

10 ESSENTIALS FOR AIIB'S NEW ENERGY STRATEGY

2022 Review of AIIB's Energy Strategy is an opportunity to shun fossil fuels

When the Asian Infrastructure Investment Bank (AIIB) was launched in January 2016, only weeks after the birth of the Paris Agreement on climate change, it proudly declared one of its core values to be 'green'. As a new multilateral development bank (MDB), without the dirty investment legacy of other MDBs, it had every opportunity to live up to this commitment. Yet only a year and a half later, it was clear that this bold statement was just empty words.

At the heart of contention sits AIIB's Energy Sector Strategy (ESS), approved in June 2017. The ESS turned out to be far from 'green' – allowing AIIB to support all fossil fuels, including coal, thus undermining the very essence of the Paris Agreement. This matters, since the energy sector is responsible for around **three quarters** of the world's greenhouse gas (GHG) emissions, holding the key to the battle against climate change.

AIIB's portfolio shows the result: for every **\$1 spent on renewable energy, almost double goes to fossil fuels**. This figure excludes indirect financing through financial intermediaries (FIs), like infrastructure funds and banks, so the true ratio is likely greater. While AIIB's fossil fuel investments are largely for gas, not coal, funding through FIs has supported both coal mining and **coal for industrial use**.

2022 will be a crucial year to finally get AIIB on a 'green' pathway. After much pressure, the AIIB will finally review the ESS. The revised strategy must fully align with the Paris Agreement and its ambitions, most importantly efforts to limit the temperature increase to 1.5°C above pre-industrial levels. It must also support the Sustainable Development Goals (SDGs), particularly SDG 7 on ensuring affordable, reliable, sustainable and modern energy for all.

It must go further, too. **IPCC's latest report**, dedicated specifically to the 1.5°C goal, warns that this threshold could already be breached within 20 years and calls for an immediate strengthened global response. AIIB is an outlier amongst MDBs in that it is yet to produce a clear strategy and roadmap for how it intends to align the whole institution with the Paris Agreement. AIIB must produce a climate change action plan to cover all policies, operations and activities.



10 ENERGY STRATEGY ESSENTIALS

As AIIB's Energy Sector Strategy is up for review in 2022, this is a quick list of ten key elements it should address:



1 | STOP FUNDING COAL

Coal is a major contributor to climate change, with coal fired power generation alone representing almost a **third** of all energy-related carbon dioxide emissions. By allowing coal investments in its ESS, AIIB is at loggerheads with the Paris Agreement on climate change and out of step with other MDBs, including the Asian Development Bank (ADB), which has revised its policy to exclude coal. The exclusion should not only include coal power, but also upstream and downstream support for coal, including coal mining, coal for industrial use and transmission and distribution lines serving coal power plants, and cover both direct and indirect support, such as funding through **financial intermediaries**.



2 | IMMEDIATELY START PHASING OUT SUPPORT FOR OIL AND GAS

The **International Energy Agency** concludes "there is no need for investments in new fossil fuel supply" - not just coal but also "no new oil and natural gas". To date, AIIB has invested over \$2 billion in gas projects, excluding indirect finance. The European Investment Bank (EIB) is at the forefront of MDBs, already phasing out support for both oil and gas. In fact, gas, rather than coal, is the main driver of the **global increase in carbon dioxide (CO2) emissions** since 2013. Natural gas emits methane as well as CO2, and the IPCC estimates that the global warming potential of methane is 86 times worse than CO2 in the short term. The process of creating Liquefied Natural Gas (LNG) is particularly energy intensive and is driving growth in emissions. The majority of gas consumption is associated with uses that already have cost-competitive clean alternatives, so gas is not a 'transition fuel' - it has become a blocker for the shift to renewables.



3 | CLOSE FOSSIL FUEL LOOPHOLES

The revised ESS must cover all forms of financing, ensuring any fossil fuel loopholes for both direct and indirect finance are closed. Funding through financial intermediaries (FIs) - such as infrastructure and private equity funds - represents almost 15% of the value of AIIB's portfolio. An FI investment essentially 'outsources' funding decisions to a third party, which in turn invests the capital in sub-projects or sub-clients. To date the AIIB's FI investments have backed fossil fuels, including **gas and heavy fuel oil**, and even **coal**. AIIB should also stop other indirect support, such as investments in transmission & distribution systems ultimately serving fossil fuels. There should be no fossil fuels exemptions, such as financing for coal for industrial use.



4 | RAMP UP SUPPORT FOR SUSTAINABLE RENEWABLES

According to the **International Energy Agency**, "renewables are set to become the foundation of electricity systems around the world." But despite advances made in recent years, spurred on by massive drops in costs and the risk of fossil fuels becoming 'stranded assets', progress is faltering due to a post-pandemic rebound in fossil fuel use. This points to an urgent need for public finance to step in and galvanize the shift to clean. AIIB should become a leader and firmly prioritise renewable energy solutions in the revised ESS, sending clear signals that the fossil fuel era is over. Support should focus on sustainable renewable options, that avoid harm to people and the environment.



5 | PRIORITISE ENERGY ACCESS FOR ALL

Globally, almost 800 million people lack electricity and 2.8 billion need clean cooking solutions, figures that are likely to increase due to the impacts of the Covid-19 pandemic. Public financing can and should play an important role in supporting SDG 7's goal of energy access for all. The revised ESS must set out a plan with ambitious targets and timelines for actioning SDG 7 on universal access to affordable, reliable, sustainable, and modern energy, which should include efforts to reach the "last-mile" households. This support should not come through fossil fuels, but through clean sustainable renewable solutions, while ensuring gender equality and a rights based approach (see further details below).



6 | NO FALSE SOLUTIONS

AllIB Paris alignment should not rely on unproven or 'emerging' technologies as options to address climate change. A growing body of evidence questions support for Carbon Capture Utilisation and Storage (CCUS), 'blue hydrogen' or any hydrogen produced using fossil fuels. Such technologies risk displacing investments urgently needed in the shift away from fossil fuels to renewable energy. A recent report by the [Tyndall Centre for Climate Change Research](#) demonstrates that CCUS in fact perpetuates the use of fossil fuels. AllIB should also rule out support for socially and environmentally devastating operations that undermine local economies, peoples' health and livelihoods as well as ecological resilience, such as large-scale dams, waste to energy incinerators and nuclear power generator upgrades.



7 | PUT GENDER EQUALITY FRONT AND CENTRE

Achieving SDG 5 on gender equality must be a key priority in the revised ESS. The impacts of climate change often hit women first and hardest, due to systemic inequities, including women's important role in, for example, small scale agriculture and as main providers of water for the family in rural, remote and informal communities. Similarly, [Sustainable Energy for All](#) concludes that a lack of energy access "disproportionally affects women and girls in the form of health, productivity, unpaid labour, and employment burdens." Women have a critical role to play in facilitating the [shift to renewables](#), in particular off-grid renewable energy solutions, and as such must be meaningfully included in determining project plans and development models, as well as have access to gender-sensitive and responsive grievance mechanisms.



8 | ENSURE A RIGHTS-BASED APPROACH AND MEANINGFUL PARTICIPATION

Energy projects can have detrimental impacts on indigenous peoples and vulnerable groups, undermining their right to land and livelihoods, while not serving their needs. Comprehensive and meaningful consultations are essential for ensuring energy projects and programmes are well targeted and sustainable in all senses of the term. The ESS must have a rights based approach, to ensure projects respect and protect communities' rights. This includes ensuring Free Prior and Informed Consent for indigenous peoples. In developing suitable energy solutions, all stakeholders must be involved to ensure vulnerable group's rights are prioritised. These principles should also apply to the ESS consultation, which must include public engagement, prioritising outreach to project affected communities.



9 | SUPPORT A JUST TRANSITION

The urgent and rapid phase out of all fossil fuels must be complemented by support for a Just Transition, ensuring no one is left behind in the shift to a clean sustainable energy pathway. Green, just and inclusive transitions should be grounded in the different contexts and realities of affected communities across the countries where AIIB operates, and must uphold all human rights conventions, including but not limited to ILO Conventions and frameworks. AIIB should focus on securing people's access to energy, prioritising public supported decentralised solutions with meaningful decision-making structures, including local communities.



10 | SET AMBITIOUS, TRANSPARENT AND ACCOUNTABLE TARGETS

The new ESS must include ambitious targets on GHG emissions reductions, sustainable renewable energy support, energy access for all and gender equity, which align with the Paris Agreement and the SDGs. It should introduce an Emission Performance Standard cap, and require project and portfolio level GHG accounting, and gender disaggregated data. AIIB should monitor and report on progress, transparently and accountably, including providing aggregate figures in the Annual Report, with regular evaluations. The ESS should also include a clear timeframe for forthcoming reviews of the strategy, to enable it to respond in an effective and timely manner to lessons learned as well as future research and climate policy developments.

PARIS ALIGNMENT: WHY THE AIIB MUST DEVELOP A CLIMATE CHANGE ACTION PLAN

Action on climate change does not end with the Energy Sector Strategy. All of AIIB's policies, strategies and activities must also align with the goals in the Paris Agreement, ensuring that they contribute to, and do not undermine, progress towards reaching net zero emissions by 2050. Most MDBs have set out their climate ambitions in a separate strategy or action plan. This should include organisational goals, principles and targets, as well as a clear roadmap, building on the [Principles for Paris-Aligned Financial Institutions](#). It should be developed with stakeholders, including public consultations. This would send a strong signal that the AIIB is taking the climate crisis and its aim to be 'green' seriously.

But, to date, AIIB has refused these calls and instead focused on more symbolic actions. For example, it included a 50% target for climate finance approvals by 2025 in its new Corporate Strategy. This sounds ambitious, but relies on a methodology developed jointly by the MDBs which is vague on what types of project count. According to this methodology, excluding Covid loans, AIIB would have already reached 41% in 2020. Due to the lack of an institutional strategy, AIIB has missed opportunities to strengthen other policies. Significantly, it failed to prioritise climate in its newly revised Environmental and Social Framework, resulting in only marginal improvements which are largely non mandatory, and failing to exclude fossil fuels.

To find out more, see:

[AIIB and Paris Alignment](#) by Recourse, NGO Forum on ADB and the Big Shift Global (2020)

[AIIB's Climate Scorecard](#) by Recourse and NGO Forum on ADB (2020)

[AIIB's Climate Loopholes](#) by Recourse (formerly BIC Europe, 2019)

[AIIB and Climate Change](#) by Recourse and the Big Shift Global (2019)

[AIIB and Fossil Fuels](#) by Recourse and the Big Shift Global (2018)

NOTE: The '10 Energy Strategy Essentials' list is not exhaustive and subject to further development. Endorsement of the undersigned organisations is in principle, and does not necessarily imply support for every provision word-for-word.