather than the AIIB's. The ESF is up for review in late 2019 and it is imperative it be strengthened and loopholes closed that allow for the AIIB's carbon footprint to remain unmeasured and unlimited.

The AIIB's investments in Bangladesh

Bangladesh is one of the world's most vulnerable countries to the impacts of climate change.³⁸ Low-lying and coastal, with much of the country occupied by a major river delta, it is particularly exposed to the interacting effects of rising temperatures with sea levels, intense tropical cyclones and worsening river flooding. The IPCC estimates that 17.5% of Bangladesh's land would be lost under a sea level rise of one metre.³⁹ Salt water intrusion is already affecting the drinking water for millions of people in coastal Bangladesh due to sea level rises. The World Bank predicts that under a worst-case scenario almost 20 million Bangladeshis could become climate migrants by 2050.⁴⁰

As a founding member of the Climate Vulnerable Forum, Bangladesh is campaigning for greater recognition of the challenges faced by countries particularly affected by climate change, including calling for a 1.5°C target limitation on the global temperature increase under global warming.⁴¹ In 2009, the Bangladeshi Government launched a climate change action plan, followed by a climate change and gender action plan in 2013.⁴² Besides being one of the first signatories to the Paris Agreement, it has signed and ratified the SDGs, including SDG7 to "ensure access to affordable, reliable, sustainable and modern energy for all" by 2030, with sub-targets to increase energy efficiency and expand the use of renewable energy. In

2008, the country committed that 10% of its energy will be supplied from renewable sources by 2020.⁴³

Contrasting these laudable ambitions is Bangladesh's mission to become a middle-income country by 2021 and a high-income one by 2041. Its energy demand is expected to triple by 2030 and the government has identified energy supply as a major constraint for economic development.⁴⁴ Bangladesh has therefore left the door wide open to fossil fuels and even coal, most significantly in its 2016 Power Systems Master Plan.⁴⁵

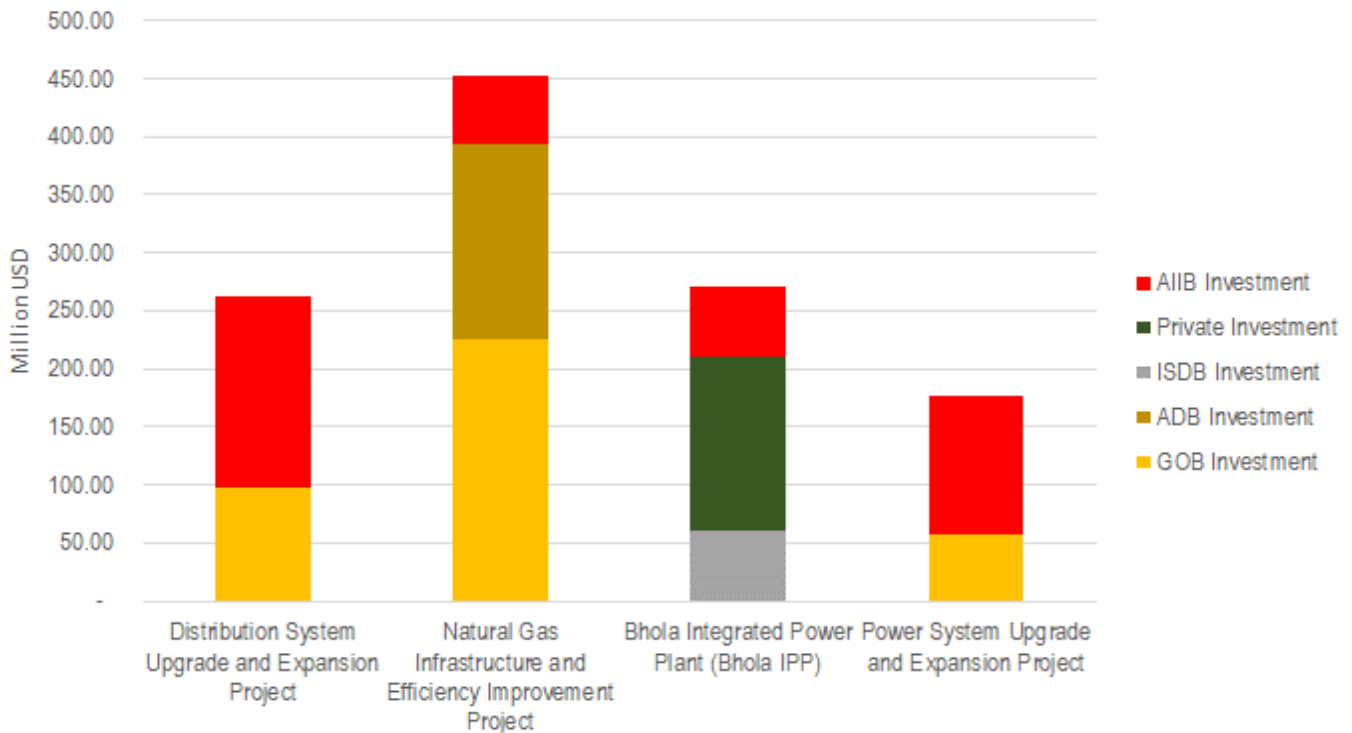
To date, the AIIB has provided four loans to Bangladesh amounting to \$405 million – all in the energy sector. The AIIB had a clear choice in Bangladesh: to support the government's commendable drive for sustainable energy and energy access for the poor; or back its conflicting prioritisation of energy-driven economic growth at any cost. Given the AIIB's commitments to both the Paris Agreement and SDG7, the choice should have been clear. However, not one of its first four investments supports renewable energy and while one project includes energy access, there seems to be little consideration of those most in need. Instead, 30% of this funding supports fossil fuels, including for the Bhola Independent Power Producer (IPP), a green field gas and diesel dual fuel power plant. The remaining 70% is invested in T&D,

The AIIB's Bangladesh portfolio, direct investments

	Name of the project	Sector	Total budget (Million USD)	AIIB investment (Million USD)
1.	Distribution System Upgrade and Expansion Project (P# 000003)	Energy/Power	262.29	165
2.	Natural Gas Infrastructure and Efficiency Improvement Project (P# 000015)	Energy/Gas	453	60
3.	Bhola Integrated Power Plant (P# 000057)	Energy /Power	271	60
4.	Power System Upgrade and Expansion Project (P# 000088)	Energy/Power	176.6	120
Total:			1,162.89	405.00

Source: AIIB Approved Projects, June 2019, <https://www.aiib.org/en/projects/approved/index.html>

AIIB Investments in Bangladesh



requiring further research as to what types of power this supports and whether it is biased toward fossil fuels. In addition, Bangladesh receives funding through the IFC Emerging Asia Fund (EAF), an FI supported by the AIIB. The EAF has invested in a large energy corporation in Bangladesh called Summit Power, which has only gas and heavy fuel oil plants in its portfolio.

We analyse these four projects, as well as the FI investment, in terms of their climate and other social and environmental impacts, below.

Investments in fossil fuels

Bhola IPP – a greenfield gas power plant

Bhola is the largest island in Bangladesh, where the Meghna River meets the Bay of Bengal in the south. It is the eighth most deprived district in Bangladesh, with 16% of the population living in extreme poverty and over half are illiterate. The area is extremely vulnerable to climate change, having experienced several devastating cyclones and storm surges over the years.⁴⁶

In February 2018, the AIIB approved a \$60 million investment in Bhola IPP, part of a \$271 million project to build a greenfield 220 megawatt (MW) dual-fuel gas and diesel combined cycle power plant. The project, implemented by Nutan Bidyut (Bangladesh) Limited (NBBL), includes a new 5km pipeline connecting the plant with the Shahbazpur gas field, also on Bhola island. The AIIB estimates that the project will enable

“Sea surface temperature changes and sea level rise, both caused by temperature changes, will directly affect Bangladesh, perhaps more than any other non-island nation.”
-World Bank¹²³

Bangladesh to increase its annual power generation by 1,300 gigawatt (GW) hours. Construction started in late 2017, adjacent to another 225 MW gas power plant commissioned in 2015. It is expected to start operations in early 2021.⁴⁷

The AIIB labels the project as a medium risk or ‘Category B’ project with “a limited number of potentially adverse environmental and social impacts”. The AIIB is applying its Environmental and Social Framework (ESF) to Bhola IPP, but this is not the case for all AIIB projects.⁴⁸ The majority are co-financed, which in practice means that the AIIB’s standards are not enforced and affected communities must turn to the co-financier’s grievance mechanism for remedy, rather than the AIIB’s new Project-affected Peoples Mechanism (PPM). According to the Environmental and Social Impact Assessment (ESIA), once in operation Bhola IPP is estimated to contribute with at least 2.5% of the overall annual GHG emissions from Bangladesh’s electricity sector.⁴⁹

Besides the project’s climate impacts, generating additional GHG emissions and locking Bangladesh into fossil fuel power generation for years to come, the project has also come under fire for its wider social and environmental impacts. CSOs have raised significant concerns regarding the project, despite its assumed “medium risk”, including that the communication with the local communities has been poor. In fact, many assumed that Bhola IPP represented a second phase of the existing power plant, rather than a new project altogether. The project’s ESIA states that 15 consultations took place, but only a few of the

people interviewed by a research team from Bangladesh Working Group on External Debt (BWGED) and Coastal Livelihood and Environmental Action Network (CLEAN) had attended these or knew of anyone who had. Those who had taken part felt that their concerns had not been taken into account. Overall, community members did not feel that they could talk freely about the project due to fears arising from local power dynamics.⁵⁰

It is difficult for local communities to access project information on the AIIB and NBBL’s websites because many local people are illiterate or do not have internet access. According to the research team, the translations of project documentation into Bengali are unreadable and strewn with errors. Under pressure, NBBL admitted this fault and committed to correct the translations.⁵¹ While some progress has been made, as of end of June several documents were still faulty.

Land ownership is another contentious issue. The ESIA claims that land procurement for the site was voluntary, but community members told the research team they felt pressurised to sell their land to middlemen for a fixed price, and only later learned that selling directly to the authorities paid up to five times as much.⁵² Any land acquisition up until 2017 that is deemed “compulsory” should be compensated with twice the market value, according to a Bangladesh law that was changed that year to increase the rate of compensation to three times its value.^{53 54} Local people also questioned the authenticity of some of the land owners listed in the ESIA, arguing that some names were missing while others were un-



“During our study we did not find a single person who had got proper compensation. Rather many of them told us they were not interested in selling the land, as this is their means for making a living.”

- Hasan Mehedi, CLEAN

recognised. Some people who had used the site to graze their livestock have not been compensated.⁵⁵ This includes many women, who are now forced to buy feed for their animals. Women who used to come to the area to bathe and wash dishes must now walk a kilometre to collect water.

Local people are already suffering from noise pollution from the adjacent power plant and are worried they may have to move away entirely once the new power plant comes into operation. Already, researchers found that noise from the plant's construction is well above the permitted levels and is continuing – illegally – into the night. According to the interviewees, only about 5% of local people have been employed to work on the plant's construction.⁵⁶

Local people say the construction is harming the environment. According to BWGED and CLEAN, the ESIA has underestimated the number of species in the area such as plants, bird and reptiles, including some which are rare. The AIIB is committed to “protecting and conserving biodiversity and promoting the sustainable management of living natural resources” under the ESF.⁵⁷ Despite this, local people say no more than two or three fish species are left in the project area, down from at least 12 species since work began. The project engineers have built a new jetty to serve vessels with oil and other materials for the plant and once in operation the project is expected to discharge hot water into the river, both of which are likely to cause further reductions to the fish stock.⁵⁸ According to the AIIB, a two year study on fisheries is underway.⁵⁹

Another significant issue is the impact of the project on a tidal canal that runs down the side of the site. During the construction phase NBBL shored up the northern bank of the canal with sand sacks, which then leaked. The resulting siltation is causing the canal to gradually dry up. The depth of the canal has reduced from three metres to approximately no more than a metre. This means it can no longer hold water during high tide, which occurs twice a day, or during floods, causing the canal to overflow, affecting ap-

proximately 100 households and 400 betel leaf farms. Local women are particularly affected. They used to grow vegetables and rear chickens in the courtyards which is now becoming impossible because of the flooding. The flooding also restricts them from using toilets that are usually at least 50 metres away from the houses.

The AIIB have so far been receptive to meeting with BWGED and CLEAN regarding Bhola IPP, and have undertaken some follow up, including support for a land audit review which will be made public in July this year. According to the AIIB, the review acknowledges that landowners have been shortchanged, and will be compensated with the balance by end of September. Additional support will be given to those identified as vulnerable land sellers.⁶⁰ In addition, NBBL has accepted that the both the ESIA and the consultation process were faulty. Discussions with NBBL are continuing and some commitments have been made, however, progress is slow. NBBL committed to re-excavate the canal before the monsoon, but to date this has not happened despite the urgency of addressing the problem before the imminent monsoon.⁶¹ According to the research team, if no action is taken, the villages adjacent to the canal will be submerged once the monsoon hits.

Summit Power International – fossil fuels through a financial intermediary

Summit Power International is a holding company incorporated in Singapore but operating only in Bangladesh through the Summit Group – the largest IPP in the country.^{62 63} Summit owns and operates 18 power plants in Bangladesh, all run on natural gas or heavy fuel oil. It has no renewable energy projects in its current operations or in its pipeline.⁶⁴

The AIIB is linked to Summit through a \$150 million equity investment approved in September 2017 in an FI called the IFC Emerging Asia Fund (EAF). EAF was set up in 2014 by the IFC's Asset Management Company, which mobilises and manages third party funds, primarily encouraging large institutional investors to invest alongside the IFC. EAF makes invest-

ments across all sectors in the emerging markets of Asia.⁶⁵ Summit was already in the EAF's portfolio when the AIIB made its investment. EAF invested \$36 million in debt and equity in Summit in August 2016, giving the EAF a seat on Summit's board.⁶⁶

In a joint press release, the IFC, EAF and a third investor, EMA Power, stated that the collective investment of \$175.5 million in Summit would support "green-field electricity-generation plants ... to help address the country's critical energy gap".⁶⁷ The IFC already had a relationship with Summit, having financed the Khulna gas power plant in 1999, followed by an investment in the Bibiyana II gas power plant in 2015.⁶⁸ In 2018 it invested in the Meghnaghat II gas power plant. EMA Power is a joint venture between Daelim Energy⁶⁹ and the Islamic Development Bank Infrastructure Fund II, set up as an investment platform focusing on IPP projects in regions with high electricity demand.⁷⁰

The AIIB does not publish information on FI subprojects on its website and EAF only provides a link to the websites of the companies it supports. There is more information provided about the IFC's part of the investment, however, on the IFC website and it is this that gives a picture of what the AIIB's investment in EAF will end up supporting. IFC states that it seeks to support the Summit Group to "meet its equity funding requirements for future power projects in Bangladesh". This is reiterated in a promotional video about Summit and EAF's relationship, stating that the overall investment in Summit was the largest private equity investment in Bangladesh to date.⁷¹ While the IFC claims that the funding is not earmarked for specific assets, it refers to new power projects that Summit is intending to undertake in generating 715MW. The information about exactly which plants are in preparation is contradictory across the IFC's disclosed information, but according to the Environmental and Social Review Summary (ESRS), these include two heavy fuel oil (HFO) plants in Barisal and Narayanganj, two in Chittagong and Gazipur, a dual

fuel plant in Meghnaghat and a gas plant in Anowara Chittagong.⁷² In other words, high GHG-emitting fossil fuel power generation.

The IFC is the lead financier, which means that the subprojects are required to comply with IFC's Performance Standards rather than the AIIB's ESF.⁷³ The IFC's investment in Summit is classified as high-risk. Some of the potential issues IFC identifies are land acquisition, impacts on air and water quality, and the geographical spread of projects, including associated facilities such as gas pipelines and transmission lines.⁷⁴ The IFC did not do a comprehensive assessment of the individual plants listed in the pipeline, instead commissioning Environment and Social Due Diligence (ESD) reports related to IFC's Performance Standards, coupled with reviews of internal documentation, interviews and site visits to a selection of plants. There is no information on GHG emissions from the new plants. The only information available relates to the Meghnaghat II gas power plant, which received a separate IFC loan in 2018. This documentation estimates that the plant will contribute with between 3.3% to 6.3% of Bangladesh's total GHG emissions from the electricity sector.⁷⁵

Given the high environmental and social risks associated with the IFC's investment in Summit, coupled with Summit's carbon intensive business model, it would have been prudent for the AIIB to review Summit at greater depth prior to its investment in EAF – approved just over a year after EAF invested in Summit, which also gave the EAF a seat on Summit's board. However, given the limited information provided on FIs by the AIIB, it is unclear if any such due diligence took place, how the project is monitored and how it is expected to contribute to the AIIB's 'green' vision. Research into the Barisal power plant (see box), one of Summit's power plants identified in the IFC's documentation as forthcoming, reveals some troubling findings which raise questions about the IFC's, the EAF's and also the AIIB's due diligence on Summit's portfolio.

“We lost everything! Our land, houses, fish and river. But what did we get? Diseases, smoke, noise and vibrations.

Now what next? Yes, we need energy. But is it more valuable than our lives?”

- Community member, Barisal

Summit Barisal Power Limited

One of the projects identified as under construction by Summit in the IFC's investment information is located in Barisal, in the southern part of Bangladesh. The 120 MW HFO plant began operation in April 2016.⁷⁶ According to the IFC, Barisal was assessed as part of the due diligence for its 2016 investment in Summit. However, besides mentioning the Barisal plant as forthcoming there is no detailed information about the power plant in any of the reports available online. The project's ESIA is available through a separate website and dated February 2016, only two months before operations started.⁷⁷ It is unclear how the assessment was taken into account before construction, given this timeframe. It is also unclear if the AIIB, as part of its due diligence of its investment in EAF, reviewed Barisal's ESIA since it has not made any documentation publicly available on its website.

The ESIA concluded that there were “no negative notions about the project in the area”⁷⁸, but according to a research team visiting the project site in May 2019⁷⁹ some community members that took part in consultations felt that their issues were not heard. Also, in contrast to the ESIA's claim that “the land for the project was purchased from willing sellers”, according to community members there are five court cases ongoing against the company related to land grabbing. Similar to Bhola IPP, land owners argue that influential middle men forced them to sell their land cheaply, which was then on-sold to the government for a much higher price. Again, there were names on the landowners' list that local people did not recognise, leading to suspicions that they were not genuine.

According to the IFC, noise monitoring conducted by the Department of Environment reports levels within the guidelines.⁸⁰ However, community members that were interviewed found the noise pollution from the plant to be severe, particularly in the evenings. When five out of the seven generators are running it affects houses up to four kilometres away, with cracks appearing due to the vibrations. Local people say they are under intense stress. It is unclear whether measures to mitigate the noise and vibration have been implemented, as the ESIA recommended. The ESIA claims that the impact on the air quality will not be significant⁸¹, but this contrasts with community members' experiences. The smog from the plant is particularly intense during monsoon season when the particles congeal and drop, damaging roofs and the vegetable gardens generally tended by women. The ESIA commits to an annual GHG audit, including “feasible measures to reduce or offset emissions” but there is no baseline, nor targets to meet.⁸²

The Kirthankola River that runs past the power plant has also been affected. Most local people use the river to catch fish but some said that the catch has halved recently. Many lay the blame on the power plant, arguing that excessive use of the river, including for oil tankers, is harming the fish population. According to local people the company is disposing burnt fuel into a canal next to the plant, connected to the river, at least once a month. When this happens the canal turns black and fish and other wildlife die. They are worried the canal will soon be lifeless. Two other canals that ran through what is now the project site have been filled with sand (see photos below) – despite the fact that it is illegal to make any impediments to or changes to the direction of water courses in Bangladesh according to the 2013 Water Act and the 1995 Environmental Protection Act.⁸³



Google aerial photos of the Summit Barisal project site, taken in 2009, 2013, 2016 and 2019, reveal that canals previously crossing the area have disappeared.

Natural Gas Infrastructure and Efficiency Improvement – T&D with fossil fuels

In March 2017, the AIIB approved a \$60 million loan for the Natural Gas Infrastructure and Efficiency Improvement project. This high risk or ‘category A’ project sets out to improve efficiency in gas production at the Titas Gas Field in eastern Bangladesh, the largest gas field in the country, and to build a 181-km pipeline between Chattogram and Bakhrabad, also in eastern Bangladesh. The first part of the project is implemented by the Bangladesh Gas Fields Company (BGFC) and the second by the Gas Transmission Company Ltd of Bangladesh (GTCL) and is set to be completed by end of 2021. The AIIB does not provide figures on GHG emissions, however, the ADB’s estimates a reduction of just over 700,000 tonnes per year.⁸⁴

The ADB is the lead financier of the overall \$453 million project, therefore the AIIB has opted to apply the ADB’s safeguards rather than its own.⁸⁵ The Resettlement Plan is yet to be finalised, but current data indicates that 1,832 households (5,693 persons) will be affected due to impact on land.⁸⁶ Farmers will be particularly affected, but the AIIB claims that this will be temporary because the pipeline will go underground and the land will be restored for cultivation.⁸⁷ Access to remedy is an issue since, if any of the affected people suffers harm as a result of the project, they will have to turn to the ADB’s grievance mechanism for remedy but won’t be able to approach the AIIB’s PPM since it excludes co-financed projects.

Other T&D investments – in the grey-zone

Power Systems Upgrade and Expansion – links to fossil fuels?

Chattogram (formerly Chittagong) on the south eastern coast is Bangladesh’s second largest city. The Chattogram region is an industrial and commercial hub, contributing around 40% of the country’s industrial output and 80% of its international trade. It forms part of a coastal stretch with numerous power plants, including 13 new coal power plants either proposed or under construction.

The AIIB approved a \$120 million loan of the \$176.60 million cost for the Power Systems Upgrade and Expansion project in the Chattogram region in March 2019. The Government of Bangladesh and the Power Grid Corporation of Bangladesh (PGCB) is contributing the balance.⁸⁸ The project aims to increase the regional power load incrementally to 1,400 MW by building more than 46 kilometres of double-circuit transmission lines in the Chattogram Ring, surround-

ing the city, with associated substations and line bays. The project started in April 2019 and will end in 2022⁸⁹. The AIIB classified the project as Category B (medium risk) and made it subject to all its policies and regulations, including the ESF and the PPM. This means that affected communities can approach the AIIB with complaints and for remedy.

This is the first project to be approved under the AIIB’s controversial new “Accountability Framework” (AF) that came into effect in January 2019. This allows the President, rather than the Board, to approve a project. Some exceptions apply, for example, if the investment is a ‘first’ for the AIIB – such as the first in a country or sector – if the AIIB does not have an associated sector strategy, and if its size is above certain thresholds. A Board member can also call the project in for Board approval if it is raised within a certain timeline.⁹⁰ When the AF was first proposed in April 2018 it received widespread criticism from CSOs who feared it would undermine accountability by side-stepping vital elements of due diligence.⁹¹

The new transmission lines cover three parts of the Chattogram Ring, some over-ground and some under. New substations will be built in Anandabazar, to the west by the coast, and in Khulshi in the centre of the ring, and two bay extensions at the Madunaghat substation in the eastern section. The AIIB says the main disruptions will be temporary and only during the construction phase, primarily affecting shop-keepers and farmers. A resettlement framework, outlining the basic principles for compensation, is available and will be developed into a resettlement plan.⁹²

The AIIB says the project will promote Bangladesh’s goal to provide electricity for all by 2021. However, available documentation does not clarify if and how poor communities will benefit. Instead, the AIIB bases some of the project’s economic benefits on the highest price that a consumer (industrial, commercial or residential) would be willing to pay. Residential consumers are classified as those in the highest consumption tier, with no apparent recognition of other types of consumers. This gives a strong indication that the project does not seek to cater for the poorest communities.⁹³

The ESIA lists anticipated GHG emissions during the construction and operational phase but does not take into account the type of power that will be distributed.⁹⁴ Information regarding the power source exists for one of the transmission lines – from Anowara to Anandabazar – and the associated substation to be built in Anowara. According to the ESIA, this substa-

tion will be linked to an undisclosed forthcoming power plant.⁹⁵ Publicly available information on plants in the pipeline for Anowara include a delayed 300 MW HFO plant and a newly approved 590 MW combined cycle gas plant.⁹⁶ IFC's information regarding Summit Power (see above) also lists a forthcoming power plant in Anowara, but it is not included in the company's current pipeline on the website. The transmission line between Hathazari and Rampur could potentially be linked to a 100 MW HFO plant located in Hathazari. This plant was in the news in April 2019 when a train travelling there derailed and three carriages carrying 75 tonnes of fuel oil fell into a canal. Local authorities had to act fast to prevent the oil reaching the Halda River, the country's largest natural breeding ground for carp.⁹⁷

The Madunaghat substation will be upgraded through the project, including a new transmission line between the substation and Khulshi. Judging from maps of the area it seems the substation is not directly connected to a power plant, however, according to PGCB's nationwide plan, it will be linked to a new substation, also in Madunaghat, funded through a different project. One of the main objectives of this new substation is to connect with power plants further south, including a proposed new 1,200 MW coal power plant in Matarbari and another proposed 1,300 MW coal power plant in Maheshkali.⁹⁸

Distribution System Upgrade and Expansion Project – energy access but not for all

In June 2016, the AIIB approved a \$165 million loan for the Distribution System Upgrade and Expansion Project in order “to enhance distribution capacity and to increase the number of rural and urban electricity consumers in Bangladesh.”⁹⁹ The Category B project, by the Bangladesh Rural Electrification Board (REB) and Dhaka Electric Supply Company Ltd, consists of two components.

The first component supported the installation of around 65,000 small low-voltage transformers, 75,000 km of service drops, and 2.5 million electricity meters to 77 rural electricity cooperatives under REB. The aim was to provide 2.5 million new service connections to 12.5 million rural customers. The AIIB reported that all service connections were installed by June 2018.¹⁰⁰ Problems regarding electricity meters have recently hit the news in Bangladesh, including claims from residents in the Dhaka region that new meters have more than doubled the unit price of electricity.¹⁰¹

Under the second component, two grid substations

will be upgraded and 85 km of overhead distribution lines converted to underground cables in Dhaka, Bangladesh's capital, and one of the most densely populated cities in the world.^{102 103} Due to the construction work more than 5,000 hawkers were displaced from an area, but they never received compensation since the area was not listed in the environmental and social review. According to a 2017 review by the Access Bangladesh Foundation, the AIIB “completely failed to consider project impacts and benefits with respect to people with disabilities”. The review also raised health concerns related to high voltage power lines, as well as a general lack of information, meaning that community members were unaware of basic project details, including the AIIB's involvement.¹⁰⁴ Dhaka is located in a highly flood-prone area and is submerged almost every year, and this project is situated in the lowest area in the city.¹⁰⁵ This means that any power leakages from cables during flooding would pose a significant risk to people's lives.

While the AIIB points to the Bangladesh government's target to provide electricity to all by 2021 in project documentation, the connections to rural people are focused on areas where distribution lines have already been constructed rather than those who are genuinely energy poor without access to the grid – the so called ‘last mile’ communities. According to the International Energy Agency (IEA), investment in off-grid standalone or mini-grid systems powered by renewable energy (distributed renewable energy or DRE) is the least cost solution to provide for the energy poor – a solution with the added benefit of also avoiding GHG emissions.¹⁰⁶ Moreover, the project indicators only list quantitative targets, without any further breakdown into, for example, gender. While this project was approved prior to the approval of the ESS, it is important to note that the ESS' results management framework lacks any meaningful differentiation in its tracking of energy access, outside of grid versus non-grid access. SDG 7 calls for “affordable, reliable and modern energy service”, which cannot be verified by simply measuring numbers of connections.¹⁰⁷

A more sustainable energy future for Bangladesh

As emphasised by the IPCC and the Climate Vulnerable Forum amongst many others, to be able to limit global warming to no more than 1.5°C, it is essential that fossil fuels are phased out urgently. This means that ‘business as usual’ is no longer an option for Bangladesh and resources must be diverted and mobilised towards supporting sustainable renewable

“We recognise the opportunity of taking urgent and ambitious action to address climate change for economic growth and resilience, jobs, and the SDGs; an unprecedented mobilisation of financial resources is required to deliver climate-resilient growth consistent with the Paris Agreement.”

- Climate Vulnerable Forum, Summit Communique 2018¹²⁴

energy options.

Fossil fuels provide the main source of electricity in Bangladesh. Natural gas represents 64% of overall supply, followed by petroleum with 25% and coal with 2%. Reliance on natural gas is not only a bad decision from a climate perspective, but also since domestic supplies are expected to run out as early as 2025, which would force the country to rely on imports.¹⁰⁸ The renewable energy share remains small, representing less than 4% of supply at around 530 MW, most of which is hydropower.¹⁰⁹ This calls for a steep increase in capacity to be able reach the government target in the 2008 Renewable Energy Policy of 10% by 2020, translating into at least 2 GW.¹¹⁰ The Bangladeshi government set a more ambitious target in 2015, calling for 3.1 GW in 2021.¹¹¹ Together with other climate vulnerable countries, Bangladesh has set an ambition to reach 100% renewable energy supply by 2050.

The need for increased power generation in Bangladesh is undeniable: a staggering 38% of the population has no access to electricity, many of these ‘last mile’ communities without access to the grid.¹¹² The vital question is how Bangladesh will choose to generate it.

The majority of the current renewable energy supply is solar power, followed by hydropower.¹¹³ As a sub-tropical country, the conditions in Bangladesh are particularly good for solar power – a technology with many additional benefits, including a limited impact on the environment and that it is ideal for reaching communities in the so called ‘last mile’. Wind power also has good potential in parts of the country.¹¹⁴ Another significant benefit with renewable energy options is that they can be more resilient to the impacts of climate change, for example, by allowing electricity systems to be back in place quicker after a climate related disaster.¹¹⁵

Given the urgent need and massive gap in renewable energy supply for Bangladesh to reach its goals, it is disappointing that the AIIB to date has elected to support the fossil fuels industry rather than more sustainable low carbon and pro-poor options. The ESS argues that support is needed for both renewable energy and energy access, including for distributed generation, but there is little evidence that the institution is prioritising these commitments in practice. For example, according to the Power Purchasing Agreements (PPAs) with the Bangladesh Power Development Board (BPDB) for both Bhola IPP and Barisal, the electricity generated will go to the national grid, with no specific provisions for the local communities affected by the projects, or for energy-poor communities. Moreover, all of the PPAs signed between BPDB and private companies are long term (23-25 years). This runs counter to the AIIB’s arguments that natural gas is a transition fuel – ultimately undermining the Paris Agreement.

The AIIB points to challenges with supporting renewable energy in Bangladesh, such as limited land availability and a lack of bankable projects.¹¹⁶ While the AIIB can only choose between projects put forward by the host country, it needs to do more to signal its interest in funding renewables and energy access for the energy poor to encourage the Bangladeshi government to propose these types of projects and not fossil fuel infrastructure. For example, the AIIB could use its Special Project Preparation Fund to help the government prepare and propose such projects.

Other MDBs have done things differently. While there is still a long way to go, the World Bank and the ADB support a renewable energy initiative under a nationally owned finance platform in Bangladesh, the Infrastructure Development Company Limited, which has installed over 4 million solar home systems. The programme has also helped women by training them as technicians for after sales services.¹¹⁷

This initiative demonstrates that renewable energy projects can help address gender inequality by providing job opportunities. Access to energy can also help women save time by being liberated from collecting fuel wood, a responsibility often given to women and children. Other benefits include that access to light can give women the opportunity to carry out tasks in the evening, as well as provide a greater sense of security at night.¹¹⁸ The Bangladeshi government has recognised the importance of gender, publishing a Climate and Gender Action Plan in 2015, that identifies four priority sectors including “mitigation and low carbon development”.¹¹⁹ Despite this, and the AIIB’s ESS commitment to take gender into account, there is little evidence that the AIIB is prioritising gender equality in its approach to lending in Bangladesh.

Conclusions

As a post-Paris bank, the AIIB has a chance to be ahead of the crowd, not lagging behind in tackling the climate crisis. Without the fossil fuels-heavy legacies of many other MDBs, the AIIB could ‘leap-frog’ directly to more sustainable options – both to address climate change and ensure energy access for all – rather than supporting fossil fuels.

This review of the AIIB’s portfolio in Bangladesh reveals a bleak picture. The Bangladesh government has admirable ambitions in the battle against climate change, which desperately need international support. As a highly vulnerable country to the impacts of climate change, it recognised early on that measures need to be taken urgently if global warming is to be limited to no more than 1.5°C – the scientifically recognised threshold to avoid catastrophic impacts.¹²⁰ Its goals to increase renewable energy supply and

provide energy for all in line with SDG7 deserve rapid and sufficient support, especially from development banks.

To date the AIIB has failed to fulfil its promises in Bangladesh: not only failing to support low carbon and pro-poor options but compounding the problem by propping up continued use of fossil fuels. Its encouragement of a heavy reliance on gas is a risky strategy that not only facilitates an increase in greenhouse gas emissions, but also distracts from where finance is most needed – in the transition towards renewable energy.

Out of five projects reviewed, including one FI investment, none sets out to support Bangladesh’s agenda to fight climate change. Instead the AIIB’s investments show a heavy bias towards fossil fuels and ‘traditional’ approaches to energy access, that ignore those most in need. Projects fail to focus on gender equality, despite the bank’s recognition that projects must take gender into account¹²¹, as well as the needs of vulnerable and marginalised groups, such as disabled people. Evidence from Bangladesh also indicates that communities are reluctant to speak out against projects due to fear of reprisals. This is a serious issue that the AIIB must address, to ensure that the views of project affected people, as well as civil society voices, are heard and taken into account in project planning and implementation.

It is time for the AIIB to set a new trajectory, where it truly recognises the commitments it has made – to be ‘green’ and to support global initiatives, such as the Paris Agreement and the achievement of the SDGs – both in policy and practice. The AIIB has the opportunity



Bhola Island

nity to learn from the successes and failures of other MDBs and blaze a trail in more innovative and inclusive approaches. Climate change must be given the highest priority in the development of the upcoming Corporate Strategy and the review of the ESF. In contrast to other MDBs, the AIIB is yet to set out a clear agenda for how it will contribute to the fight against climate change. This could send an important signal to borrower governments that the AIIB welcomes renewable energy projects. As it continues to develop its policies and strategies, and as its portfolio grows, the AIIB must steer a clear path away from fossil fuels and towards a more sustainable future.

Recommendations

The AIIB should:

- Develop and implement a climate change action plan, with clear and ambitious goals, timelines and targets for how the AIIB will align its policies and operations with the highest ambitions of the Paris Agreement on climate change. This should be developed in collaboration with stakeholders, including civil society.
- Rule out financing for coal, including ensuring that no AIIB investment results in an increase in coal use, whether for power generation or industrial uses and associated facilities, such as transmission lines or railways or ports primarily meant for the transportation of coal.
- Publish a road map for shifting investments from fossil fuels to renewable energy by 2020, including matching the World Bank's commitment to end financing for upstream oil and gas.
- Close the fossil fuel loopholes in FI lending, including requiring all FI clients 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 and timelines set under the Paris Climate Agreement.
- Commit to investment in energy access and scaling up decentralised renewable energy, clean cooking solutions and innovative business models to provide access and control for 'last mile' communities. Ambitious energy access targets should be set at portfolio and individual investment level, and be aligned with SDG7. This should exclude large hydro dams which can

cause extensive social and environmental harms.

- Prioritise action on climate change in AIIB's policies and strategies. This includes the forthcoming AIIB Corporate Strategy and Results Framework and the 2019 review of the Environmental and Social Framework.
- Incorporate consideration of gender equality and the specific needs and rights of marginalised and vulnerable groups, such as disabled people and indigenous communities, in all AIIB policies and operations.
- Adopt and widely communicate a zero-tolerance policy prohibiting threats or attacks against human rights defenders, complainants, and those who express their opinion on a project, client or government, and outline measures for the assessment, prevention, mitigation and remedy of any reprisals.

The AIIB should ensure that its projects in Bangladesh:

- Support the transition to a low carbon economy, by investing in sustainable renewable energy projects, focused on options that reach the energy poor, such as distributed renewable energy technologies
- Follow AIIB policies, due diligence procedures and best standards
- Do not contribute to land grabbing and ensure that land acquisitions are carried out in an appropriate manner
- Guarantee adequate compensation for land, loss of livelihoods and potential environmental hazards
- Ensure decent life and livelihoods of affected communities
- Conduct periodical monitoring of the implementation of the Environmental and Social Impact Assessments and make the results available to all, including affected people
- Enforce proper implementation of the Environmental and Social Management Plan
- Ensure timely information disclosure and meaningful consultations, communicated in a manner that is understandable to local communities

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