Collective Call for a New Forward Looking AIIB Energy Sector Strategy

15 February 2022

To: Mr. Jin Liqun, President
Mr. Ludger Schuknecht, Vice President and Corporate Secretary
Sir Danny Alexander, Vice President, Policy and Strategy
Members of the Board of Directors of the AIIB

In the context of the AIIB’s 2022 update of the Energy Sector Strategy, we are taking the opportunity to outline urgent concerns and reflections shared by both civil society groups and project-affected communities, as represented in the signatories below. As we are still awaiting clear publicly available information on the timeline, scope and approach of this update, in the interim, we are proceeding by clarifying our positions going into this process as set forth below. Nevertheless, in doing so, we are fully cognizant that to date, we have no indication if - and how - the AIIB Management intends to engage in meaningful consultations with concerned civil society groups based in regional and non-regional countries (borrowing and non-borrowing alike).

Since the AIIB’s Energy Sector Strategy was adopted in June 2017, we have witnessed the approval of financing for nearly 30 projects dedicated to scaling up large-scale energy infrastructure within Asia, the West Asia-North Africa [WANA/MENA] Region and more recently, Latin America. Over these brief few years, there have been several projects which have resulted in serious concerns and outcry from communities and allied civil society groups, including but not limited to the Bhola Gas IPP Project, the Power System Upgrade and Expansion, and the Dhaka and West Zone Transmission Grid Expansion Project in Bangladesh; the Beijing-Tianjin-Hebei gas project in China; the Upper Trishuli I Hydropower Project in Nepal, and the Balakot Hydropower Project in Pakistan. The imposition of these large-scale hydropower dams, fossil gas-fired power plants and facilities associated with fossil fuel projects since 2017 have already wreaked havoc on the climate resilience of local people and ecosystems, at times garnering the attention of local, national, regional and international press and civil society.

Going forward into 2022, projects yet to be approved on the AIIB’s list of proposed energy sector financing include the Nenskra Hydropower Project in Georgia, the Tamakoshi V Hydroelectric Project in Nepal as well as the Southern Chattogram and Kaliakoir Transmission Infrastructure Development Project in Bangladesh – all of which are expected to be accompanied by grave social, ecological, climate and economic risks.

1 In this regard, we also recall the briefing, “Ten Essentials for AIIB’s Energy Strategy”, published in November 2021.
2 Specifically, for example, there are corresponding implications for the “Strategy on Financing Operations in Non-Regional Members”, as per the Bank’s accompanying Technical Note (Principle 1, para. 10) and accordingly, it is hoped the Bank will be addressing this within the context of the 2022 Strategy update.
3 We note that prior to the AIIB’s Energy Sector Strategy being approved, financing was advanced to projects which similarly have raised serious concerns amongst local and international civil society groups, including the Myingyan Gas Power Project in Myanmar and the Tarbela Hydropower Project in Pakistan.
We note the Bank’s stated commitments towards aligning its portfolio with the Paris Agreement climate imperatives by mid-2023, as well as the recent significant steps taken to ensure subprojects associated with FI facilities exclude coal and, in some cases, large hydropower. We hope that this indicates a shift may be underway to recalibrate energy financing towards less ecologically, socially and economically devastating investments. In this regard, we recognize that if borrowing member countries are to transition towards reliance on grid systems powered by the wind and sun, there remains a major gap in financing which could well be supported in the future by the AIIB. With the opening of such options in the years ahead, we are proactively advancing a common position on considerations for the future of the AIIB’s Energy Sector Strategy.

I. 2022 Energy Sector Strategy “Update” Process
We urge the Bank to move forward in a clear, transparent and publicly accountable way with the 2022 update of the 2017 Strategy, in particular given the implications of approved and proposed energy sector financing for not only communities, watersheds and ecologies both within national borders as well as across borders, but also in terms of meeting national and international climate ambitions.

As a first step, we are calling for the public disclosure of key timelines posted on the AIIB’s website, an approach paper clearly explaining the terms of reference for the update, along with defined times allocated for consultations in both regional and non-regional borrowing member countries in the corresponding major applicable languages and appropriate time zones.

Going forward, we hope that any updated strategy will have clear guidance on when the next revisions are envisioned. We also hope that any updated language will clarify that it is applicable to energy sector related financing and FI facilities sited outside the Asia region, including in member countries in Latin America, the WANA/MENA Region and the African continent.

II. Changed Energy Landscape
We note that the 2017 strategy is based on analysis of the International Energy Agency (IEA) published between 2015-16 as well as on borrowing member countries’ early commitments under the Paris Agreement – information which is by now too outdated to use as a legitimate reference point. Since then, much has changed in terms of climate science, ambition and technologies, not to mention the membership of the Bank of some countries taking leadership in this field.

In particular, we would expect that in considering revisions to the Energy Sector Strategy, evidence from recent internationally relevant publications (such as IPCC’s AR 6 report, IEA’s

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4 In this context, we interpret upholding the Paris Agreement as adherence to the Principles for Paris Aligned Financial Institutions, requiring a full pivot away from financing (i) any infrastructure that would incentivize the continued extraction or production of fossil fuels, encroach on intact forest areas, or violate the human rights of surrounding communities – with specific attention to those who identify as Indigenous Peoples – and (ii) any discredited mitigation schemes such as offsetting, carbon capture and sequestration, growing vast areas with of monocrop trees, or planting of new mangroves in place of those that can no longer survive in destroyed habitats.

5 Given that section 27 of the 2017 Strategy clearly includes the provision for a periodic review to “take into account the lessons of experience and also integrate the advances in scientific knowledge, technological progress, and changed economic circumstances,” but lacks any corresponding terminology to define the parameters of an “update,” there remains no such definition on what is intended to be taken into account within the 2022 process now underway.
Net Zero by 2050 Roadmap, and the United Nations Environment Program’s annual “Production Gap” report will be duly taken into account, along with high-level commitments made by governments and institutions in the context of COP26. In this regard, we trust that AIIB’s Management, being in attendance at COP26, remains attentive to the fact that several member countries and potential co-financiers, partner FIs and peer MDBs committed to end support for unabated expansion of fossil fuels (e.g. Ethiopia, Canada, Denmark, Finland, Portugal, Switzerland and UK as well as AFD, FMO, EIB, EADB and BDMG). We also note that an increasing number of AIIB’s members are associated with the “Beyond Oil and Gas Alliance” (Denmark, Finland, France, Ireland, Luxembourg, Portugal, Sweden and Wales). Indeed, there could not be a more opportune moment than now for the AIIB to pivot away from supporting any further build out of infrastructure for extracting, transporting, trading, storing, producing or generating power from fossil fuel-related resources.

III. Priorities of a 2022 Energy Sector Strategy

According to provisions 27-28 of AIIB’s current Energy Sector Strategy, the approach and initial guiding principles are to be reviewed over time in light of scientific advances and economic circumstances, particularly in relation to renewable energy technologies.

The stark global health, climate and economic crises that have come to the fore in recent years, taken together with both the ongoing international efforts to spur on inclusive just transitions, and the timely juncture mid-way between COP26 and COP27, provide an apt rationale for the AIIB management to overhaul the original provisions outlined in the Energy Sector Strategy 2017. Indeed, shifting gears towards supporting energy infrastructure fit for purpose – for today and tomorrow – would require the bank to move its resources towards supporting variable renewable energy sources, primarily wind and solar.

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6 According to the IEA’s Net Zero by 2050 Roadmap, while no new coal projects should be built from now on (0% share in the global energy mix by 2050), usage of large-scale oil power projects must fall to zero by 2030, and the usage of gas fired power projects must decline globally, at a minimum rapidly shrinking to just 0.4% of its 2020 existing share in the entire global energy sector by 2050 (p.117). Similarly, following the publication of the IPCC AR 6 report last year, UN Secretary General Antonio Guterres asserted: “OECD countries must phase out existing coal by 2030, with all others following suit by 2040. Countries should also end all new fossil fuel exploration and production…”

7 Launched just prior to COP 26, the Production Gap Report recommended not only that governments worldwide “[c]harter the course towards a rapid, just, and equitable wind-down of fossil fuel production as part of overall decarbonization plans,” but critically, that “International financial institutions also have a key role to play: they can restrict financing for fossil fuel projects and direct it to just transition measures.” In addition, the report concluded that “to avoid locking in levels of fossil fuel supply that are inconsistent with climate goals…there should be moratoria, bans, or limits on all or certain types of fossil fuel exploration and extraction (such as offshore or unconventional drilling) or infrastructure (such as oil pipelines or liquefied natural gas (LNG) terminals).” (p. 65) In fact, the IEA’s 2021 “Net Zero by 2050” report likewise suggests that LNG facilities in the planning and construction stages will not ever be of use by 2050 (p. 102).

8 While the AIIB remained absent from the list of institutional signatories, it nevertheless became apparent that endorsing governments make up over 20% of the AIIB’s shareholders.

9 Guiding principles listed in the current ESS are as follows: energy access and security, energy efficiency, reduction of carbon intensity, pollution management, catalyzing private capital, and promoting regional connectivity.
We urge the AIIB to update its Energy Sector Strategy by:

1. **Providing clear, timebound commitments to avert new and continued exposure to fossil fuel related investments; embracing climate ambition and science.**
   - As a first step towards Paris alignment, the AIIB must ensure it provides no new direct, indirect or FI on-lending support for coal and coal associated facilities. As outlined above, the scientific consensus on winding down all coal infrastructure is indisputable, and it is incumbent upon the AIIB as a multilateral development bank to support the transition from coal in member countries, both regional and non-regional. This means also leveraging partnerships with clients, project sponsors and institutional investors to close loopholes exposing the AIIB to coal through direct and indirect investment flows (including financial intermediary and capital market projects). This can be done by referring to the most up to date internationally recognized and credible screening criteria already used as a reference point by several financial institutions (including the World Bank Group’s IFC), the [Coal Exit List](#).
   - Furthermore, in order to avoid undermining member countries’ and global climate ambitions, the Bank would need to close off all loopholes for new investments in any gas, diesel and oil power generation projects as well as gas transport and LNG infrastructure. This would mean dropping those projects currently proposed but yet to receive Board approval, and ensuring no new consideration of such projects.
   - It is also imperative that the Bank independently verify whether proposed financing for transmission and distribution infrastructure is associated with oil, gas, coal or nuclear power generation. Proposed financing for any investments ascertained to be affiliated with fossil fuel or nuclear facilities should be dropped from the pipeline without exception. If confirmed that proposed financing for transmission and distribution infrastructure does not have any foreseeable link to fossil fuel power generation, we would hope the Bank could provide such publicly documented affirmation in a timely manner on any online Project Summary.
   - Meanwhile, the Bank’s current investments in fossil fuel-related infrastructure would need to be phased out, specifically by ensuring no additional financing beyond the current approved loans are proposed. Exceptions should be granted only if the Bank is leveraging support for a time-bound clean up and closure of the site in conjunction with a just transition framework for the affected workers and communities. Such cases should only move forward if undertaken through transparent, accountable public consultation processes with the expressed consent of communities and local workforces.

2. **Supporting Scientifically Sound Renewable Energy Options**
   - We acknowledge the first steps taken by the AIIB to exclude large-scale hydropower dams from eligible financing from some approved FI facilities in recent months. However, we urge the Bank to not only make this standard practice, but also going forward, end direct financing of large dams and associated facilities. Taking such an approach would require the AIIB’s management to withdraw current proposals for developing large-scale hydropower projects yet to be approved by the Board of Directors (e.g. Tamakoshi V and Nenskra Hydropower Projects), and commit to no new financing for large hydropower developments, including preparatory works under the Project Preparation Special Fund (PPSF). For current investments in large hydropower dams, such as in Nepal, no
expansion should be approved. This would enable the AIIB to uphold the “Joint statement on the human rights of people affected by dams and other water infrastructure” issued by several UN Special Rapporteurs in the lead up to COP26 (Nov. 2021) calling on “financial institutions to halt planned new large hydropower dams”. The reasoning advanced by these UN experts is applicable to both regional and non-regional members, as they point out that better, less socially and environmentally destructive renewable energy options exist in light of the consistently incalculable costs to peoples’ livelihoods and vast disruptions to watershed ecosystems.

- We urge the AIIB management to strictly withdraw any funding being considered for future waste-to-energy (WTE) projects from its urban and energy sector portfolio as well as under the Project Preparation Special Fund, and bring to a close those tranches committed. Burning plastics and other waste for energy is neither a sustainable nor socially, economically or environmentally forward-looking investment in the infrastructure needed for communities, workers or local businesses to embark on a just transition. Nor is such an investment aligned with the climate imperatives and science of today. We are highly aware of the impacts of such projects financed over the years by other Multilateral Development Banks, locking local municipalities into contracts with service providers that require quotas of garbage to be incinerated; stalling innovative zero waste solutions while contaminating the air with noxious fumes as well as local waterways and soil with toxic ash. Likewise, we have witnessed the concerning toll the AIIB’s co-financed venture into a waste-to-energy facility in the Maldives has had on the health and well-being of local populations, and on surrounding fragile ecosystems. Any further financing for such projects should only be used in cases where there are time-bound, rights-based and transparent initiatives underway for supporting plant closure, clean up and just transition of workers into other sectors.

- Given the resource intensive and risky production and disposal chain for nuclear fuels, it can neither be considered a sustainable, climate-aligned technology, nor part of a just transition. As a result, we urge the Bank to commit to steering clear of any investments that would support the operation or maintenance of nuclear facilities, providing clear assurances that any direct or indirect financing will not be granted for this sector. This would require the Bank to reaffirm section 38 of the current 2017 Strategy and close off remaining investment options.

- Moving forward, financing for so called ‘green’ emerging technologies and infrastructure projects, including pilot Carbon Capture, Utilization and Storage schemes (CCUS), the use of green or blue hydrogen associated with petroleum or coal industries, or the installation of floating solar panels within large-scale dam reservoirs, risk spurring on unforeseen damage to the environment, exacerbating economic and social inequality, and jeopardizing peoples’ health.\textsuperscript{10} We therefore recommend the Energy Sector Strategy provide assurances that the Bank’s limited financing will not be used to invest in CCUS, experimental hydrogen power developments or any other carbon offsetting technology (via direct or indirect financing).

\textsuperscript{10} Examples of concerns arising include cases of CCUS CO\textsubscript{2} pipeline ruptures and leakages. Further, the vast resource-intensive infrastructure required for carbon capture and hydrogen developments themselves promote reliance on the production and consumption of fossil fuels, and are yet to be proven functional at-scale anywhere in the world.
To date, the Bank’s current Energy Sector Strategy suggests that in light of the “lack of consensus” on carbon pricing, the Bank will "test the robustness of its economic analyses" with different carbon prices (Section 41). If the AIIB ventures into adopting more specific shadow carbon pricing benchmarks, the initial agreed upon rate should be subject to continuous upward standardization in order to align with the latest evidence-based recommendations of peer-reviewed climate research and clearly incorporate the social cost of carbon. By taking into account human mortality costs of carbon, for instance, the latest scientific data in the field suggests that the actual cost of carbon per metric ton should be set above USD 250 as of 2021.

3. Ensuring robust application of Commitments to Transparency and Provision of Access to Grievance Redress

We have taken note of the AIIB’s growing portfolio of FI on-lending support, including the recent “BDMG Renewables and Asia Connectivity Facility” to Brazil. However, there is to date no clarity on what subprojects will receive support, and no commitment from the AIIB to clearly publish information that would enable civil society groups, local authorities and people affected by the infrastructure built to understand the AIIB’s involvement. We also note that in this case of support to BDMG, no Portuguese language information is available on the AIIB’s website. Going forward, we urge the AIIB to disclose all subprojects receiving financing via on-lending, ensure all project documents are duly translated according to locally relevant languages, and provide assurances that people affected by these subprojects could bring grievances forward through the AIIB’s Project-affected Peoples Mechanism.

We also continue to assert that it is imperative that the Bank adopt specific principles to ensure gender and human rights based risk and impact assessments are carried out independently, publicly disclosed and meaningfully taken into consideration. Corresponding commitments to ensure the application of grievance redress is responsive to the local socio-economic context are also long overdue, particularly in relation to gendered and ethno-cultural dynamics as well as to acknowledging informally/communally shared lands and territories.

4. Committing to Support Infrastructure for Tomorrow that Upholds Sustainable, Inclusive, Just Transitions

Although the 2017 Energy Sector Strategy currently suggests the “Bank will assist client countries in reducing local and regional pollution” (Section 36), there is nothing in the policy to provide assurances that the Bank’s financed projects will not be implicated in encroaching on “No Go Zones” – including, but not limited to: (i) ecologically sensitive areas as designated by international agreements, conventions and institutions (e.g. UNESCO, FAO, International Maritime Organization or IUCN), (ii) free-flowing rivers, (iii) intact forests, (iv) areas protected by national or subnational laws and regulations, (v) protected or at-risk marine or coastland ecosystems, (vi) Indigenous Peoples’ and Community Conserved Territories and Areas (ICCAs), and (vii) areas where the free, prior, informed consent of Indigenous and Local Communities have not been obtained. We therefore urge the Bank to explicitly incorporate provisions to respect No Go Zones – where any developments related to energy sector infrastructure will not be financed or incentivized by the Bank.
In order to meaningfully uphold the 2021 joint MDB Just Transition High-Level Principles, we urge the Bank to address questions of how it will support a just transition in communities already displaced and affected by energy projects it financed since its inception (including the Bhola IPP and Myingyan CCGT projects), and how it will uphold the principles at the sites of future energy sector investments. At a minimum, as outlined above, this must include conditions to exclude infrastructure associated with coal, fossil gas and oil, large scale hydropower, waste-to-energy incinerators and large scale geothermal, as well as those which extend into No Go Zones.

Although the current 2017 Energy Sector Strategy references investments in distributed and decentralized energy, this policy provision is not reflected in the Bank’s current energy portfolio. Going forward, we urge the AIIB to make clear time-bound targets and commitments to shift the bulk of new energy financing into supporting the development of appropriately-scaled non-resource intensive VRE options, particularly in the case of ‘last mile’ communities in writing, specifically for instance, integrated into the Strategy’s “Results Monitoring Framework”.

IV. Conclusions
While we are cognizant that the above recommendations will require the AIIB to fully overhaul the existing Energy Sector Strategy, including revisions to its “Results Monitoring Framework”, it is our collective conviction that there is no better time than now – in the midst of ongoing urgent realities related to overlapping climate, health, food, water and energy crises. We trust that clarity on the parameters of the update, draft revisions, and specific timelines for written as well as online input will be forthcoming from the AIIB, and look forward to providing further input at that time.

For a Future where Economic, Social, Environmental, Climate and Energy Justice is a Reality for All,

350 Pilipinas, Philippines
350.org Asia, Asia
Asian Peoples’ Movement on Debt and Development (APMDD), Asia
Bank Information Center, USA
Building and Wood Workers International Asia Pacific, Philippines
BWGED (Bangladesh Working Group on External Debt), Bangladesh
CEE Bankwatch Network, Czech Republic
Center for Energy, Ecology, and Development, Philippines
Centre for Environmental Justice, Sri Lanka
Centre for Human Rights and Development, Mongolia
Change Initiative, Bangladesh
CLEAN (Coastal Livelihood and Environmental Action Network), Bangladesh
Committee for the Cancellation of Third World Debt (CADTM), India
Derecho Ambiente y Recursos Naturales, Perú
Ecological public society, Armenia
Environics Trust, India
Environmental Public Society, Armenia
Equitable Cambodia, Cambodia
Freedom from Debt Coalition, Philippines
Friends with Environment in Development, Uganda
Fundeps (Foundation for the Development of Sustainable Policies), Argentina
Growthwatch, India
Inclusive Development International, United States
Indian Social Action Forum (INSAF), India
Initiative for Right View (IRV), Bangladesh
International Accountability Project, United States of America
International Rivers, USA
KRuHA, Indonesia
Latinoamérica Sustentable, Ecuador
Lumiere Synergie pour le Developpement, Senegal
Mekong Watch, Japan
Nash Vek, Kyrgyzstan
Oil Workers' Rights Protection Organization Public Union, Azerbaijan
Oyu Tolgoi Watch, Mongolia
Pakistan Fisherfolk Forum, Pakistan
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Youth Group on Protection of Environment, Tajikistan