Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement and the SDGs: Challenges and Opportunities

A Civil Society Perspective from: Bangladesh, China, India, Russia & Germany
Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement and the SDGs

Imprint

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The goal of the Asian Infrastructure Investment Bank (AIIB) is to contribute to closing the financing gap for infrastructure investment and it has committed to do so in a Paris-aligned way. As infrastructure is often long lived and emission intensive, it can determine the volume of emissions for decades to come. Therefore, it is the type and quality of new infrastructure investments which will define whether pathways compatible with global climate goals will be achieved. This is particularly true in a region where massive investments in infrastructure are expected and needed. Given the importance of infrastructure investments in Asia for keeping the Paris goals within reach, it is the aim of this report to evaluate whether the AIIB has lived up to its promise to be ‘lean, clean and green’, which good processes have been established and where challenges or risks remain.

As a multilateral development bank, the AIIB could play an important role in achieving the goals of the Paris Agreement, namely: (i) the goal to stay well below 2°C, and if possible, 1.5°C global temperature rise; (ii) the goal to improve the ability to adapt to the adverse impacts of climate change; and (iii) to make financial flows consistent with low greenhouse gas emission and climate-resilient development. First, through direct finance, the AIIB could support these goals or remain neutral towards them, but should never undermine them. Second, and more importantly, the AIIB could support the goals as a setter of global climate standards through its cooperation with governments, regional financial institutions and private sector investors. This report looks at AIIB’s performance with regard to the first and the third of the Paris Agreement’s goals, noting that similar work should be done on the second goal.

Germanwatch promotes North-South equity and the preservation of livelihoods. As an organisation that focuses on the politics and economics of the North with their worldwide consequences, Germanwatch closely follows the role of Germany in the AIIB as the fourth largest shareholder and advocates for Germany to strengthen the focus on sustainability within the AIIB and to hold the AIIB to account on its commitment to Paris-compatibility.

The Center for Participatory Research and Development (CPRD), one of the progressive think tanks in Bangladesh, is engaged in research and political advocacy aiming at directing global climate policies and associated investments towards achievement of the Paris Agreement goals with regard to climate justice, as well as reduced inequality and vulnerability. CPRD’s motivation for assessing AIIB investments is to facilitate access to information and broader involvement of a wide range of stakeholders, including civil society organisations, so that they can act as a pressure group to hold AIIB to account on its alignment with the goals of the Paris Agreement.

Greenovation Hub (GHub) is devoted to encouraging China to play an active role in international climate, environmental and financial governance, and to formulate and implement effective and equitable policies that could channel financial flows towards a green, sustainable and climate-resilient development. GHub has been following the development of policy frameworks and investment strategies of multilateral development banks co-led by China, for example the AIIB, in order to promote the incorporation of sustainability and climate resilience into investment principles and policies, which could help capital markets allocate more resources to environmentally friendly, climate-resilient and low-carbon infrastructure investments.

LAYA, together with the Indian Network on Ethics and Climate Change (INECC), has been encouraged to look at the infrastructure question in relation to AIIB using a lens of equity. Their main interest is to explore and examine how infrastructure investments in India are responding to the infrastructure needs of the population, especially the poor and the most vulnerable. However, considering that 70% of infrastructure has yet to be built in India, the Indian partner organisations to this paper are also interested in engaging in the development of transformative pathways for
building sustainable, climate-resilient and zero-carbon infrastructure, and to promote respective lighthouse projects to become part of the AIIB portfolio.

The Russian-German Office for Environmental Information (RNEI) is an organisation working on environmental research and ecological issues in Russia, especially in St Petersburg. It aims to assess national and international environmental and climate policies and is very much focused on knowledge exchange between Europe and Asia.

Despite the fact that Russia is one of the biggest shareholders of AIIB, the bank is little known in Russia or in neighbouring Central Asian countries. Through this publication, RNEI wishes to contribute to enhancing understanding of the AIIB, its strategies and policies, potential stakeholders and projects, and the opportunities for green, climate-friendly and resilient infrastructure development in general, and in Russia and Central Asian countries in particular.
# Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AfDB</td>
<td>African Development Bank</td>
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<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
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<tr>
<td>BCIM-EC</td>
<td>Bangladesh-China-India-Myanmar Economic Corridor</td>
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<td>BRI</td>
<td>Belt and Road Initiative</td>
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<td>CPEC</td>
<td>China-Pakistan Economic Corridor</td>
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<td>CPRD</td>
<td>Center for Participatory Research and Development</td>
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<td>CSO</td>
<td>Civil society organisation</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>ESF</td>
<td>Environmental and Social Framework (of AIIB)</td>
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<td>ESIA</td>
<td>Environmental and Social Impact Assessment</td>
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<td>ESMP</td>
<td>Environmental and Social Management Plan</td>
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<td>ESP</td>
<td>Environmental and Social Policy</td>
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<td>ESS</td>
<td>Environmental and Social Standards</td>
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<td>FPICon</td>
<td>Free Prior Informed Consultation</td>
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<td>GAP</td>
<td>Gender Action Plan</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GHG</td>
<td>Greenhouse gas</td>
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<td>IDBG</td>
<td>Inter-American Development Bank Group</td>
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<td>IDFC</td>
<td>International Development Finance Club</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IPCC</td>
<td>International Panel on Climate Change</td>
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<td>LTS</td>
<td>Long-term Low Carbon Development Strategies</td>
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<td>MDB</td>
<td>Multilateral development bank</td>
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<td>NDB</td>
<td>New Development Bank</td>
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<td>NDC</td>
<td>Nationally Determined Contribution</td>
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<td>NGO</td>
<td>Non-governmental organisation</td>
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<td>PSI</td>
<td>Project Summary Information provided by AIIB</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>TCFD</td>
<td>Task Force on Climate-related Financial Disclosures</td>
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<td>WBG</td>
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Glossary

**Carbon budget:** The cumulative volume of greenhouse gas emissions, expressed in GtCO₂ equivalents, which can be deposited in the atmosphere without overshooting a certain level of global warming, such as a temperature rise of 1.5°C or 2°C.

**ESP:** Environmental and Social Policy (of AIIB): Mandatory environmental and social requirements for each project.

**ESS:** Environmental and Social Standards (of AIIB): Associated mandatory standards that set out more detailed requirements for projects, in relation to Environmental and Social Assessment and Management (ESS 1), Involuntary Resettlement (ESS 2) and Indigenous Peoples (ESS 3).

**ILO Convention 169:** Convention of the International Labour Organization on Indigenous Peoples’ rights. The major binding convention concerning the rights of Indigenous Peoples, established in 1989, but not yet ratified by the majority of AIIB members.

**United Nations Declaration on the Rights of Indigenous Peoples:** Non-binding declaration outlining the individual and collective rights of Indigenous Peoples, adopted in 2007; supported by most AIIB members.
Executive Summary

The type and quality of new infrastructure investments will define whether pathways compatible with global climate goals will be achieved. Given the importance of infrastructure investments in Asia for keeping the Paris goals within reach, this report evaluates whether the AIIB has lived up to its promise to be ‘lean, clean and green’, which good processes have been established and where challenges or risks remain.

AIIB has started its work in 2016 with the mission ‘to improve economic and social development in Asia and beyond through a focus on sustainable infrastructure, cross-border connectivity and private capital mobilization’. By the end of 2018, after three years of operation, AIIB had a multibillion (in USD) portfolio of 34 approved projects, with a further 23 formally proposed projects in the pipeline.

At the 2017 One Planet Summit, AIIB together with the other major MDBs reconfirmed the commitment to align their financial flows with the Paris Agreement. The announcement at COP24 in Katowice in December 2018 to develop a common framework for aligning their activities with the goals of the Paris Agreement in the course of 2019 is another positive step towards operationalisation.

The real litmus test is not the political alignment commitment as such, but rather the methods chosen to effectively put that commitment into practice and the level of transparency afforded to shareholders and stakeholders with regard to the current level of implementation and the forward-looking financial disclosure.

The analysis of the AIIB sustainable energy strategy and the overall bank strategy on Paris-alignment results in a mixed picture. While it formally entails the Paris-alignment commitment, the guiding principles are only partly aligned, and the same is true for the listed investment priorities. While investments in renewable energies are prominently placed in the strategy, natural gas appears to be considered in the strategy as equally relevant although less consistent with the Paris temperature goals, and oil- and coal-fired power plants are not excluded from investments. The strategy is missing clear and verifiable investment criteria to ensure Paris-alignment. While the energy sector strategy mentions alignment with NDCs as part of the implementation strategy, no reference is made to supporting and enhancing individual countries’ long-term strategies. The sector strategy also lacks both a sector-wide emission target and a climate finance target. The outcome and output indicators at portfolio level (energy consumption saved; renewable energy capacity installed; GHG emission reduction achieved) are good first steps, but insufficient to effectively monitor whether the Paris alignment commitment is on track to be met. As compared with good practice examples from other MDBs, the AIIB is not yet up to the mark.

The AIIB transport strategy does not yet reflect adequately the bank’s Paris-alignment commitment. It is less mature than the energy sector strategy, is of a transitional nature, and has much room for improvement. 2019, would be a good year to review the strategy. Such a review and amendment is a matter of urgency, considering that the transport sector appears to be the fastest growing investment sector, reflecting the high demand from clients.

The AIIB sustainable cities strategy, although referring to the Paris Agreement, does not yet include the necessary tools to be transparently and efficiently aligned with the Agreement’s temperature goals. For that to happen, the strategy should take on board alignment criteria and alignment tools. In principle, similar instruments could be used as in the energy and transport strategies. The cities strategy was published only at the end of 2018, and the respective project list is still very short. Thus, it is highly recommendable for the bank to revisit and upgrade the strategy now.
The Environmental and Social Safeguards should also be reviewed and strengthened, as they are not yet up to the mark, with regard to accountability, information disclosure and complaint handling.

The approved and proposed AIIB projects in Bangladesh, China, India and Central Asian countries seem to follow a business-as-usual trajectory rather than a clear Paris-aligned approach. So far, the AIIB has failed in these countries to promote a different approach than other development banks. It remains unclear whether, or how far, approved projects will contribute to achieving the temperature goals of the Paris Agreement.

The AIIB is a new bank. The review and amendment of its environmental and social safeguards, the further development of its sector strategies and project portfolios, and the elaboration of a Paris-alignment framework jointly with other MDBs, all announced for 2019, provide the decisive window of opportunity to put things on track. Thus, we recommend:

• Develop a joint definition of Paris alignment with the other MDBs, based on science.
• Prove that all projects proposed for approval are aligned with the Paris goals.
• Review the energy sector strategy, transport sector strategy, and sustainable cities strategy with a view to ensuring Paris-alignment by making it operational.
• Document, assess, disclose and discuss pilot experiences from the projects which were initiated between 2016 and 2018. Include stakeholders, seeking advice.
• Address the gaps and loopholes in the Environmental and Social Framework (ESF), which is based on principle but lacks clear, mandatory and publicly available implementation rules. Crucial are more substantive exclusion lists for investments, concrete timelines for disclosure, checklists, implementation tools and precise procedural safeguards.
• Strengthen AIIB’s institutional capacity and ensure the effective implementation and supervision of policies and projects. Also for projects implemented by intermediaries, the AIIB should guarantee effective channels for affected communities to raise complaints, and that complaints will be resolved effectively, and it should urge the intermediaries to improve the environmental and social risk management of their projects.
• Create an independent investigation unit that is kept strictly separate.
• The Board of Directors should set up clear provisions which ensure that lean and fast decision making will not compromise either the effective implementation of ESF or the development of a project portfolio that clearly reflects the Paris-alignment commitment.
• Ensure publication of all project relevant information 120 days prior to consideration of the project by the Board of Directors, and ensure a multi-stakeholder consultation is undertaken before project approval.
• Adopt a policy for CSO engagement.
• Include climate data and gross GHG emission data in the project information.
• Prioritise low-carbon infrastructure investments in line with the NDC, LTS and SDGs; Exclude coal- and oil-fired power plants and related infrastructure and instead promote lighthouse projects that showcase successful transitional approaches and technologies.
• Incentivise medium- and small-scale people-centred resilience building and green infrastructure projects. Allocate a certain budget share for these projects.
• Put all ‘Category A’ projects under special review.
Introduction

The 21st century is being postulated to become an Asian century, with urbanisation, ongoing population growth, digitalisation and smart technologies as key trends. At the same time, billions of people are still to be lifted out of poverty, and the increasing scarcity of resources and environmental degradation, particularly the global threat of climate change, represent huge challenges requiring that the current economic growth model of resource-intense industrialisation is replaced by a new paradigm of sustainable, climate resilient low-carbon development.

Infrastructure development – and how energy, mobility, housing and other basic needs of a growing population in Asia and beyond will be met – is a decisive factor, largely shaping future development and its sustainability. The financial investment needed to build tomorrow’s infrastructure is tremendous, estimated at USD 26 trillion by 2030 alone for Asia (Asian Development Bank 2017). It is in this context that the Asian Infrastructure Investment Bank (AIIB) was formally established in 2015. Its mission is “to improve economic and social development in Asia and beyond through a focus on sustainable infrastructure, cross-border connectivity and private capital mobilization” (AIIB 2018). The bank is committed to the three basic principles of ‘lean’ (with a small efficient management team and highly skilled staff), ‘clean’ (an ethical organisation with zero tolerance for corruption) and ‘green’ (an institution built on respect for the environment), and promotes its operations with the slogan ‘Let’s create tomorrow’ (ibid).

By the end of 2018, after three years of operation, AIIB had a multibillion (in USD) portfolio of 34 approved projects, with a further 23 formally proposed projects in the pipeline. This indicates the rapidly increasing relevance of this new multilateral development bank (MDB). It is the only one of its kind, apart from the New Development Bank (NDB), founded in 2014. The establishment of the NDB was the initiative of several emerging economies as an alternative to traditional MDBs, namely the World Bank Group (WBG) and the regional MDBs, ie, the Asian Development Bank (ADB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), and Inter-American Development Bank Group (IDBG).

Apart from its different type of ownership, with less political weight accorded to Western countries (ie, a limited voting share for them including Israel of slightly less than 27%), AIIB, is using the narrative of a “greener, cleaner tomorrow” (ibid) more explicitly than other MDBs. It has thus created high expectations of becoming the MDB for investments in sustainable development and the transformation to climate-resilient, low-carbon pathways.

In fact, MDBs have a key role to play in closing the huge financial gap that developing countries are facing with regard to sustainable infrastructure development. AIIB can create unique opportunities for cooperating and building bridges with both governments, sub-national entities and the private sector. However, to put its sustainability narrative into action, AIIB’s operations and investments will need to align with the Paris Agreement, most notably its goal to limit average temperature rise to well below 2°C and to pursue efforts to limit it to 1.5°C. In order to operationalise its investment strategies and project-level decisions with such an alignment, the bank will need a respective mandate, clear policies and criteria for investment decisions, respective assessment tools, institutional frameworks and rules of procedure.

With this paper we are aiming to providing a number of Paris temperature goal-aligned criteria that could be used by AIIB and its stakeholders as a first step (Chapter 1). The proposed alignment criteria build on proposals made by Germanwatch and by NewClimate Institute (2018). Our focus is specifically on AIIB’s energy sector and transport sector investment strategies, and on climate-specific requirements for the environmental and social framework. This focus was selected as investments in the energy and transport sector currently constitute the largest number of projects
in the AIIB project portfolio. The recently published ‘AIIB Cities Strategy’ will be briefly covered also.

Chapter 2 provides an overview of the thematically relevant AIIB strategies and policies, before assessing them against the criteria outlined in Chapter 1. Chapter 2 also covers the AIIB Environmental and Social Framework (ESF), and includes, where appropriate, references to good practice examples from other MDBs.

The third chapter begins with a short analysis of the AIIB project portfolio, looking at it from the angle of Paris temperature goal-aligned criteria. We then describe some preliminary lessons learned from selected projects in India and Bangladesh that have been co-financed by AIIB. This is embedded in further reflections on how AIIB is perceived and how it has already managed to shape the discourse on sustainable infrastructure development, covering experiences from Bangladesh, China, India, Russia and Germany.

The final chapter provides concluding observations and policy recommendations on how to strengthen the alignment of AIIB investments with the Paris Agreement goals, particularly the goal of limiting average global warming to 1.5°C, and with the Sustainable Development Goals, building on existing policies, strategies, safeguards and tools.

We hope the findings outlined in this paper will inform and inspire a broad range of AIIB decision makers and stakeholders as well as the broader public in AIIB member countries.

This paper was commissioned and produced by a consortium of NGO partners, with all of them working on cross-cutting issues of sustainable development in the context of climate change and sustainable investments. Consortium members originate from a broad range of AIIB member-countries, including Bangladesh (Center for Participatory Research and Development – CPRD), China (Greenovation Hub), Germany (Germanwatch), India (LAYA together with the Indian Network on Ethics and Climate Change (INECC)), and Russia (Russian-German Office for Ecological Information). Research was coordinated and findings were compiled by Thomas Hirsch, Climate & Development Advice (Germany).

The authors are grateful for the many inputs and comments they received. Those inputs do not imply any endorsement of this paper or its findings. The contents of this paper, as well as any errors, are the responsibility of the authors.
1. Aligning with the Paris Agreement: benchmarks of success

The world is at a crossroads, as the IPCC Special Report Global Warming of 1.5°C (2018) shows. Permanently overshooting the aspirational temperature goal set by the Paris Agreement would lead to huge and partly irreversible impacts on natural and human systems, especially in marine ecosystems, along low-lying coastlines, in large and densely populated delta regions, in hot megacities, and in semi-arid zones with water scarcity and rain-fed agriculture. Africa and Asia are projected to experience 85% of the global risk and 90% of the exposed population – with half that population in South Asia.

According to the IPCC, any temperature rise above 1.5°C would severely jeopardise the achievement of many of the 17 Sustainable Development Goals (SDGs), including, inter alia, SDG1 (No Poverty), SDG2 (Zero Hunger), SDG3 (Good Health), SDG6 (Clean Water), SDG8 (Decent Work & Economic Growth), and SDG11 (Sustainable Cities & Communities) (IPCC 2018). As a result, poor people would become poorer, inequalities would increase, and conflicts and humanitarian catastrophes would become more frequent (ibid). The IPCC report was the first to systematically examine the links between different scenarios of global warming and sustainable development. It was also the first to identify climate risks that can only be avoided by ambitious climate action, on the one hand, and, on the other, the tremendous socio-economic opportunities that can be realised by such ambitious climate action. The IPCC has thus shown that climate action and sustainable development are inseparable.

The time period that remains to avoid disastrous climate change from happening has become very short. The remaining carbon budget (see Glossary) to stay at 1.5°C or 2°C amounts to between 420 Gt and 1,300 Gt CO2 (IPCC 2018). Consistent pathways of 1.5°C require emissions to be reduced to 25 Gt per year by 2030 and to 30 Gt per year for a 2°C consistent pathway. These figures are 40% to 60% below the levels of emissions that would result if the current Nationally Determined Contributions (NDCs) – the national climate action plans with national emission reduction targets under the Paris Agreement – for 2030 remain unchanged, and between 29% and 40% below 2017 emission levels (42 Gt). This led the IPCC to conclude that unless mitigation ambitions are significantly raised no later than 2020, it will be almost impossible to prevent climate change from overshooting the 1.5°C threshold (ibid).

Fast and steep emission cuts require a fast socio-economic transition, enabled by more ambitious internationally cooperative and transformative policy frameworks and a strong shift in investments from unsustainable ‘brown’ (fossil fuels) to sustainable ‘green’ (renewable energies) investments. The IPCC calculates that the necessary energy investments between 2018 and 2050 for Asia alone are in the range of USD 300–1,300 billion per year (ibid).

Therefore, future infrastructure investment in Asia is one of the factors that will be decisive in staying at 1.5°C or overshooting this threshold. While China and India together will contribute 33% to global power production in 2040 (having already grown from 10% in 1976 to 28% in 2016), the share of OECD countries will go down by 2040 to 24% (having already fallen from 60% in 1976 to 38% in 2016). MDBs such as AIIB play a key role in this regard, first as investors and second as important setters of climate standards that inform governments, project developers and other investors. Will future energy demand in Asia be covered by green or brown energy? The future is still open and AIIB can make a big difference. While the Economic Research Institute for ASEAN and East Asia (EIRIA) estimate that the share of coal, oil and gas in the Asian power generation mix in 2040 will still dominate, with 71% even in the greenest scenario, renewable energy investments are already higher today and growing faster than those in fossil energies, due to rapidly declining cost
of renewables, and the proportion of the population getting electricity from renewables is project-
ed to increase from 30% (2000-16) to 61% (2017-30), according to data from the International En-
ergy Agency (IEA) (Tu 2018).

In 2016, the AIIB together with the WBG, ADB, AfDB, EBRD, EIB and IDBG, the Islamic Development
Bank and the NDB, issued the following statement, in which they commit to aligning their organi-
sations with the goals of the Paris Agreement. “In Paris, countries committed to make a leap for-
ward towards achieving climate resilience and net-zero emissions from 2050 onwards. MDBs are
deeply committed to this agenda and are aligning our organizations and our joint actions with it.
We are developing together a joint climate action partnership aimed at developing a more collab-
orative and coherent approach, within our respective institutional mandates, to working with
countries to implement their NDCs and develop their adaptive capacities. We will focus on scaling
up low-carbon and climate-resilient investments for sustainable infrastructure, including in partic-
ular speeding the energy transition consistent with the Paris Agreement. We will do this by aligning
our financial flows with the countries’ pathways to low-carbon and climate-resilient development,
by increasing the predictability and ease of access to concessional resources, such as the Green
Climate Fund, and by leveraging private finance for climate investments” (AIIB et al 2016).

At the 2017 One Planet Summit, AIIB together with the other major MDBs and the members of the
International Development Finance Club (IDFC) reconfirmed the commitment to align their finan-
cial flows with the Paris Agreement. To put this into action, they pledged, inter alia, to:

- “Redirect financial flows in support of transitions towards low-carbon and climate resili-
  ent sustainable development. Building on what is already being done, this will increase
  the overall amount or share of finance that goes towards climate action.

- Catalyze investments to address new economic, social and environmental challenges and
  opportunities related to climate change, in particular by using their capital to mobilize
  additional private capital and to blend their financing most effectively with other sources
  to drive climate action and results.

- Pursue the development of processes, tools, methodologies and institutional arrange-
  ments that make it possible to design and implement climate action at the required
  scale. This includes reinforcing the collaborative effort between DFIs [Development Fi-
  nance Institutions] to improve the quality, robustness and consistency of climate finance
  tracking and reporting through the sharing of best practices and knowledge and by in-
  creasing the transparency and accessibility of their climate finance data. It also involves
  the development of a common framework for tracking progress towards achieving resili-
  ence, to be shared by COP24” (AIIB et al 2017).

Aligning with the goals of the Paris Agreement includes committing to a set of three long-term
goals:

- “Holding the increase in global average temperature to well below 2°C (…) and to pursue
  efforts to limit the temperature increase to 1.5°C…” (Paris Agreement, Art. 2.1a).

- “Increasing the ability to adapt to the adverse impacts of climate change and foster cli-
  mate resilience…” (Paris Agreement Art.2.1b).

- “Making finance flows consistent with a pathway towards low GHG [greenhouse gas]
  emissions and climate-resilient development” (Paris Agreement, Article 2.1c).
1.1 Alignment criteria for AIIB strategies, policies and projects

Paris-alignment has several dimensions, as we have shown. In the following, we will primarily focus on aligning AIIB with the long-term temperature goals of the Paris Agreement. Following the definition developed by Germanwatch and the NewClimate Institute (2018), alignment with the Paris Agreement’s temperature goal (1.5°C/<2°C) is defined as:

“...the process towards a situation where all investments are either supporting the necessary transformation towards greenhouse gas (GHG) neutrality or have no significant impact on emissions. Any investment that would counteract achieving the Paris temperature goal(s) would need to be phased out. Such assessments need to be based on science, namely on emission pathways consistent with reaching the Paris temperature goal(s).”

Operationalising the alignment commitment thus principally requires climate assessments at the levels of:

• overall bank strategies (ie, investment targets, GHG emission targets)
• sector strategies (ie, prioritisation)
• and environmental tools or policies being used for individual project decisions (eg, exclusion lists).

These climate assessments – using different tools for the abovementioned three levels – should ensure that decisions on investment strategies, policies and projects are in line with emission trajectories consistent with 1.5°C/<2°C and with related so-called shared socio-economic pathways – that is, science-based, coherent, internally consistent and plausible descriptions of future routes for societal and economic development (for more details on pathways see Rogelj et al 2018).

In the climate assessment process, as we will see, alignment criteria are to be defined and further differentiated according to sectors (eg, energy, transport). Following this approach, which has been developed by Germanwatch and the NewClimate Institute (2018), each investment decision can, in the end, be classified as one of the following:

• Paris-aligned (investments that would support the achievement of the Paris goals)
• Only aligned under certain conditions (whether investments support the Paris goals depends on conditions to be further specified and assessed)
• Misaligned (investments that would undermine the Paris goals).

This proposed assessment approach would serve as a decision-making tool for the bank’s decision makers, owners, clients and other stakeholders to enable them to distinguish Paris-aligned from misaligned investment decisions, based on transparent and science-based criteria. Thus, it would significantly help to understand and avoid potential climate risks that could be caused by investment. It would also help to avoid stranded assets, ie, investments that have become worthless because of unanticipated or premature write-downs, as potential risks to investment. Furthermore, only transparent and science-based alignment criteria ensure that the bank’s general Paris-alignment commitment is implemented at the level of infrastructure investment decisions.

It should be noted that the scope of this report covers criteria in the energy and transport sectors – the two most important sectors in the current AIIB portfolio. Furthermore, the criteria reflect only the mitigation goal of the Paris Agreement and the goal of aligning financial flows. Further re-
search on criteria for additional sectors as well as criteria focusing on the adaptation and resilience goals of the Paris Agreement would be desirable.

1.1.1 Energy sector

The energy supply sector is the most GHG emission-intensive sector, accounting for about 30% of global emissions. According to the IPCC, energy supply needs to reach net zero emissions by around 2050, complemented by strong demand-side efficiency gains (IPCC 2018). The IPCC stresses that the following energy sector-related approaches will be key to success:

- fast electrification of energy end use
- full decarbonisation of electricity
- decarbonisation of the residual fuel mix as much as possible
- increased energy efficiency (including on the demand side for heating, cooling and lighting)
- lower energy demand
- digitalisation (smart grids and smart buildings/cities on the demand side (ibid)).

Thus, renewable energy (in particular wind, solar and small hydro) play the central role in future energy supply scenarios consistent with 1.5°C/≤2°C pathways. Views on bioenergy, nuclear and natural gas are less consistent, and fossil fuels need to be completely phased out by 2050.

Germanwatch and NewClimate Institute (2018) translated these requirements for a successful transformation of the energy sector into categories of energy supply-related investments, as shown in Table 1.

Table 1: Categorisation of investments in the energy sector in compliance with Paris-alignment

Source: Germanwatch/NewClimate Institute 2018

<table>
<thead>
<tr>
<th>Paris-aligned</th>
<th>Conditional</th>
<th>Misaligned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully aligned with the goals of the Paris Agreement across scenarios</td>
<td>Aligned depending on conditions</td>
<td>Misaligned with the goals of the Paris Agreement across scenarios</td>
</tr>
<tr>
<td>Solar energy</td>
<td>Energy transmission and distribution infrastructure</td>
<td>Coal-fired power plants with unabated emissions over their lifetime</td>
</tr>
<tr>
<td>Wind energy</td>
<td>Geothermal energy</td>
<td>Oil power plants</td>
</tr>
<tr>
<td>Small hydropower</td>
<td>Gas (power plants, distribution infrastructure)</td>
<td>Coal mining</td>
</tr>
<tr>
<td>Tidal, wave and ocean energy</td>
<td>Large hydropower</td>
<td>New upstream oil and gas exploration and production</td>
</tr>
<tr>
<td>System flexibility options (e.g., electricity energy storage, smart solutions, demand-side management)</td>
<td>Bioenergy, including bioenergy carbon capture and storage</td>
<td>Coal with carbon capture and storage Nuclear</td>
</tr>
</tbody>
</table>
In addition to investments in power plants and options that enhance flexibility of electricity systems to ensure reliable despatch despite increasing supply-side variability (due to greater shares of fluctuating wind or solar energy), investments in energy transmission and efficiency and demand-side management could be very relevant for the transformation of the energy sector. Most of these possible investments would first be classified as conditional, ie, further conditionalities need to be determined to finally classify them as Paris-aligned. Those investment areas shown in the last column of Table 1 should be put on an exclusion list, to exclude them from AIIB investments.

In order to fulfil its Paris-alignment commitment, the bank should clearly indicate its investment priorities and preferences, and the areas where it does not invest. These should be reflected in the bank’s general strategy, in sector or country strategies, in environmental and social safeguards, and in other project-related instruments (for instance, in environmental assessments and management plans, negative/exclusion lists, etc). For each of these levels, different tools are applicable, and the credibility and effectiveness of implementing a bank’s Paris-alignment commitments largely depend on the way these tools are designed and applied, as we will discuss below.

1.1.2 Transport sector

The transport sector is the second largest and the fastest growing emission sector, accounting for around 23% of global GHG emissions. According to the IPCC and its underlying integrated assessment models, the transport sector needs to reach net zero emissions in the first decades of the second half of this century at the latest, in order to stay at 1.5°C or 2°C respectively (IPCC 2018). The volume of emissions is determined by three major factors:

- activity levels (ie, how many people and how much cargo to be transported in person or metric ton kilometres)
- energy intensity (how much energy the activity uses, dependent on modes of transport and utilisation rate)
- emission intensity (emission factor of energy used).

Applying the ‘avoid, shift and switch principle’ is an important approach to reduce emissions: avoiding the need for transport where possible, shifting to less energy-intense modes of transportation, and finally improving the emission balance by lowering the emission intensity. To mitigate emissions from this sector, IPCC stresses that the following transport sector-related approaches will be key to success:

- electrification (15% of total GHG reduction potential) and increased energy efficiency (29% of total reduction potential)
- biofuels (36% of total reduction potential)
• behavioural change, eg, switch from individual to public transportation, transport avoidance, digitalisation of communication, etc (20% of total reduction potential) (ibid).

Transport infrastructure makes up a large proportion of MDB investments. Thus, this investment sector, next to the energy sector, is of critical importance not only for climate risk avoidance (caused by lock-in effects into high emission pathways) and Paris-alignment, but also to avoid stranded assets (given the long lifespan of transport infrastructure) and, in turn, to create positive change in the form of sustainable, low-emission alternatives.

Germanwatch and NewClimate Institute (2018) have analysed the transport sector in view of Paris-alignment criteria and propose the classifications shown in Table 2.

Table 2: Categorisation of investments in the transport sector in compliance with Paris-alignment

<table>
<thead>
<tr>
<th>Paris-aligned</th>
<th>Conditional</th>
<th>Misaligned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compatible with and contributing to decarbonisation of the sector assuming decarbonised electricity</td>
<td>Limited compatibility with a decarbonisation of the sector</td>
<td>Not compatible, increases emissions and dependency on fossil fuels, contributes to fossil fuel lock-in effects</td>
</tr>
<tr>
<td>Non-motorised transport (pavements and bike-lanes, bike-sharing infrastructure)</td>
<td>Road infrastructure</td>
<td>New road, rail, waterways and port infrastructure for coal and petroleum transport</td>
</tr>
<tr>
<td>Integration of transport and urban development planning</td>
<td>Diesel rail and rolling stock</td>
<td>New airports1</td>
</tr>
<tr>
<td>Electric rail and rolling stock (passenger and freight)</td>
<td>Port expansion for transport of non-fossil fuel freight</td>
<td></td>
</tr>
<tr>
<td>Inland waterways</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric vehicles and charging infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shore power-charging infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport and travel demand management measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No climate-related objection to approve investments in these areas</td>
<td>Approval of investments in these areas would be dependent on further conditionality, considering that these investments could cause new hurdles for shifting away from high-emission modes of transportation</td>
<td>The bank should exclude investments in these areas due to the fact that they are very likely misaligned with the goals of the Paris Agreement</td>
</tr>
</tbody>
</table>

1 The authors recognise that alternatives for air travel are more limited compared to other investment areas. This highlights the need for further investigation into fuel alternatives for air transport.
Many proposed investment projects in the transport sector will probably fall into the category of conditional Paris-alignment, making further assessments necessary to ultimately be able to take transparent and fact-based decisions. Climate impact assessment tools including GHG accounting, emission benchmarks, shadow carbon pricing and qualitative evaluation matrix tools can be useful instruments in this regard and should be complemented by decision trees taking into consideration country-specific circumstances (see, for example, Germanwatch/NewClimate 2018).

In the transport sector, it is not the infrastructure itself that directly emits, but rather the transport and economic activities it induces. The Paris-alignment approach for the transport sector should therefore be much more focused on context, also looking at the specific factors and policy frameworks in place, and assessing how far they contribute to a low-carbon use of the infrastructure (ibid). Decisions on infrastructure investments in the transport sector should thus always take into consideration the broader context of the respective infrastructure project: that is, the multiple factors affecting transportation demand – demographics, economics, technology development, behavioural change, urbanisation or carbon pricing. Impact chains and decision trees can help to make well-informed decisions, taking into consideration the broader context of a specific infrastructure investment.

1.1.3 The role of environmental and social safeguards

Environmental and social safeguards are essential tools to prevent and mitigate undue harm to people and the environment. Safeguard policies ensure that potential investment risks for the people and the environment affected are duly identified, documented, addressed and mitigated, that residual damage is compensated in a transparent way, and that rights holders can claim their rights and have due access to complaint mechanisms. Additionally, safeguard policies provide the framework for consultation with affected communities and public information disclosure during the entire project cycle, from the project design phase to implementation and operation. Safeguard policies define the respective requirements, standards, accountability measures and complaint procedures, and contain instruments such as environmental and social impact assessments. Probably the most well-known safeguard policies are those of the World Bank, with the new Environmental and Social Framework (ESF) that entered into force on 1 October 2018 and consisting of 11 Operational Policies.2

While due-diligence frameworks regarding social and environmental impact first become an issue in MDBs in the 1980s, the World Bank’s first formal Environmental and Social Safeguard Policies were adopted only in 1997, to be applied at individual project level. Since then, the discourse and understanding of safeguards has gradually developed from a discourse focused on defence rights and minimum standards to a wider discourse on sustainability, increasingly also including climate change-related considerations. Compared to what would be needed to use ESF as a powerful tool to ensure stringent implementation of MDBs’ Paris-alignment commitments at project level, the development and application of climate assessment tools are still in their infant stage, and climate tools as described in the AIIB’s ESF (as well as in sector strategies) are not as fully established and mandatory in MDB toolsets as they should be.

The most relevant climate assessment tools that should be used to ensure alignment of project investments with the Paris Agreement goals are shown in Table 3. These tools can be used as the

Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement and the SDGs

First step and as knock-out criteria in a more refined analysis or decision tree. To ensure alignment, further tools will be needed, which will likely have to take into consideration science-based country- or project-specific characteristics. These can be described in country strategies, sector strategies or sector strategy guidelines. For transport and electricity supply sectors, examples of decision trees to assess alignment can be found in Germanwatch/NewClimate Institute 2018.

Currently, not all MDBs note the use of the tools below in the ESF document. Depending on the bank, their application is found in a number of different documents, including ESF, sector strategies, separate climate strategies, etc. To ensure consistent use of major tools in all projects it would be useful if each ESF contained a section on climate, including the tools used at project level and links to respective sector documents where sector-specific implementation of climate tools could be described in more detail.

Table 3: Project-level assessment tools applicable for aligning investments with the Paris Agreement goals

Sources: Germanwatch/NewClimate Institute 2018 and World Resources Institute/Germanwatch/NewClimate Institute 2018, updated by authors in January 2019

<table>
<thead>
<tr>
<th>Tool</th>
<th>Description</th>
<th>Applicability for Paris-alignment assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative (exclusion) list</td>
<td>Exclusion of investments in certain project types, eg, coal-fired power plants (WBG, EBRD), exploration of new oil fields (WBG, ADB, AfDB, EBRD), exploration of new gas fields (WBG, ADB, AfDB), extraction of oil (ADB, WBG), commercial logging in primary tropical forest (AIIB, AfDB, ADB, EIB, IDBG)</td>
<td>High to exclude clearly misaligned projects. Further tools or decision trees needed to assess alignment</td>
</tr>
<tr>
<td>Positive list for climate finance</td>
<td>Incentivise jointly defined mitigation and adaptation activities and investments (all MDBs, except AIIB and NDB)</td>
<td>High for category of fully aligned projects</td>
</tr>
<tr>
<td>Emission benchmarks</td>
<td>Defined emission performance standards, eg, for electricity production (EIB); requirement of best available technology benchmarks (ie, EBRD, EIB)</td>
<td>High to exclude clearly misaligned projects. Further tools or decision trees needed to assess alignment, unless level is set at zero emissions/energy use (eg, for buildings)</td>
</tr>
<tr>
<td>Shadow carbon pricing</td>
<td>Provision of simulated price incentives to reduce emissions, applied during the cost-benefit analysis of an emission-intense project to inform decision-making (ADB, EBRD, EIB, WBG. Under development for AIIB)</td>
<td>Low to high depending on the type of project. Suitable to identify financial risks and to show sensitivity and competitiveness under different scenarios of more ambitious climate-policy frameworks. Further tools needed</td>
</tr>
</tbody>
</table>
1.2 Good practice among other multilateral development banks

As mentioned above, different tools set to ensure alignment of bank investments with the goals of the Paris Agreement should be applied at bank strategy level, country and/or sector strategy level, and project level (ibid).

With regard to the latter, the WBG and EBRD have, relatively, the most strict exclusion of coal projects in its negative list, and the World Bank has set good practice in excluding all upstream oil and gas activities after 2019. In terms of positive lists, the MDBs (except AIIB and NDB) have agreed on harmonised criteria for climate mitigation and adaptation finance, and have agreed to prioritise these investments. With regard to emission benchmarks, EIB is the only MDB using its own emission benchmark for power generation apart from those required by national or regional legislation. Currently, shadow carbon pricing is applied only by ADB, EBRD, EIB and WBG, with only the EBRD and WBG applying shadow carbon price levels suggested by the High Level Commission on Carbon prices in order to align financial flows with the Paris Agreement. It is recommended that IDB project approval teams use a shadow carbon price assumed for 2020. The AIIB states that it will use shadow carbon pricing for sensitivity checks, although the supporting methodology and guidelines are still under development (ibid).

At bank strategy level, key tools to support alignment are portfolio-wide GHG accounting and portfolio emission targets, climate finance targets, and Paris-aligned standards for intermediary lending and for the support of enabling political environments through policy-based lending (ibid). Table 4 provides an overview on good practice examples.

Table 4: Good practice examples of tools at bank strategy level that support alignment with the Paris Agreement goals

<table>
<thead>
<tr>
<th>Tool</th>
<th>Good practice</th>
<th>Applicability for Paris-alignment assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross GHG emission target</td>
<td>No bank is currently using this tool</td>
<td>High for entire project portfolio; should be at net zero by 2050</td>
</tr>
<tr>
<td>Target of avoided emissions</td>
<td>IDBG (8 million metric tons avoided between 2016 and 2019).</td>
<td>Complementary to portfolio-wide GHG emission target</td>
</tr>
<tr>
<td></td>
<td>IFC (22 million metric tons between 2016 and 2019)</td>
<td></td>
</tr>
<tr>
<td>Target year for emission peaking of portfolio</td>
<td>ADB (emission peaking by 2030)</td>
<td>Complementary to portfolio-wide GHG emission target</td>
</tr>
</tbody>
</table>
At the level of country or sector strategies, all MDBs committed to supporting client countries to implement and enhance their Nationally Determined Contributions (NDCs) and 2050 long-term low-emission strategies (LTS). Policy-based lending would be a suitable instrument to support client countries in preparing for or implementing ambitious climate policy reforms aligned with the goals of the Paris Agreement. However, policy-based lending has so far only been used to a limited degree by MDBs for this purpose and AfDB is the only bank referring explicitly to climate change in its guidelines on policy-based lending.

Bank sector strategies, eg, for energy or transport, should reflect a Paris temperature goal-alignment commitment and make explicit reference to it. Strategies should provide clear guidance for sector investments, revealing how the Paris-alignment commitment would be implemented and the tools for performance monitoring. GHG accounting, preferably combined with sector emission targets, should be applied; project-related tools, such as positive and negative lists, emission benchmarks, shadow carbon pricing and climate finance targets should also be used. While no MDB is using the full set of tools, the World Bank Group’s announcements at the One Planet Summit 2017 and at COP24 in 2018 included important elements of a Paris-alignment strategy, as for example:

• the exclusion of financing for upstream oil and gas after 2019 (in addition to exclusion of coal)
• doubling of climate finance for the five-year period after 2020
• GHG accounting in six key emitting sectors and application of shadow carbon pricing to all projects subject to GHG accounting.

These criteria have been rightly flagged up by Germanwatch/NewClimate Institute (2018) as important elements of aligning MDB sector strategies with the goals of the Paris Agreement.

To conclude, robust implementation of Paris temperature goal-alignment commitments is essential for success and requires the application of a set of tools at bank, sector and country strategy levels, and at project level. Thus, the real litmus test for MDBs is not the political alignment commitment as such, but rather the methods chosen to effectively put that commitment into practice and the level of transparency afforded to shareholders and stakeholders with regard to the current level of implementation and the forward-looking financial disclosure of climate-related risks and opportunities (ibid). With regard to the latter, the Task Force on Climate-related Financial Disclosures (TCFD), established and mandated by the G20 in 2015 to develop recommendations on climate-related disclosures that would support appropriate assessments of climate-related financial risks and opportunities, has suggested a disclosure framework covering governance, strategy, risk management, metrics and targets that should be implemented by all MDBs and other actors in the financial sector (TCFD 2017). EBRD set a benchmark in 2018 as the first MDB to endorse the TCFD recommendations (EBRD 2018), followed by World Bank Group member International Finance Corporation (IFC 2018).

3 The WBG has doubled its absolute climate finance target for the period 2020-25 (WBG 2018) and the ADB wants to ensure that 75% of its committed operations (three-year rolling average) support climate finance mitigation and adaptation (ADB 2018)
It is important to note that the Paris-alignment commitment should guide all MDB operations, including not only direct project investments across all sectors, but also policy-based lending and investments made through financial intermediaries. Accordingly, the same set of alignment principles, rules and, where appropriate, tools should be applied. This should result in phasing out all misaligned investments as soon as possible, while unambiguously aligned projects should be prioritised.

## 2 AIIB strategies and policies

### 2.1 Brief description and background of the AIIB

In 2014, the memorandum was signed to establish the AIIB as a multilateral development bank with the mission to improve economic and social development in Asia and beyond through a focus on sustainable infrastructure development, cross-border connectivity and private capital mobilisation. Headquartered in Beijing, AIIB opened for business in January 2016. That same year, the bank’s inaugural session took place, key policies were agreed and the first four projects were approved.

By the end of 2018, AIIB had grown to 69 approved members worldwide (with another 24 countries listed as prospective members), more than half of them from the Asia-Pacific region. The bank has a capital stock of about USD 100 billion, with 77% originating from its home region, and an excellent AAA credit rating, being on par with the World Bank Group and its sister banks, all of which have been well established for many years.

The main shareholders and their percentage in capital subscriptions and voting power (as of 1 January 2019) are shown in Table 5.

<table>
<thead>
<tr>
<th>Member</th>
<th>Percentage of total capital subscriptions</th>
<th>Voting power in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (including Hong Kong in brackets)</td>
<td>30.9% (31.7%)</td>
<td>26.5% (27.4%)</td>
</tr>
<tr>
<td>India</td>
<td>8.7%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Russia</td>
<td>6.8%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.7%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Korea</td>
<td>3.9%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Australia</td>
<td>3.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>France</td>
<td>3.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.2%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Italy</td>
<td>2.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Table 5: Main AIIB shareholders

The highest governing body is the Board of Governors, where each AIIB member is represented with one governor equipped with a voting power that by and large reflects the capital subscription held by the member, plus extra shares for founding members. The Board of Governors usually meets not more than once a year, and delegates the power to decide on policies, strategies, budgets and investments to the non-residential board of 12 directors, nine from regional and three from non-regional (i.e., outside the Asia-Pacific region) member constituencies, where voting power is exercised in a similar way. Since all major decisions must be taken by at least three-quarters of the total voting power, China, with its voting share of 26.5% (27.4% including the votes of Hong Kong), has a veto power. In turn, the same is true for Western countries, with their total vote share of 27.9% (as of 1 January 2019).

The staff of the bank is headed by the AIIB president and chairperson of the Board of Directors. The president is elected by the governors for a five-year term and can be re-elected once. The AIIB president, currently Jin Liqun, is always nominated by China, as this founding member state has by far the largest contribution to capital stock. The president is supported by five vice-presidents, currently originating from India, Indonesia, France, Germany and the UK. The fact that the Board of Directors is a non-residential board, and thus meets only periodically, raises the question of the degree to which it can actually exercise effective oversight. One could argue that the governance system altogether reflects an approach of concentrating power with the AIIB president – a management model more typical of private banks than for MDBs.

Over its first years of existence, AIIB has developed a full set of basic documents, policies and directives, frameworks and strategies in record time. Some of these will be further assessed in the following chapters. An overview of the most relevant documents and how to access them is shown in Table 6.

Table 6: List of selected AIIB basic documents, policies, directives, frameworks and strategies

<table>
<thead>
<tr>
<th>Category</th>
<th>Document</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AIIB Bye-Laws</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rules of Procedure of Governors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rules of Procedure of Directors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Paper on the Accountability Framework</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulation on the Accountability Framework</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Policy on the Project-affected People’s Mechanism</td>
<td></td>
</tr>
<tr>
<td>Directives</td>
<td>Directive on Environmental and Social Policy</td>
<td><a href="https://www.aiib.org/en/about-aiib/who-we-are/role-of-">https://www.aiib.org/en/about-aiib/who-we-are/role-of-</a></td>
</tr>
</tbody>
</table>
As of 1 January 2019, the bank had approved 34 projects, with a total volume of USD 7.5 billion contributed by the bank. The principal clients of the bank so far have been India (eight projects approved), followed by Indonesia (five projects approved), Azerbaijan, Oman, Pakistan, Bangladesh, Turkey and Egypt, the latter being the only non-regional borrower to date.

In its initial three years, AIIB made most of its investments in co-financing operations led by other MDBs. However, a new trend sees more AIIB investments going into projects without other co-funding MDBs. The list of proposed, not yet approved, projects indicates that the bank will accelerate this trend towards more stand-alone investments in 2019. This will give it more space to demonstrate how it will apply its core values of 'lean, clean and green', and how that contributes to fulfilling the pledges made at its 2018 Annual Meeting: being the fastest MDB (regarding project approvals), duly respecting the national priorities of its clients, and being able to massively mobilise private capital.

The most important investment instruments are sovereign-backed loans, with their long average duration of 20 years, and up to 35 years, as their main concessional element. Other investment instruments are non-sovereign-backed financing, provided at market conditions, for instance to sub-sovereign public entities, equity investments at minor scale, and – as planned for the future – guarantees.

The standard project cycle starts with strategic programming at sector and country level, using criteria-based screening. This is followed by the submission and assessment of project concept notes, seeking due diligence to confirm the project’s viability, and leading to draft agreements. In a next step, a project can be approved, depending on its scale and other characteristics, either by the bank’s president or the Board of Directors.

This process of decision-making rules, as laid down in the AIIB Accountability Framework (2018b) is untypical of a multilateral development bank, as it concentrates decision-making power at presidential level and departs substantially from the established organisational style of other MDBs, where it is the privilege and distinguished role of boards of directors to decide jointly on investments. AIIB promotes this approach as a new model of governance, presumably meant to enable its clients to access investments efficiently, or to implement its aim to be a ‘lean’ bank, by deciding significantly faster on projects than other MDBs can. It is questionable, however, whether such an approach serves the interest of achieving a project portfolio that is well aligned with the bank’s strategies and its Paris-alignment commitment, considering that decisions on strategies, which remain with the Board of Directors, are at least partly separated from decisions on projects, now made by the president alone. Such an approach can undermine chains of accountability at governance level, as pointed out by critical observers of the bank. It remains to be seen how this set-
up, which was established only recently, will work out in practice, and how it might affect accountability in terms of monitoring project implementation and compliance through the bank’s institutions and its shareholders. We will address this issue further in sections 2.5 and 2.6.

### 2.2 AIIB Energy Strategy: assessment against alignment criteria and good practice examples

The Energy Sector Strategy: Sustainable Energy for Asia (AIIB 2018c) is aimed at “providing the framework, principles, and operational modalities to guide the Bank’s energy sector engagement, including the development of its project pipeline and future sub-sectoral lines of business” (ibid).

AIIB is committed to following the principles of the Sustainable Energy for All (SEforAll) Initiative, the 2030 Agenda for Sustainable Development, especially SDG7 – Access to Clean Energy, and the Paris Agreement (ibid).

The starting point of the strategy is the assumption that the energy sector makes up the largest share of the infrastructure funding gap for Asia, which is estimated at USD 26 trillion by 2030, and thus, that investments in the provision of access to modern and sustainable energy are AIIB’s top priority. The bank states that such investments would entail fulfilling the bank’s three thematic priorities: (i) sustainable infrastructure development; (ii) cross-country connectivity; and (iii) private capital mobilisation; consistent with the bank’s three so-called core values – ‘lean, clean and green’.

The largest section of the strategy consists of an analysis of the energy trends, potentials and challenges in the Asia-Pacific region, and, above all, an evaluation of lessons learned from other MDB energy investments in Asia. They are summarised as follows:

- Investments in transmission and power grids are the least complicated
- Renewable energy and energy-efficiency investments, especially at demand-side level, are fragmented, require specialised skills, and include in most cases a grant or concessional financing component
- Addressing institutional issues (as, for instance, enabling policy frameworks) requires extensive policy analysis and dialogue, and often the provision of technical assistance
- The demand for investments in oil and gas extraction is high, but risks are also very high.

Next, the bank defines six guiding principles for building-up the energy investment portfolio in its initial years of operation:

- Principle 1: Promote energy access and security: The focus is put on access to modern energy, not sustainable, renewable or clean energy. A definition of modern energy is lacking.
- Principle 2: Realise energy efficiency potential: The initial focus will be on “rehabilitation and upgrade of existing generation plans” and “aggressive loss reduction and utility-driven energy efficiency programs in power and gas transmission and distribution networks”.
- Principle 3: Reduce carbon intensity of energy supply: Specific reference is made to the long-term goals of the Paris Agreement, and the need to shift investments toward a low-carbon energy mix. “The Bank will support and accelerate its members’ respective transitions toward a low-carbon energy mix through investments in renewable energies and reduction of carbon emissions from fossil fuels” (ibid).
Principle 4: Manage local and regional pollution: “New projects are now being developed by MDBs and bilateral agencies to address local pollution specifically and comprehensively, to counter the negative impacts on health and wellbeing. The Bank will cooperate with other MDBs and bilateral agencies on these initiatives.”

Principal 5: Catalyse private capital: The bank stresses its role in catalysing private investments in energy infrastructure projects in non-OECD countries, eg, by improving risk sharing in public-private partnership projects, in order to bridge the huge investment gap identified, including in less-developed countries.

Principal 6: Promote regional connectivity and cooperation: The focus is put on power and gas, in order to increase energy security and improve the efficiency of energy supply.

Based on these evaluation results, the trend analysis and the bank’s thematic priorities and core values, AIIB has set the following implementation priorities for the years to come:

- Sectoral priorities:
  - power grid infrastructure development
  - energy efficiency improvement
  - renewable energy investments (hydropower, wind, solar, geothermal, biomass, and storage capacity)

- Address knowledge gaps to foster technical innovation
- Align AIIB investments with NDC implementation
- Local and regional pollution management
- Least-carbon technology for fossil-fuel power generation (mainly gas-fired power plants: “Oil- and coal-fired power plants only to be considered for investment if they replace existing less-efficient capacity or are essential to the reliability and integrity of the system, or if no viable or affordable alternative exists in specific areas” (ibid))

- Regional integration in oil and gas processing, transportation and distribution: “The Bank will support such investments provided that they improve energy security or promote regional integration and trade. The Bank will also 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” (ibid).

- Climate change adaptation projects: The Bank commits to partner with other MDBs or bilateral agencies to support projects aimed at ensuring higher resilience of energy infrastructure to climate change in the Asian countries most threatened by climate change.

- Address cross-cutting issues such as capacity development, technological innovation, sustainability and gender.

The resulting monitoring framework aims to monitor outputs and outcomes from energy project investments and is closely related to the abovementioned guiding principles:
Table 7: Result monitoring framework for the AIIB energy sector strategy

Source: AIIB (2018c)

<table>
<thead>
<tr>
<th>Guiding principles</th>
<th>Portfolio-level indicators</th>
<th>Investment amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promote energy access and security</td>
<td>Generation capacity/megawatt (MW); transmission lines/pipelines/km; households with increased access</td>
<td>Amount of bank investments</td>
</tr>
<tr>
<td>Realise energy efficiency potential</td>
<td>Energy consumption saved/GWh</td>
<td>Amount of bank investments</td>
</tr>
<tr>
<td>Reduce carbon intensity of energy</td>
<td>Renewable energy capacity installed/GHG emission reduction</td>
<td>Amount of bank investments</td>
</tr>
<tr>
<td>Manage local and regional pollution</td>
<td>Reduction of CO₂, NOₓ, SO₂, etc</td>
<td>Amount of bank investments</td>
</tr>
<tr>
<td>Catalyse private capital</td>
<td>Reference to indicators in Strategy on Mobilizing Private Capital</td>
<td>Amount of non-sovereign backed energy investments</td>
</tr>
<tr>
<td>Promote regional connectivity</td>
<td>Eg, cross-border gas transmission</td>
<td>Amount of bank investments</td>
</tr>
</tbody>
</table>

A comparison of the AIIB sustainable energy strategy – and the explicitly and implicitly embedded overall bank strategy on Paris-alignment – with our criteria for alignment, results in a mixed picture. While the strategy formally entails the Paris-alignment commitment (although without explicit reference to achieving net zero emissions in the energy sector by 2050), the guiding principles are only partly aligned (mainly principles 2 and 3), and the same is true for the listed investment priorities. Furthermore, no clear reference is made to the set of abovementioned energy sector-related priorities pointed out by the IPCC, for instance to the fast electrification and full decarbonisation of energy end use. While investments in renewable energies are prominently placed in the strategy, natural gas appears to be considered in the strategy as equally relevant although less consistent with the Paris temperature goals, and oil- and coal-fired power plants are not excluded from investments. Nuclear energy is the only energy investment that is clearly excluded.

In view of the fact that the strategy includes many technology options that are categorised as conditional (gas, large hydro, energy transmission, etc) or even misaligned with the Paris temperature goals (eg, oil-power plants), it would be of utmost importance for the strategy to include clear and verifiable criteria under what conditions investments in potentially harmful projects would be possible. Unfortunately, this is not the case: the conditionalities listed, if at all, are lacking clear benchmarks, for example emission thresholds for power plants.

While the energy sector strategy mentions alignment with NDCs as part of the implementation strategy, no reference is made to supporting and enhancing individual countries’ long-term strategies, which are more important for energy investments, and usually long term. The sector strategy also lacks both a sector-wide emission target and a climate finance target. A portfolio emission target, or other measurable milestones and specific alignment tools, are also missing. The outcome and output indicators at portfolio level (energy consumption saved; renewable energy capacity installed; GHG emission reduction achieved) are good first steps, but insufficient to effectively monitor whether the Paris alignment commitment is on track to be met. To this end, gross numbers of energy consumption or GHGs emissions of the project would be necessary.

In comparison with other MDBs, the AIIB is not yet setting new standards in terms of Paris-alignment, and falls short on one’s expectations in view of much-stressed core principles of being ‘lean, green and clean’. Lofty goals and the use of catchy buzz words cannot replace a robust set of
implementation guidelines, tools and criteria. As compared with good practice examples from other MDBs, for example the WBG with regard to exclusion lists, incentives for green projects and climate-related disclosure (see above), the AIIB is not yet up to the mark.

To bridge these gaps at energy strategy level, it is recommended that the AIIB review and revise its strategy, a step the bank indicated would take place in 2019, after its first three years of operations. Before that, the bank might analyse the proposals for Paris-alignment criteria and tools made, inter alia, by Germanwatch/NewClimate Institute (2018), and the approaches chosen by other MDBs. The AIIB is still in an early pilot phase, and the project portfolio in the energy sector so far is not yet completely Paris-misaligned (see Chapter 3), but there are considerable risks that the bank will fail to align its energy investments with the Paris Agreement, let alone that set a new and higher standard. On the contrary, without substantial specifications and the consequent introduction of climate tools, AIIB energy sector investments might set a negative precedence compared with its competitors in terms of Paris-alignment. Altogether, the bank as a very new but important player still has potential to become a key partner for its clients in shifting investments toward a zero-carbon sustainable energy supply in Asia. It should grab this great opportunity, rather than falling behind other MDBs.

2.3 AIIB Transport Strategy: assessment against alignment criteria and good practice examples

The Transport Sector Strategy: Sustainable and integrated transport for trade and economic growth in Asia (AIIB 2018d) is aimed at “financing the development of sustainable and integrated transport systems that promote trade and economic growth in Asia”, with a focus on “high quality and sustainable infrastructure that would enhance connectivity (ibid).

The transport strategy does not explicitly mention the Paris Agreement, let alone an alignment commitment, but it refers to the SDGs. Compared with the energy sector strategy, it appears to be a less consolidated strategy, entailing less fixed principles, but rather outlining strategic directions and priorities for the first few years only. “As a young organization, AIIB will retain sufficient flexibility in the initial years, financing less-complex projects as it builds up its operational capacity” (ibid). This more tentative and transitional character of the strategy is also reflected in the provisional build-in approach to its impact measurement in terms of GHG emission reduction. “Measuring greenhouse gas emissions of transport infrastructure is desirable, but technically complex, and still faces methodological and practical challenges. AIIB will build such capacity over time and be informed by the lessons learnt from other MDBs and ongoing development of methodologies.”

The starting point of the strategy is the estimation of huge annual investment needs for transport infrastructure in Asia in a range of USD 500–900 billion (covering passenger and freight transport by road, rail, air and shipping). The bank considers its own primary role in investing in transport infrastructure projects of middle financial viability, ie, projects with significant economic return but without sufficient return to attract stand-alone private finance. Thus, it is assumed that the banks’ financial engagement would also catalyse private capital.

The strategy sets out the following investment priorities:

• trunk links, ie, transport projects that remove transport bottlenecks between major urban centres or key economic areas
• cross-border connectivity, especially road and rail connections, but also nodal hubs like airports or ports
Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement and the SDGs

- transport integration, i.e., integrated transport solutions, e.g., railways integrated with urban transport systems
- upgrading of existing infrastructure to meet growing transport needs.

The AIIB lists a number of approaches to guide effective and efficient implementation:

- ensuring economic and financial viability
- mobilising private capital
- promoting environmental and social sustainability: The bank pledges to promote strategic environmental and social assessments as a planning tool in the early project identification phase, “encouraging its clients” to conduct such assessments. During project implementation, all co-financed projects are required to minimise environmental and social risks and impacts, “in line with the provisions of AIIB’s Environmental and Social Framework and Policy” (ibid). In other words, compliance with AIIB’s Environmental and Social Framework (ESF) is obligatory for transport projects, and the ESF safeguards will be the main tools to ensure Paris-alignment of transport projects. Apart from its ESF, the bank also refers to the “Avoid, shift and switch” approach (see also section 1.1.2), promising to “build these considerations into its project selection and work with clients in project design to promote greener technology choices”. Promoting rail and high-speed rail, greener aviation fuels, electrification and roadside battery charging infrastructure are other elements listed in the transport strategy as potential ways to reduce carbon emissions, and potential areas for cooperation and learning from, inter alia, other MDBs, as stated by the bank
- developing strategic partnerships, mentioning, inter alia, the Belt and Road Initiative
- embracing innovative and proven technologies, for instance electric barges and ships.

It appears from the strategy that the bank considers its own operational capacity in the transport sector as premature, and that it will focus, for the time being, on joint co-financing projects with other MDBs, in order to first develop its internal capacities for sector policy, management capacity for due diligence and project supervision, before investing in more complex and stand-alone projects.

The result monitoring framework aims at monitoring outputs and outcomes from transport project investments at a rather superficial level, and without any indicator that would allow for monitoring implementation of the Paris-alignment commitment.
Table 8: Result monitoring framework for the AIIB transport sector strategy

Source: AIIB (2018d)

<table>
<thead>
<tr>
<th>Investment priorities</th>
<th>Portfolio-level indicators</th>
<th>Investment amount (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economically viable trunk and strategic infrastructure:</td>
<td>Capacity increase of road/rail:</td>
<td>Amount and percentage of investment aligned to key priority in transport portfolio</td>
</tr>
<tr>
<td>Trunk links</td>
<td>Passenger kilometres per annum</td>
<td></td>
</tr>
<tr>
<td>Cross-border connectivity</td>
<td>Ton kilometres per annum</td>
<td>Amount and percentage of investment not aligned to key priority but to address client demands</td>
</tr>
<tr>
<td>Transport integration</td>
<td>Capacity increase of nodes:</td>
<td></td>
</tr>
<tr>
<td>Upgrade of existing infrastructure</td>
<td>Passengers handled per annum</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tons of freight handled per annum</td>
<td></td>
</tr>
<tr>
<td>Catalyse private capital</td>
<td>Reference to indicators in Strategy on Mobilizing Private Capital</td>
<td>Amount of non- sovereign-backed energy investments</td>
</tr>
</tbody>
</table>

Comparing the AIIB transport strategy with our criteria for alignment clearly indicates that the transport sector strategy is little aligned with the Paris Agreement. While some buzz words are there, the strategy does not reflect an attempt at systematic alignment, nor does it include alignment tools at bank, sector or project level, such as:

- clear and verifiable criteria under which investment in potentially harmful projects would be possible to ensure Paris-alignment
- a sector-wide or portfolio emission target
- positive or negative lists to specifically promote fully aligned and exclude misaligned projects
- alignment with NDCs and LTS of client or member countries
- a climate finance target for the transport sector.

The result monitoring framework, as set up so far, is not yet appropriate for monitoring the implementation of the Paris alignment commitment. The bank itself has taken note of the weakness and preliminary character of the monitoring framework (ibid). It is highly recommended that the bank overcome this and other shortcomings very soon. Transport infrastructure makes up a large and growing proportion of AIIB investments (see Chapter 3). Thus, as stated before, this investment sector, next to the energy sector, is of critical importance. Not only for climate risk avoidance (caused by log-in effects into high emission pathways) and Paris-alignment, but also to avoid stranded assets (given the long lifespan of transport infrastructure) and, in turn, to create positive change in the form of sustainable, low-emission alternatives. The first very essential step would be for AIIB to formally endorse the Paris Agreement temperature goals in its transport sector strategy at the level of overarching principles. The second step should be to further elaborate what this alignment commitment implies at the level of sectoral investment priorities. In a third step, a set of tools or decision trees to guide implementation (see Chapter 1) should be developed. Finally, the monitoring framework should be amended by verifiable alignment criteria.

To conclude, the AIIB transport strategy does not yet reflect adequately the bank’s Paris-alignment commitment. It is less mature than the energy sector strategy, is of a transitional nature, and has much room for improvement. This year, 2019, would be a good year to review the strategy in this regard, before the next tranche of projects is approved and before the project pipeline becomes
too long. Such a review and amendment is a matter of urgency, considering that the transport sector appears to be the fastest growing investment sector, reflecting the high demand from clients. Such an amendment might not predetermine the outcome of the regular, more intense review, but should be a first and flexible step to fix a problem. The AIIB, as a lean bank, should be able to take such a necessary step quickly. This should be all the more true considering the high risk of long-term transport infrastructure investments ending up as stranded assets, if, for instance, future carbon pricing was not factored in adequately.

2.4  AIIB Cities Strategy: a first view on coherence with the Paris Agreement

The Sustainable Cities Sector Strategy: Financing Solutions for Developing Sustainable Cities in Asia (AIIB 2018e) is aimed at “providing financing solutions with distinct capabilities in supporting subnational entities and mobilizing private capital, for developing sustainable cities that are green, resilient, efficient, accessible, and thriving in Asia” (ibid).

The AIIB sustainable cities strategy was adopted in the end of 2018. Two of its five objectives are:

• being green, ie, protecting and enhancing environmental sustainability, including climate mitigation

• being resilient, ie, developing the ability to withstand both sudden shocks (eg, natural disasters) and slow-onset impacts (eg, climate-induced impacts).

The other three objectives are: being efficient, being accessible and thriving. The five objectives are framed in the context of “broader global goals, such as the Sustainable Development Goals, New Urban Agenda, Paris Agreement (…) and Sendai Framework for Disaster Risk Reduction” (ibid).

The starting point of the strategy is the recognition of another huge infrastructure investment gap, adhering to the assumption that “AIIB is well-positioned to support the sustainable development of cities given its ability to directly finance not only national governments, but also subnational entities, including provincial and city governments and agencies, as well as state-owned and municipal-owned enterprises” (ibid). These clients, according to the AIIB analysis, face more difficulties in accessing financial markets, due to the fact that they cannot offer sovereign guarantees to back loans.

In terms of guiding principles for city infrastructure investments, the bank lists three: client-driven, financial viability-driven and outcome-driven. With regard to the latter, environmental and social soundness is one of the bank’s expectations on outcome. “During the identification, preparation and implementation of AIIB’s projects, the bank will aim to address environmental and social risks and impacts, including for vulnerable groups. In supporting green economic growth, the bank will encourage making the best use of low-carbon technologies, renewable energy, cleaner production and energy efficiency, promote the conservation and sustainable management of natural resources and biodiversity, and support sustainable land-use management” (Ibid).

Here again, as in the transport strategy, the narrative chosen is quite green, but the strategy completely lacks measurable indicators, precise definitions (eg, of low-carbon technologies), positive or negative lists to either promote or exclude specific technologies or approaches from investment, portfolio emission targets, and even a reference to AIIB’s ESF. Thus, the strategy cannot be called transparent or robust in terms of Paris-alignment at all. This is a pity, as the areas prioritised for investment could and should be designed in a Paris-aligned way, that is:
• enhancing urban mobility
• improving basic infrastructure
• promoting integrated development, ie, comprehensive and multisectoral development initiatives, eg, slum upgrading or new city development.

As in the case of the transport strategy, the bank plans to gradually progress from (co)financing relatively investment-ready projects to more complex multisectoral projects, assuming that the bank’s respective capacity will develop over time. Having said that, it could be assumed that the bank will not necessarily make application of its ESF obligatory in any case. No reference is made to the ESF in the sustainable cities strategy. If its application is mandatory, this should be clearly pointed out.

On the other hand, the strategy stresses the bank’s intention to build innovative partnerships, for instance with Local Governments for Sustainability (ICLEI), and to introduce innovative green financing instruments. This may indicate that the bank has a strong interest in becoming an innovative investor with a strong focus on sustainable cities in the true sense, but that there is little appetite, on the other hand, to become publicly accountable.

The result monitoring framework for the strategy is still incomplete. It indicates only the investment amount and the percentage of projects that can be accounted under each of the objectives, namely green, resilient, efficient, accessible, growing, and under privately co-financed city development. Such a framework, without including, at the least, precise definitions of what would qualify a city project as being green, resilient, thriving, etc, is not really helpful. The bank itself affirms that “these indicators will be revisited and refined as the bank gains more operational experience over time” (ibid). This step seems to be necessary and very urgent.

To conclude, the AIIB sustainable cities strategy, although referring to the Paris Agreement, does not yet include the necessary tools to be transparently and efficiently aligned with the Agreement’s temperature goals. For that to happen, the strategy should take on board transparent and science-based alignment criteria and alignment tools at bank, sector and project levels. In principle, similar instruments could be used, as in the previously discussed energy and transport strategies. The cities strategy was published only at the end of 2018, and the respective project list is still very short. Thus, it is highly recommendable for the bank to revisit and upgrade the strategy now. Otherwise, the strategy cannot provide the necessary guidance to align the bank’s city infrastructure investments with the goals of the Paris Agreement, thus increasing the risk that this important commitment might be breached. For a bank that puts the three core values of ‘lean, clean and green’ up front, this would bear a high reputational risk.

2.5 AIIB Social and Environmental Framework: assessment against alignment criteria

Large infrastructure investment projects usually imply significant environmental and social risk. Thus, MDBs use dedicated environmental and social safeguards to set the rules for identifying, approaching, preventing and minimising these, and to compensate for residual loss and damage.

AIIB developed its own Environmental and Social Framework (ESF), including respective standards and an environmental and social exclusion list that was finally adopted in February 2016 (AIIB 2016). In 2017, it was amended by a Directive on Environmental and Social Policy (2017b), aiming at facilitating implementation of the ESF.
The ESF sets mandatory standards, rules and procedures applicable to all AIIB investment projects, and thus obliging clients to implement their duties, including under national environmental and social legislation, and under international agreements adopted by members (AIIB 2016). The latter implies that AIIB clients that are also member states to the Paris Agreement must ensure that projects co-financed by the AIIB are aligned with the goals of the Paris Agreement. Furthermore, direct reference to the Paris Agreement is included under objective 16 of the ESF (‘Measures for Climate Change’), where it is stated that “the Bank supports the three aims of the Paris Agreement”, inter alia, “to assist its Clients in achieving their nationally-determined contribution (…). It may, through its financings, support Clients’ formulation of long-term low greenhouse gas emission development strategies” (ibid). The ESF further claims to support its clients in assessing potential impacts of the projects on climate change and vice versa, and to prioritise investments promoting GHG emission-neutral and climate-resilient infrastructure, including actions for reducing emissions, climate proofing and the promotion of renewable energy (ibid).

As stated in the ESF itself, the ESF will become subject to a review after three years of bank operations, ie, in 2019. The assessment will be based on experience gained from application of the ESP (Environmental and Social Policy, see below and Glossary) and the ESS (Environmental and Social Standards, see below and Glossary) to individual projects. That offers an important opportunity, including for AIIB members and civil society organisations (CSOs), to assess in depth in how far the ESF has proved to be effective, and to make recommendations on how to close identified gaps in order to strengthen it.

In view of the fact that the AIIB, together with eight other MDBs, in December 2018 announced they were setting out a common set of Paris-alignment criteria and procedures to ensure alignment (see Chapter 4), the ESF review and the development of an operational alignment approach should be closely intertwined.

The ESP is a key element of the ESF. It defines the mandatory environmental and social requirements applicable to each project. That includes project screening and categorisation (see below), the application of due diligence, thorough impact assessments, stakeholder consultations with affected populations, monitoring and a grievance redress mechanism. The ESF lists three associated Environmental and Social Standards (ESS), setting out detailed environmental and social requirements on:

- Environmental and Social Assessment and Management (ESS 1)
- Involuntary Resettlement (ESS 2)
- Indigenous Peoples (ESS 3).

The ESF also includes an Environmental and Social Exclusion List, a glossary with definitions, and Directives on Environmental and Social Procedures. Further guiding and information tools to facilitate implementation are yet to be finalised.

A screening of potential impacts is required for each project, leading to the categorisation of projects according to their potential impacts. Each project is to be assigned to one of the following impact categories:

- Category A: Significant adverse, irreversible impact expected that may affect areas larger than the project size; Environmental & Social Impact Assessment (ESIA); and Environmental & Social Management Plan mandatory
- Category B: Limited adverse, irreversible impacts expected; initial environmental and social review required; further steps may follow
- Category C: Minimal or no irreversible impacts expected; review required
• Category FI: Funds provided to a financial intermediary who must follow similar procedures.

All clients are mandatorily required to comply with the abovementioned Environmental and Social Standards. They must take action to avoid, minimise or set-off identified impacts, and must follow the provisions for public consultation and information disclosure, as set by the ESF. Furthermore, each project is required to establish a Grievance Redress Mechanism.

To ensure environmental and social due diligence, the ESF sets out, inter alia, the following rules:

• Due diligence shall be an integral part of the project appraisal and must be (i) appropriate to the project’s nature and scale, and (ii) proportional to the potential risks and impacts.

• AIIB will review the client’s Environmental and Social Impact Assessment (ESIA) to determine if all requirements have been met, including Environmental and Social Management Plans (ESMPs) and consultation procedures with affected people. Here it is important to note that independent ESIAIs are not mandatory but might only be required by AIIB in cases where projects are deemed by the bank to be of high risk. This is a weakness and not up to the mark, as compared with good practices of other MDBs.

• Information disclosure requirements for clients are defined in §57 of the ESF, without defining clear criteria to ensure quality of the documents to be disclosed. Another reason for concern is the provision that only sovereign-backed loans require the information disclosure prior to appraisal, while for other types of financing the AIIB requires the client to disclose information prior to, or as early as possible during, its appraisal of the project.

• Requirements for information disclosure by the AIIB are also not up to the mark, compared to other MDB good practices. The bank commits to post online all relevant documents prior to appraisal, or as early as possible, without defining precise timelines.

• Clients are obliged to ensure meaningful stakeholder consultation during project preparation and implementation, which AIIB may attend. Free Prior Informed Consultation (FPICon) is mandatory if a project affects traditional land rights and indigenous peoples’ rights (§61 of the ESF defines FPICon).

• Clients are required to establish a suitable project-level grievance redress mechanism in accordance with the ESP and ESS (ESF, §63). AIIB will establish a Bank Oversight Mechanism (§64) (see 2.6).

The function of the ESS is to further specify requirements on ESIA and involuntary resettlement, and to ensure the rights of indigenous peoples. These requirements can be summarised as follows:

• ESS 1 on Environmental and Social Assessment is the standard to ensure environmental and social sustainability and requires the conduct of an ESIA, that includes, inter alia, coverage of biodiversity and climate impacts with a view to achieving the targets of NDCs in a cost-effective manner, also examining alternatives (including assessing alternatives to the project with lower GHG emissions and with higher adaptive capacity). An ESMP shall be set up to address impacts (including to implement “technically feasible and cost-effective options that support meeting NDCs”). Risks for vulnerable groups, gender-specific risks, risk related to land issues, risks related to health, safety, labour rights and other risks – for example, loss of access to assets or resources or restrictions on land use, must be assessed and addressed in conformity with the ESF, national laws and international regulations adopted by the client’s country. Two major weaknesses related to ESS 1 are: (i) the missing duly independent investigation unit at AIIB (ie, not being responsible, at the same time, for project oversight, monitoring and evaluation), as firmly established.
in other MDBs; and (ii) the regulation that environmental and social management, which is essential for the due sustainability of a project, can be outsourced to the clients’ country and corporate systems. That comes on top of delegating the responsibility for application of social and environmental safeguards to financial intermediaries (eg, commercial banks), if they are the recipient of AIIB’s investments. That being said, obvious and worrying gaps may severely undermine social and environmental standards, or may even be misused by interested parties to circumvent these standards. While similar problems with regard to lending to financial intermediaries also exist in other MDBs – and are being addressed there – AIIB has not used the opportunity to establish a better practice right from the beginning, to exercise in practice what it would really mean to be a clean and green bank. On the contrary, the failure to do so may indicate that AIIB prioritises the other core principle, namely to be a lean bank – ie, it is more interested in taking fast and client-oriented investment decisions, and thereby risks compromising environmental and social integrity. The gaps related to ESS 2 and ESS 3, as described below, give further food for thought that this concern is justified.

• ESS 2 on Involuntary Resettlement is the standard to ensure: minimisation of impact; resettlement; and compensation for losses, including compensation for non-land losses of affected people without land titles. Including compensation for losses incurred by affected people without land titles should be considered as a progressive and important approach, if implemented properly. This, however, must be questioned, for the time being, considering the critical reports concerning first experiences with AIIB-financed projects (see Chapter 3). Furthermore, ESS 2 allows for approving projects likely to involve involuntary settlement before the extent and details of forced evictions are identified.

• ESS 3 on Indigenous Peoples is the standard to ensure full respect of their rights, that they participate in the planning, and that they receive culturally appropriate benefits. However, ESS 3 does not define indigenous peoples and their rights, nor does it refer to the United Nations Declaration on the Rights of Indigenous Peoples (see Glossary) or the Convention of the International Labour Organization on Indigenous Peoples rights (ILO 169). Furthermore, ESS 3 allows for the approval of projects likely to involve indigenous peoples prior to having concrete plans indicating how they might be protected from harm.

The Social and Environmental Exclusion List, as part of the ESF, specifies what AIIB will not knowingly finance. The list includes, inter alia:

• forced labour and harmful child labour
• production or trade in substances covered by the Montreal Protocol
• trade in wildlife or wildlife products, protected under CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)
• trans-boundary waste trade prohibited under the Basel Convention
• activities prohibited under the Convention on Biological Diversity
• commercial logging in tropical moist forests or old-grown forests; trade in wood other than from sustainably managed forests
• harmful fishing practices, tobacco, weapons, gambling.

Nuclear power generation is not included on the exclusion list, but is explicitly excluded from financing in the energy sector strategy. Coal- and oil-fired power plants with unabated emissions, as well as other projects that are clearly misaligned with the goals of the Paris Agreement are not included in this or any other negative list.
To conclude, the AIIB is at crossroads. It must decide if green rhetoric is to be followed by green investments. In this regard, the ESF has a key guardian role to play. As revealed in our analysis, the ESF has significant weaknesses and loopholes, raising concerns that the strong AIIB narrative of being clean and green, Paris-aligned and ready to deliver on SDG implementation is not backed by the necessary environmental, climate and social standards that can be easily operationalised, that the ESF does not include substantive commitments, and that clear and transparent criteria and instructions remain missing. The weakness of the ESF is of a structural nature. It is driven by laudable principles but lacks clear and mandatory implementation rules, e.g., negative lists for investments, concrete timelines, checklists, implementation tools and guidelines. Without these instruments, the ESF remains too vague and cannot provide the guidance needed, including with regard to due procedures. It is hoped that these gaps will be addressed, and closed, by the further implementation documents that are still being prepared, according to the AIIB, as well as the review of the ESF, announced for 2019 (AIIB 2016, p2). Apart from problems related to procedures and to vague requirements, the institutional capacity of AIIB, e.g., the lack of an independent investigation unit, should be urgently addressed. It is also recommended that the Board of Directors sets up clear provisions to ensure that lean and fast decision making, as might be requested by clients, will by no means compromise effective implementation of social and environmental safeguards and the development of a project portfolio that clearly reflects the core values and Paris-alignment commitments made by the bank. Without addressing the gaps identified, which are inherent to its lean structure, the bank will very likely fail to deliver on its promises. The evidence gained from first experiences with AIIB projects (see Chapter 3), despite being neither representative nor robustly verified by the authors of this paper, indicate that the ESF requirements are not yet being implemented properly, at least not in some projects in China, Bangladesh and India. Thus, it is recommended that the AIIB carefully document, assess, disclose and discuss pilot experiences of these and other projects with stakeholders, including civil society, and with independent experts, seeking advice on how to overcome weaknesses and what measures to take to improve its instruments.

2.6 Compliance: transparency, accountability and complaint handling

Transparency, accountability and proper complaint handling are integral elements of compliance. They should apply at the levels of governance, risk management, and the environmental and social safeguards system.

In terms of transparency, information disclosure inside and outside the bank is a prerequisite for taking informed decisions, managing risks and ensuring that environmental and social safeguards are kept. With regard to the latter, time-bound requirements for public information disclosure are clearly lacking at the AIIB. Affected populations need to be informed well in advance of project appraisal, to ensure a meaningful dialogue, including in their own languages, and transparency. Inside the AIIB, informed decision making on projects requires that climate, environmental and social project risks – and options to mitigate them – are precisely documented and understood in all their implications. This would require respective procedural safeguards and compliance. Taking decisions on projects in the absence of full information regarding social and environmental (including climate) risks – and without the environmental and social assessment being conducted – is not in line with what can and should be expected of an MDB, which invests public resources.

Accountability in the context of MDBs is usually linked to accountability mechanisms that are independent entities within MDBs, with a mandate to investigate complaints about lack of compliance with regard to social and environmental safeguards. The AIIB has set up and adopted its own Accountability Framework (AIIB 2018b) with a distinct concept, namely to define the roles and
responsibilities of the bank’s president and the Board of Directors with regard to project approval, as already discussed in section 2.1. That being said, and apart from the fact that such delegation of responsibility to the top signifies shrinking responsibility for the stakeholders at a crucial point in time (when the bank’s profile is still to be shaped), the question remains: how will the AIIB appropriately address the accountability gap that exists due to the absence of an independent complaint investigation unit.

Complaint handling is part of a safeguards system. In December 2018, the AIIB adopted its own PPM – Project-Affected People’s Mechanism (AIIB 2018f). First analysis of this mechanism indicate that the mechanism is more difficult to access for affected people, as compared for instance to the World Bank’s Inspection Panel. This conclusion is based, inter alia, on the abovementioned difficulties of accessing publicly available project information well in time, and on the fact that people are only allowed to submit a complaint to the PPM if they have previously approached the project-level grievance mechanism and exhausted ‘good-faith-efforts’ with AIIB management to settle their case. Apart from these prerequisites for complaints, there are further hurdles to be overcome, making the PPM very difficult to access. There is one more structural problem that gives reason for concern, namely an obvious conflict of interest. The PPM is located in the AIIB Complaints Resolution, Evaluation and Integrity Unit (formerly the Compliance, Evaluation and Integrity Unit). The same unit is also responsible for project evaluation and monitoring, which apparently leads to a built-in conflict of interest: how can a unit be expected to independently handle complaints by affected people when these complaints might contradict the monitoring and evaluation results of the unit, as already presented to the AIIB board and members? Here again, the problem arises of a missing independent investigation unit inside the AIIB.

3 AIIB projects and the AIIB discourse in selected countries

3.1 Portfolio overview

On 1 January 2019, AIIB had an approved portfolio of 34 projects, worth USD 7.5 billion, and another 23 formally proposed projects in the pipeline. Of the approved projects, 32 were located in the Asia-Pacific region and another two in Africa.

By the end of 2018, the energy sector was the most important AIIB investment sector (12 projects approved and four projects proposed), followed by transport (eight projects approved, seven projects proposed), water (four projects approved, six projects proposed), and the city/urban sector (two projects approved, four projects proposed).

Natural gas-related projects dominate the portfolio of the energy sector (seven projects approved), followed by transmission projects (three approved, two submitted), hydro (two approved, two proposed) and solar power plants (one project approved).

The portfolio of the transport sector is dominated by road projects (six approved, four submitted), followed by public transportation in cities (one project approved, two proposed), port (one project approved) and rail projects (one project proposed).

The portfolio of city/urban projects contains two approved projects in Indonesia (Regional Infrastructure Development Fund Project and National Slum Upgrading Project) and four proposed projects (two in Sri Lanka, one in Nepal and one in India).
The single most important lending country for energy and transport projects in terms of the number of projects is India, followed by Bangladesh.

Taking the Paris-alignment criteria for the energy and transport sectors (see Chapter 1) as a benchmark, the vast majority of AIIB investments in these sectors would be classified, on a first look, as conditionally aligned (for instance investments in natural gas-related projects), very few as fully aligned (eg, solar power plant in Egypt), and some would even face the risk of being classified as misaligned (eg, road projects, eg, in India). While the portfolio, at first view, may look more attractive than a conventional transport and energy project portfolio of any MDB, its composition does not comply well with the benchmark of being Paris-aligned, and one may have expected a more innovative project composition from a bank that labels itself as ‘lean, clean and green’. In particular, renewable energy investments are heavily underrepresented, even in comparison with a conventional investment bank active in the energy sector.

However, a more in-depth analysis would be needed to thoroughly assess the portfolio and the respective national contexts.

3.2 First lessons learned from project implementation: challenges and opportunities

3.2.1 The AIIB discourse in China in the context of the ‘Belt and Road Initiative’

by Greenovation Hub, Beijing

The political and economic role of the AIIB for China

Initiated by China in 2015, the establishment of the AIIB reflected the need for a new development bank led by emerging economies to scale up investment and enhance the representation and influence of developing countries in the area of development finance.

As a member of the AIIB, China’s main interest is not to acquire AIIB investments in China but rather to contribute to financing infrastructure abroad. China’s President Xi Jinping announced in the AIIB opening ceremony that China would fully support AIIB members in their infrastructure construction. China’s Premier Li Keqiang set out three expectations of the operations of AIIB: first, promote the Belt and Road Initiative (BRI) and link it with national development strategies, as well as regional and sub-regional economic cooperation in accordance with the principle of mutual benefits; second, actively enhance international capacity development to effectively stimulate demand; and third, promote diverse cooperation and provide new platforms and opportunities for South-South cooperation as well as North-South cooperation (Hao et al 2016).

Since its establishment, the AIIB has had a major place on China’s national and regional political agenda, mainly in three regards. First, the bank helps enhance China’s influence in the international economic and financial governance arena. The ratio of capital stock held by regional members and non-regional members is 3:1, which means that non-regional developed countries cannot dominate decision making. The AIIB therefore provides an opportunity for China and other developing countries to shape the agenda in development finance and protect their economic interests.
Second, like other MDBs, the AIIB could play an important role in the implementation and development of the Belt and Road Initiative. The investment area targeted by the AIIB overlaps with the national and regional areas covered by the Belt and Road Initiative. BRI projects are mostly large-scale infrastructure projects with a huge investment demand, high risk uncertainty, long investment cycles, and low return in terms of interest rates. Thus, financing these projects would hardly be possible for national governments and private capital alone. Multilateral development finance plays an important role in lowering the investment risk and leveraging more private capital. Currently, projects approved by the AIIB are in countries and regions along the BRI, including the China-Pakistan Economic Corridor (CPEC) and the Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC). The AIIB President Jin Liqun has claimed that the bank will strengthen practical cooperation with other international organisations, playing a constructive role in project financing, capacity building, environmental and social policies, debt sustainability and grievance mechanism, and that it will provide stronger support for cooperation in the context of the BRI. Accordingly, the AIIB, World Bank and four other MDBs signed a Memorandum of Understanding with the Chinese government on enhancing cooperation under the BRI, to enhance project information accessibility and communication to host countries (Chinanews 2018).

A third driving factor is to smartly manage China’s foreign exchange reserves and its huge production capacity. AIIB projects could help China invest some of its foreign currency reserves and thus reduce its dependence on the US dollar. Meanwhile, AIIB projects would help to encourage borrowers to pay with Chinese currency (RMB – renminbi), thus promoting internationalisation of the RMB, which in turn would help accelerate the implementation of the BRI. In addition, through AIIB projects, China could alleviate domestic over-capacities, for example in the steel and cement industries. By exporting domestic excess capacities to developing countries with infrastructure investment demand, China could achieve the transformation and upgrading of domestic industries, and promote the ‘going global’ of Chinese enterprises.

With all that being said, it should be noted that despite the overlapping targeted regions and investment priorities, the AIIB and BRI are two independent initiatives operating on different and independent frameworks of project screening, approval and management.

Main stakeholders in AIIB in China

The main stakeholders within AIIB are Chinese, who are appointed to key positions. This includes, first of all, Jin Liqun as the AIIB president. In his former career, he served in the Ministry of Finance of China for almost 19 years. China’s representative on the Board of Governors is Liu Kun, Finance Minister of China. China’s representative sitting on the Board of Directors used to be Chen Shixin until September 2018, the then Director of the Department of International Economic and Financial Corporation in the Ministry of Finance. As in other member states, the Ministry of Finance has a leading role, especially with the Department of International Economic and Financial Corporation leading the work on development finance. Its functions relating to the AIIB include: conducting research and analysis on important issues and policies related to international financial cooperation, and taking responsibility for investments in and financing for related international institutions, technology transfer, monitoring and fund management.

External stakeholders include the bank’s partners in the business sector; the AIIB also engages entities such as think tanks and CSOs that provide advice to the bank. State-owned enterprises and private companies have widely benefited from the provision of development finance in China’s foreign expansion. Their interests in the AIIB is related to the fact that MDBs can significantly contribute to create enabling environments for business abroad, including access to finance and business opportunities. The fact that private sector actors are more likely being driven by profit could become a potential threat to MDBs. In fact, private sector operators have constantly been
criticised for poor compliance with environmental and social standards, especially when borrowing from MDBs. This means that the AIIB must take responsibility for ensuring that credits provided to the private sector are approved only under the condition of due diligence, respect for social and environmental standards, and transparent implementation.

The number of Chinese CSOs engaging with the AIIB is limited. Domestic CSOs that have engaged with the bank include, inter alia, Greenovation Hub (GHub), Green Watershed (GWS), Social Resources Institute (SRI) and Global Environmental Institute (GEI). These organisations have been tracking the process, attending the engagement meetings and raising concerns and suggestions regarding the bank’s policies and governance, including its environmental and social framework, energy strategy and project implementation. They have also engaged in awareness raising and outreach activities with other stakeholders. These CSOs face many challenges, including a lack of domestic experience in engaging with MDBs, a lack of funding, and giving little attention to gender, labour and social issues. Information sharing between Chinese and host-country non-governmental organisations (NGOs) could also be improved. As China’s role in international governance is becoming increasingly important, the interests of Chinese civil society on the country’s performance in promoting sustainable, green and climate-resilient development at international level is also growing. Thus, more Chinese NGOs are attending annual meetings of, for example, the AIIB and the NDB, to build capacity and raise their voices in the international finance governance arena.

How the AIIB shapes Chinese discourse on sustainability, accountability and safeguards

While most of the narratives on the AIIB in the public discourse are about infrastructure investment only, the notion of making it green and sustainable is mainly promoted by the bank itself, the government and CSOs.

As a post-Paris development bank, the AIIB has been promoting sustainable infrastructure investment, emphasising ‘lean, clean and green’ as its core values. AIIB President Jin Liqun stated in a press conference in 2015 that sustainable development is the key. The AIIB’s assistance to its clients should be technically, financially, economically, environmentally and socially sustainable. Its operations should be cost effective and should be delivered in a timely manner. As an MDB in the post-Paris era, the AIIB states in its energy sector strategy that “Bank’s support to countries will be aligned with their national energy investment plans/strategies, including their NDCs under the Paris Agreement”. Its core values of ‘lean, clean and green’ are commendable. This indicates that China, by initiating the establishment of the AIIB, is willing to participate in and actively guide future global financial governance.

The very nature of future infrastructure development as being sustainable has also been emphasised by the Chinese government at major events such as AIIB annual meetings. At the AIIB’s second annual meeting, Xiao Jie, then Minister of Finance, stressed that the bank was established in the context of the 2030 Agenda for Sustainable Development, with missions to accelerate economic growth and enhance human well-being by developing sustainable infrastructure (Xiao 2016).

Environmental and social safeguards are emphasised by the AIIB when talking about its standards and implementation. Jin Liqun stressed that the AIIB has been entrusted by international society, and that its current operations, management system and internal governance would be in line with ‘state of the art’ international standards. On the selection of projects, Jin Liqun emphasised that the AIIB would take decisions based on a range of investment policies and guidelines underpinning the three principles of financial sustainability, environmental protection, and local people’s support in a project’s designated area. As a member-driven multilateral institution, the bank’s policies have the potential to enhance the relevance and importance of environmental and
social sustainability in the region and for member countries. For example, the process of establishing AIIB’s Environmental and Social Framework could set an example for China’s development banks.

Some CSOs have contributed to the discourse regarding AIIB’s sustainability and environmental and social safeguards. Greenovation Hub, for instance, made a submission to the AIIB as it was developing its Environmental and Social Framework. In the course of this process, the ESF was improved, especially in terms of combating climate change and conducting the environmental impact assessment, although some other CSO concerns were not addressed.

Going beyond the AIIB, the need for accountability and sound environmental and social governance and implementation has not been fully recognised or incorporated into the narratives of domestic banks and investors.

CSOs have also raised concerns about gaps in the public discourse regarding the sustainability of infrastructure and what it means to be ‘green’. The definition of ‘green’ remains vague. For instance, some clean coal projects have been categorised as green technologies, which has raised great concern among domestic and international CSOs. Another example is China’s domestic discussion on green finance, which mainly focuses on pollution control and seldom takes climate impacts into consideration. The criteria for what makes infrastructure ‘sustainable’ also remain unclear. Finally, and coming back to the AIIB, there is a possible conflict between ‘lean’ and ‘green’. While the bank is very much committed to being lean, and thus to making decisions quickly, there is limited discussion about how to ensure the effective implementation of information disclosure and the complaint handling mechanism while being lean and quick in decision making on projects. Thus, it remains a challenge for the bank to implement the principle of being lean, while at the same time ensuring it is green and clean.

**Preliminary experience with the first AIIB co-financed project in China**

Acquiring AIIB investments for projects in China is not a priority for the Chinese government, as mentioned above. So far, there is only one project in China in the AIIB portfolio—the Beijing Air Quality Improvement and Coal Replacement Project (AIIB 2017a).

Construction of the Beijing project began in July 2017 and is expected to be completed by June 2021. Beijing Gas Group Company Limited (Beijing Gas) is both the borrower and the implementation agency of this project. This USD 761.1 million energy transition project is approved as a Category B project (see Chapter 2.5). The project aims to reduce air pollution (particularly SO2 and NOx) and to mitigate CO2 emissions. Through the project, natural gas will replace coal as an energy source in rural areas. On completion, the project will provide access to gas for approximately 216,751 rural households, and reduce coal consumption by around 650,000 tons annually in Beijing.

Implementation of this project has led to criticism with regard to information disclosure, consultation and the grievance mechanism. A fact-finding mission conducted in the project area revealed that information given to the local population prior to the project implementation was apparently not sufficient and left certain questions unanswered. Furthermore, whether a real consultation with affected communities took place at all remains questionable, as indicated by interviewed villagers. Once project implementation was underway, villagers tried to raise queries on timelines and safety concerns, but say they did not get responses.

The project has also raised questions about the AIIB investment selection and approval process. As China is facing serious environmental problems such as air pollution caused by coal power generation, the country’s energy sector urgently needs investments in renewable energy. The AIIB, in turn, is expected to focus on contributing to the transition towards renewable energies, accord-
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...ing to its energy sector strategy. This should be clearly reflected in its energy project portfolio and the project pipeline. However, the current project portfolio mainly focuses on energy infrastructure, mostly natural gas and hydropower. One of the challenges, the bank admits, is that projects submitted by member states are mostly traditional infrastructure projects, and that very few are related to renewable energies. In addition, most renewable energy projects that are considered in the region are relatively small in terms of capital volume, and do not meet AIIB’s requirements on investment scale.

However, the AIIB could adopt innovative project assessment and screening mechanisms to encourage member states to develop more renewable energy projects. At the same time, the bank should formulate specific energy sector policies based on its energy sector strategy, and provide detailed guidelines on technologies, emission standards and clean production to ensure that selection, approval and implementation of investment projects are consistent with the strategy.

With regard to information disclosure and the complaint handling mechanism, being ‘lean’ is not necessarily an advantage for the bank. It seems that complaints from affected communities did not receive prompt and effective responses in the case of the Beijing Air Quality Improvement and Coal Replacement Project. Since information on exact project locations is not publicly available, CSOs cannot monitor and evaluate whether the benefits described in the project are enjoyed by the local communities. These implementation problems regarding AIIB’s ESF need to be addressed and overcome urgently in order to ensure sustainability and that the bank’s core values, ‘green’ and ‘clean’, are taken seriously.

3.2.2 AIIB in India: first lessons learned from investment projects

by Indian Network on Ethics and Climate Change (INECC) and LAYA, India

The political and economic role of AIIB in India

The AIIB discourse is very limited in India. This is of concern, considering that India is the second largest shareholder and topmost borrower, having received around 30% of AIIB’s investments so far.

The major player is the government of India with the Ministry of Road Transport and Highways, Ministry of Power and Ministry of Urban Development playing key roles. AIIB projects in India approved so far are falling within their remits.

The involvement of the corporate sector in India has so far been negligible, and the same is true for civil society involvement. However, the AIIB, together with ICLEI – Local Governments for Sustainability, conducted CSO dialogues in a few states in India in preparation for its annual meeting in Mumbai in June 2018. Furthermore, special CSO dialogues were organised by the AIIB during the annual meeting itself, indicating the importance of CSO voices in shaping the bank’s policies and frameworks. However, civil society organisations have criticised the lack of formal spaces such as a CSO platform at the AIIB, and that holding only informal dialogues with CSOs could indicate that the bank may not be willing to offer more CSO participation other than at the level of lip service only.

Approved AIIB projects in India

By the end of 2017, India had received AIIB loans of about USD 1.2 billion, with another possible USD 1.9 billion of AIIB investments under review. The portfolio of eight approved projects (see...
Table 9) indicate that 50% of the projects relate to transport. Another 25% are energy projects, with a focus on strengthening conventional energy systems and distribution infrastructure.

In terms of invested capital, the largest share has been directed towards rural road projects across three states: Andhra Pradesh, Gujarat and Madhya Pradesh. The Andhra Pradesh Rural Road project received a 68% contribution from the AIIB to the total project cost. The co-finance is the government of Andhra Pradesh. This project aims to build and upgrade more than 6,000km of roads connecting around 3,300 rural habitations in Andhra Pradesh. The Rural Gujarat Project is co-financed by the AIIB and the government of Gujarat, each contributing 50%. In the case of the Rural Connectivity Project in Madhya Pradesh, the bank has contributed 27.8% of the capital required.

The emphasis on rural connectivity through development of a rural road network is one of the key priorities of the government of India. The objective of the rural mobility projects, as stated in the project document, is to construct roads to provide connectivity, construct cross-drainage works and bridges to complete missing links and structures, provide approaches to educational institutions and healthcare centres, construct roads passing through tribal areas, and upgrade earthen/gravel roads to asphalt-based roads. A document entitled Rural Road Development Plan: Vision 2025 released by the Ministry of Rural Development, Government of India (2007), states that “rural roads are a key component of rural development since they provide access to economic and social goods and services, thereby generating increased agricultural income and productive employment opportunity in rural areas.”

The poverty eradication and development aims of the rural road projects appear quite clear, at least in the articulation of the three road project documents. The positioning of narratives in relation to the SDGs is also significant. For example, the project document for the Andhra Pradesh Rural Road Project explicitly mentions the SDGs. It also articulates a climate resilience perspective in relation to the project’s technical design – the project document states the imperative of resilience in view of future climate scenarios (ibid). It is encouraging to see sensitivity towards accelerating climate risks, but it remains to be seen whether such a climate-proofed road design will be successfully implemented.

Among the energy projects, one titled ‘Power for All’, developed by the government of Andhra Pradesh, aims to mobilise significant private investment for new power plants for independent power producers, in order to double the installed generation capacity in the state from 8,000 megawatt (MW) in 2015 to 16,000 MW in 2019 (Government of Andhra Pradesh 2015). This project has both urban and rural components. The urban component relates to augmenting and strengthening the energy distribution infrastructure in urban areas of Andhra Pradesh. Investments are expected to reduce losses and improve the quality of supply to consumers. The government of India was successful in its request to the AIIB and the World Bank to jointly co-finance the project, with the World Bank taking the lead. The rural component will support the strengthening and augmentation of a low-voltage distribution network (33kV and below) and the construction of a high-voltage distribution system (HVDS) in rural areas, particularly in the districts of Anantapur, Kurnool, East Godavari and West Godavari. However, it is important to note that the project supports a conventional mode of electricity supply, and the green energy perspective has been overlooked.

In a similar project, the AIIB invests in transmission lines in Raigarh/Chhattisgarh and Tamil Nadu, aiming at expanding the interstate transmission network in western and southern India. Here again, the ‘green’ or Paris-alignment component remains unclear. Moreover, the project has raised

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several environmental concerns related to deforestation, impacts on local flora and fauna, impeding drainage, and the safety of workers and local communities. On the other hand, the project aims to facilitate evacuation of electricity from renewables to the grid. Tamil Nadu, the state with the highest installed generating capacity of renewable energy, is expected to contribute roughly 8,884 MW of solar power and 11,900 MW of wind power to help achieve the national renewable energy target mentioned in India’s NDC.

The importance of the energy sector also seems to be emerging from the priorities and targets India set in its 12th Five Year Plan (2012-2017). Altogether, India will contribute more than any other country to the projected rise in global energy demand in the period 2015-2040. This will require substantial investments in generation, as well as substantial complementary investments in strengthening the transmission network to absorb the intermittent renewables. Thus, the AIIB-financed transmission project could strengthen the inadequate transmission infrastructure in Tamil Nadu, which faces challenges in evacuating electricity from renewables, such as wind, and exploiting its large renewable energy potential. However, it is also worth mentioning that renewable energy projects as such have not so far made it to the project portfolio of AIIB in India.

Looking at the challenges in India, it is very encouraging to see that a Gender Action Plan has been prepared for AIIB projects; the plan is also congruent with the respective mandate of the World Bank. The Gender Action Plan (GAP) has the following objectives:

- promote women’s participation
- maximise project benefits to women
- minimise vulnerability due to loss of land/livelihoods/accesses
- improve the security of women and girls, eg, when they are collecting water or fuel wood.

However, the real litmus test will be the operationalisation of the GAP. According to the available project information, a gender specialist is not included in the list of project staff, which would indicate a lack of seriousness in addressing gender inequality comprehensively.

Table 9: Approved projects in India


<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Sector</th>
<th>Executing entity</th>
<th>Social and Environmental Category</th>
<th>Costs (USD million)</th>
<th>AIIB share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Connectivity Project (Madhya Pradesh)</td>
<td>To improve rural accessibility through resilient infrastructure and enhanced capacity of the Madhya Pradesh Rural Road Development Authority to manage the state’s rural road network.</td>
<td>Rural Transport and Road</td>
<td>Madhya Pradesh Rural Road Development Authority (MPRRDA)</td>
<td>B</td>
<td>502</td>
<td>27.8</td>
</tr>
<tr>
<td>Project Description</td>
<td>Sector</td>
<td>Implementor</td>
<td>Country</td>
<td>Amount</td>
<td>Per Capita</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------------------</td>
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<td>------------------------------------------------------------------------------</td>
<td>---------</td>
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<td></td>
</tr>
<tr>
<td>Bangalore Metro Rail Project – Line R6 (Karnataka)</td>
<td>Urban Transport</td>
<td>Bangalore Metro Rail Corporation Limited (BMRCL)</td>
<td>A</td>
<td>1,785</td>
<td>18.8</td>
<td></td>
</tr>
<tr>
<td>Transmission System Strengthening Project (Chhattisgarh, Western Region to Tamil Nadu, Southern Region)</td>
<td>Energy</td>
<td>Power Grid Corporation of India Limited (POWERGRID)</td>
<td>B</td>
<td>303</td>
<td>10.8</td>
<td></td>
</tr>
<tr>
<td>Rural Roads (MMGSY) Project (Gujrat)</td>
<td>Transport</td>
<td>Roads &amp; Buildings Department (R&amp;B), Government of Gujarat</td>
<td>B</td>
<td>658</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>India Infrastructure Fund (All India)</td>
<td>Multisector</td>
<td>Government of India</td>
<td>FI</td>
<td>750</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>24x7 – Power For All Project (Andhra Pradesh)</td>
<td>Energy</td>
<td>Andhra Pradesh (AP) Electricity Utility Companies: AP Transmission company (APTRANSCO), AP Southern Power</td>
<td>B</td>
<td>571</td>
<td>28</td>
<td></td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Project Name</th>
<th>Sector</th>
<th>Proposed by</th>
<th>Financials</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Water Supply &amp; Septage Management Improvement Project</td>
<td>Water</td>
<td>Government of Andhra Pradesh, Andhra Pradesh Urban Finance and Development Corporation</td>
<td>A</td>
<td>570 70</td>
</tr>
<tr>
<td>(Andhra Pradesh)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>To improve water supply and sanitation service levels and strengthen sustainable service delivery in targeted urban areas.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Roads Project</td>
<td>Transport</td>
<td>Panchayat Raj Engineering Department (PRED), Government of Andhra Pradesh</td>
<td>B</td>
<td>666 68.3</td>
</tr>
<tr>
<td>(Andhra Pradesh)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>To improve road transport connectivity in previously unserved communities by providing all-weather rural roads in 13 districts of the state of Andhra Pradesh.</td>
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</tbody>
</table>

The project list indicates that AIIB projects are well aligned with national priorities set by the government of India. It is important to note that most of these are large projects with social and environmental risks. Of the approved projects in India, 25% are Category A projects (see Chapter 2.5), which leads to questions about the sustainability of AIIB infrastructure investments.

**Proposed AIIB projects in India**

The portfolio of proposed projects (see Table 10) is wide ranging, including a project on flood control and irrigation management in West Bengal, one related to providing modern urban services in a world-class city – the much-hyped Amravati city, the third one a mobility project – the disputed Mumbai metro, and the fourth a multisector project. All of them, except the latter, fall under Category A.

The West Bengal Major Irrigation and Flood Management Project is designed to address the social distress and economic loss created by floods. The West Bengal government’s Irrigation and Waterways Department (IWD), together with the AIIB and World Bank, will finance this project. The project summary information (PSI) makes a reference to the mitigation aspect of flood control. However, the new irrigation channels and related infrastructure investments follow business-as-usual approaches, without clearly taking climate change into account.
### Table 10: Proposed projects in India


<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Sector</th>
<th>Executing entity</th>
<th>Social and Environmental Category</th>
<th>Costs (USD million)</th>
<th>AIIB Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Bengal Major Irrigation and Flood Management Project (West Bengal)</td>
<td>The project aims to optimise the joint use of surface and ground water for agriculture and reduce flooding.</td>
<td>Water/Irrigation and Flood Protection</td>
<td>Irrigation and Waterways Department (IWD), Government of West Bengal</td>
<td>A</td>
<td>423</td>
<td>34.2</td>
</tr>
<tr>
<td>National Investment &amp; Infrastructure Fund (All India)</td>
<td>To mobilise more private sector capital into infrastructure sectors, and increase infrastructure investment in India.</td>
<td>Multisector</td>
<td>Government of India</td>
<td>F1</td>
<td>1,785</td>
<td>18.8</td>
</tr>
<tr>
<td>Mumbai Metro Line 4 Project (Maharashtra)</td>
<td>To provide environmentally friendly, safe and high-capacity north-south connectivity through a modern metro system between Mumbai and Thane district.</td>
<td>Transport</td>
<td>Mumbai Metropolitan Region Development Authority</td>
<td>A</td>
<td>303</td>
<td>10.8</td>
</tr>
<tr>
<td>Amaravati Sustainable Capital City Development Project (Andhra Pradesh)</td>
<td>To build sustainable urban services and capacity of urban institutions for the development of Amaravati Capital City.</td>
<td>Urban infrastructure</td>
<td>Andhra Pradesh Capital Region Development Authority (APCRDA)</td>
<td>A</td>
<td>658</td>
<td>50</td>
</tr>
</tbody>
</table>
The vision of the Amaravati Sustainable Capital City Project, in the new capital city of Andhra Pradesh, is to make Amaravati a pioneer smart city in India. It is planned that the city will serve as an economic powerhouse and administrative centre through the creation of jobs and provision of affordable homes for its residents as well as high-quality urban services. Being a greenfield project, sustainability and efficient management of resources will form another important pillar of the city.

The project acknowledges possible environmental and social risks and impacts related to substantial land acquisition and development of urban infrastructure. According to the PSI, Environmental and Social Impact Assessments (ESIAs), including Environmental and Social Management Plans (ESMPs) are required for every project component before implementation.

The project will be undertaken across 217 km² of land, acquired from landowners in 29 villages across the site area. Although no displacement of the local population is envisaged, the reality, however, is quite different.

The land alienation underway across the 29 villages, through a ‘land pooling’ process, has led to considerable local opposition. Around 56,000 acres are set to be acquired in this way, of which around 35,000 acres have already been ‘voluntarily’ given up, including almost 100 hectares of forest land. ‘Land pooling’ has been lauded by the central government’s think tank NITI Aayog as a “model to the nation” for land acquisition. The approach, according to our knowledge, has involved coercion of farmers to give up their land ‘voluntarily’. They are the people who are paying the real price of the dream city. This approach of ‘land pooling’ and AIIB support for such projects need to be revisited in the light of livelihoods and sustainability. The Amaravati Sustainable Capital City Development Project, a greenfield project which had the potential to showcase a green and decentralised paradigm for development, has failed with regard to several sustainability aspects, and puts into question the bank’s clean and green character.

Conclusion

To conclude, the approved and proposed AIIB projects in India across eight Indian states seem to follow a business-as-usual trajectory rather than a clear Paris-aligned approach of environmentally and socially sustainable projects. So far, the AIIB has failed in India to promote a different approach than other development banks. Its emphasis on being a ‘post-Paris bank’, of being clean and green, is not yet reflected in the choice of projects. It remains unclear whether, or how far, approved projects will contribute to achieving the temperature goals of the Paris Agreement. While the projects are well aligned with the priority of the government of India for large-scale infrastructure projects, the space given to socially relevant, meaningful people-centric infrastructure projects is still invisible. Financial flows seem to be dangerously rushed and several policies are being tweaked to fast-track the lending process. This leads to questions about whether social and environmental safeguards are duly followed, and whether compliance and accountability are ensured, including for projects co-financed by the WB and ADB. This is even more important since all projects except one fall into Category A. These projects involve land acquisition, physical displacement and impacts on existing infrastructure. Since many of the projects have not yet been approved, there is yet a window of opportunity to revise the proposed projects and ensure their sustainability. At the same time, approved projects should also be revisited and improved.
3.2.3 AIIB in Bangladesh: first lessons learned from investment projects

by Center for Participatory Research and Development, Dhaka

The political and economic role of the AIIB in Bangladesh

As one of the top-ten fastest growing economies in the world (IMF 2017), Bangladesh has become an attractive place for capital investment by MDBs. During the last decade, investment requirements substantially increased, as the country has made a shift from a rural-based agrarian economy towards a more modern urban-based manufacturing and service economy, with an overarching goal of becoming a middle-income country by 2021.

To fulfil such aspirations, Bangladesh requires huge capital investment in energy, power and infrastructure development. Hence, Bangladesh places utmost emphasis on fast-tracking strategically important infrastructure and energy projects to enable continuous rapid economic development (Government of Bangladesh 2016). These projects, with a total cost of approximately USD 43.6 billion, are meant to be co-financed by development partners and MDBs, predominantly by the World Bank and the Asian Development Bank. Bangladesh’s government, along with other political stakeholders and CSOs, despite being a long-term shareholder and worthy client of those banks, has often indicated its resentment as those MDBs often try to unduly influence the country’s development priorities and investment decisions. Hence, the establishment of the AIIB, promoted as the ‘Bank of the South’, has contributed to a sense of conformity among the leaders of the South Asian countries, including Bangladesh, with the hope that new financing institutions would fulfil growing capital requirements for major infrastructure development.

The establishment of the AIIB also attracted significant attention from global leaders, policy stakeholders – including CSOs – as the bank described its modus operandi to be ‘lean, clean and green’ and to be consequentially aligned with the goals of the Paris Climate Agreement. While the AIIB has also emphasised the role of stakeholder participation, including CSOs, in shaping its policy and implementation frameworks, CSOs in Bangladesh have so far remained rather unaware of this new financial institution. However, this lack of awareness may soon change, as the AIIB investment portfolio in Bangladesh has been rapidly expanding and is expected to continue to expand in the coming years.

Approved AIIB projects in Bangladesh

Bangladesh ranks high in the list of AIIB’s borrowers. AIIB so far approved investments of about USD 285 million, leveraging additional USD 227 million from other MDBs, and USD 323 million of co-financing by the Government of Bangladesh. The three approved projects are all energy-related, ie, power generation and power distribution. All the three projects are aligned with the power generation target to grow from 13,540 MW in 2015 to 23,000 MW in 2020. Table 11 provides an overview on the approved projects.
### Table 11: Approved projects in Bangladesh

Source: AIIB and executing agencies

<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Sector</th>
<th>Executing entity</th>
<th>Environmental and social category</th>
<th>Total cost (USD million)</th>
<th>Share of AIIB and others In USD/%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh Bhola IPP (Dual fuel power plant)</td>
<td>Gas-fired power plant, backed up with diesel, to be constructed in Bhola, a coastal district</td>
<td>Energy</td>
<td>Nutan Bidyut Bangladesh Limited (NBBL), a subsidiary body of Shapoorji Pallonji Infrastructure Capital Company Private Limited, Mumbai, India</td>
<td>AIIB Category B</td>
<td>272</td>
<td>AIIB: 60 million/ 22%  IDB: 60 million  NBBL: 152 million</td>
</tr>
<tr>
<td>Natural Gas Infrastructure and Efficiency Improvement Project</td>
<td>Improve gas production efficiency and expand 181 km gas transmission pipelines between Chitagong and Bakhraodd to transport re-gasified liquid natural gas to central and western gas markets</td>
<td>Energy</td>
<td>Bangladesh Gas Fields Company Limited (BGFCL)  Gas Transmission Company Limited (GTCL)</td>
<td>Under the ADB Safeguard Policy Statement, the project has been assigned Category B for Environment, Category A for Involuntary Resettlement, Category C for Indigenous Peoples</td>
<td>453</td>
<td>AIIB: 60 million/13%  ADB: 167 million  Government of Bangladesh: 226 million</td>
</tr>
<tr>
<td>Distribution System Upgrade and Expansion Project</td>
<td>Rural and urban areas: provision of 2.5 million service connections in the rural areas</td>
<td>Energy</td>
<td>Bangladesh Rural Electrification Board (BREB)  Dhaka Electric Supply Company Limited (DESCO)</td>
<td>AIIB Category B</td>
<td>262</td>
<td>AIIB: 165 million/63%  Government of Bangladesh: 79 million  EAs: 18 million</td>
</tr>
</tbody>
</table>
The Bangladesh Bhola IPP project, currently being implemented, will become a carbon-intensive project using dual-fuel (gas as the primary fuel and high-speed diesel as back-up fuel) for a combined cycle power plant located in Bhola, a coastal district island, which is highly vulnerable to tropical cyclones. This 220 MW power plant will require substantial energy infrastructure development, in, for example, high-speed diesel storage, a cooling water system, a water treatment facility, and the construction of five kilometres of gas pipeline from the nearby Shahbazpur gas field to the project site. According to AIIB’s Project Summary Information (PSI), the principal environmental risks associated with the project relate to the transportation of natural gas through the pipeline, chlorine, and the transportation, handling and storage of diesel. The potential social risk is associated with the acquisition of private land, approximately 22.78 acres, which will force displacement of local people from their homes and farms. Although the project has adopted a high-level Emergency Response Plan, an Emergency Preparedness and Response Procedure and an onsite Spill Control and Management procedure, there is a risk of deteriorating surface water quality caused by dredging and effluent discharge, which would considerably affect open water fishery resources – the major source of livelihoods for adjacent communities. Impacts on people’s main livelihoods would further force people to migrate, adding to the projected millions of climate migrants in Bangladesh, and many from the island of Bhola.

A CSO fact-finding report (CLEAN 2018) has identified considerable breaches in the implementation of AIIB’s environmental and social safeguard measures, including:

- lack of prior adequate consultation with the local people whose livelihoods are already at stake due to climate and environmental stress, and who might be forced to migrate
- forceful acquisition of private land and farmland
- inadequate payments to affected landowners.

While Nutan Bidyut Bangladesh Limited, as the executing agency, confirmed in their ESIA that 15 consultation meetings with different stakeholders and local communities had been conducted, the CSO report could not confirm this information. Interviewed villagers could neither recall any such consultation meeting nor identify any other villager who participated in such a meeting.

The Natural Gas Infrastructure and Efficiency Improvement Project will also lead to forced displacement and involuntary resettlement in the course of constructing 181 km of a 36-inch gas transmission pipeline to transport re-gasified liquified natural gas. The ADB, as lead lender, classified the project as a Category A for involuntary resettlement, requiring the full and meaningful participation of affected communities.

**Proposed AIIB projects in Bangladesh**

As of 1 January 2019, four additional projects have been proposed to AIIB for investment: two road infrastructure projects, one power infrastructure project, and one water supply and sanitation project. Their capital volume amounts to USD 1,057 million, of which USD 641 million has been requested from AIIB. Table 12 provides an overview of these proposed projects.
<table>
<thead>
<tr>
<th>Project</th>
<th>Objective</th>
<th>Sector</th>
<th>Executing agency</th>
<th>Environmental and social category</th>
<th>Total cost (USD million)</th>
<th>Share of AIIB and others in USD/%</th>
</tr>
</thead>
<tbody>
<tr>
<td>My-mensingh Kewatkhal Bridge Project</td>
<td>Construction of a 900m bridge along with 6 km road to address cross-river bottlenecks at a strategic location</td>
<td>Road infrastructure (Transport)</td>
<td>Bangladesh Ministry of Road Transport and Bridges</td>
<td>Category A</td>
<td>235 million</td>
<td>AIIB: 153 million/65%, Government of Bangladesh: 82 million</td>
</tr>
<tr>
<td>Sylhet to Tamabil Road Upgrade Project</td>
<td>58 km of the 286 km highway (N2) corridor to improve cross-border connectivity with India</td>
<td>Road infrastructure (Transport)</td>
<td>Bangladesh Ministry of Road Transport and Bridges</td>
<td>Category A</td>
<td>435 m</td>
<td>AIIB: 268 million/62%, Government of Bangladesh: 167 million</td>
</tr>
<tr>
<td>Power System Upgrade and Expansion Project</td>
<td>Upgrade and expand the power transmission system in the Chittagong region to ensure adequate and reliable power supply in the south-eastern region of Bangladesh</td>
<td>Power Infrastructure (Energy)</td>
<td>Power Grid Company of Bangladesh (PGCB)</td>
<td>Category B</td>
<td>177 million</td>
<td>AIIB: 120 million/68%, Government of Bangladesh: 46 million PGCB: 11 million</td>
</tr>
<tr>
<td>Municipal Water Supply and Sanitation Project</td>
<td>Increase access to safe water supply and sanitation services</td>
<td>Water Supply and Sanitation</td>
<td>Bangladesh Department of Public Health Engineering (DPHE)</td>
<td>Category B</td>
<td>210 million</td>
<td>AIIB: 100 million/48%, World Bank / IDA: 100 million Government of Bangladesh: 10 million</td>
</tr>
</tbody>
</table>
Among the projects, the Mymensingh Kewatkhali Bridge Project is of strategic importance in terms of boosting cross-border trade between India and Bangladesh. The proposed bridge over the Old Brahmaputra River near Mymensingh City will reduce travel time between Dhaka and the three land ports along the Indian border corridor: Nakugaon Land Port, Gobrakura Land Port and Halugaht Land Port. Given the proximity to the Indian border (around 60-80 km from Mymensingh to the three land ports), the road passing through Mymensingh would ease the importing of coal, limestone, boulder, stone, glass sand, fruit, etc from India and exporting of processed food and beverages, plastic goods and bricks to India. Through those land ports, Bangladesh imports coal for burning bricks, then exports bricks to India.

As per AIIB’s Environmental and Social Policy, this project has been classified as Category A. The road construction will cause displacement of settlements and relocation of businesses. Hence the project should incorporate a proper redress mechanism and a meaningful consultation with the affected people. Furthermore, the proper development and implementation of an Environmental and Social Impact Assessment (ESIA), an Environmental and Social Management Plan (ESMP), and a Resettlement Action Plan (RAP) are important prerequisites for the sustainability of the project.

Similar to the Mymensingh Kewatkhali Bridge Project, the Sylhet to Tamabil Road Upgrade Project will increase bilateral trade between Bangladesh and eastern states in India (eg, Meghalaya and Assam) through Tamabil, one of Bangladesh’s most important land ports. Bangladesh imports more than 2.5 million tons of stone and two million tons of coal per year through this port. The other strategic importance of this project is that it will augment sub-regional connectivity with seven north-eastern Indian states: Bhutan, Myanmar and China (Kunming, Yunnan Province) through the Dhaka-Narsingdi-Sylhet-Tamabil (DNST) corridor. This project is also classified as Category A, as the construction works (road works, traffic engineering works, tolling facilities, roadside service facilities, etc) will require relocation of businesses.

The Municipal Water Supply and Sanitation Project aims to contribute to the government’s key objective of improved urban environment through ensuring sustainable water supply and sanitation facilities to people living in small and medium municipalities. The project will help to minimise waterborne and excreta-related diseases and thereby reduce morbidity and mortality rates among children and other vulnerable populations. Improved access to potable water will also free up time, particularly for women and girls, who generally shoulder the responsibility for collecting water. Unlike other AIIB projects in Bangladesh, the water supply and sanitation project potentially would contribute to SDG6 (Clean Water and Sanitation), SDG3 (Good Health and Wellbeing) and SDG11 (Sustainable Cities and Communities). It is also likely to contribute to building resilience in the salinity-prone coastal areas if project locations and features are selected in consideration of adverse impacts of climate change. Therefore, this project might be ready for alignment with the Bangladesh Climate Change Strategy and Action Plan and the goals of the Paris Agreement, whereas none of the other projects could be clearly Paris-aligned. All of them need to be revisited in view of Paris-alignment criteria, and adapted if and as needed, to avoid misalignment.

Conclusion

The AIIB pipeline projects in Bangladesh, worth USD 641 million, indicate a sharp increase compared to the current portfolio (USD 285 million). While the ongoing projects are entirely energy-focused, the pipeline projects, apart from transport and energy infrastructure projects, include one with significant relevance to social development aligned with SDGs and building climate resilience.

It would be very important for AIIB to better align its project portfolio and investment priorities with the Paris Agreement. As one of the most climate-vulnerable countries, Bangladesh requires
substantial investments in climate-resilient infrastructure development, and the AIIB could give that more attention.

The AIIB needs to be more careful in implementing its Environmental and Social Policy and Environment and Social Standards, especially with regard to land acquisition for infrastructure development. A robust grievance redress mechanism is of utmost importance in cases of forced displacement and involuntary resettlements.

CSOs should play a watch-dog role over the AIIB’s investment by keeping an eye on the approved projects as they are being implemented. They could raise their voices for duly imbedded safeguard policies so that the rights and well-being of already marginalised and climate-vulnerable people are not overseen or ignored for the sake of nominal GDP growth.

### 3.2.4 The AIIB discourse in Russia and in Central Asian countries

by RNEI – Russian-German Office for Environmental Information, Moscow

**The political and economic role of AIIB in Russia**

Russia is the third largest founder member of the AIIB but not a single project has been approved in Russia, yet.

Political responsibility for the AIIB has been assigned to the Minister for Economic Development, currently Maxim Oreshkin, and the current Russian director of the bank is the Assistant to the Minister of Finance, Grigory Butrin.

In accordance with paragraph 25 of the AIIB Agreement, a minimum threshold of votes is set for the formation of a separate country directorate (at least 6% for regional and 15% for non-regional members). Russia’s share among regional members exceeds 6%, thus the Russian Federation along with China and India is guaranteed its own country directorate. During the establishment of the AIIB, the Russian Ministry of Finance held consultations on the formation of the AIIB country directorates with the delegations of Kazakhstan and Tajikistan, and later Iran, which confirmed the decision to join the Russian Directorate. Thus, a ‘multi-country’ directorate that includes Iran, Kazakhstan and Tajikistan was formed around Russia.

The accession of these countries increased the share of the Russian Directorate to 8.83% among regional members of the AIIB. That allows the Russian Directorate to hold third position in the number of votes in the AIIB after China and India, which have single-country directorates. Moreover, the geographical composition of the Russian Directorate makes it possible to implement not only individual investment projects but also large-scale cross-border projects.

The Ministry of Finance and the Ministry of Economic Development established a working group in 2015 to promote applications for infrastructure projects in the Russian Federation and to support projects from Russia with excellent potential to be co-financed by the AIIB. The working group currently includes only representatives of public authorities.

Among the Russian organisations involved in negotiations with the Russian government on cooperation with the AIIB are only three NGOs – WWF, Greenpeace and the Coalition ‘Rivers Without Borders’.

The expansion of the working group, increasing its transparency, and opening the discussion on potential infrastructure projects to a broader public, are crucial approaches for developing a green
Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement and the SDGs

infrastructure in the region and making the AIIB an important investor in it. At the same time, it is important to balance the interaction of the parties interested in the development of green infrastructure in Russia, while not hindering the achievement of proper political and strategic compromise.

A significant advantage of cooperation with the AIIB is the possibility of receiving loans for the development of projects in the energy sector, including the provision of loans in the local currency of the borrowing country, which minimises currency risks.

The AIIB could be a potential source of infrastructure investments in Russia’s far east and in Siberia, especially taking into account the role of Russian-Chinese relations in the development of these regions. Potential investment needs for Russian infrastructure projects are in the range of USD 30 to 50 billion only for 2016 to 2020. In 2016, Russia submitted 16 project proposals worth USD 8 billion to the AIIB for the far east of the country. This included project proposals for the development of the international transport corridors Primorye-1, Primorye-2, for infrastructure in the free port of Vladivostok, and for development of the northern sea route. Proposals for the Moscow-Kazan high-speed railway project and the Europe-Western China transport corridor, as well as construction of the Taman port and a logistics centre in the Chelyabinsk region were also submitted. However, none of these projects was approved.

One of the reasons for Russia’s failure to secure project approval is the lack of readiness on the part of other MDBs to provide co-financing. Previously, the EBRD cooperated closely with the Russian Federation on infrastructure development. But in 2014, EBRD’s Board of Directors decided to stop any new project investment in Russia, for political reasons.

Another factor that has hindered AIIB approval of project applications from Russia seems to be the lack of sufficient and consistent project documentation that meets the bank’s requirements.

Furthermore, the AIIB is little known among potential applicants in Russia. In order to change this, a seminar was held in Moscow in February 2019 aiming at raising awareness of AIIB-related investment opportunities among interested parties, including an evaluation of AIIB policies and strategies, and how they could be linked to Russian regulations.

Having said that, according to the latest information, the AIIB is still preparing to enter the Russian market. The remaining limiting factors are the possible form and conditions of sovereign securities that would meet the bank’s requirements. Meanwhile, according to the Russian Ministry of Finance, options for government securities for bank loans will be added to the Budget Code of the Russian Federation, as an enabling factor for better collaboration with the AIIB.

The main hopes in Russia associated with the AIIB are related to funding BRI projects, which would allow more efficient export of Chinese goods to Europe through Central Asia and the Caucasus.

Currently, one of the most realistic project investments is related to the construction of the highway ‘Meridian’ that will connect Europe and China. The 8,445 kilometre-long highway would connect western Europe and China, including 2,000 km in Russia. Maksim Oreshkin, the Minister for Economic Development, has called this project the most strategically and economically beneficial. Project documentation development is now underway, but it is too early to formally submit a project application to the AIIB. Social and environmental risk assessments of this project have not yet been provided. From a climate perspective, it is desirable that these project documents include an assessment on whether the project is the least carbon-intensive option to achieve this economic benefit and whether it is line with a low-carbon climate-resilient transport sector development pathway.

In addition, cooperation between the AIIB and regional water utilities seems to be promising. According to the latest information, the AIIB is considering the possibility of financing a project to
create a wastewater treatment plant in St Petersburg. The amount of financing in case of a positive decision of the bank will be USD 20 million. However, this project is not yet listed as a proposed project on the AIIB website. This project could potentially meet SDG6 goals (Clean Water and Sanitation), but an environmental and social risk assessment will be required to evaluate its alignment with this goal.

If the tacit restrictions on bilateral cooperation between Russia and the AIIB were settled, the Eurasian Development Bank (EDB) would have a role to play. Trilateral cooperation would also be eased by the recently signed memorandum between the EDB and the AIIB on cooperation in relation to mutual advisory services, analysis and research on infrastructure projects (primarily in the transport, sustainable development, urban development and energy sector) and common financial support for projects in common member states.

On a separate note, the government of the Russian Federation is currently discussing the creation of a Russian Fund for Financing Infrastructure Projects, which will be launched in 2019 and replenished by debt financing. This is where the AIIB could play a key role.

**The political and economic role of the AIIB in Kazakhstan**

Issues of interaction with the AIIB in Kazakhstan, as the largest country of Central Asia, are barely covered by the media. It should also be pointed out that despite the promise of creating an integrated Eurasian economic space and improvements in the well-being and infrastructure development in Central Asian countries, caution is exercised with regard to attracting Chinese investments – and AIIB is considered to be a ‘Chinese bank’. This caution is very much related to fears of endangering economic and political independence, and becoming financially dependent on China. However, the main driver for cooperation in the region is cooperation within the framework of the Belt and Road Initiative (BRI), even taking into account the abovementioned concerns.

The majority of Central Asian countries (except for Turkmenistan, which still does not have membership in the AIIB) joined the bank in 2016. The total number of votes is 20,232 (1.79%), with the biggest number of votes belonging to Kazakhstan.

As in Russia, there is still no established regular cooperation and communication between Central Asian governments and CSO representatives in the AIIB, and public information on engagement with the AIIB is almost inexistent. According to informal information, there is some dialogue between the AIIB and the government of Kazakhstan on three possible investment projects with a total capital volume of USD 2 billion. However, none of these were included in the AIIB’s list of proposed projects at end of 2018.

One of these projects seems to be the construction of a solar power plant with a capacity of 40 MW near the village of Gulshat in the Karaganda region and worth more than USD 69 million. This renewable energy project would reduce dependence on coal-fired power generation and would improve energy security in the south of the country. Furthermore, the AIIB is also considering investments in two road projects, the Center-South Highway Project from Astana to Almaty (USD 852 million) and the Center-West Highway Project (USD 1,111 million). In both cases, it is estimated that the projects would start in 2022. Additional information on these projects will be necessary to judge their alignment with the goals of Paris Agreement.

**The political and economic role of the AIIB in Tajikistan**

The AIIB approved a loan of USD 27.5 million for the Dushanbe-Uzbekistan Border Road Improvement Project on 24 June 2016, but the actual investment was made only in 2018, and the expected
project deadline was postponed to 2021. The project is co-financed by EBRD, which has contribut-
ed USD 62.5 million to the total project cost of USD 105.9 million.

The road improvement project will enhance connectivity and mobility along the Tajikistan seg-
ment of the Asian Highway Network and the Central Asia Regional Economic Cooperation Corridor 3. A part of the project will be to rehabilitate a section of the highway that was built 30 years ago
and which is currently in a poor condition.

Because Tajikistan has an abundance of hydropower resources, hydropower plants provide al-
most 95% of the electricity supply in the country. The World Bank estimates that about 60% of all hydropower plants in Tajikistan need to be rehabilitated by 2020 and 80% by 2030. In this context, the Nurek Hydropower Plant Rehabilitation Project was approved by the AIIB in 2017. The AIIB will contribute USD 60 million to the total investment of USD 350. The Nurek hydropower plant, with a seasonal reservoir, is the largest generating plant. With installed capacity of 3,000 MW it provides 70% of total energy demand. It also serves as the balancing plant in Tajikistan’s electricity system. Currently, only 77% of Nurek’s installed capacity is operational. The objectives of the project are to rehabilitate and restore the generating capacity of three Nurek power generating units, improve their efficiency and strengthen the safety of the Nurek dam. Thus, it is likely that the project is well aligned with the goals of the Paris Agreement, but as for all large hydropower projects, a robust assessment of social and environmental standards will be vital to ensure alignment with SDGs.

The political and economic role of the AIIB in Uzbekistan

As a landlocked country, Uzbekistan does not have direct access to sea routes, and has traditional-
ly relied on overland routes for freight and passenger transport. One of the top priorities of the country is the improvement of the railway network that connects the cities of Bukhara, Urgench and Khiva in western Uzbekistan. Thus, the government has proposed the Railway Electrification Project Bukhara-Urgench-Khiva to the AIIB, with a request that the bank contribute with a loan of USD 168 million to the total investment of USD 339 million. The objectives of the project are to reduce travel time between, and increase the freight handling capacity of, these cities. While more detailed project information would be required for a comprehensive assessment, the project is likely to be Paris-aligned, according to categorisation by Germanwatch and NewClimate Institute (2018).

3.2.5 The AIIB discourse in Germany and other Western countries

by Germanwatch, Bonn/Berlin

The controversial debate on joining the AIIB

In March 2015, Germany together with France and Italy announced that it would become a found-
ing member of the AIIB, after the United Kingdom had already announced its participation. The invitation to join the new China-led multilateral development bank had triggered a controversial debate in the Western world.

Many Western countries felt that China’s initiation of the AIIB resulted from its increasing dissatis-
sfaction with the dominant role of the US and the EU in traditional development finance institu-
tions like the World Bank, IMF and ADB. In contrast, the AIIB was promoted as a way to provide a leading role for countries in the Asia-Pacific region in accessing and managing multilateral develop-
ment finance flows. In this context, some Western countries interpreted the AIIB as a potential
new mobiliser of well-needed funds for infrastructure in Asia and wanted to ensure the bank became a friendly competitor of existing multilateral development banks. Others highlighted the risks of supporting a rival that could undermine globally accepted standards of good governance as well as social and environmental safeguards, incentivising lowered standards at other MDBs also.

Germany gave two principal reasons for joining the AIIB:

- The potential role of the AIIB to raise capital for the large infrastructure needs in Asia: According to the ADB, the financing gap for sustainable infrastructure in Asia amounts to USD 800 billion per year up to 2020. Germany highlighted the potential of supporting economic and social development in this region and in contributing to global economic growth. The participation of the German government thus continues Germany’s engagement in international development and financial institutions to support infrastructure projects (BMF 2015).

- Germany has an interest in participating in the development of high environmental and social standards and the application of best practice in governance, finance and procurement policies applied by the AIIB. Germany repeatedly emphasised its aim to use its voting shares to ensure high standards, comparable to those applied by other multilateral institutions (BMF 2016; Fuchtel 2016).

The Federation of German Industries (Bundesverband der Deutschen Industrie – BDI) welcomed the decision of the German government to become a founding member. It stressed that the Asia-Pacific region is one of the most important regions of growth worldwide and that sustainable infrastructure is crucial for further investments (BDI 2015). In the light of German participation in the AIIB, German industries also hope for large infrastructure contracts.

For many European countries, reputation to gain political and economic benefits played a huge role in their decisions to join the AIIB. According to Nicola Casarini, a senior fellow for Asia at the Rome-based Instituto Affari Internazionali, “… the EU is trying to gain admission to the East Asia Summit. By helping to fund infrastructure projects in the area – in particular in Southeast Asia where they are most needed – the EU hopes to improve its image and increase its political presence in a part of the world where it has huge economic interests” (Deutsche Welle 2015).

Given that China is becoming a major player in global financial markets, many countries appreciated the fact that China would exercise its influence, at least partially, through a multilateral development bank and therefore according to mutually agreed standards and rules.

Among Western countries, the United States and Japan decided against membership and criticised China for building parallel structures to existing development institutions. During the early membership discussion, the US also led an unsuccessful attempt to persuade other countries not to join the AIIB. They highlighted the fact that the AIIB, as an element of the Chinese Belt and Road Initiative, supports Chinese geopolitical interests and questioned whether the AIIB would adhere to established international standards, such as environmental and social safeguards and governance standards (Deutsche Welle 2015; Washington Post 2015).

In 2017, Canada announced it would join the AIIB (Canadian Government 2017). Canada emphasised that the new MDB had proven its complementarity with other MDBs.

At the AIIB annual meeting in Mumbai in 2018, Germany acknowledged the bank’s impressive growth in terms of portfolio and members after just two and a half years of operation and welcomed the successful cooperation of the AIIB with other MDBs. Germany highlighted that this as a good starting position, but not yet a sufficient condition for future success, stressing once again
that this would depend not only on the financial but also on the social and environmental sustainability of AIIB projects (BMF 2018).

**Representation of European constituencies in the AIIB**

By the end of 2018, 20 European countries were members of the AIIB and three more – Belgium, Greece and Serbia – were still ratifying their membership. Current European country members have a capital and voting share of 21%. On the Board of Directors they are present in two constituencies: the Euro-Group constituency, currently with 12 members (Austria, Cyprus, Finland, France, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain) and 13.8% of votes, and the Further-Europe constituency with eight members (Denmark, Hungary, Iceland, Norway, Poland, Sweden, Switzerland, United Kingdom) and 7.3% of votes.

Europe could thus have an important say in the supervision, business policy and strategies of the AIIB. However, in the past the two constituencies have not always spoken with one voice or even exchanged views.

By mid-2019, the Executive Director for the Euro-Group constituency will be from Austria, Veronika Putz-Baumgartner. France will appoint the next Executive Director of the group in mid-2019. In the Further-Europe group, the current Executive Director is from the UK. Each of the European Executive Directors has two alternates. The alternates are also members of the Executive Board and they must come from member states other than the Executive Director of the constituency concerned.

**Political responsibilities for the AIIB in Germany**

Germany is the 4th largest shareholder after China, India and Russia as well as the major European shareholder. It has a total subscription of USD 4.484 billion and holds 4.2% of voting shares.

The German Finance Minister, currently Olaf Scholz (Social Democratic Party), represents Germany on the AIIB Board of Governors. He votes on major decisions such as capital increases and elections of the AIIB president and new AIIB membership countries. Decisions on policies, strategies and projects are taken by the Board of Executive Directors.

Germany, as the European country with the highest capital contribution in the AIIB, appointed the first Executive Director for the Euro-Group constituency, Nikolai Putscher. He is head of division at the German Ministry of Finance and currently based at the German Embassy in Beijing. Notably, Germany is also the only country in the Euro-Group constituency that will always be part of the Board of Directors – by holding either the Executive Director position or one of the two Alternate Executive Director positions. Nikolai Putscher was among the 12 Executive Directors of the AIIB from January 2017 to June 2018. Currently, Nikolai Putscher is Alternate Executive Director, together with Philippe O’Quin from France.

The work of Nikolai Putscher is supported from Berlin by the Ministry of Finance. For decisions on policies and strategies, the Federal Ministry of Finance (BMF) consults with the Federal Ministry for Economic Affairs and Energy (BMWi), the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and the Federal Ministry for Economic Cooperation and Development (BMZ).

In the past, the position of the German Federal Ministry of Finance and the (Alternate) Executive Director Nikolai Putscher on alignment of investments with the Paris Agreement goals have been ambivalent. As pointed out in this paper, the AIIB has announced alignment of all financial flows with the Paris Agreement in 2017. However, currently there is no definition of ‘Paris alignment’ which would lead to a joint understanding of prioritisation or exclusion of specific investments.
Putscher abstained in the vote on allowing funding for coal in the energy policy. He argued that he personally would not have supported funding of coal projects, but had no mandate from the Euro-Group constituency nor sufficient support on the Board to vote against it. With regard to funding of other fossil fuel sources, for instance natural gas, members of the BMF have argued that these sources are in many cases a desirable alternative in Asia, given that they are cleaner than coal, which Asian countries rely on heavily. A methodology to understand and decide whether a project is compatible with a client country’s development pathway in line with limiting global warming to 1.5°C has, so far, not informed any project-related voting at board level nor at German Ministry level. The Ministry for Economic Cooperation and Development and the Ministry for the Environment had both wanted to make it explicit in the AIIB energy strategy that the bank should not fund coal projects. They consider it as the role of the German government in the AIIB to remind the bank of its commitment to be a ‘green’ bank.

Civil society engagement with the AIIB in Germany

In Germany, the number of civil society organisations holding the AIIB as well as German policy makers to account for sustainable and climate compatible infrastructure development is still very limited.

The German NGO Urgewald was the first German NGO to conduct research and analysis on standards applied by the AIIB. It advocates in particular for stronger transparency policies and an effective complaint mechanism for project-affected people. Urgewald has repeatedly organised meetings between members of the European AIIB constituencies and European and Asian NGOs working on the AIIB. It has established a regular exchange with the German Ministry of Finance.

Germanwatch has conducted research on multilateral development banks and investments criteria compatible with global climate goals for several years. In this context, Germanwatch began to analyse the work of the AIIB in 2018, and was the second German NGO to join the meetings between European executive directors and civil society organisations. In its work, Germanwatch focuses particularly on holding the AIIB accountable to its commitment to align its portfolio with the goals of the Paris Agreement and on the compatibility of its investments with the SDGs.

Further organisations that have conducted or supported research and advocacy on ensuring high sustainability standards in AIIB work include Misereor, Stiftung Asienhaus, the Heinrich-Böll-Stiftung and the German Human Rights Institute.

It is recommended that CSOs and other institutions strengthen information exchange on AIIB engagement strategies in order to develop joint policy demands on the German representatives in the AIIB.
4 Outlook

4.1 Conclusion: the AIIB’s possible contribution and the gaps to be bridged

The world is at crossroads. According to the IPCC (2018), the next decade will be decisive in making the big shift towards sustainable low-carbon and climate-resilient socio-economic development pathways that would allow for avoiding catastrophic global warming. Staying below 1.5°C or at least 2°C is a prerequisite to achieving the SDGs. The way in which infrastructure development in the booming Asia-Pacific region is shaped can alone make the difference of staying or not staying within the range of the Paris Agreement’s temperature goals, let alone that the sustainability of these investments will also shape the future of billions of people in the region and beyond. 

Going green and clean, or making investments following a business as usual approach? Multilateral development banks will play a decisive role. It is they who have the financial capacity to make huge infrastructure development happen – development that is so much wished for by developing countries, which by themselves cannot mobilise the necessary capital. The private financial sector also relies on multilateral development banks’ involvement in long-term and large-scale infrastructure investment to reduce the highly uncertain investments risks to acceptable levels for private investors.

By committing to support the achievement of the Paris Agreement’s temperature and adaptation goals as well as the goal to shift all finance flows in a coherent way, the world’s leading MDBs have made a very important pledge to shift financial flows driving future infrastructure development in the energy, transportation and urban development sectors towards long-term sustainable zero GHG-emission development. Their announcement at COP24 in Katowice in December 2018 to develop a common framework for aligning their activities with the goals of the Paris Agreement in the course of 2019 is another positive step towards operationalising the alignment pledge.

The AIIB is part of this endeavour and the bank with the strongest narrative of transformational change and sustainability, making the core values of being green and clean part of their DNA. At the same time, the AIIB is the fastest-growing MDB in terms of both membership and capital investments. By the end of 2018, after only three years operation, the bank has grown to 69 approved members and another 24 prospective members, more than half of them from the Asia-Pacific region. The portfolio has grown to 34 approved projects with AIIB loans of USD 7.5 billion, and 23 projects waiting for approval.

What do these and future projects stand for? Green rhetoric or green reality? The real litmus test is about implementation, and how seriously commitments are being put in practice. The AIIB has a unique opportunity to become a new model of a post-Paris MDB that drives the necessary transformation towards sustainable, low- and ultimately zero-carbon modern energy, transport and urban infrastructure. On the other hand, the AIIB could fail in this regard, at the price of a high reputational damage, given the potential challenges of a global climate crisis on the one hand and its strong announcements on the other.

Therefore, what counts in the end is not the political commitment as such but the methods chosen to effectively put it into practice, and the level of transparency provided to shareholders and stakeholders with regard to both the current level of implementation and the forward-looking financial disclosure of climate-related risks and opportunities.
In comparison with other MDBs, the AIIB is not yet setting new standards in terms of Paris-alignment, as shown in this paper. The same is true of other dimensions of environmental and social sustainability, as discussed in the analysis of the ESF, with regard to accountability, information disclosure and complaint handling, and finally with look at first lessons learned from project implementation.

However, the AIIB is a new bank. The review and amendment of its environmental and social safeguards, the further development of its sector strategies and project portfolios, and the elaboration of a Paris-alignment framework jointly with other MDBs, all announced for 2019, provide the decisive window of opportunity to put things on track.

The bank and its members are strongly encouraged to fulfil their responsibility and take the bold steps needed to align bank operations with bank commitments. Other stakeholders, and CSOs in particular, are strongly encouraged not to stay on the sidelines, but to actively support the bank in these tasks, as the success or failure of the AIIB will also determine to some degree the ability to meet the Paris Agreement’s temperature goals and the SDGs.

In the following section, we put forward policy recommendations based on our analysis. They are meant to inspire the discussions to be held in 2019 inside the AIIB, among its stakeholders, and in a broader public. We hope that these discussions will be fruitful and inclusive, and that they will honestly address gaps and lead to tangible results, that is, substantive commitments, clear investment criteria and tools for Paris-alignment, more robust safeguards in terms of both substance, procedures and information disclosure, and a project pipeline that clearly reflects a visionary pathway of infrastructure development that is sustainable, zero-carbon and climate resilient.

4.2 Policy recommendations

The AIIB performance shown in the next few years with regard to

• the review and strengthening of the AIIB’s Paris-alignment approaches and methodologies at bank level, sector strategy level and project levels,
• the proper functioning of the ESF, compliance, redress and accountability mechanisms, and
• the revision of already approved projects in these regards, together with the development of a project pipeline that reflects the claim to be a green and clean post-Paris bank,

will be decisive for the bank’s reputation and the role it plays in shifting investments toward sustainable low-carbon climate-resilient development pathways. This leads us to the following recommendations:

Policy recommendations on Paris-alignment of the AIIB investments and operations

• Develop a joint definition of Paris alignment with the other MDBs, and based on best available science. The International Development Finance Club (IDFC 2018) has proposed
Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement and the SDGs

a definition of Paris-alignment in December 2018. This could serve as a starting point for discussion.

- Discuss the respective approaches already used by the AIIB with the AIIB Board of Directors and test and verify their effectiveness.
- Require the management of AIIB to prove that all projects proposed for approval are aligned with the goals of the Paris Agreement according to the jointly agreed methodology.
- Review and revise the energy sector strategy, transport sector strategy, and sustainable cities strategy with a view to ensuring Paris-alignment by making them measurable, reportable, verifiable and operational. Criteria and tools proposed in this paper, and in more depth by Germanwatch/NewClimate Institute (2018) should be taken into due consideration.

Policy recommendations on environmental and social safeguards and accountability

- Carefully document, assess, disclose and discuss pilot experiences from the projects which were initiated between 2016 and 2018. Include stakeholders, including civil society, and independent experts, seeking advice on how to overcome weaknesses and what measures to take to improve its safeguarding and accountability instruments.
- Address the gaps and loopholes in the Environmental and Social Framework (ESF), which is based on principle but lacks clear, mandatory and publicly available implementation rules. Crucial are more substantive exclusion lists for investments, concrete timelines for disclosure, checklists, implementation tools and precise procedural safeguards and guidelines.
- Strengthen AIIB’s institutional capacity and ensure the effective implementation and supervision of policies and projects. Particularly for projects implemented by financial intermediaries, the AIIB should guarantee effective channels for affected communities to raise complaints, and that complaints will be resolved effectively and in a timely manner, and it should urge the intermediaries to improve the environmental and social risk management of their projects.
- Create an independent investigation unit that is kept strictly separate from the unit that oversees environmental and social aspects of project implementation, monitoring and evaluations.
- The Board of Directors should set up clear provisions which ensure that lean and fast decision making will not compromise either the effective implementation of social and environmental safeguards or the development of a project portfolio that clearly reflects the core values and Paris-alignment commitments made by the bank.

5 The acceptance of the ‘alignment’ with the Paris Agreement should be first sought in the agreement’s three long-term goals, described in its Article 2. The first two goals relate to the limitation of global temperature rise well below 2°C, and 1.5°C if possible, and the strengthening of adaptation capacities. The third goal is “to make all financial flows consistent with a pathway towards low-emissions, climate-resilient development” (Article 2.1.c). As such, it directly concerns development funders who produce, and can influence, financial flows. […]The underlying implication of Article 2.1.c is that all financial flows would be made compatible with the other two long term goals of the Agreement, or that no financial flow should be found to be inconsistent with them. This has far reaching impacts on the management of operations and of the portfolio of the IDFC members as development finance institutions.
- Ensure publication of all project relevant information, including the environmental and social risk category and assessment 120 days prior to consideration of the project by the Board of Directors, at least for high-risk projects, taking different languages, forms of information disclosure and accessibility into consideration, and ensure multi-stakeholder consultation is undertaken before project approval.

- Adopt a policy for CSO engagement (to enhance effective participation of CSOs and ensure information disclosure and briefings on AIIB policies, investment strategies and projects) and set up a CSO forum to strengthen exchange between the AIIB, representatives of governments, other stakeholders and civil society. CSOs can help in identifying critical geographies, beneficiaries and social auditing tools, while also tabling innovative ideas. For example, CSOs working with communities could promote projects together with national and state governments, and in particular could suggest community-centred projects to the AIIB.

**Policy recommendations on project portfolio and project pipeline development**

- Formulate detailed objectives and roadmaps for a sustainable, low-carbon, climate-resilient project portfolio and pipeline. Gradually refine the sector strategy targets and roadmaps and release a clear signal of economic decarbonisation, for example by including detailed guidelines on technologies, emission standards and clean production in the sector strategies. Examine and revise the Energy Sector Strategy in 2020 based on the 2050 long-term low greenhouse gas emission development strategies that each country is expected to submit by 2020.

- Include relevant forward-looking climate data and gross GHG emission data in the project information.

- Prioritise low-carbon infrastructure investments in line with the NDC, LTS and SDGs and allocate significant shares of the budget for climate lighthouse projects, including climate adaptation projects. Exclude coal- and oil-fired power plants and related infrastructure and instead promote lighthouse projects that could showcase successful transitionary approaches and technologies. This could serve as a good practice example for greening financial systems (incentivising other multilateral and national development banks to follow) and it would contribute to shaping national development and emissions trajectory.

- Incentivise medium- and small-scale people-centred resilience building and green infrastructure projects. To date there is no space in AIIB policies for medium- and small-scale, people-centred green infrastructure projects. The AIIB should allocate a certain budget share for these projects and set itself a target (in the initial phase 2%-5%). These projects could relate to community-owned and -managed green housing, clean drinking water, clean cooking and clean energy.6

- Put all ‘Category A’ projects under special review. Category A’ projects are likely to have adverse impacts, both social or environmental, which are irreversible, cumulative, diverse

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6 LAYA – INECC identified a list of three socially relevant projects in the CSO consultation on 26 November 2018 in Delhi. These projects could be developed further to make them bankable to be discussed with the government of India and the AIIB.

7 Category A projects currently in AIIB’s project portfolio include a variety of project types, eg, Urban Water Supply and Septage Management Improvement Project, Urban and Tourism Infrastructure Project, Gaz Storage Expansion Project, Metro Rail Project and others.
and unprecedented. Disclose the ways in which environmental and social impacts will be avoided or mitigated. Disclose alignment with the Paris goals and the SDGs, starting with all Category A projects. Make human rights assessments\(^8\) a standard requirement, starting with all Category A projects.

\(8\) See also United Nations ‘Baseline study on the Human Rights Impacts and Implications of Mega Infrastructure Investment, 2017’
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Germanwatch

Following the motto of Observing. Analysing. Acting. Germanwatch has been actively promoting global equity and livelihood preservation since 1991. We focus on the politics and economics of the Global North and their worldwide consequences. The situation of marginalised people in the Global South is the starting point for our work. Together with our members and supporters, and with other actors in civil society, we strive to serve as a strong lobbying force for sustainable development. We aim at our goals by advocating for prevention of dangerous climate change and its negative impacts, for guaranteeing food security, and for corporate compliance with human rights standards.

www.germanwatch.org/en

Climate & Development Advice

Climate & Development Advice is an international consultancy network specializing in climate and sustainable development issues. This includes research, policy analysis and advice, capacity development and the provision of guidance on how to innovatively solve questions related to transformational change.

www.climate-development-advice.de

LAYA | INECC

LAYA works with the Adivasi communities on a range of initiatives that demonstrate an alternate paradigm to sustainable development.

To respond to the climate crisis, LAYA is constantly exploring and introducing climate-friendly, low emission technologies, which harness renewable resources to facilitate the wellbeing of Adivasis.

INECC is a national network of organizations and individuals who connect on the issue of climate change from the perspective of marginalised communities and works to bring their concerns into policy dialogues regionally, nationally and internationally. Its bye line is “People’s Voices in Policy Choices”.

www.laya.org.in | www.inecc.net

CPRD

The Center for Participatory Research and Development (CPRD), one of the progressive think tanks in Bangladesh, is engaged in research and political advocacy aiming at directing global climate policies and associated investments towards achievement of the Paris Agreement goals with regard to climate justice, as well as reduced inequality and vulnerability.

www.cprdbd.org

Greenovation Hub

Greenovation Hub is an environmental Think-Do organization with a global outlook. We promote the development and implementation of sound climate and environmental friendly policies through conducting in-depth analysis and research, and fostering dialogues among stakeholders, in order to drive China’s green transition towards a sustainable, equitable and climate resilient future, contributing to the reduction of global ecological footprint.

www.g-hub.org/en

RNEI

Russian-German Office for Environmental Information (RNEI) is a public organization promoting civil society participation in solving environmental problems in focus regions of Russia by collecting and disseminating information on environmental and climate protection, clean technologies and renewable energy development, environmental education. It aims to extend knowledge and fasten cooperation between experts from Russia, Germany and Eastern Europe in the field of environment and climate.

www.rnei.ru