EXTERNALISING RISKS?

Examining the AIIB's investments in capital market projects

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The report also received comments from the AIIB whose review and responses do not imply endorsement.

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Executive summary

Mobilising private capital for infrastructure finance in developing economies is at the core of the AIIB's mandate. Investing in capital markets is one of the 'innovative' financing means that the AIIB and other Multilateral Development Banks are using to leverage private finance for development projects. To date, The AIIB has approved investments in eight projects supporting the development of capital markets, amounting to up to $1.94bn.

Key to attracting private investments in capital markets is the lowering of the risks for such investments through the use of securitisation, which creates complex, and often non-transparent financial relationships, which cause difficulty in exacting accountability for the harms that investments in capital market projects may cause. By excluding capital market projects from the AIIB's Environmental and Social Policy (ESP) and applying the Environmental and Social Governance Approach (ESG) approach instead, the bank effectively externalises the environmental and social risks of such investments to communities who already face the barrier of non-transparency on who financially enabled the projects. The bank's lack of accountability is further exacerbated by the ineligibility of any complaints associated with capital market projects to the Project-affected People's Mechanism (PPM).

By examining the AIIB's multiple investments in Bayfront, one of the bank's capital market projects, this briefing paper discusses the failure of the ESG approach in preventing public money from being used to support environmentally and socially harmful projects. Although the AIIB argues that its investments in Bayfront (and other capital market projects) are for supporting the development of capital markets for infrastructure and not individual markets per se, these investments nonetheless enabled more fossil gas projects, including one that violates the bank's own Energy Sector Strategy, as well as renewable energy projects that are already causing environmental and social harms.

To eliminate the accountability deficit of the AIIB in relation to capital market projects, this briefing recommends:

- Making the AIIB's Environmental Social Policy (ESP) applicable to investments in capital market projects.
- Applying the Project-affected People's Mechanism (PPM) to capital markets projects. Ensure remedy for project affected people and communities harmed by capital market projects' portfolio assets.
- Ensuring transparency in the portfolio assets supported by the AIIB's capital markets projects.
- STOP Stopping support to financial institutions investing in fossil fuels.

Introduction

Multilateral Development Banks (MDBs) are responding to the enormous financing challenges of meeting sustainable development and climate goals through mobilising private sector investments. Attracting the private sector to scale up investments for these global challenges has been more prominent in the MDBs' agenda since the signing of the Agenda 2030 and Sustainable Development Goals[1] as well as the Paris Agreement in 2015. The September 2023 G20 Leaders' Declaration provided the MDBs another push by calling on them to "leverage private capital through innovative financing models and new partnerships to maximise their development impact."[2] However, efforts to increase the private sector's role in development finance can pose risks of social and environmental harms to people and communities who sustainable development and climate initiatives must protect and uplift in the first place. Often, initiatives to attract the private sector involve different forms of lowering risks for their investments to maximise their profits. As these risks are externalised, they are transferred to the public, who have to deal with the potential social and environmental costs of the private investments with no guarantee of protection.

Investing in capital markets is one of the 'innovative' financing means that the MDBs are using to leverage private finance for development projects. Capital markets are financial markets that bring buyers and sellers together to trade stocks, bonds, currencies, and other financial assets. Traditionally, development projects are supported through public-to-public transfers by MDBs when they provide direct loans, grants, or guarantees to these projects. Instead of providing this traditional support, MDBs are using public resources to invest in capital markets to attract the private sector into performing this same role. Key to attracting private investments in capital markets is the lowering of the risks for such investments through the use of securitisation, wherein several assets are pooled together, repackaged and distributed as tradable securities. The MDBs' investments in securities supporting portfolios of development projects further help lower the perceived risks, thereby making these projects more 'bankable'. MDBs are using this model in the hopes that the perceived lower risks will attract the private sector into investments for infrastructure projects in sectors such as energy, education and transportation for sustainable development and climate goals.

However, while the perceived 'risk' of these investments not generating considerable returns for the investors may be lowered, social and environmental risks, which are often borne by communities affected by infrastructure projects, are not necessarily abated. The process of creating financial securities from infrastructure assets and trading these in capital markets can heighten the social and environmental risks because of the difficulty in exacting accountability for the potential harms of these investments. The complexity of financial relationships between investors and projects in capital market investments, coupled with non-transparency in disclosures of these relationships makes it difficult to trace and establish who financially enabled the harmful projects. Without making this financial connection visible, protection against environmental and social harms that would have been in place cannot be implemented.

Alongside other MDBs, the Asian Infrastructure Investment Bank (AIIB) is investing in capital markets to promote private sector investments in development infrastructure. As of August 2024, the AIIB's investments in capital market projects are now estimated to be worth nearly $2bn.[3] However, the AIIB's expansion of investments in capital market projects was done hand-in-hand with the shrinking of transparency and accountability for the potential environmental and social (E&S) harms of these projects. In its efforts to attract private sector investments, the bank excludes capital market projects from its environmental and social policy (ESP) and also considers them ineligible for the Project-affected People's Mechanism (PPM), the AIIB's accountability mechanism. The AIIB further externalises the E&S risks of capital market projects by allowing the projects' managers to use their own environmental and social governance (ESG) frameworks as well as grievance mechanisms. According to the AIIB, a comprehensive and appropriate E&S due diligence will be carried out by the bank, focusing on the E&S systems, processes and governance, following a risk-based assessment of the capital market project manager's ESMS or (ESG) framework. The project manager's ESG Framework must be aligned in "spirit and vision" with the AIIB's own Environmental and Social Framework (ESF) before the bank will proceed with its investment. However, these ESG Frameworks may not be adequate in addressing risks associated with infrastructure projects and providing remedy to affected communities. Also, since the AIIB cannot be held accountable to the ESG Framework through the PPM, there is little incentive to ensure this "spirit and vision" is effectively implemented.

This briefing discusses the AIIB's investments in capital market projects and their impacts on the bank's accountability and affected communities' opportunities for seeking remedy, as well as on the bank's commitment to support sustainable development and climate goals. In particular, this briefing looks into the AIIB's multiple investments in Bayfront Infrastructure Management and its infrastructure asset backed securities (IABS) to illustrate the E&S risks of the accountability void in the bank's capital market projects. As the AIIB reviews its PPM, civil society organisations, including Recourse, are calling for significant reforms such as overturning the exclusion of capital market projects from the PPM as well as revisiting policies regarding the public disclosure of these projects' portfolios to ensure affected communities can seek accountability and remedy.

The AIIB's PPM came into effect on 31 March 2019, but despite over $54bn of investments in 280 projects, the AIIB has yet to accept a single complaint. While the review is limited to the PPM's policy, civil society engaging the process, as well as the external review commissioned by the AIIB's Complaints-resolution, Evaluation and Integrity Unit (CEIU), recommend not to restrict the proposed reforms only to the PPM policy itself. Importantly, the reforms should include the ESP. According to the external review, the "PPM is intimately related to accountability being a shared responsibility across the AIIB as a whole. Therefore, it follows that areas of reform should extend to include changes to the ESP, and other relevant AIIB policies including the Policy on Public Information and that there should be a coordinated approach to policy changes and policy streamlining within the institution."[4]

Accountability deficits in the AIIB's capital market projects

Since its inception, the AIIB has given a high priority to promoting private sector investments.[5] Mobilising private capital for infrastructure finance in developing economies is central to the AIIB's mandate. To date, the AIIB has approved investments in eight capital market projects amounting to $1.94bn[6] (see Table 1). Five of these are anchor investments in Infrastructure Asset-Backed Securities (IABS) which form part of the strategy that the AIIB adopted to mobilise private capital for infrastructure projects in developing economies.

However, the AIIB created blindspots in its instruments for accountability – the Environmental Social Framework (ESF) and the Project-affected People's Mechanism (PPM) (see Box 1) – in the effort to increase the private sector's involvement in development infrastructure. Together, the PPM and the ESF are supposed to assess, prevent, manage and mitigate environmental and social harms by AIIB-financed projects. Infrastructure projects, especially those in higher risk categories, can result in negative impacts for communities, such as displacement from livelihoods and ancestral lands, destruction of biodiversity and/or places of cultural importance, and worsening of gender inequalities. The PPM is a means of holding the AIIB accountable for these harms. It accepts complaints regarding the bank's failure to implement its ESP contained in the ESF. However, these instruments exclude the AIIB's investments in capital market projects.

Table 1. The AIIB's capital market projects

Project name	AIIB approved investment	Year
000152: The AIIB Asia ESG Enhanced Credit Managed Portfolio (with Aberdeen Standard Investments)	$500m	2018
000274: Infrastructure Private Capital Mobilization Platform (Bayfront Infrastructure Management)	$54m	2019
000312: Asia Climate Bond Portfolio (with Amundi Asset Management)	$500m	2019
000492: Asia Infrastructure Securitization Program (Bayfront Infrastructure Capital II or BIC II)	$80m	2021
000650: Asia Infrastructure Securitization Program II (Bayfront Infrastructure Capital III or BIC III)	$80m	2022
000722: Project Ocean (Hong Kong Mortgage Corporation's Bauhinia I)	$300m	2023
000764: BIC IV (Bayfront Infrastructure Capital IV)	$80m	2023
000899: Project Merlion (Bayfront Investment Management) (Includes $80m anchor investment in BIC V)	$350m	2024

Capital market projects were not addressed in the ESP of the 2016 ESF since the AIIB's first capital market project was approved in 2018. However, the 2019 iteration of the ESF also failed to include capital markets in the ESP. When the AIIB revised its ESF in 2021, it deliberately excluded capital markets from the ESP, and thus rendered them ineligible from the PPM too. According to the ESP of the 2021 ESF, "in lieu of applying this ESP, the Bank would require for each such operation a specific ESG framework, including arrangements for its application, consistent with the spirit and vision of the ESF, against which environmental and social risks could be addressed."[7] The ESP also adds "[r]ecognizing the evolving nature of ESG approaches, the Bank would take into account emerging good practices as it assesses such framework and arrangements for each operation." To support the development of ESG approaches, The AIIB developed its Environmental, Social and Governance (ESG) Framework[8] and its Climate Change Investment Framework[9] to guide their asset manager clients. The bank also launched its Sustainable Capital Markets Initiative (SCMI) in 2019 wherein the AIIB supports the "capacity building of all market participants to deepen the debt capital markets in emerging Asia and improve the understanding of sustainability through knowledge sharing and industry engagement."[10]

The AIIB has started to apply the ESG framework approach to capital market projects whose primary objective is the development of capital markets for infrastructure rather than the financing of specific infrastructure projects (see Table 1). However, ESG frameworks cannot replace a rigorous risk assessment and management system. According to Inclusive Development International, ESG frameworks "essentially help investors channel money towards companies that rate well across a range of criteria and limit investment in those that do not…[They cannot] substitute for the environmental and social safeguards that prevent harms from infrastructure development on the ground."[11] The 2024 iteration of the ESF retains this exclusion for capital market projects.[12]

Communities experiencing negative social and environmental impacts caused by the AIIB's capital market projects are blocked from seeking accountability and remedy on two levels: first by the lack of access to the PPM, and second, by the lack of transparency (Box 2). The public is in the dark regarding the AIIB's financial support for sub-projects as well as their interactions with the asset managers of these capital market projects. Without public disclosure of the portfolios of these capital market projects, communities cannot establish the financial links and cannot access the asset managers' grievance mechanism (GRM) – assuming they exist and function.

The lack of transparency and accountability in capital market projects of the AIIB also calls into question the AIIB's description of its operations as "clean and green". Without public disclosure, it is difficult to verify if the AIIB's capital market projects indeed do not cause environmental and social harms and do not support fossil fuel projects, including those that violate the bank's Energy Sector Strategy (ESS). Public disclosure is important to verify claims that the bank is aligning its investments with the Paris Agreement and contributing to the achievement of the Sustainable Development Goals.

Box 1. What is the Project-affected People's Mechanism?

The Project-affected People's Mechanism (PPM) is the AIIB's accountability mechanism. Developed in 2018 and established in 2019, the PPM intends to provide recourse to communities negatively impacted by projects funded by the AIIB and to help the bank learn from its mistakes. The PPM receives complaints from the project-affected people who believe they were or are likely to be harmed by the AIIB's failure to implement its ESF. The PPM also has a learning function: the PPM Policy states that: "The PPM shall [...] systematically capture and share lessons learned to enhance effective implementation of the ESP."

The AIIB has yet to accept a single complaint from people adversely affected by its investments. Far from being a testament to the AIIB's adherence to environmental and social protection, the lack of eligible complaints in the PPM is caused by design flaws which civil society organisations have called out.[13] Research found that nearly half of the AIIB projects were ineligible for the PPM.[14] These design flaws prevent the PPM from carrying out its learning and accountability functions. Among these design flaws are:

- Ineligibility of capital market projects. The AIIB excludes capital markets from eligibility from the PPM and from application of the protections of the ESF. The AIIB argues that investments in capital markets cannot be subject to the bank's ESF and PPM because these instruments, especially the ESF, are not designed for capital markets or debt and equity security instruments. Instead, capital market projects are guided by the AIIB's ESG Framework and Climate Change Investment Framework.

- Ineligibility of co-financed projects. In co-financed projects, the accountability mechanism of the co-financier will apply, except in cases where the AIIB chooses to derogate from this provision, or where they do not have an agreement with the co-financier.

- Lack of disclosure in the subprojects of the AIIB's investments in capital market projects and financial intermediaries. These are difficult to trace as there is extremely limited transparency about where money ends up. If communities do not know that the AIIB is investing in the project affecting them, then their access to remedy is effectively blocked.

- Arbitrary and unfair application of the 'good faith' engagement criteria. The PPM Policy states that a submission is considered ineligible if: "Requestors have not made good faith efforts to resolve the issues with the Project-level GRM and with Management or have not indicated to the satisfaction of the PPM why they have been unable to do so." (PPM Policy 5.1.8). However, this not only sets the bar for eligibility too high, it is also not in line with the AIIB's peer MDBs' accountability mechanisms policies, which do not require prior engagements with grievance redress mechanisms.[15]

Box 2. The AIIB's transparency deficit in indirect lending

The AIIB's indirect lending through financial intermediaries (FI) and capital markets is highly non-transparent, especially in terms of sub-project disclosure.

Environmental Social Standard 1 (ESS 1) Section 21 of the AIIB's ESF[16] describes the specific disclosure requirements for FI investments. In general, an overview of the FI's environmental and social policy and of the ESMS, including information on the independent accountability mechanism (IAM) applicable to the Project and activities will be disclosed for all FI clients. However, commitment to disclose subprojects is only applicable to private equity clients and Category A subprojects. Even with these commitments in place, the AIIB does not publish these subprojects on its website. Clients' websites may provide more information on the AIIB-supported subprojects to varying degrees. In the report "Still Bankrolling Climate Climate Change"[17], Recourse identified at least five FI projects that are potentially exposed to fossil gas investments: National Bank of Egypt On-Lending Facility for Infrastructure (000258), Keppel Asia Infrastructure Fund (000342), Global Infrastructure Partners Emerging Markets Fund I (000355), IDCOL Multi-sector On-Lending Facility (000344) and Rakiza Fund I (000432). No information on funded subprojects can be found on the AIIB's website, except for IDCOL which provides an initial list of pipeline projects and two project implementation reports in 2023 that listed funded subprojects.

In contrast, subproject disclosure is not required in capital market projects because of their exclusion from the ESP of the ESF. The portfolio of these capital market projects may be available in some project sponsors' websites, such as the infrastructure asset-backed securities (IABS) issued by Bayfront, but can still redact important information such as the name of the borrower for the subproject.

The AIIB's investments in Bayfront Infrastructure Management

Bayfront Infrastructure Management (Bayfront) was established as a 70/30 partnership in 2019 by Clifford Capital Holdings and the AIIB with a goal of raising finance for infrastructure development in capital markets. In July 2019, the AIIB's Board of Directors approved a $54m equity investment in Bayfront (000274: Infrastructure Private Capital Mobilization Platform),[18] which is equivalent to 30% of the shares in the company. The remaining 70% is owned by Clifford Capital Holdings, whose shareholders are Temasek, Prudential Assurance Company Singapore, Standard Chartered Bank, Sumitomo Mitsui Banking Corporation, DBS Bank, Manulife Singapore and Asian Development Bank (ADB). This investment kicked off the first stage of pioneering infrastructure debt securitisation in Asia.

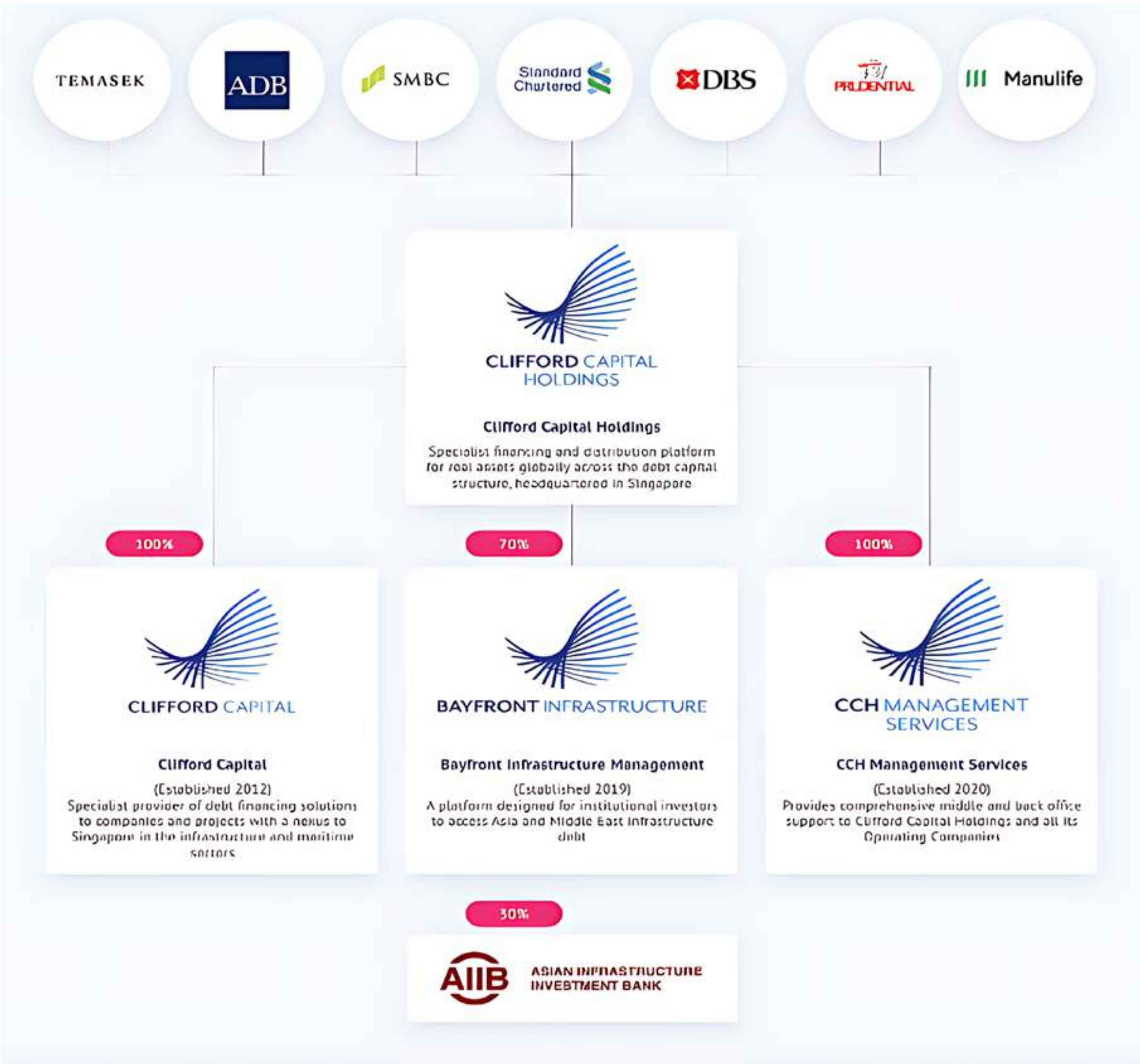

Figure 1. Clifford Capital Holdings' corporate structure showing Bayfront's shareholding structure[19]

Bayfront specialises in creating and issuing infrastructure asset-backed securities (IABS). Asset backed securities (ABS) are a type of financial investment that represent an underlying basket of assets that generate cash flow from debt. The securities take the form of a bond or note that pays an income for a set amount of time, until maturity. Cash flow from these assets is pooled and distributed among the bond/note holders. Bayfront's ABS are backed by assets in infrastructure and project finance loans (see Figure 2). Bayfront acquires infrastructure loans from different banks, repackages and divides them into tranches with different levels of risk and return, and then distributes these tranches as notes for interested institutional investors to buy and trade. This process frees up lending capacity in originating banks' balance sheets and encourages them to issue more loans.

Through issuing IABS, Bayfront attracts investors to buy securities with portfolios that are composed of diversified infrastructure projects across different sectors in Asia and the Middle East. Bayfront has to date issued five IABS called Bayfront Infrastructure Capital (BIC) (2018), BIC II (2021), BIC III (2022), BIC IV (2023) and BIC V (2024). Aside from its equity investment in Bayfront, the AIIB also supported BIC II[20], BIC III[21], BIC IV[22] and BIC V[23] as an anchor investor. As an anchor investor, The AIIB commits to submit a sufficiently large order to provide confidence that the issuance will be successful. The actual amount invested is scaled back if sufficient demand is available from other investors. Additionally, the AIIB's participation helps make these IABS issuances very attractive to other investors.

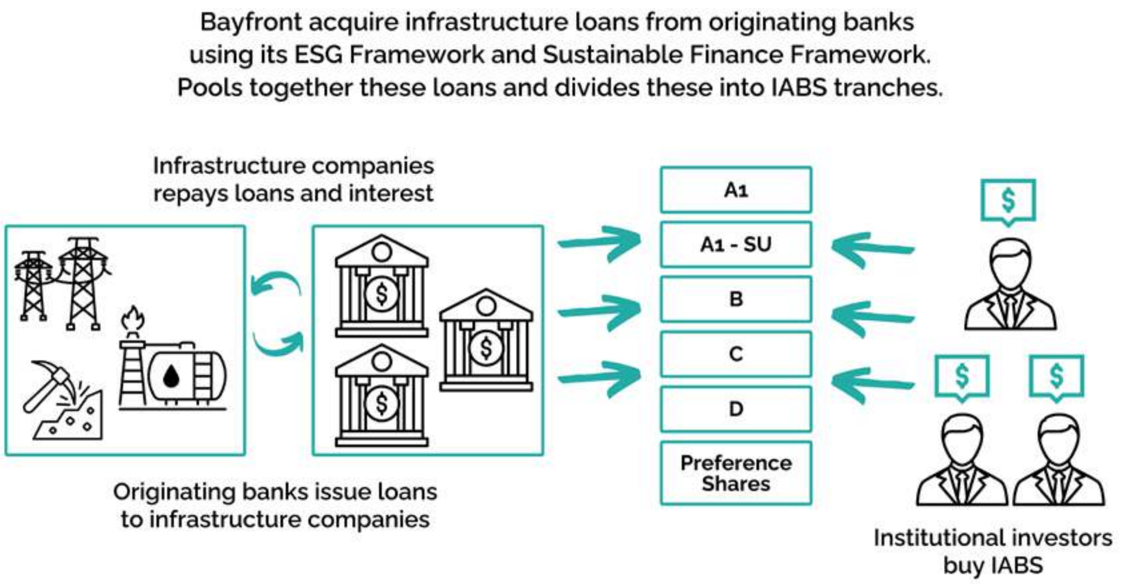

Figure 2. Simplified illustration of Bayfront's Infrastructure Asset Backed Securities (IABS)

Application of Bayfront's ESG Framework in lieu of the AIIB's ESP

Under the AIIB's 2024 ESF, capital market projects will apply the ESG approach in lieu of the ESP. They are also not eligible for the PPM. The AIIB believes that "[as] climate and ESG criteria feature more prominently in institutional investors' mandates, CLOs[24] with sustainable collateral portfolios or dedicated sustainability tranches can also mobilize capital into sectors contributing to the carbon transition."[25] According to the AIIB, the bank's 30% equity investment in Bayfront helped embed leading environmental and sustainability guideline standards into the portfolio selection principles[26] in Bayfront's E&S Framework, which was developed with inputs from the AIIB and is supposedly "consistent with the spirit and vision of the AIIB's ESF".[27] Bayfront's E&S Framework, together with its Governance Risk Assessment and Climate Risk Assessment form the pillars of Bayfront's ESG framework:

- Environmental and Social Framework (E&S Framework) which sets out Bayfront's assessment, categorisation and management of E&S risks associated with projects financed by loans and bonds it acquired. It also includes an exclusion list, which identifies projects that Bayfront will not support, such as coal mining, processing, transport and coal-fired power generation.[28] Sector guides for transactions in oil and gas, metals and mining, and hydropower sectors are also supposedly included in the E&S Framework.

- Governance Risk Assessment which describes the internal governance risk review process for assessing and evaluating governance related risks of its investments.[29]

- Climate Risk Assessment[30] of the climate impacts of every investment from both physical risk and transition risk. Under this pillar, Bayfront also monitors the financed carbon emissions intensity of its total assets under management.

Bayfront also has a Sustainable Finance Framework[31] which provides the basis for issuance of sustainability notes that support the financing of green and social projects. Although summaries of the ESG and E&S Frameworks are available on Bayfront's website, the full texts are not posted. The sector guides for transactions in oil and gas, metals and mining, and hydropower are also not available on Bayfront's website. Without the full texts of these documents, it is difficult to assess how exactly Bayfront assesses and manages risks, especially in oil and gas and metals and mining which can result in grave social and environmental impacts. The project portfolios of BIC II, III, IV and V are not disclosed anywhere in the AIIB's website. While payment and investor reports in Bayfront's website do list some of the portfolio's details, these reports do not describe which of these subprojects are supported by the AIIB's anchor investments, as there is no specific matching of single subprojects to the funding of individual investors because of the pooled nature of the assets that back the securities issued by Bayfront. However, according to the AIIB's description of its investment in BIC III, the bank's "support, directly through anchor investments and indirectly through positive market signaling, will contribute to the success of Bayfront's ongoing issuance program, the viability of the Bayfront platform and, ultimately, to the development of IABS as an investable asset class."[32]

A significant portion of the projects in BIC II, III, IV and V portfolios are fossil fuel projects

Like the AIIB's Energy Sector Strategy (ESS) and Paris Alignment Methodology,[33] Bayfront's prohibited investment list only excludes coal among fossil fuel projects. Oil and fossil gas projects are eligible for support under the ESG criteria, including upstream projects. This is contrary to the AIIB's ESS which prohibits investments in upstream oil and gas.

According to the AIIB, Paris Alignment assessment is required for all its projects, including IABS, from July 2023. Since only BIC IV and V were approved post-July 2023, it is unclear whether BIC II and III underwent such assessment. This is problematic since according to Bayfront's own description of the portfolios, more than half of the number of projects and total values of the portfolios of the BIC II, III and IV are oil and gas projects. BIC II and III's portfolios have the largest percentage of oil and gas projects. The oil and gas projects in BIC II, III and IV (BIC V's list of portfolio projects is not yet publicly available) also have life spans that may extend well beyond 2030. Supporting these projects does not contribute to the IPCC's recommendations of reducing greenhouse gas emissions by at least 43% by 2030 and at least 60% by 2035 to keep global temperature rise within the 1.5 ˚C limit.[34]

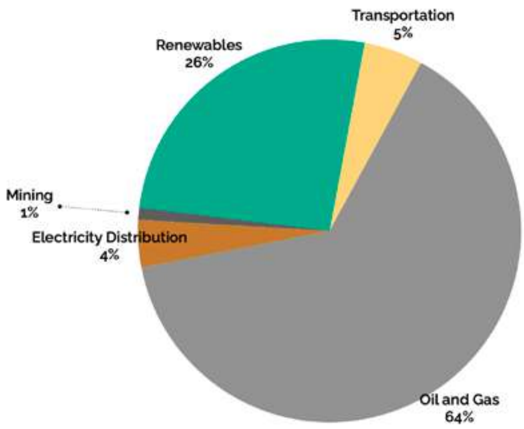

Figure 3. BIC II Portfolio Composition. Percentage relative to the identified portfolio's par amount[35]

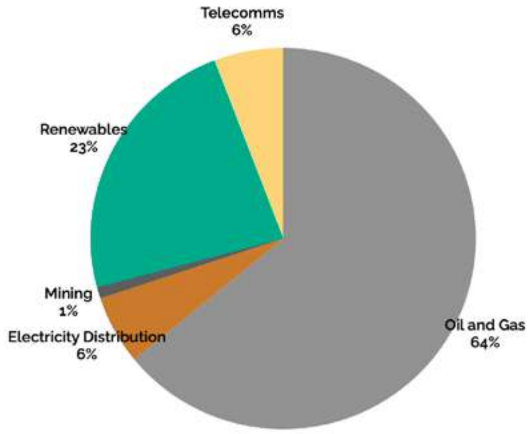

Figure 4. BIC III Portfolio Composition. Percentage relative to the identified portfolio's par amount[36]

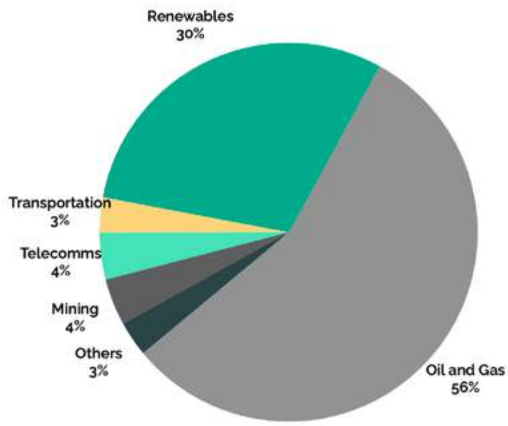

Figure 5. BIC IV Portfolio Composition. Percentage relative to the identified portfolio's par amount[37]

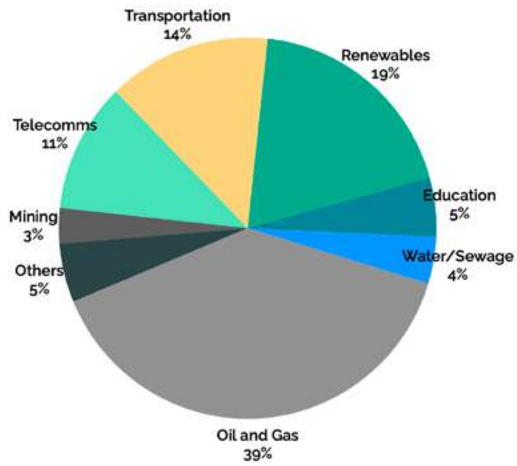

Figure 6. BIC V Portfolio Composition. Percentage relative to the identified portfolio's par amount[38]

BIC II, III and IV support several gas projects, including Nutan Bidyut's Bhola-2 220MW Combined Cycle Power Plant in Bangladesh that was also directly funded by the AIIB in 2018. Nutan Bidyut is included in the portfolios of BIC III and IV. Bhola-2 which is planned to operate until 2043 adds to another fossil gas power plant in Bangladesh that will not be retired by 2030. Bhola-1 gas power plant, which started commercial operations in September 2015 and is planned to retire in September 2040. Together, Bhola-1 and Bhola-2 would emit an estimated 1,479,834 tCO2e annually.[39] Communities harmed by the Bhola-2 power plant lodged a complaint to the PPM in 2022 with support from national and regional civil society groups. However, they are doubly blocked from accessing accountability and remedy because the PPM does not apply to capital market projects, as well as the arbitrary use of and the strict definition of "good faith efforts" as grounds for ineligibility to the PPM (see Box 3).

Also included in the supported fossil fuel projects is Jambaran Tiung Biru (BIC III and IV), a conventional gas field in Indonesia. Envisioned to become one of the largest gas producers in Indonesia, its projected output is 192 million standard cubic feet per day (MMscfd)[40] and is expected to reach its economic limit only in 2047.[41] This is also not compatible with the AIIB's ESS, which excludes investments in upstream oil and gas projects.

On a positive note, there is a decrease in the share of oil and gas projects from BIC IV to BIC V. However, while BIC V's portfolio does have fewer oil and gas projects, these still comprise more than a quarter of the portfolio's value (see Figure 5). Renewable energy projects also make up less than a third of the number of projects and total value of the portfolios of BIC II, III, IV and V (see Figures 3, 4, 5 and 6).

Box 3. Bhola-2 220MW gas-fired combined-cycle power project

The AIIB approved a $60m loan for Bhola-2 in February 2018. Civil society groups in Bangladesh have been raising concerns about the project with AIIB management ever since. In April 2022, affected communities together with civil society led by Bangladeshi CSO Coastal Livelihood and Environmental Action (CLEAN) and NGO Forum on ADB filed a complaint against the project to the PPM. The complaint highlighted the lack of information disclosure and meaningful consultation with affected communities; coercion, fraud, and intimidation on land acquisition; and environmental impact and livelihood loss.[42] According to affected families, there was coercion and intimidation from 'middlemen' appointed by the project implementers, Nutan Bidyut Bangladesh Limited (NBBL), to acquire their lands at the lowest rates.[43] The construction of the power plant also caused siltation of the Mandartoli Shakha Khal river channel. The siltation caused flooding of Dakshin Kutba village, where families dependent on growing and harvesting betel nuts were displaced.[44]

Women were particularly badly affected.[45] Land acquisition for the gas power plant resulted in women losing important grazing land for livestock without compensation, forcing them to buy feed instead. Because of the siltation and waste dumping in the river channel, women must now collect water two to three kilometres away from their homes. Women also found it hard to grow vegetables and farm chickens because of the flooding. Toilets were also difficult to access during the floods. Women also reported an increase in sick days since the flooding started, likely due to being exposed to the polluted river channels. Additionally, they also have to suffer the impacts of a warming climate to which the fossil gas power plant built in the community is contributing to.

While the complaint was still ongoing, the loan to the AIIB was paid in 2022,[46] leading to the bank's exit from the project. Despite the ongoing complaints, the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group (WBG) issued guarantees totaling $407m in July 2022 to cover Actis' acquisition and refinancing of NBBL, the project enterprise that owns and operates the Bhola-2 power plant.

Despite the well-documented harms caused by the project and the lengthy engagements by CSOs and affected communities over several years with the AIIB and the project developer to try to alleviate those harms, the PPM declared the affected communities' complaint ineligible in February 2023. The PPM decided that the complainants "have not made good faith efforts to resolve the issues with the AIIB Management and have not indicated to the satisfaction of the PPM why they have been unable to do so."[47] The reasoning behind the ineligibility decision was based on a strict, technical definition of the "good faith engagement criteria" which complicates and raises the bar too high for eligibility to the PPM. According to the decision: "Good faith efforts mean that the Requestors, having exhausted the avenue of Project-level GRM, escalate the matter and formally submit their specific complaints to AIIB management, for resolution. The purpose of these 'good faith' efforts is that project-level GRM and the AIIB management should have a chance to resolve the issue before it escalates to PPM".[48]

The sustainability tranches of BIC II, III and IV include projects with fossil fuels in their portfolios

BIC II, III, IV and V allotted between 29 and 30% of the notes they issue to a sustainability tranche. Proceeds from the notes in the sustainability tranche are used to support a portfolio of green and social assets that meet the eligibility criteria stated in Bayfront's Sustainable Finance Framework.[49] While only renewable energy projects are eligible under the use of proceeds for green assets, eligible projects for social loans include water desalination plants for water-stressed countries. For BIC II, III and IV, these projects located in Kuwait, Qatar, Jordan and the United Arab Emirates include fossil gas power plants that are not only used to desalinate sea water, but also to sell electricity to the national grid (see Annex 1).

"Green" energy projects that harm communities are also included in the portfolios of the sustainability tranches

There are 27 so-called "sustainable assets" in BIC II, III and IV's combined portfolios as of December 2023.[50] Out of these, 19 are green energy assets composed of solar, wind, hydro and geothermal energy projects. Borrowers' names are withheld for three of these green energy assets (see Annex 1). The list of green assets includes project borrowers that are implicated in complaints because of their negative social and environmental impacts on communities. These are Daehan Wind Power Company (BIC IV), which has an open case with the Compliance Advisor Ombudsman (CAO) of the International Finance Corporation (IFC), the WBG's private sector lending arm, since 2020 (see Box 4), and the subsidiaries of Adani Green Energy (see Box 5) whose land acquisition for wind and solar parks has been the subject of complaints in local courts by affected communities.

The Daehan and Adani projects in BIC's IABS portfolios call into question the robustness of Bayfront's ESG and E&S Frameworks by casting doubt on their ability to steer Bayfront away from projects that are already causing environmental and social harms. These projects also throw into uncertainty whether Bayfront properly takes into account social and rights-based considerations as well as scientific and environmental criteria in assessing renewable energy projects' impacts at the time of acquiring their loans (see Box 6).

Box 4. Daehan Wind Energy Power Company

Daehan Wind Energy Power Company was established in 2013 in Jordan. It developed the Daehan wind farm in Tafilah governorate with a total capacity of 51.75MW. The IFC signed a $11.43m loan to the project in September 2018.[51] Meanwhile, Korea Trade Insurance Corporation (KSURE) covered the financing deal with a $36m guarantee.

According to the CAO,[52] a local community member from Tafila, Jordan submitted a complaint to the CAO on behalf of himself and two family members in June 2020. The complainant and the company engaged in joint sessions and dispute resolution processes between January 2021 and December 2021. However, the parties did not reach an agreement. The CAO's compliance appraisal report in 2022[53] concluded that there are preliminary indications of harm to the complainants which include:

- Lack of information, consultation, and engagement regarding the project's risks and impacts and environmental and social prevention and mitigation measures, despite being relevant stakeholders as landowners within the project's area of influence and in proximity to the project's structures. This potentially deprived them of the opportunity to raise their views and concerns regarding the project, the way it affects them, and associated mitigation measures.
- Lack of assessment of their land use and consideration of potential impacts, such as noise and shadow flicker, which exceed mandated thresholds on their land use.

The report further stressed that these potential harms are plausibly linked to IFC's potential non-compliance with its Performance Standards (PS), specifically its responsibility to review and supervise the application PS1 on Assessment and Management of Environmental and Social Risks and Impacts which requires stakeholder engagement, consultation, and the disclosure of information, as well as the conduct of risk and impact assessment, which should be based on accurate E&S baseline data, appropriate methods, and be in line with good international industry practice.

The CAO has agreed to a deferral period of six months, based on IFC's commitments to address the issues raised in the complaint. In December 2022, CAO granted a one-year extension to the initial deferral period at IFC's request. A deferral outcome report was expected by November 2023. As of August 2024, no deferral outcome report has been posted on CAO's website.

Box 5. Adani Green Energy Limited

Adani Green Energy Limited (AGEL) is part of Adani Group and is one of the largest renewable companies in India, with a current project portfolio of 20,434MW.[54] Six of its subsidiaries are part of the BIC II, III, IV sustainable assets (see Annex): Adani Hybrid Energy Jaisalmer One, Two, Three, and Four Limited, Adani Solar Energy Jaisalmer One Private Limited, and Adani Solar Energy RJ One Private Limited. These subsidiaries are involved in developing several solar and wind energy infrastructure inside renewable energy parks owned by AGEL in the state of Rajasthan.

E&S harms to communities caused by renewable energy projects
One of these projects is the 1500MW Fatehgarh Ultra Mega Solar Park owned by Adani Renewable Energy Park, a joint venture of Adani Green Energy and the Rajasthan government. According to news reports,[55] communities affected by the solar park are protesting the encroachment of the large scale solar installations into lands over which they have customary rights. Many of the residents do not have legal titles to these lands but consider them as ancestral lands on which their forefathers farmed and grazed animals. The solar park is being built on important oases and habitats of the critically endangered Great Indian Bustard.

In Dawara, villagers are protesting against a 600MW solar-wind hybrid project that is encroaching on their Orans.[56] Orans are sacred spaces rich in biodiversity, where communities in Rajasthan bring their livestock for grazing, and hold festivals and other community events.[57] The government allotted the land where these Orans are located in 2021. Several villagers have lost access to their land and livelihoods and more than 100 trees have already been cut down to make way for the project.

Questionable links to coal
Aside from a questionable E&S track record, The Toxic Bond Network found evidence that investments in AGEL are not properly ring-fenced for renewable energy, but are moved to other Adani entities that are involved in coal and mining.[58] According to the Toxic Bonds Network, a public filing on 10 February 2023 from the State Bank of India revealed that Adani used shares from Adani Green Energy and other companies as collateral in a $300m credit facility for the Carmichael coal mine in Australia, via Adani Enterprises. AGEL's May 2023 annual results that list details of several related party transactions[59] show that there are 34 transactions with Adani Enterprises. A third of these transactions (12) are with Adani Hybrid Energy Jaisalmer One, Two, Three and Four; and another two were with Adani Solar Energy Jaisalmer One.[60]

In May 2023, AGEL was dropped from Science Based Targets Initiative's (SBTi) list of companies that are taking action against climate change.[61] SBTi is an organisation that assesses and validates companies' and financial institutions' targets based on the goals set by the Paris Agreement for cutting back greenhouse gas emissions.[62] The United Nations Global Compact is one of their partners. AGEL, along with Adani Transmission and Adani Ports & Special Economic Zone, were removed from the list due to non-compliance with SBTi's fossil fuel policy.[63] SBTi's loss of confidence in AGEL's ability to stay true to its climate promises did not stop the AIIB from approving an anchor investment in BIC IV in August 2023, wherein AGEL's subsidiaries are included in the sustainability tranche's portfolio of assets.[64]

Box 6. Scientific, environmental, social and rights-based criteria for renewable energy finance

Recourse and partners developed a set of scientific, environmental, social and rights-based criteria[67] that will ensure renewable energy projects will support the just transition to sustainable renewable energy and avoid the harms associated with financing fossil fuel projects.

All renewable energy and energy efficiency initiatives, including policy reform and financial provisions, must be driven by scientific and social, rights-based criteria as follows:

Science-based taxonomy must ensure environmental integrity by delivering:

- Climate change mitigation, Paris aligned to a 1.5 ˚C trajectory
- Resilient to the impact of climate change
- Sustainable use and protection of water, marine, and forest resources
- Pollution prevention and control
- Protection of healthy ecosystems

In addition, it must meet social and human rights criteria:

- Safeguards compliance
- Respects the needs and concerns of local communities, centring them in the development of energy options and prioritising the voices of women, vulnerable and marginalised people and indigenous communities.
- Free, prior, and informed consent (FPIC) of Indigenous Peoples
- Upholds human rights, decent work principles, and land rights of impacted communities
- Access to functioning grievance redress mechanism

Poster of a grievance redress mechanism at Bhola IPP in Bangladesh, 2021.

Conclusion

Through using the AIIB's investments in Bayfront as examples, this briefing paper described how the MDBs' efforts to leverage private sector investments to achieve sustainable development and climate goals can minimise risks for investors on the one hand, but worsen the risks for environmental and social harms on affected communities on the other. The AIIB's externalisation of E&S risks in capital market projects by passing on to Bayfront the responsibility of spotting and addressing these risks enabled direct and indirect support for projects that were already harming communities at the time their loans were acquired by Bayfront. To correct this accountability deficit, The AIIB's capital market projects and their portfolios need to be rigorously assessed against the bank's ESF provisions. These projects also need to be eligible for the PPM to give affected communities opportunities to seek remedy, and to give the AIIB the chance to properly learn from its projects to improve its accountability. Overall, the AIIB must ensure that its investments for sustainable development and climate goals must address scientific, environmental, social and rights-based considerations.

Make ESP of the ESF applicable to investments in capital market projects. As demonstrated above, project sponsors' ESG frameworks are inadequate to assess, manage, prevent and mitigate environmental and social risks. The rigorous application of the AIIB's ESP can add protection against the potential environmental and social harms that capital market projects can cause.

The PPM should apply to capital markets projects. Ensure remedy for project affected people and communities harmed by capital market projects' portfolio assets. The AIIB should eliminate its accountability deficit by making capital market projects, including portfolio assets supported by IABS, eligible for the PPM. Access to recourse by project-affected people and communities such as those harmed by Adani's and Daehan's projects should not be limited to Bayfront's ESG Framework. They should be able to access the bank's accountability mechanism and receive remedy for the harms caused by the renewable energy projects, as measured against the AIIB's own ESF. By excluding these projects from the PPM, the AIIB will miss the opportunity to learn in order for it to make its investments in capital markets truly support equitable and inclusive development, and just transition.

Ensure transparency in the portfolio assets supported by the AIIB's capital markets projects. Another element needed to eliminate the AIIB's accountability deficit is transparency in capital market projects. The AIIB should disclose the nature of its investments in capital markets, including its support to specific tranches in IABS. The bank should also publicly disclose on its website the composition of the portfolio assets of its capital markets projects. Transparency in these projects is important in order to track how the bank's funds are used against its commitments to the Paris Agreement and the Sustainable Development Goals, and for communities to be able to trace financial links and to access the AIIB's accountability mechanism.

STOP

Stop supporting financial institutions investing in fossil fuels. Ongoing, long-term support to oil and fossil gas projects, and financial institutions that still invest in fossil fuels cast doubt on the sincerity of the AIIB's commitment to the Paris Agreement. Bayfront's support for fossil fuels is by no means negligible, as more than half of its project assets are related to oil and fossil gas. The AIIB's support to Bayfront, both through its equity investment and its anchor investments in BIC II, III IV and V, make these financial products attractive. The AIIB's support also signals to other investors that it is perfectly acceptable to claim commitment to the Paris Agreement while financing climate-wrecking investments, particularly in a region where most of the population are highly vulnerable to the impacts of climate change.

Annex 1. Bayfront's sustainable assets as of 31 December 2023[68]

Sustainable Assets (as of 31 December 2023)

No.	Borrower	Sector	Location of Project	Outstanding Par Amount* (US$m)			Expected Maturity (Year)	Sustainability Eligibility (%)
				BIC II	BIC III	BIC IV		
1	Adani Hybrid Energy Jaisalmer One/Two/Three/Four Limited	Renewable Energy	India	16.2	24.6	15.7	2025	100.0%
2	Adani Solar Energy Jaisalmer One Private Limited	Renewable Energy	India	-	-	17.7	2026	100.0%
3	Adani Solar Energy RJ One Private Limited [7]	Renewable Energy	India	13.2	-	5.5	2025	100.0%
4	Cambodian Transmission Limited	Electricity Transmission	Cambodia	11.8	10.0	-	2029	100.0%
5	Daehan Wind Power Company	Renewable Energy	Jordan	-	-	16.4	2033	100.0%
6	EDC Burgos Wind Power Corporation (Commercial)	Renewable Energy	Philippines	1.4	-	-	2029	100.0%
7	EDC Burgos Wind Power Corporation (EKF-covered)	Renewable Energy	Philippines	11.7	-	-	2029	100.0%
8	Green Infra Solar Projects Limited	Renewable Energy	India	5.1	-	-	2026	100.0%
9	Jubail Water and Power Company	Conventional Power & Water	Saudi Arabia	23.1	18.9	-	2029	53.0%
10	Lien Lap / Phong Huy / Phong Nguyen Wind Power JSC	Renewable Energy	Vietnam	-	-	8.7	2036	100.0%
11	PT Tanggamus Electric Power (Commercial)	Renewable Energy	Indonesia	-	-	2.5	2031	100.0%
12	PT Tanggamus Electric Power (KEXIM-covered) / BIC II: Project E	Renewable Energy	Indonesia	11.2	-	6.4	2031	100.0%
13	PT UPC Sidrap Bayu Energi	Renewable Energy	Indonesia	-	8.7	-	2034	100.0%
14	Ras Girtas Power Company	Conventional Power & Water	Qatar	6.2	7.4	-	2033	16.0%
15	Renew Solar Energy (Jharkhand Three) Private Limited	Renewable Energy	India	-	18.9	-	2027	100.0%
16	Renew Surya Roshni Private Limited	Renewable Energy	India	-	-	6.0[8]	2033	100.0%
17	Ruwais Power Company PJSC	Conventional Power & Water	United Arab Emirates	13.2	-	-	2031	44.0%
18	Shamal Az-Zour Al-Oula for the Building, Execution, Operation, Management and Maintenance of the First Phase of Az-Zour Power Plant K.S.C.	Conventional Power & Water	Kuwait	16.8	7.5	8.1	2036	49.8%
19	Shams Ma'an Power Generation PSC	Renewable Energy	Jordan	-	-	7.1	2033	100.0%
20	Star Energy Geothermal Darajat II, Limited and Star Energy Geothermal Salak, Ltd	Renewable Energy	Indonesia	-	-	12.2[9]	2038	100.0%
21	Umm Al Houl Power QSC	Conventional Power & Water	Qatar	28.0	14.1	23.9	2041	45.5%
22	Umm Al Houl Power QSC (Expansion Facility)	Conventional Power & Water	Qatar	-	14.6	4.2	2041	45.5%
23	Vena Energy Shivalik Wind Power Private Limited	Renewable Energy	India	4.6	4.7	4.6	2025	100.0%
24	BIC II: Project A / BIC IV: Project B	Transportation	Southeast Asia	13.9	-	14.3	2029	100.0%
25	BIC III: Project B / BIC IV: Project A	Renewable Energy	South Asia	-	9.5	4.9	2028	100.0%
26	BIC II: Project C	Renewable Energy	South Asia	0.4	-	-	2024	100.0%
27	BIC II: Project G	Renewable Energy	Southeast Asia	8.5	-	-	2035	100.0%
Total Outstanding Par Amount				**185.2**	**138.9**	**158.2**		
Total Outstanding Sustainable Assets [10]				**138.0**	**104.5**	**138.9**		

[7] Previously known as SB Energy Six Private Limited.
[8] Includes US$9.0m of undrawn commitments.

** Amounts as of 31 December 2023*

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