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Greening the AIIB:

Diverting the Asian Infrastructure and Investment Bank's fossil fuel financing towards upscaling action for climate and a just energy transition

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Acronyms and abbreviations

African Development Bank	AfDB
Asia-Pacific Economic Cooperation	APEC
Asian Development Bank	ADB
Asian Infrastructure Investment Bank	AIIB
Bangladesh Power Development Board	BPDC
Bank Information Center - Europe	BIC-Europe
Carbon Dioxide	CO_2
Center for Energy, Ecology, And Development	CEED
Circulating Fluidized Bed	CFB
Clean Coal Technology	CCT
Degrees Celsius	^{o}C
Developing Member Countries	DMC
Electricity Generating Authority of Thailand	EGAT
Emerging Asia Fund	EAF
Emission Performance Standard	EPS
Energy Information Administration	EIA
Energy Lending Policy	ELP
Energy Sector Strategy	ESS
Environmental and Social Assessment	ESA
Environmental and Social Management Plan	ESMP
Environmental and Social Policy	ESP
Environmental and Social Standards	E&SS
Environmental and Social Framework	ESF
European Bank for Reconstruction and Development	EBRD
European Euro	EUR
European Investment Bank	EIB
European Union	EU
Financial Intermediary	FI
Grams per Kilowatt Hour	g/kWh
Great Britain Pound	GBP
Greenhouse Gas	GHG
Gulf SRC Company Limited	Gulf SRC
Inclusive Development International	IDI
Intergovernmental Panel on Climate Change	IPCC
International Finance Corporation	IFC
International Finance Institution	IFI
Levelized Cost of Energy	LCOE

Liquified Natural Gas	LNG
Mega-Watt	MW
Multilateral Development Bank	MDB
National India Infrastructure Fund	NIIF
Nationally Determined Contributions	NDC
Organisation for Economic Cooperation and Development	OECD
Petroleum Authority of Thailand	PPT
Renewable Energy	RE
Sustainable Energy For All	SEforALL
United States Dollars	USD
World Bank	WB
World Bank Group	WBG

EXECUTIVE SUMMARY

In January 2016, the Asian Infrastructure Investment Bank (AIIB or the Bank) began operations, as a bank offering financial support for the construction of infrastructure in developing countries in the Asia-Pacific region. AIIB's thrust to align itself with three core values, encapsulated in its branding to be a "Lean, Clean, and Green" Bank is laudable. It hopes to be lean by being composed of an effective and focused team; clean by having zero tolerance for corruption; and green by prioritizing sustainable and green investments. In fact, it is interesting to note that AIIB officials expressly stated that the Bank will not finance coal projects.[1 2]

AIIB'S "LEAN, CLEAN, GREEN" PROMISE

The Bank's Energy Sector Strategy (ESS) aims to place the bank in the center of "a global energy landscape that is characterized by a growing sense of energy insecurity and widespread environmental concerns at national, regional and global levels."[3] The Bank has asserted that the ESS is also consistent with the Bank's "Lean, Clean and Green" core values, and in line with the principles underpinning Sustainable Energy for All (SEforALL), the 2030 Agenda for Sustainable Development, and the Paris Agreement.[4]

With the 2022 Draft Energy Sector Strategy Update (2022 Draft ESS) undergoing public consultation and review, AIIB's own policies threaten to undermine its core values. Its provision on coal allowing it to invest in "efficiency improvements of power and heat distribution networks to improve energy access irrespective of the supply-side energy mix"[5] and "support projects that aim at early retirement of coal plants, replacement of coal with lower-carbon fuel sources, or projects for decommissioning, remediation, and redevelopment of affected coal facility

sites and communities"[6] leave a wide policy gap which can be exploited to further the lifespan of existing coal infrastructure. AIIB also still considers fossil gas as a transition fuel, in spite of the large methane emissions that are counterproductive in meeting the Paris Agreement goals, among many other issues with the fossil fuel. Examples of such projects are the Bank's financing of the 220 MW Bangladesh Bhola oil and gas generation plant in Bangladesh for USD 60 million [7] and the 225 MW Myingyan fossil gas power plant project in Myanmar for USD 20 million.[8]

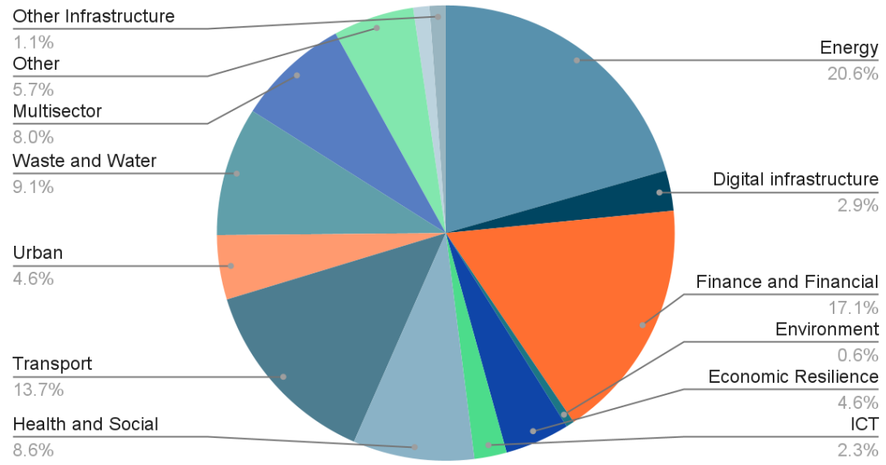
The MDBs' alignment approach to the objectives of the Paris Agreement.[9] The AIIB is among the 10 multilateral development banks that launched a joint framework for the specific purpose of aligning their activities with the goals of the Paris Agreement. The MDBs committed to working together in key areas considered central to meeting the goals of the Agreement, namely: 1) aligning operations against mitigation and climate-resilience goals; 2) aligning internal operations, including facilities and other internal policies; 3) ramping up climate finance; 4) capacity building support for countries and other clients; and 5) putting an emphasis on climate reporting.

Glaring loopholes on safeguards. While the AIIB's energy and environmental policies have their strengths, their weaknesses undermine the Bank's lean, clean, and green brand. These weaknesses remain unaddressed with the current ESS stating that "carbon efficient oil and coal-fired power plants would [still] be considered" if they would 1) replace existing less-efficient capacity power plants; 2) be essential to the reliability and integrity of the system; and 3) there exists no viable or affordable alternative;[10] while the 2022 Draft ESS states, "AIIB may support investments in and efficiency improvements of power and heat distribution networks to improve energy access irrespective of the supply-side energy mix. AIIB may also support projects that aim at early retirement of coal plants, replacement of coal with lower-carbon fuel sources, or projects for decommissioning, remediation, and redevelopment of affected coal facility sites and communities."[11] Moreover, in both versions, the ESS supports funding fossil gas projects and does not explicitly ban the funding of coal as regards lending to financial intermediaries (FIs).

The impact of the glaring loopholes in AIIB's current ESS are made apparent upon closer review of its project portfolio.

ENERGY INVESTMENT PORTFOLIO OVERVIEW

Growing preference for fossil fuels. AIIB's energy investments consist of a diverse range of projects. At present, AIIB funds energy-related adaptation projects, energy efficiency investments, power transmission and distribution, oil and fossil gas processing, transportation and distribution, and renewable energy investments.

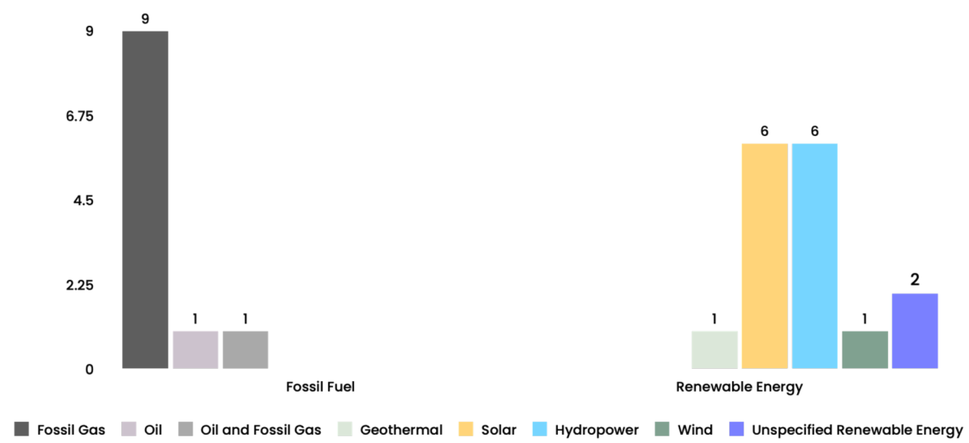


Approved Projects per Sectoral Approach, January 2016 – March 2022[12]

Of the 36 energy projects approved by the AIIB from 2016 to March 2022, 16 are infrastructure projects focused on renewables while 11 are for the expansion of fossil fuels. The Bank not only invested in supporting infrastructure for oil and gas plants and exportation, but also in fossil gas-fired generation projects.

In terms of generation mix, AIIB's fossil gas-fired generation accounts for 1, 945 MW. An example of this is reflected in the Bank's financing of the 220 MW Bangladesh Bhola oil and gas generation plant in Bangladesh for 60 million USD[13] (See Box 1), the 225 MW Myingyan natural gas power plant project in Myanmar for USD 20 million[14], and the 1500MW Sirdarya 1,500MW CCGT Power Project for USD 100 million[15].

The rest of AIIB's generation energy mix comprises of 97.6 MW geothermal, 1, 876 MW solar energy, 6, 461 MW hydropower energy, and 100MW wind energy.



Approved Energy Projects by Energy Source, January 2016 – March 2022[16]

The Bank considers gas-fired power generation as an important tool in assisting "a country's transition to sustainable, low-carbon energy and internationally agreed targets."[17] This shows that the AIIB will "consider development, rehabilitation and upgrading of natural gas transportation (including storage) and distribution networks, and control of gas leakage, to foster greater use of gas during the transition to a less carbon-intensive energy mix/power sector."[18]

Fossil gas will thwart Paris alignment goals. Natural gas, which is more appropriately called fossil gas, emits carbon dioxide as well as methane, both potent greenhouse gases. Adding to this are the emissions associated with the transport of Liquified Natural Gas (LNG).[19] Additionally, carbon dioxide (CO_2) emissions from the oil, gas, and coal in already-operating or under-construction fields and mines globally would push the world far beyond 1.5 degrees Celsius (°C) of warming and would exhaust a 2°C carbon budget. [20]

Fossil gas distracts from renewable energy (RE) investments. The dramatic and on-going cost declines for wind and solar is already disrupting the business model for gas in the power sector.[21] In fact, the average global unsubsidized LCOE for utility-scale solar and wind has dropped 90% and 72%, respectively, since 2009.[22] As a result, wind and solar technology are not only cleaner but also more cost-effective choices than gas for replacing coal-fired power.

Fossil gas is not ideal for transition. Like coal, gas-fired power plants and infrastructure needed for its transport and transmission require decades-long contracts involving large, upfront multibillion-dollar investments.[23] And because the controlling motive for these investments are decades-worth of revenue for contractors and developers, they would also require the creation of contracts typically covering two to three decades, absent any transition policies or clear exit path for fossil gas in the country. Thus, the development of gas plants and related infrastructure would mean locking in emissions from gas for many decades to come. Thus, if it is to be truly considered a transitional fuel, fossil gas-fired generation, as well as investments therein, must be subject to a strictly limited period.

No room for coal. As experts have pointed out, more than 80% of the world's known coal reserves will need to stay in the ground to avoid calamitous climate change.[24] The amount of GHG emissions released by coal-fired power plants, coupled with its long economic lifetimes which extend to at most 40 years, make it obviously incompatible with achieving targets aspired to by the Paris Agreement. These plants would inevitably lock-in countries to emissions levels that would hinder the achievement of, or would force them to negatively adjust, their NDCs.

AIIB walking its talk on not directly funding coal. As far as direct investments go, the AIIB is walking its talk on not funding coal projects. There is no apparent funding which has been allocated for coal-fired power plants, coal extraction, transport, or storage.

Indirect coal investments. Despite this, new coal-fired power plants are planned around the world, with an overwhelming majority located in Asia.[25] And in this aspect, the AIIB's hands are not clean. A year after its pronouncement that it will not fund coal directly, the AIIB, through its FI lending and transmission lines, has been found to have invested in coal. And the weak reporting and transparency mechanisms for FI lending by the Bank has kept other stakeholders to more thoroughly assess the AIIB's energy portfolio with respect to its coal financing.[26]

SUMMARY OF RECOMMENDATIONS FOR DECARBONIZING THE AIIB

The AIIB has the potential to set a new standard for how IFIs and MDBs could operate, specifically in contributing to the global initiative to keep the global

temperature below the aspirational target set by the Paris Agreement. These initiatives include the following:

1. Adopt a strictly Paris-aligned energy policy
2. End all direct and indirect coal investments
   - Include all coal projects in the Bank's Environmental and Social Exclusion List as cited in its ESF.
   - Adopt a comprehensive policy in restricting coal financing
   - Extend application of Exclusion List and comprehensive restrictions to indirect investments facilitated through the backdoor.
3. Discontinue financing for all new fossil gas projects and exit financing fossil gas
   - Divert funding into replacement renewable energy sources in order to ensure a just transition into a fully-decarbonized energy sector by 2050.
4. Prioritize enabling infrastructure and new innovations
   - Support innovative technologies and new types of energy infrastructure, excluding CCUS, fossil fuel sourced hydrogen or fossil fuel reliant projects, as its initiative to an effective long-term response to climate change.
   - Adopt a policy that prioritizes distributed renewable projects over large-scale transmission and distribution projects.
   - Enforce a more restrictive eligibility list for mitigation activities that favors less resource- and carbon-intensive projects.
   - Upgrade national grids into smart grids with increased capacity in order to maximize the integration of more variable RE.
   - Secure enabling infrastructures and investments to allow the integration of new, diversified energy sources from renewables.
   - Reconsider policy on nuclear power plants and projects, in that they should be completely removed from among possible investments.
5. Adopt more stringent safeguards for direct nd indirect investments
   - Set an EPS for all energy and non-energy projects.
   - Subject energy projects to shadow carbon pricing and establish a ceiling carbon price.
6. Enhance transparency and monitoring of climate and energy finance
   - Ensure stringent application of AIIB's policy safeguards and Paris Alignment for all approved projects.
   - Stipulate in its contracts with FI clients that the latter must publicly disclose all AIIB sub-investments at the earliest stages.
   - Ensure that FI sub-projects remain accountable to AIIB oversight and due diligence at all stages of the project cycle.
   - Adopt MDB's common principles on climate mitigation and adaptation finance tracking and reporting.

INTRODUCTION

The Asian Infrastructure Investment Bank (AIIB) is a relatively new multilateral development bank (MDB), having launched just in 2016. The Bank carries the mission of improving social and economic outcomes in Asia and pursues its vision of becoming a "Lean, Clean, and Green" Bank. By being "lean," the AIIB means it comprises an "effective and focused team"; by "clean," the Bank pertains to "zero tolerance for corruption"; and by "green," it refers to "sustainable and green investments."

In reviewing the AIIB's energy portfolio since 2016, this Report reveals that the AIIB has yet to achieve its "Lean, Clean, and Green" ambitions. The Energy Strategy blueprint in 2016 failed to close loopholes for fossil fuel financing, leaving these ambitions in danger of becoming empty promises. However, the 2022 Energy Sector Strategy Update currently undergoing public consultation provides an opportunity for AIIB to translate its promise into a policy that can deliver concrete change.

Being a relatively new MDB, the AIIB has the advantage of rising at a time when the climate emergency is no longer just a concern within the scientific community, but one that is most urgently felt by everyday members of society.

We acknowledge AIIB's efforts to align their policies with the international goal set in the Paris Agreement, as well as their intention to prioritize renewable energy investments. On this note, having thoroughly reviewed their policies and its implementation so far together with their current draft, we also have recommendations that will help eliminate loopholes in their existing policy and improve its implementation.

The AIIB has the potential of setting a new standard for how International Finance Institutions and Multilateral Development Banks could operate, especially when it comes to contributing to the global initiative of keeping the global temperature below the aspirational target set in the Paris Agreement.

As AIIB conducts its public consultation and opens its draft Energy Sector Strategy Update for comments, the NGO Forum on ADB and the Center for Energy, Ecology, and Development (CEED) release this Paper in the hope of the that AIIB will be able to fully meet this potential and radically change the playing field when it comes to setting both energy and non-energy industry financing in a climate change responsive direction.

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METHODOLOGY, SCOPE, AND LIMITATIONS

The NGO Forum on the Asian Development Bank (ADB) commissioned the Center for Energy, Ecology, and Development (CEED) to draft this Paper. The primary objective is to theAsian Infrastructure Investment Bank's (AIIB) 2016 Energy Sector Strategy (ESS), the bank's 2022 Energy Sector Update Draft (2022 Draft ESS) and its energy investment portfolio and to determine whether its practices and transactions are in sync with the Paris Agreement. Specifically, the Paper assesses the AIIB's energy project portfolio from January 2016 to March 2022 from the perspective of fossil fuel investments and borrowing governments' Nationally Determined Contribution targets. With these conditions in mind, this research ultimately seeks to steer the Bank towards supporting more viable and sustainable renewable energy (RE) technology and infrastructure and also drastically reduce its reliance on fossil fuels, specifically natural gas, as an energy source. The publication of this research is particularly timely, as the Bank is in the process of revising its Energy Sector Strategy.

The first chapter begins by recognizing efforts by the AIIB through its current Energy Sector Strategy (ESS) and Environmental and Environmental and Social Framework (ESF), which includes:

a. its emphasis to meet goals set forth by the Paris Agreement;
b. its recognition of funding renewable energy as a means to mitigate carbon emissions and address environmental and social impacts attached to fossil fuel projects.

However, the discussion also includes pointing out significant loopholes and enabling clauses which create space for fossil fuel investments, resulting in adverse impacts on AIIB's actual investment portfolio.

The Paper then highlights the policy approach and objectives the AIIB shares with other MDBs, expressed in the joint declaration entitled, "MDBs' alignment approach to the objectives of the Paris Agreement: Working together to catalyse low-emissions and climate-resilient development." The Paper later provides a critique on the Climate Finance Paradigm, a climate response approach prevalent among MDBs. The said paradigm does not fully internalize the actual investments of MDBs as part of the assessment on whether Banks are actually aligned with Paris Agreement targets. As a solution, the Paper underscores the importance of shifting towards Paris-Alignment Approach. This alternative approach attempts to internalize such considerations to get a more comprehensive view of how MDBs are working towards the targets, and how they could improve on working towards this shared goal.

Subsequently, the second chapter of the Paper looks into AIIB's policies as against its actual direct investments. In order to properly assess its investment portfolio, CEED gathered relevant information from each of the projects approved by the Bank. This was summarized into a table for data capture. Projects which fell under two sector categories were counted as one project for each sector separately. Also, special emphasis is placed on approved energy projects to review how much the Bank funds fossil fuels projects over renewable energy projects. However, this approach is limited to direct investments as reporting of AIIB's indirect lending to Financial Intermediaries (FIs) are not publicly accessible. The Paper notes that this provides a challenge to policy experts and other stakeholders in holding MDBs, such as the AIIB, accountable for the impacts and implications of the projects supported by such banks, albeit indirectly.

Additionally, the Paper provides an analysis of the AIIB's current investment portfolio, as regards its professed goals to meet global climate targets and help develop a more sustainable energy sector. Being relatively new, the AIIB has not yet built quite as large a portfolio compared to other Multilateral Development Banks (MDBs). While its initial direct investments show that it does not finance coal projects, it is also a crucial factor to recognize that many of its investments still support fossil fuels, particularly fossil gas.

In view of the foregoing, the Paper gives a fact-based argument for the necessity to ramp up investments in RE, specifically distributed renewable energy sources, in order to properly reflect the AIIB's policy objectives. It also presents actual data showing the Bank's continued support for fossil gas, which undermines RE investments and efforts to curb social and environmental impacts. These discussions factor in developments in the global energy landscape, the race to meet climate goals, the urgency of divesting from fossil fuels, and the imperative for the AIIB to truly reflect its professed goal of being a "Lean, Clean, Green" Bank.

Additionally, the Paper discusses AIIB's recently released 2022 Energy Sector Strategy Update within the context of commitments made at the 26th Conference of Parties and other recent developments. The review of the Energy Sector Strategy reflects the challenges AIIB has identified over the last five years of its operations and the direction it intends to take its energy investments moving forward.

The Paper concludes by providing concrete recommendations towards decarbonizing the AIIB, underscoring the significance of the Paris alignment, particularly the recognition of the 1.5°C goal. These initiatives include, among others, a rapid and just transition to a low-carbon economy; the need and clamor for distributed, renewable energy systems; and the setting up of stronger, more transparent monitoring and reporting mechanisms to aid the Bank and project stakeholders moving forward. Although there are many other considerations to be factored in regarding energy investments, the recommendations are intentionally limited to how AIIB could truly achieve decarbonization. Various case studies are also cited and inserted in the discussions to illustrate issues established in each chapter.

1 | AIIB'S "LEAN, CLEAN, GREEN" PROMISE

Over the years, China continues to expand its sphere of influence around the world. This is evident in the various elaborate projects that China continues to implement particularly in landlocked regions it deems strategic in line with its national interests. China even takes it a notch further with the establishment of the State-backed multilateral development bank, the Asia Infrastructure Investment Bank (AIIB).

In 2013, Chinese President Xi Jinping addressed the Asia-Pacific Economic Cooperation (APEC) Summit in Bali, Indonesia. He stressed that "the sustained and healthy development of the Chinese economy will bring more opportunities to the development of the Asia-Pacific."[27] In line with this, President Xi expressed China's hope "to join hands and be in one mind with Asia-Pacific partners to jointly build a better Asia-Pacific that will guide the world and benefit all parties."[28] In the speech, the President encouraged the Asia-Pacific community "to prepare for the establishment of the Asian Infrastructure Investment Bank, offering financial support for the construction of infrastructure in developing countries in the region."[29]

After negotiations on the AIIB Charter were concluded by 57 prospective founding members in May 2015, its Charter was formed and entered into force in December of the same year. As a result, the Beijing-based International Finance Institution (IFI) began operations in January 2016 and has now grown to 105 approved members worldwide.[30] Since its establishment, the AIIB has aimed to "better connect people, services and markets that over time will impact the lives of billions and build a better future" by investing in sustainable infrastructure and other productive sectors in Asia and beyond.[31]

AIIB's thrust to align itself with three core values, encapsulated in its branding to be a "Lean, Clean, and Green" Bank is laudable. By being "lean," the AIIB means it comprises an "effective and focused team"; by "clean," the Bank pertains to "zero tolerance for corruption"; and by "green," it refers to "sustainable and green investments."[32]

This attempt to distinguish itself from other MDBs when it comes to green financing is a welcome development, given the many environmental and social problems attached to development projects headlined and funded by many other IFIs in the past. These core values are further reflected not only in AIIB's defining strategy document on its energy investments, but also in its manifestation with other MDBs that it will align itself with the goals set forth by the Paris Agreement in addressing climate change and using finance flows to help climate mitigation and adaptation efforts.

AIIB'S ENERGY SECTOR STRATEGY (ESS) AND ENVIRONMENTAL AND SOCIAL FRAMEWORK (ESF)

The AIIB's Energy Sector Strategy (ESS) and the Environmental and Social Framework (ESF) together acknowledge that the need to provide energy security and to address environmental concerns are inextricably linked.

On 15 June 2017, AIIB Board of Directors approved the ESS, which guides the bank's energy sector engagements, from exploring possible investments to the development of its project pipeline.[33] The Strategy aims to place the Bank in the center of "a global energy landscape that is characterized by a growing sense of energy insecurity and widespread environmental concerns at national, regional and global levels."[34]

The ESS recognizes that Asia presents a picture of the growing need for greater access to energy by its people, exacerbated by the growing energy consumption in the region and the lack of access to energy for many of its people. In 2012, about 43% of the world population without access to electricity, or approximately 464 million, was in Asia[35]. This is despite the rising demand for energy, characterized by the increase of global primary energy consumption from 2000 to 2014, driven mostly by countries not belonging to the Organisation for Economic Cooperation and Development (OECD).[36] At the same time, it also recognizes that initiatives to increase energy access are synonymous with growing environmental and social risks such as worsening pollution in large cities and increased vulnerability of populous countries to climate-related disasters.

The significance of AIIB's ESS is reflected in its investment portfolio. From 2016 to March 2022, AIIB has approved 167 projects, a large portion of which are projects in the energy sector. Of all the sectors engaged in by the AIIB, energy is the highest funded sector, amounting to thirty percent 20.6% or 36 projects in total. (See Figure 1)

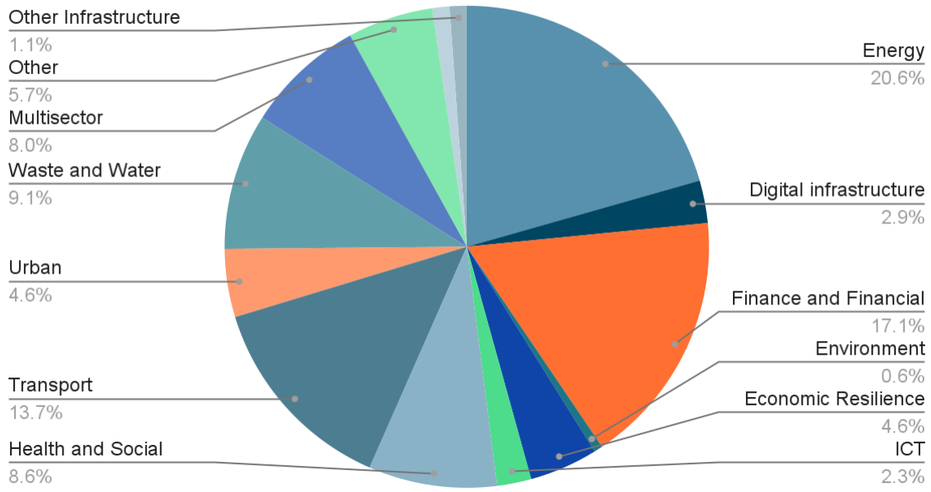

Figure 1. Approved Projects per Sector, January 2016 – March 2022[37]

Its engagement in the energy sector therefore proves to be a defining aspect for the AIIB, both in the kind of development it wants to see in the world, and how consistent its vision is with its practice. This importance is certainly recognized in the principles upon which the ESS is based. Specifically, these principles thrust the AIIB to: 1) promote energy access and security; 2) realize energy efficiency potential; 3) reduce the carbon intensity of energy supply; 4) manage local and regional pollution; 5) catalyze private capital; and 6) promote regional cooperation and connectivity.[38]

The ESS was designed in order to be consistent with the Bank's "Lean, Clean and Green" core values, embraced in and informed by the principles underpinning Sustainable Energy for All (SEforALL), the 2030 Agenda for Sustainable Development, and the Paris Agreement.[39] Specifically, the ESS provides a framework for the Bank to support its client countries to: (i) develop and improve their energy infrastructure; (ii) increase energy access; (iii) facilitate their transition to a less carbon-intensive energy mix; and (iv) meet their goals and commitments under these global initiatives.[40]

It is important to note that AIIB's ESS indicates that the Bank is not currently considering investing in nuclear power, adding further that it also does not foresee that it will do so in the future. This is premised on the AIIB's lack of desire to develop the highly specialized expertise required for involvement in nuclear projects. While this is commendable, the policy also bears the caveat that the Bank "could possibly consider engagement" should demand arise for "very special cases of support for safety improvement.[41]" This ruling out the financing of nuclear plants should be absolute on the part of AIIB as it continues to pursue the Paris Alignment. As will be discussed further in the paper, renewable energy resources are now increasingly cost-competitive and bankable, such that they can be utilized to meet the growing energy demand, without need to resort to nuclear energy.

Apart from the ESS, the AIIB Environmental and Social Framework (ESF) also guides the selection process and operation of the Bank with respect to its projects, particularly in order to address environmental and social risks and impacts its projects may entail. The current ESF also aims to: 1) Reflect institutional aims to address environmental

and social risks and impacts in projects; 2) Provide a robust structure for managing operational and reputational risks of the Bank and its shareholders in relation to the projects' environmental and social risks and impacts; and 3) Support the environmental and social soundness and sustainability of projects.[42] The AIIB professes that these principles must be part of routine decision-making processes wherein impacts to the environment and social conditions should receive full consideration in the identification, preparation, implementation and evaluation of all Projects.[43]

In practice, this subjects each potential project to the Bank's Environmental and Social Policy (ESP) and Environmental and Social Standards (E&SS).[44] The ESP involves all projects, providing for additional requirements of the other financiers relating to environmental or social risks and impacts. It also requires subjecting each project to screening and categorization based on its likeliness to have significant adverse environmental and social impacts that are irreversible, cumulative, diverse or unprecedented.[45] Moreover, this involves execution of environmental and social due diligence; under some conditions involving qualified and experienced internationally recognized independent experts in the assessment process; developing the measures to manage and mitigate the impacts and reflect them in an Environmental and Social Management Plan (ESMP); and integrating this plan into the Project.[46]

The E&SS, on the other hand, covers environmental risks and impacts to biodiversity, critical and natural habitats, protected areas, and the sustainability of land and water use. It also covers social risks and impacts such as ensuring safe working conditions and safeguarding community welfare. It involves the utilization of the precautionary approach, pollution prevention, resource efficiency, and measures to address climate change, and to mitigate the release of greenhouse gases.[47]

Through the ESF, the Bank ideally only supports projects that embody both environmental and social sustainability. The ESF was designed to guide AIIB in incorporating social development and inclusion, empowering the people to participate in, and benefit from, the development process in a manner consistent with local conditions. In this way, it ideally removes barriers against vulnerable groups ensuring that their concerns are included in the development process.[48] This includes prioritizing measures in recognition of climate change, conserving biodiversity, and support for "green economic growth," (i.e. conservation of energy, water and other resources); sustainable land use management; and making best use of green growth and low-carbon technologies, such as renewable energy, cleaner production, sustainable transport systems and sustainable urban development.[49]

MDB JOINT DECLARATION TOWARDS PARIS ALIGNMENT

The AIIB recognizes that the Paris Agreement's central aim is to strengthen the global response to the threat of climate change by "holding the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5 degrees Celsius."[50] The AIIB places itself within the global initiative to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[51] As such, in principle, the Bank is geared towards financing projects that support publicly-outlined nationally determined contributions (NDCs) of countries intended to achieve reductions in greenhouse gas emissions. It must be emphasized, however, that the Bank has yet to draft an action plan to put this into motion.

The ESF also explicitly expressed support for the three aims of the Paris Agreement "to strengthen the global response to the threat of climate change, in line with the Paris

Agreement of 2015 and countries' nationally determined contributions (NDC)."[52] Through its financings, the AIIB may then support its Clients' formulation of long-term, low green house gas emission (GHG) development strategies. As part of its requirements, the ESF necessitates an Environmental and Social Assessment (ESA) which takes into consideration the quantification of GHG, among others. And in order for the Bank to support reporting on GHG for implementation of the Paris Agreement, it may, at the Client's request, "finance measures for the Client to quantify and report to national authorities, in accordance with internationally recognized methodologies and good practice, direct and indirect emissions from Project-related facilities."[53]

Furthermore, this aim to align itself with the targets set forth by the Paris Agreement has not only been reflected in the ESS and the ESF, but also in a joint declaration signed by the AIIB in 2018, and again in 2021.[54]

In the 2018 Declaration, multilateral development banks (MDBs) launched a joint framework for the specific purpose of aligning their activities with the goals of the Agreement. The MDBs committed to working together in key areas considered central to meeting the goals of the Agreement, namely: 1) aligning operations against mitigation and climate-resilience goals; 2) aligning internal operations, including facilities and other internal policies; 3) ramping up climate finance; 4) capacity building support for countries and other clients; and 5) putting an emphasis on climate reporting.

The approach expressed by the Declaration builds on the on-going MDB contribution to climate finance. In 2017, this amounted to USD 35 billion to tackle climate change in developing and emerging economies, mobilising an additional USD 52 billion from private and public sector sources.[55]

In 2021, it was reported in the Collective Climate Ambition MDB Joint Statement at COP26 that MDBs have provided a total of USD 66 billion for climate finance in 2020, "of which USD 38 billion was for low- and middle-income countries."[56] They further claim to have supported climate action in low- and middle-income countries by over USD 300 billion.

The MDB's also made new commitments such as increasing climate finance, mobilizing more private capital in support of mitigation and adaptation investments, and supporting Just Transitions, among others, which will be discussed further to contextualize AIIB's 2022 Energy Sector Strategy Update.[57]

GLARING LOOPHOLES ON SAFEGUARDS

The year 2018 saw the least number of energy projects approved by the AIIB (see Figure 2), comprising only 2 out of 36 energy projects approved by the AIIB thus far. Yet in 2018 alone, the AIIB invested USD 660 million in fossil fuel projects. While the AIIB's energy and environmental policies have their strengths, their weaknesses undermine the Bank's expressed intention to move away from dirty energy and form its brand as a lean, clean, and green bank.

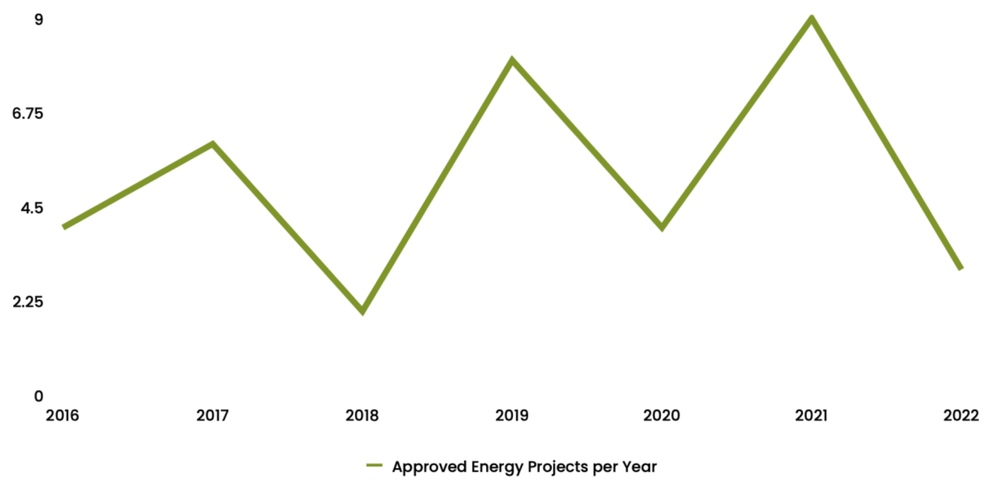

Figure 2. Approved Energy Projects per Year, January 2016 – March 2022[58]

Additionally, the ESS, in its outset, has been met with criticism, as it failed to rule out investments in coal. In spite of the pronouncement of AIIB officials that the bank will not finance coal projects,[59] "carbon efficient oil and coal-fired power plants would [still] be considered" if they would 1) replace existing less-efficient capacity power plants; 2) be essential to the reliability and integrity of the system; and 3) there exists no viable or affordable alternative.[60] Moreover, the ESS does not explicitly ban the funding of coal as regards lending to financial intermediaries (FIs). The same gaps and paradox are also noticeable even in the Bank's ESF.

Like other MDBs, the AIIB uses FIs as conduits for outsourcing funding decisions to commercial banks or private equity funds[61], which in turn invests the capital in "subprojects" or "subclients"[62] (See Annex 3). The ESF enables the AIIB to delegate to the FIs all decision-making regarding FI subprojects, from its selection, approval and monitoring. The Bank would only undertake selective supervision and monitoring in case of high-risk investments.[63] This "hands-off" lending approach led civil society and other sectors to express concerns and criticisms over the lack of systems to ensure safeguards and transparency through all funding levels.[64]

As far as the ESF's transparency mechanisms, NGO Forum on ADB and Urgewald together noted and appreciated the inclusion in the 2021 ESF of deadlines for the Client's Draft Environmental and Social Documentation, that is for Category A Projects, 60 calendar days prior to bank approval for Category A projects and 30 days for Category B projects. However, NGO Forum is of the opinion that this is not an adequate amount of time for the project information and the ESIA to be translated into a language that can be easily understood by local communities. The period has to be sufficient for translation and for the local communities to assess and comprehend the risk for both project types.[65] Furthermore, the Forum further noted that the ESF allows exceptions, such as in article 66 which allows Clients to defer release of information on critical projects. According to them, the ESF further remains "strikingly weak in addressing the lack of information disclosure within the growing trend of channeling investments through financial intermediaries such as commercial banks and private-equity funds"[66]

Moreover, in the course of browsing through AIIB's approved energy projects, it has been observed that there are several instances wherein the Bank uses other

MDB's environmental and social safeguards for project monitoring purposes instead of strictly pushing forward its own (See Annex 4). Doing so may imperil AIIB's credibility as its reliance over other MDB's policy safeguards may only lead to replicating the same environmental and social issues that the latter have failed to address. AIIB may be considered the youngest MDB in the field, but it also needs to actively apply and implement its particular safeguards for each loan it grants to be able to stay true to its vision and mission as a model Bank for its clean, lean, and green initiatives.

Lastly, if it is to remain consistent in enforcing its policies towards becoming a green bank, the AIIB must also include as a priority in its ESS update actively incorporating just transition to clean energy into its other financing policies. In the Digital Infrastructure Sector Strategy it released in June 2020, the Bank outlined its vision, objectives and policies for funding Digital Infrastructure. AIIB expounded that its Digital Infrastructure Sector Strategy "reinforces the Bank's role as a facilitator of technology adoption across all infrastructure sectors,"[67] and, as such, contributes to the objectives of its Energy strategies, among others[68]. The Digital Infrastructure Strategy paper also acknowledged the environmental impact of digital infrastructures, in that it generally has a relatively lower carbon footprint than other industries[69], but that its risks include high electricity consumption, high data use, and as a consequence, possibly, higher carbon footprint.[70]

In spite of this evaluation on environmental impact, however, AIIB failed to include in its Investment Principles considerations on how these Digital Infrastructures will be powered and, if initially powered through dirty energy, how they will be transitioned into clean energy. The Bank must also take into consideration how shifting power supply for these Digital Infrastructures will be done while adhering to the principles of just transition for the employees and surrounding communities affected by such shifts.

2 | ENERGY INVESTMENT PORTFOLIO OVERVIEW

GROWING PREFERENCE FOR OIL AND FOSSIL GAS

Asia is abound with natural resources, with a vast amount of fossil fuel reserves spread out in large proportions across the region.[71] However, the said reserves remain largely untapped despite the growing demand for resource utilization dependent on increasing human populations and aggressive energy consumption. In response, Asia expanded its energy production by increasing its primary energy consumption since 2000.[72]

The vast market for energy projects is also reflected in AIIB's portfolio (see Figure 1). AIIB's energy investments consist of a diverse range of projects. At present, AIIB funds energy-related adaptation projects, energy efficiency investments, power transmission and distribution, oil and natural gas processing, transportation and distribution, and renewable energy investments. While renewable energy investments top AIIB's energy portfolio at 42%, it is followed by Oil & fossil gas processing, transportation, and distribution, and Power transmission and distribution, both at 25% each (See Figure 3).

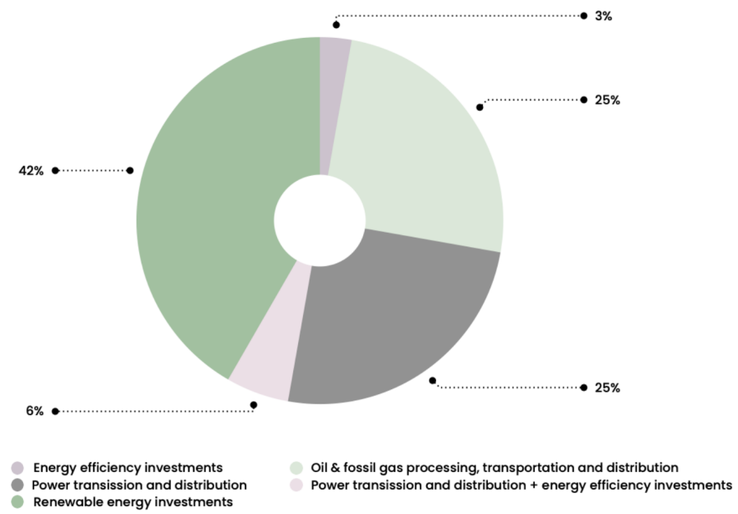

Figure 3. Approved Projects per Sectoral Approach, January 2016 – March 2022[73]

Of the 36 energy projects approved by the AIIB from 2016 to the first quarter of 2022, 11 are fossil fuel focused infrastructures (See Figure 4 and Annex 2 in Annexes).

The Bank not only invested in supporting infrastructure for oil and gas plants and exportation, but also in natural gas generation. In terms of generation mix, AIIB's fossil gas generation accounts for 1, 945 MW. An example of this is reflected in the Bank's financing of the 220 MW Bangladesh Bhola oil and gas generation plant in Bangladesh for USD 60 million[74] (See Box 1), the 225 MW Myingyan natural gas power plant project in Myanmar for USD 20 million[75], and the 1500MW Sirdarya 1,500MW CCGT Power Project for USD 100 million[76].

The rest of AIIB's generation energy mix comprises of 97.6 MW geothermal, 1, 876 MW solar energy, 6, 461 MW hydropower energy, and 100 MW wind energy.

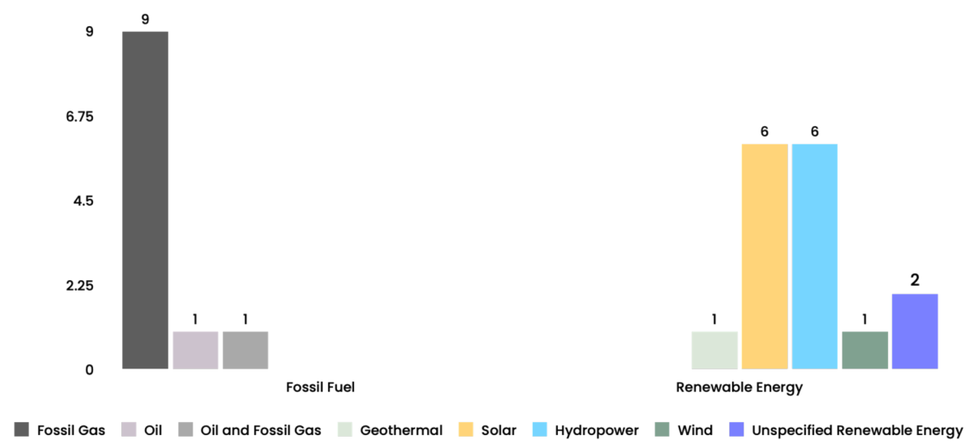

Figure 4. Approved Energy Projects by Energy Source, January 2016 – March 2022[77]

The Bank's reasoning behind this is reflected in the Bank's ESS. It noted that while the Bank promotes renewable energy, it also considers gas-fired power generation as an important tool in assisting "a country's transition to sustainable, low-carbon energy and internationally agreed targets."[78] This shows that the AIIB will "consider development, rehabilitation and upgrading of fossil 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."[79] The ESS treats the amount of investments enabling "cross-border trade of electricity and natural gas" as a metric for basing the level of promotion of "regional cooperation and connectivity."[80] This evidence alludes to the fact that the AIIB continues its heavy reliance on fossil fuels. This is clearly shown in the amount of investments (see Annex 2) and the number of projects rolled out (see Figure 4) that compares the two various sources of energy. Additionally, there are a number of reasons why gas is not a viable option to reach the targets set forth by the Paris Agreement. For one, natural gas emits carbon dioxide as well as methane, both potent greenhouse gases. Adding to this are the emissions associated with the transport of Liquified Natural Gas (LNG).[81] In a journal entitled "US LNG Exports" authored by Gilbert and Sovacool, the authors tracked US LNG exports as a result of transport showed that "greenhouse gas emissions are not likely to decrease and may significantly increase due to greater global energy consumption, higher emissions in the United States, and methane leakage."[82]

The implications of utilizing gas to replace coal as a primary source of energy to climate targets are dire, especially as CO_2 emissions from the oil, gas, and coal in already-operating or under-construction fields and mines globally would push the world far beyond 1.5°C of warming and would exhaust a 2°C carbon budget. This is according to an analysis of data sources from the energy industry and the Intergovernmental Panel on Climate Change (IPCC) as cited in a research by Oil Change International entitled, "Burning the Gas Bridge Fuel Myth (See Figure 5)."[83]

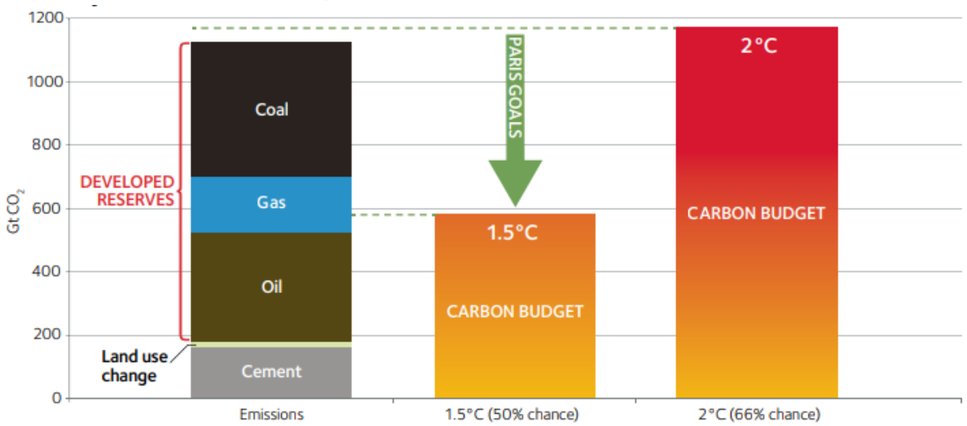

Figure 5. CO_2 Emissions from Global Developed Fossil Fuel Reserves, Compared to Carbon Budgets within Range of the Paris Goals[84]

The AIIB's growing investment in fossil gas to date has been described as a "dangerous distraction," as it coincides with investments going towards renewable energy.[85] The dramatic and ongoing cost declines for wind and solar is already disrupting the business model for gas in the power sector.[86] Based on an annual Levelized Cost of Energy (LCOE) report published in 2021 by Lazard, the average global unsubsidized LCOE for utility-scale solar and wind has dropped 90% and 72%, respectively, since 2009 (See Figure 6).[87] As a result, wind and solar technology are not only cleaner but also more cost-effective choices than gas for replacing coal-fired power.

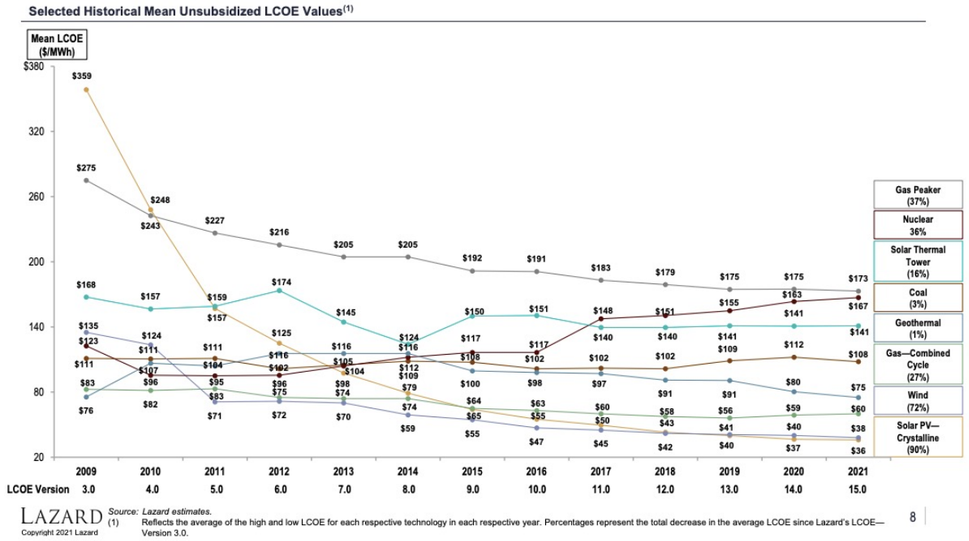

Figure 6. 2021 Levelized Cost of Energy Comparison—Historical Utility-Scale Generation Comparison[88]

Like coal, gas-fired power plants and infrastructure needed for its transport and transmission require decades-long contracts involving large, upfront multibillion-dollar investments.[89] And because the controlling motive for these investments are decades-worth of revenue for contractors and developers, they would also require the creation of contracts typically covering two to three decades. Thus, the development of gas plants and related infrastructure would mean locking in emissions from gas for many decades to come.

In its lobby document entitled, "Leaving Behind ADB's Dirty Energy Legacy," CEED questioned the case for fossil gas as a bridge fuel. It is worth reiterating that in IPCC's P1 Scenario,[90] primary energy from fossil gas should drastically decrease at around -25% from 2010 levels by 2030, and -74% from 2010 levels by 2050 (See Figure 7).[91] Thus, if it is to be truly considered a transitional fuel, fossil gas generation as well as investments therein must be subject to a strictly limited period.

Global indicators	P1	P2	P3	P4	Interquartile range
Pathway classification	No or limited overshoot	No or limited overshoot	No or limited overshoot	Higher overshoot	No or limited overshoot
CO_2 emission change in 2030 (% rel to 2010)	-58	-47	-41	4	(-58,-40)
└ in 2050 (% rel to 2010)	-93	-95	-91	-97	(-107,-94)
Kyoto-GHG emissions in 2030 (% rel to 2010)*	-50	-49	-35	-2	(-51,-39)
└ in 2050 (% rel to 2010)	-82	-89	-78	-80	(-93,-81)
*Final energy demand** in 2030 (% rel to 2010)*	-15	-5	17	39	(-12,7)
└ in 2050 (% rel to 2010)	-32	2	21	44	(-11,22)
Renewable share in electricity in 2030 (%)	60	58	48	25	(47,65)
└ in 2050 (%)	77	81	63	70	(69,86)
Primary energy from coal in 2030 (% rel to 2010)	-78	-61	-75	-59	(-78, -59)
└ in 2050 (% rel to 2010)	-97	-77	-73	-97	(-95, -74)
from oil in 2030 (% rel to 2010)	-37	-13	-3	86	(-34,3)
└ in 2050 (% rel to 2010)	-87	-50	-81	-32	(-78,-31)
from gas in 2030 (% rel to 2010)	-25	-20	33	37	(-26,21)
└ in 2050 (% rel to 2010)	-74	-53	21	-48	(-56,6)
from nuclear in 2030 (% rel to 2010)	59	83	98	106	(44,102)
└ in 2050 (% rel to 2010)	150	98	501	468	(91,190)
from biomass in 2030 (% rel to 2010)	-11	0	36	-1	(29,80)
└ in 2050 (% rel to 2010)	-16	49	121	418	(123,261)
from non-biomass renewables in 2030 (% rel to 2010)	430	470	315	110	(245,436)
└ in 2050 (% rel to 2010)	833	1327	878	1137	(576,1299)
Cumulative CCS until 2100 ($GtCO_2$)	0	348	687	1218	(550,1017)
└ of which BECCS ($GtCO_2$)	0	151	414	1191	(364,662)
Land area of bioenergy crops in 2050 (million km²)	0.2	0.9	2.8	7.2	(1.5,3.2)
Agricultural CH_4 emissions in 2030 (% rel to 2010)	-24	-48	1	14	(-30,-11)
in 2050 (% rel to 2010)	-33	-69	-23	2	(-47,-24)
Agricultural N_2O emissions in 2030 (% rel to 2010)	5	-26	15	3	(-21,3)
in 2050 (% rel to 2010)	6	-26	0	39	(-26,1)

NOTE: Indicators have been selected to show global trends identified by the Chapter 2 assessment. National and sectoral characteristics can differ substantially from the global trends shown above.

** Kyoto-gas emissions are based on IPCC Second Assessment Report GWP-100*
*** Changes in energy demand are associated with improvements in energy efficiency and behaviour change*

Figure 7. Breakdown of Contributions to Global Net CO_2 Emissions in Four Illustrative Model Pathways[92]

Without subjecting its support for fossil gas to such stringent limitations, this growing preference for fossil fuel projects undermines the Bank's identity as a "Lean, Clean and Green" bank. It also threatens to defeat the Bank's objective to align itself with Paris Agreement targets.

Bangladesh Bhola IPP
INDIRECT COAL INVESTMENTS

Ranked as the seventh most vulnerable nation to the effects of climate change from 1998 to 2018, Bangladesh is a low-lying coastal nation on the front line of sea level rise and other climate change impacts. It is also home to massive energy projects funded by the AIIB, namely: a) a natural gas infrastructure and efficiency improvement project; b) a distribution system upgrade and expansion project; c) a transmission grid expansion project; d) a power system upgrade and expansion project; and e) the Bangladesh Bhola independent power producer (IPP). Taken together, these investments cost up to USD 605 million as of 2021.

In order to "increase power generation capacity in Bangladesh to help meet its power demands as it faces acute power shortages,"[93] the AIIB approved "up to USD 60 million of debt financing for the construction of a greenfield 220 MW (net capacity) dual-fuel (gas as primary fuel and high-speed diesel as back-up fuel) combined cycle power plant to be located in Bhola, an island in the Barisal district of Bangladesh."[94]

The project site is adjacent to an operating 225 MW plant of the Bangladesh Power Development Board (BPDB) which has been commissioned in 2015. Thus, it will be the

second power project to be located within the same Bhola site complex.

Renewable Energy taken for granted
In 2019, Recourse (BIC-Europe) noted that of AIIB's USD 405 million direct energy investments in Bangladesh, "not one cent has gone into renewable energy." Both direct and indirect investments by the AIIB have backed greenfield gas plants and heavy fuel oil power-generation[95]. Significantly, AIIB invested USD 150 million in the IFC Emerging Asia Fund, which in turn invested in Summit Power that only operates gas and heavy fuel oil plants.[96]

'Bridge fuel' in question
Power purchase agreements between power plants, such as Bhola, and the Bangladesh government reportedly often stretch over at least 20 years.[97] As such, projects like the Bhola IPP stand to operate well beyond 2030, when global greenhouse gas emissions should be cut at least 45% from 2010 levels to avoid "long-lasting or irreversible changes" to our planet.[98] The longevity of such plants, and the proposal for more plants of the same technology and source, casts doubt on whether gas truly serves as a mere bridge fuel for decarbonization.

INDIRECT COAL INVESTMENTS

As experts have pointed out, more than 80% of the world's known coal reserves will need to stay in the ground to avoid calamitous climate change.[99] The amount of GHG emissions released by coal-fired power plants, coupled with its long economic lifetimes which extend to at most forty years, make it obviously incompatible with achieving targets aspired to by the Paris Agreement. These plants would inevitably lock-in countries to emissions levels that would hinder the achievement of, or would force them to negatively adjust, their NDCs.

As far as direct investments go, the AIIB is walking its talk on not funding coal projects. There is no apparent funding which has been allocated for coal-fired power plants, coal extraction, transport, or storage. This is a significantly positive feature of AIIB's energy portfolio.

Economically, the absence of coal-fired power plants in the AIIB's direct investment portfolio may also be explained by the economic risks attached to coal. In recent years, many coal-fired power plants have been closed down, or are in the process of being retired, because the costs of pollution control as well as CO_2 emissions have reduced the plants into stranded assets. This is reflected in a 2018 research by Institute for Energy Economics and Financial Analysis that showed an increasing trend in coal-fired power capacity retirements in the United States since 2012.[100] This is coupled with the continued drop in RE technology prices, which is driving investments away from coal.

Despite this, new coal-fired power plants are planned around the world, with an overwhelming majority located in Asia.[101] And in this aspect, the AIIB's hands are not clean. A year after its pronouncement that it will not fund coal directly, the AIIB, through its FI lending, has been found to have invested in coal. And the weak reporting and transparency mechanisms for FI lending by the Bank has kept other stakeholders from assessing the AIIB's energy portfolio with respect to its coal financing.[102]

Stricter direct lending policies have been introduced by other MDBs as a result of these issues being more documented and publicized, such as the 2021 commitment from the World Bank Group's (WBG) private sector arm, the International Finance Corporation (IFC), to "adopt Urgewald's Global Exit List. Furthermore, the IFC recommends the Global Coal Exit List to its clients and urges them to screen their

exposure against the list" in its report on Greening Equity Investments in Financial Institutions[103] However, MDBs in general remain supportive of coal in terms of their indirect lending. The IFC, for example, has been found by the Compliance Advisor Ombudsman (CAO), to have violated its own environmental and social protection policies when it invested USD 228 million in Philippine local bank Rizal Commercial Banking Corporation (RCBC), which eventually became the leading financier of coal expansion in the Philippines.[104] As a result, the IFC was forced to develop a Management Action Plan to address these findings.[105]

A Study by Recourse and TrendAsia on the IFC's Green Equity Approach (GEA) also reflects issues on Financial Intermediaries.[106] The program aims to assist selected IFC financial intermediary equity clients in reducing their exposure to coal down to zero or near zero by 2030.[107] In spite of how well-intentioned the program was at the design stage, Recourse found that "IFC's first GEA client, Hana Bank Indonesia, provided project finance to new coal plants in July 2020. A year after signing up to the GEA and promising to reduce its coal exposure, Hana gave two tranches of USD $6 million and USD $50 million to PT Indo Raya Tenaga, developer of the massive 2,000MW Java 9 and 10 coal plants in Indonesia."[108] Clearly, even through a financing program designed to reduce carbon emissions, funding financial intermediaries can still completely contradict the program's intention absent the necessary safeguards to bind the FIs.

Similarly in the case of AIIB, inderect lending through financial intermediaries threatens to undermine the Bank's "Lean, Green, Clean" commitment. This is evidenced by its recent lendings to national and regional funds which led to environmental and social issues. (See Box 2)

AIIB's Controversial FI Lendings

The approach to lending to FIs poses a challenge to the commitment of the AIIB to help achieve climate targets. In 2017 alone, AIIB transacted its first investments on FIs in the absence of robust policies to manage high risks intrinsic to FI investments. These FIs, namely: a) Indonesia's Regional Infrastructure Development Fund, b) the National India Infrastructure Fund (NIFF), and c) the IFC Emerging Asia Fund (EAF), have been known to support dirty energy ventures without sharing any of the AIIB's professed thrusts to account for environmental and social risks attached to the projects.

Emerging Asia Fund (EAF)
The EAF invests in Singapore's Summit Power International, which operates 13 fossil-fueled power plants in Bangladesh. Its own investments in Summit Power have been previously considered by the IFC as "high risk" because of land acquisition and pollution concerns. However, neither the ESS nor the ESF have been sufficient to prevent such backing to reach Summit Power.[109]

Upon getting the AIIB backing, EAF then bought equity in Shwe Taung Cement for expansion of a cement plant in Myanmar. At that time it was projected to be more than double coal production from a coal mine in order to exclusively supply the cement plant. [110]

National India Infrastructure Fund (NIFF)
Similar concerns have also been expressed over AIIB's USD 100 million equity investment for the NIIF last June 2018, as part of its first phase of funding for the FI which prioritizes on Indian infrastructure projects. Critics have pointed out that such funding and the large leeway given to FIs could lead to a revival of stalled projects in the country. This includes the controversial Srikakulam Thermal Power Station in Andhra Pradesh, which was shelved because of high social and environmental risks.[111]

"Hands-Off" Lending Policy
The AIIB currently invests in 30 financing projects and 28 projects coursed through finance programs, including the aforementioned funds.[112] Four of these finance projects are specific to energy efforts, while the rest are more broad in scope and purpose. Unlike directly-funded projects, projects funded by these funds are not required to be subject to the ESF and align with the goals of the ESS. This lax policy on FIs is what civil society members have called a "hands-off" lending policy. [113]

In 2019, BIC-Europe looked into the AIIB's indirect lending through FIs, such as infrastructure and private equity funds. It was found that AIIB channels 15% of its total spending through indirect lending.[114] BIC Europe warned the AIIB this could "result in it financing fossil fuels through the back door." As evidenced by the above mentioned examples, this warning has unfortunately become reality.

LENDING TO COMPANIES ON THE GLOBAL COAL EXIT LIST

Based on AIIB's existing project portfolio for the period covered by this report, borrowers were also cross checked with the Global Coal Exit List (GCEL), the Global Oil and Gas Exit List (GOGEL), the Coal Policy Tracker, and the Oil and Gas Policy Tracker.

These are tools that guide banks and financial institutions in defunding the coal industry, by listing down companies that continue to contribute to coal continuity or expansion using clearly defined criteria. To be listed in the GCEL, companies must meet at least one of the following three (3) criteria: 1) the Relative Criteria; 2) the Absolute Criteria; and, the Expansion Criteria.[115]

The Relative Criteria uses the coal share of revenue, which "measures the share of a company's coal-related business in proportion to its total revenue."[116] To meet this criteria, companies must have a coal share of power production or coal share of revenue equal to or greater than 20%. The Absolute Criteria makes use of the absolute size of a company's coal operations. A company that meets this criteria has an annual thermal production that is 10 million tons or more, or whose installed coal-fired capacity is 5 GW or more. Lastly, the Expansion Criteria looks into whether companies have plans to expand coal mining or coal infrastructure and includes them in the list if they are any of the following: 1) "planning to develop new coal-fired capacity of at least 100 MW"[117]; 2) "planning to develop new coal mines or planning a significant increase of at least 1 Mt annual thermal coal production"; 3) "involved in the development or expansion of coal transportation assets or other coal-related infrastructure."[118]

According to AIIB's portfolio, the Bank funded two energy projects and one finance project with companies that are on the Coal Exit List. In July 2019, it approved a loan for a finance project with L&T Infrastructure Finance Company Limited. In January 2021, the Bank approved a loan for a power transmission and distribution project with PT Perusahaan Listrik Negara (Persero). Then in June 2021, it approved a loan for a 500 MW greenfield combined-cycle gas turbine (CCGT) plant and associated infrastructure with ACWA Power Sirdaya LLC (Tashkent).

L&T Infrastructure Finance Company Limited is on the list for having plans to expand coal generation by 700 MW, far larger than the 100 MW threshold. The parent company ACWEL, on the other hand, is on the GCEL

for having plans to expand coal generation by 3, 600 MW in Vietnam and UAE. Lastly, PT Perusahaan Listrik Negara finds itself on the list for meeting two of the criteria: it currently has more than 20 GW of installed coal power capacity and is planning to add 9, 435 MW more of Coal Power. That AIIB chose to support companies with such large coal portfolios is definitely concerning.

GOGEL, on the other hand, identifies which companies fall under the following categories:

1. "have the largest annual hydrocarbons production
2. "have the highest share of unconventional oil & gas production,
3. "have the highest oil & gas exploration capex
4. "have the biggest upstream expansion plans over the next years,
5. "have the highest share of unconventional oil & gas expansion,
6. "are the biggest developers of new oil & gas pipelines,
7. "are the biggest developers of new LNG terminal capacity,
8. "are involved in reputational risk projects."[119]

While it is commendable that none of the borrowers of approved projects are in the GOGEL and Policy Tracker, AIIB is strongly encouraged to develop within its policy safeguards and guidelines to prevent it from funding companies that benefit from oil and gas expansion.

The list of borrowers was also compared with the Coal Policy Tracker which rates coal policies according to the following five criteria: 1) "exclusion of coal mines, coal plants, and coal infrastructure"[120]; 2) "exclusion of all financial services to companies planning new coal mines, coal plants or coal infrastructure projects"[121]; 3) "exclusion of companies which are most exposed to the coal sector, based on their share of revenues or electricity production from coal"[122]; 4) "exclusion of the largest coal producers and largest coal plant operators"[123]; 5) quality of the coal phase-out strategy.[124]

Lastly, AIIB's project portfolio was reviewed under the Oil and Gas Policy Tracker which examines the oil and gas policies of financial institutions based on the following criteria: 1) "The first criteria covers the immediate exclusion of financial services dedicated to oil and gas projects; 2) The second criteria addresses the exclusion of all financial services to companies with oil and gas expansion plans. Reclaim Finance plans to assess the impact of each policy on oil and gas expansion by looking at the percent of oil and gas developers it rules out, based on the Global Oil & Gas Exit List from Urgewald; 3) The third criteria rates the quality of oil and gas phase-out commitments (considering both long-term commitments and immediate exclusion criteria)." [125]

Similarly, it is recommended that AIIB make it part of their policy and ESF due diligence to ensure that no future project be approved should such approval in any way contribute to fossil fuel expansion.

LARGE-SCALE RE PROJECTS

The amount of energy investments in large-scale energy projects is also observable from the AIIB's portfolio. From 2016 to the first quarter of 2022, 6 of the 16 renewable energy related projects are hydropower projects.

A study published by BioScience analyzed more than 250 dams and bubble-based emissions. It found that hydroelectric dams emit a billion tonnes of greenhouse gases a year, which represents 1.3% of total annual anthropogenic global emissions.[126] These emissions are from methane which stays in the atmosphere for only around a decade, shorter than the centuries-long staying power of CO_2. However, methane also contributes almost three times more to global warming than CO_2 over the course of 20 years alone.[127]

Methane is produced at the bottom of the reservoirs, where oxygen is low and bacteria decompose organic material, like trees and grasses, already present or carried by the water course.[128] Part of the methane becomes CO_2 while the rest is carried to the surface as bubbles. When considered over a 100-year timescale, rotting vegetation in the dams would produce more methane than rice plantations and biomass burning.[129] The amount of emissions stemming from the construction of dams is also concerning. New roads and infrastructure built for new dams can cause further carbon emitting deforestation.[130]

Since 1970, freshwater ecosystems have lost approximately 76% of their population due to dam building and other factors.[131] These projects cause severe and often irreversible damage to the integrity of ecosystems. They disrupt the balance of ecosystems; interrupt the flow of rivers and sediments causing coastal erosion; and impose stress on freshwater species. Moreover, such projects are often accompanied by threats of violence against host and neighbouring communities, as well as violations of the rights of indigenous peoples to their lands, territories, resources, governance, cultural integrity and free, prior and informed consent. Additionally, large hydropower projects have displaced at least 40-80 million people and have negatively affected an estimated 472 million people living downstream.[132]

Given the expansive space required, and the huge volumes of power expected to be generated and distributed across borders, large scale RE sources like hydropower and geothermal are often described as resource-intensive.[133] These issues lead to the fact that community opposition against large-scale RE has been well-documented. This is because of their social and economic impacts, particularly to host communities, as illustrated by the case of the Tarbela 5 Hydropower Extension Project. (See Box 3)

Furthermore, dams are not resilient in the midst of the climate crisis. Drying riverbeds and flash floods in areas that rely on dams for power have already caused havoc, and in cases when a dam overtops, downstream communities suffer devastating consequences.

Tarbela 5 Hydropower Extension Project in Pakistan

Aiming to boost the output of the existing Tarbela hydropower dam in Pakistan, the AIIB partnered with the World Bank to co-finance the Tarbela 5 Hydropower Extension Project.

The Extension Project aims to facilitate the sustainable expansion of Pakistan's electricity generation capacity and provide a low cost, clean, renewable energy option in a relatively short period of time. This will help "alleviate severe blackouts and expensive, unhealthy and polluting self-generation with small gasoline and diesel generators." [134]

Potential Environmental and Social Risks

The Early Warning System database, which analyzes trends and identifies potential risks attached to development projects, noted potential hazards posed by the Extension Project. Based on available project documents, this project may pose potential risks to housing, livelihood, and food security.

Since the Islamabad West Grid Station will require about 200 acres of land, the Station will potentially affect a total of 150 households through loss of agricultural land with associated loss of income and livelihood. The construction of transmission lines, which will span over 52km with 160 towers will also potentially result in resettlement for affected households.

The Project Summary itself states that "80 percent of the people who own the tower locations are farmers. The impacts associated with the towers include disturbance to crops at the time of construction, and clearing of vegetation under the alignment."[135] As such, the construction of the hydropower project will yield impacts on food security.

The project may pose impacts to the right to a healthy environment. The construction of Tarbela has had impacts on water flows downstream and may have impacts on the aquatic habitat and drinking water supply. Construction activities may also impact soil quality and vegetation. As operations include usage of chemicals, contaminants, and waste water, impacts on groundwater quality must also be monitored.

Legacy Issues concerning Co-Financier

As the project is also financed by the AIIB, it does not use AIIB's ESF as a basis for setting up environmental and social safeguards. Rather, it maintains WB standards as its reference for operative Environmental and Social Policy.

This is concerning as serious social issues from the previous Tarbela dam and associated projects remain unsolved. According to the Project Summary, the Resettlement Commission which used to address resettlement and land acquisition cases under the 1970s Tarbela Dam project and the 1990s Ghazi Barotha hydropower project, "will be reconstituted and financed under the [World Bank's] Additional Financing to continue work on remaining legacy cases under the Project."[136] This is because there are still many cases of displacement and inadequate compensation for the tens of thousands of people who were displaced by the construction of the dam in the 1970s. [137]

Despite having many positive features in response to trends in IFI lending, it is apparent in this case that the AIIB's ESF takes a backseat when co-financiers are involved. In all other cases where AIIB is not the sole financier of a project, the ESF moves over for the Environmental and Social Policy of other MDBs to operate. According to the Bank, this is for as long as the policy of other MDBs are materially consistent with the AIIB's ESF.

This can be a good thing in cases where the co-financiers have stricter guidelines for operation and monitoring. However, this is certainly not applicable in this case wherein WB policies and safeguards have clearly failed to address the issues attached to their long overdue project almost 50 years prior. If this continues and carries over to other expansion and extension projects, then AIIB will not only fail in its "Lean, Clean, Green" mission, but would only inherit the faults and flaws of MDBs which have preceded it.

3 | THE 2022 ENERGY SECTOR STRATEGY UPDATE CLIMATE COMMITMENTS IN THE MIDST OF AN EXPANDING GAS INDUSTRY

In December 2021, AIIB initiated the update to the Energy Sector Strategy to "reflect the latest sectoral and institutional context, the Bank's Corporate Strategy as well as its climate finance target and commitment to Paris Alignment."[138]

As such, the 2022 Draft Energy Sector Strategy Update (2022 Draft ESS) was crafted within the context of and bound by commitments made during the 26th Conference of Parties held in Glasgow last November 2021.

In the Joint Statement At COP26 By Multilateral Development Banks, AIIB, along with other MDBs, committed to raise their climate action ambition and increase climate finance. They also committed to develop equitable and cost-effective approaches to decommission coal and other high-GHG emission systems. Collaborating with one another, they will work to enhance support for countries as they formulate robust, ambitious NDCs, LTSs, and National Adaptation Plans aligned with the Paris Agreement goals. They will also work with clients in planning to integrate the transition to a net-zero emissions and climate resilient economy into their development programs in sectors such as energy, cities, food, water, land use, and industry.[139]

Being primarily supported by the government of China, AIIB is also called to align with the nation's COP26 commitments. On November 11, 2001, China and the United States announced the China-US Joint Glasgow Declaration on Enhancing Climate Action[140], among the highlights of which are:

- That the two countries intend to cooperate on enhancing how methane emissions are measured, to exchange information on their policies and programs for managing and controlling methane, and to encourage joint research on methane emission reduction
- That China will develop an ambitious and comprehensive National Action Plan on methane which will significantly affect methane emissions control and reductions in the next decade.
- That both China and the US acknowledged the "importance of the commitment made by developed countries to the goal of mobilizing jointly $100b per year by 2020 and annually through 2025 to address the needs of developing countries…"[141]

In the midst of these commitments, the Southeast Asia region is seeing a massive expansion in fossil gas power plants - more than anywhere else in the world. According to the Global Energy Monitor's most recent Boom and Bust Gas Report, over 117 GW of planned gas- power capacity is in pre-construction stage with 21 GW already underway as of March 2022.[142]

The AIIB itself, in spite of professing to be a clean and green bank, attempted to join the fray when it announced interest in funding the 1.4 GW Hin Kong Gas-fired Combined Cycle Power Plant in the Ratchaburi province in Thailand.[143] This was after initial funders Japan International Cooperation Agency (JICA) and Asian Development Bank (ADB) already backed out from the project in response to the fierce opposition from 48 organizations from over 15 countries.[144] Among the major objections to the project are the following, as directly quoted from the Joint Statement:

1. There is no clear evidence that there are coal-fired power plants that need to be replaced by gas-fired plants.
2. With natural gas-fired power plants already producing 60% of electricity, it is not logical to build more of the same kind of power plants for the purpose of electrical load balancing in introducing renewables.
3. Building of a new gas-fired power plant does not align with the 1.5°C target of the Paris Agreement. It also contradicts the policy address by Prime Minister Yoshihide Suga, in which he committed to the goal of net zero greenhouse gas emissions by 2050.
4. Furthermore, Thailand's opposition lawmaker has pointed out in parliamentary deliberation on February 18, 2020, that illegality is suspected since no bid was placed when the RATCH Group received an order for this project[145]

AIIB's announcement was met with even stronger opposition in the form of a statement from 55 organizations from over 15 countries.[146] Objections to the project included the additional assertion that project proponent RATCH Group has a very poor reputation when it comes to addressing social, environmental and human rights issues.[147]

On February 1, 2022, AIIB finally officially withdrew from the gas project. However, both AIIB's current and proposed ESS allow room for it to fund projects such as these in the future.[148]

AIIB'S 2022 ENERGY SECTOR STRATEGY OVERVIEW

With the knowledge of these developments and the commitments it is bound by, AIIB released the 2022 Energy Sector Strategy Update which it states is "made on the cusp of a profound transformation of the global energy landscape, driven by ambitious global, regional, and national goals and commitments to shift to a low or zero-carbon energy system…"[149], but which sadly makes use of highly outdated references.

In setting up the Global Energy Landscape within which the 2022 ESS was drafted, AIIB highlights the slowed but continuous growth of the global primary energy demand, energy security and price volatility in low-income

countries, the sharp fall in cost but increase in efficiency of renewable energy, and the energy sector's vulnerability to and impact on climate change.[150]

AIIB also acknowledged the specific challenges Asia's energy sector continues to face, particularly that their energy sector is confronted by growing demand and driven by a need for "affordable, sustainable and reliable energy systems to support national, regional, and global economic growth and human development."[151] This demand is met mostly by fossil fuels. Energy security also continues to be a crucial concern, especially when dependence on fossil fuel makes importing countries vulnerable to supply chain disturbances and the rise and fall of fuel prices. Finally, AIIB discussed the hurdles which Asia is facing as it transitions to clean energy, including unevenly distributed renewable energy resources, the need for "significant efforts to redirect capital flows toward clean and sustainable energy investments,"[152] and a call for investments in the electricity infrastructure.

The Bank then proceeded to craft its strategy which is guided by the six principles summarized as follows: 1. Transition to low carbon energy supply, 2. Promote energy access and security, 3. Realize energy efficiency potential, 4. Manage local and regional pollution, 5. Mobilize private capital, 6. Promote connectivity and regional cooperation.[153]

In spite of all these, AIIB has allotted an entire sector of its policy for fossil fuel investments. The 2022 Draft ESS continues to allow AIIB to finance coal projects if it is to "support investments in and efficiency improvements of power and heat distribution networks to improve energy access irrespective of the supply-side energy mix"[154] Under the same item, AIIB's policy on coal allows it to "support projects that aim at early retirement of coal plants, replacement of coal with lower-carbon fuel sources, or projects for decommissioning, remediation, and redevelopment of affected coal facility sites and communities."[155]

This gives room for the AIIB to fund existing coal projects, particularly coal power plants, extending the project's lifespan. This also encourages further investments in coal expansion, such as in transmission and distribution in spite of this high emission this supply mix. In addition, while the early retirement of coal plants is very much desired, AIIB's policy fails to ensure that this policy will not merely bail out coal financiers and project developers who willingly pursued such projects in spite of knowing the stranding, climate, environmental, and social risks. Such companies should be made to suffer their share of costs in the early retirement of these coal plants. Furthemore, AIIB must develop the mechanism in such a way that it will ensure that it is actually retiring a coal plant considerably before its anticipated end of operations, and not merely wasting funds on a project that's nearing the end of its lifespan already.

Furthermore, AIIB remains open to investing in fossil gas midstream infrastructure such as LNG terminals, storage, and transmission pipelines, natural gas-fired power generation and downstream facilities. It does so on the false premise that fossil gas will assist in reducing carbon intensity of the energy sector but with no apparent consideration for the vast increase in methane such a gas expansion will produce.

Even its Renewable Energy Provision calls for closer scrutiny, as it states that AIIB will "proactively support hydropower that is technically, economically, and financially viable and environmentally and socially sound, in a manner consistent with the provisions of AIIB's ESF, good practices, and lessons learned from other MDBs operating in Asia and elsewhere."[156] As discussed earlier, however, such large scale projects have serious climate and environmental impacts, which are further aggravated by the social impacts of its being resource-intensive in nature.

Furthermore, the 2022 ESS still includes an exception for financing nuclear plants phrased as "Should demand arise for very special cases of support for safety improvement, AIIB could possibly consider engagement."[157] Such nuclear energy investments involve a considerable level of risk, which need not be undertaken to meet the growing energy demand since there are also sufficient indigenous resources for renewable energy.

Lastly, the 2022 Draft ESS also failed to address the loopholes that allow for coal and other fossil gas financing through Financial Intermediaries.

4 | RECOMMENDATIONS FOR THE AIIB ADOPT A STRICTLY PARIS ALIGNED ENERGY POLICY

The AIIB has the potential to set a new standard for how IFIs and MDBs could operate, specifically in contributing to the global initiative to keep the global temperature below 1.5^{0} Celsius, the aspirational target set by the Paris Agreement. Specifically, this means adopting a Paris-aligned policy that pursues a 1.5°C Pathway-reaching global CO2 emissions decline of 45% from 2010 levels by 2030, and net-zero CO2 emissions by midcentury-without false solutions, in accordance with the P1 Scenario of the IPCC's Special Report on Global Warming of 1.5°C.

AIIB's previous recognition of the urgency to align itself with the Paris Agreement through its financing is laudable, and its manifestation with other MDBs to initiate and support efforts towards climate mitigation and adaptation is unprecedented and much-needed. However, there is still so much room for improvement if the Bank wants to realize its vision of becoming a "Lean, Clean, Green" Bank. These initiatives include: a) having a time-bound plan for exiting fossil gas; b) closing gaps and loopholes to avoid fossil fuel investments, especially coal investments, from seeping in; c) setting the standard for sustainable infrastructure and emerging technologies; d) making its consultations, monitoring, reporting, and grievance mechanisms more inclusive and transparent; and e) strengthening support for renewable energy sources.

Furthermore, a genuinely Paris-aligned energy policy ensures that the entire lending portfolio will only consist of investments that either actively support or do not undermine DMCs' commitments to the Paris Agreement.

As a regional development bank, AIIB should Lead Energy Transformation in the Region. It is recommended that the AIIB, along with other Regional development banks, lead the adoption of the most ambitious Paris aligned energy policies and strategies to finance the necessary energy transformation in South East Asia, starting with prohibiting financing for new fossil fuel projects and for all companies engaged in fossil fuel expansion projects. This includes ensuring just transition of the work force, taking into account other societal impacts.

END ALL DIRECT AND INDIRECT COAL INVESTMENTS

The most direct way an MDB could align its investments with the Paris Agreement is through the use of exclusion lists. Exclusion or negative lists identify categories of projects and technologies that banks will not finance.[158] Examples of this include the 2012 exclusion of exploration of new oil and gas fields by the African Development Bank (AfDB). Another is ADB's pronouncement in 2009 that it will no longer invest in oil and gas exploration and oil extraction. Some MDBs also use exclusion lists to withdraw (or drastically limit) their support for coal-fired power plants.[159] The European Investment Bank (EIB), for example, previously announced that it will stop funding oil, gas and coal projects at the end of 2021, cutting EUR 2 billion (GBP 1.7 billion) of yearly investments.[160]

Include all coal projects in the Exclusion List. Presently, the AIIB has in its ESF an Environmental and Social Exclusion List which enumerates ventures which it will not knowingly finance.[161] However, these do not include the categorical rejection of coal. While top officials have assured the public that the Bank will not knowingly fund coal, this language is not reflected in the ESS, nor in the ESF. Moving forward, this prohibition must actually be reflected in both documents without any room for misinterpretation and loopholes.

Adopt a comprehensive policy in restricting coal financing. AIIB is strongly encouraged to adopt a more comprehensive policy in restricting coal projects. It is recommended that AIIB explicitly exclude from its financing coal mining, processing, storage, and transportation, as well any new coal-fired power generation. AIIB should also commit to not funding any coal-based capacity for power and heat, nor financing any modernization or upgrading of coal infrastructures, which will essentially lengthen its lifespan. Such a detailed policy helps ensure that in no way will the Bank's project financing contribute to lengthening the lifespan of coal projects and infrastructure.

Extend application of Exclusion List and comprehensive policy to indirect investments. As discussed in an earlier chapter, indirect investments coupled with a "hands-off" lending policy have let coal in AIIB's lending portfolio through the backdoor. Thus, indirect lendings by the Bank must be accompanied with conditions that categorically prohibit all subsequent investments in coal projects in line with the comprehensively prohibitive provision recommended above.

DISCONTINUE FINANCING FOR ALL NEW FOSSIL GAS PROJECTS AND EXIT FINANCING FOSSIL GAS

At present, there is a necessity to reassess how the Paris Agreement and its targets are reflected in the Bank's portfolio, especially with respect to its lending policies to fossil fuel and renewable energy sources and infrastructure. As regards fossil fuels, the limits set forth by the ESS and ESF have clearly failed to dissuade dirty energy investments at the expense of potentially more support for renewables.

The AIIB is not alone in treating fossil gas as a fuel to bridge the transition from coal-dependence to renewable energy. More than coal-fired power generation, policy makers view gas-fired power generation as more

likely to be able to support the deployment of renewables through being used as a flexible generation option.[162] This is because gas has relatively lower capital costs and shorter operating lifetimes which reduces the risk of stranding of these assets.[163]

However, as discussed earlier, the continued support for gas seems to slow down the development and preference for renewables, even as the latter's cost has been sharply declining. Moreover, the utilization of more gas reserves could ultimately end up defeating the initiative to keep the world under the Paris target. In order to address this dangerous potential of fossil gas, any proposed fossil gas project should have a strict limited period of operation.

Divert funding into replacement renewable energy sources. The AIIB must lead in funding renewable energy sources to replace all fossil gas plants. Funding renewable energy technology in order to maximize its declining costs is therefore imperative at present and in the coming years in order to ensure a just transition into a fully-decarbonized energy sector by 2050.

PRIORITIZE ENABLING INFRASTRUCTURE AND NEW INNOVATIONS

AIIB should align its investments more towards innovative low-carbon technologies that do not rely on fossil fuels from its beginnings in research and development to finalized market production for commercial use.[164] In keeping up with the Paris goals, the AIIB must explore new investment opportunities and take advantage of new business models, including the promotion of distributed RE projects, to name a few.[165]

Support innovative technologies and new types of energy infrastructure. The AIIB should explore an effective long-term response to climate change. This includes deployment of new innovative technologies through commercial production for market introduction. In line with this, it must be emphasized that carbon capture, use, and storage and fossil fuel sourced hydrogen technologies are not among what Civil Society Groups consider as climate solutions. In the meantime, improving existing technologies should also be considered for better management of interactions between different sectors involved as new technological pathways are being explored. Moreover, AIIB should take into account that new technologies, market rules, and players are leading to the accelerated progress of new sources of energy. These include: a) provision of flexible sources to the power system derived from battery storage to increase electrification and demand response; and b) deployment of small-scale decentralised energy sources enabled by the digitisation of energy.

Adopt a policy priority for distributed renewables. Generally, the AIIB must adopt a policy that will prioritize Distributed Renewables projects over large-scale transmission and distribution projects. Distributed RE systems should be prioritized, promoted, and pursued since they maximize energy access, and are now increasingly cost-competitive and bankable.[166] Distributed RE systems take advantage of the innovative and disruptive nature of new renewables technology—their ability to generate electricity in a much smaller and decentralized scale. Unlike fossil fuel technologies and large hydropower and geothermal technologies, new renewables may now be constructed and installed in small or micro sizes at a much shorter period of time, such as solar, wind, run-off river, and other technologies.

Through distributed renewable energy systems, energy becomes accessible because unelectrified communities can produce their own energy independent of the grid or become net electricity producers feeding the grid.[167] In order to create an easier pathway for distributed RE to thrive, initiatives are explained below.

Reconsider policy on nuclear power plants and projects. The AIIB must reconsider its current position on funding nuclear projects, given that the AIIB itself has acknowledged the highly specialized nature of nuclear power. There is a considerable level of risk, which need not be undertaken to meet the growing energy demand since there are also sufficient indigenous resources for renewable energy.

Enforce a more restrictive eligibility list for mitigation activities. In the same way that exclusion lists deny support for specific projects, some MDBs also use the complementary strategy of eligibility or positive lists which specify activities that are eligible for funding in order to encourage support for climate-compatible investments. One example is IFC's Scaling Solar program, aimed to boost investments in solar energy.[168] The AIIB could restrict its own eligibility list so that investments in resource- and carbon-intensive geothermal, and conventional hydropower projects, will no longer be pursued if their GHG emissions exceed their GHG reductions.

Upgrade national grids into smart grids[169] with increased capacity in order to maximize the integration of more variable RE. The promotion of distributed RE must be pursued side-by-side with upgrading national grids into smart grids with increased capacity. As smart grids will enable better forecasting and management of renewable energy variability and uncertainty, increased capacity will also allow the integration of more electricity generated from renewable energy systems.

Secure enabling infrastructures. AIIB should invest in power grid investments to enable the integration of new diversified energy sources from renewables. This also includes development of infrastructure to support electromobility and decentralised flexibility sources connected to distribution networks. AIIB should also support transition projects that connect networks to new sources of production of low-carbon gases in the form of renewables.

ADOPT MORE STRINGENT SAFEGUARDS FOR DIRECT AND INDIRECT INVESTMENTS

Aside from its 36 projects in the energy sector, the AIIB also has invested in 30 projects in the finance sector and 28 projects which fall under other sectors but make use of financing programs.[170] As was earlier presented, some FIs have used the large amount of discretion to evade stringent policies in the ESF and ESS. As such, the AIIB must rein in on FIs and set up thresholds limiting such discretion, so that indirect lending by the AIIB would also align with its climate, environment, and social targets.

Set Emission Performance Standards (EPS) for all energy and non-energy projects. The establishment of emission performance standards used for benchmarking is a means by which MDBs could decide on its investments and monitor compliance by its funded projects. Benchmarking sets a minimum performance standard for emission intensity or energy efficiency.[171] Unfortunately, the AIIB lacks its own EPS (See Annex 1). In order to properly reflect its commitment to align its portfolio with the Paris Agreement, the AIIB should adopt an EPS as a benchmark for all its projects. Particularly, the Bank should determine the proper emission standard and period for implementation, aligned with the expected actions from developing countries under the Paris target. It is also highly recommended that AIIB review EIB's EPS for the purpose of developing and replicating its own as well.

Subject energy projects to shadow carbon pricing[172] and establish a ceiling carbon price. Incorporating the costs of emissions side by side with the gains in emissions reduction in economic appraisals is also a means to inform MDBs as to the responsiveness of their investments to climate targets. In particular, shadow carbon pricing provides a price incentive to emission reductions. It is utilized by internalizing the negative externality of

GHG pollution or by indicating the mitigation costs of each avoided metric ton of carbon. During the economic appraisal of each project, the MDBs compare the outcomes of the project's cost-benefit analyses with and without an applied shadow carbon price.[173] Adopting such measures would properly reflect the costs of proposed projects and would rule out support for projects exceeding particular levels of GHG emissions.

ENHANCE TRANSPARENCY AND MONITORING OF CLIMATE AND ENERGY FINANCE

At present, the ESF contains rules and requirements in order to involve stakeholders in the approval and operation of the projects it aims to support. According to the ESF, The Bank requires the Client to ensure that relevant information about environmental and social risks and impacts of the Project is made available in the Project area in a timely and accessible manner. This should also be in a form and languages understandable to the Project-affected community, other stakeholders and the general public, so they can provide meaningful inputs into the design and implementation of the Project. It also requires information Disclosure by the Bank. However, as was previously mentioned, not all projects funded by the AIIB use the ESF as its guiding Environmental and Social Policy.[174] The AIIB allows ESPs by other MDBs to be used as long as they are "materially consistent" with that of the Bank.

Still, there needs to be a minimum standard of compliance for FIs to comply with the targets set by the ESS and the guidelines provided by the ESF. As was earlier noted, the "hands-free" lending policy of the AIIB towards FIs has left room for the latter to pursue fossil fuel projects, even coal projects, even if it runs contrary to the AIIB's policies.

Ensure stringent application of policy safeguards for all approved projects. As discussed in the previous chapter, AIIB's practice of letting other MDB partners lead in implementing their own Environmental and Social safeguards in the projects approved run the risk of merely inheriting issues and hazards that these MDBs have failed to prevent. The potential of the AIIB to lead in efforts which do not sacrifice mitigation goals and social responsibility for the sake of development cannot be understated. And this entails strict implementation and further improvements of its own policy safeguards to ensure that environmental and social issues are addressed accordingly.

The AIIB must stipulate in its contracts with FI clients that the latter must publicly disclose all AIIB sub-investments at the earliest stages. In order to properly account for where the AIIB's financing truly flows for purposes of reviewing its portfolio's alignment with the Paris agreement, the disclosures must include their subinvestors' names, locations, amount of investment and all environmental and social impact documentation. Just like its approved and proposed direct investments, the AIIB must also be able to disclose the information on its website.

Moreover, the AIIB must ensure that FI sub-projects remain accountable to AIIB oversight and due diligence at all stages of the project cycle. FI sub-projects should be required to comply with all AIIB policies, relevant sectoral strategies and guidelines, including the full set of environmental and social standards that apply to direct investments.

The AIIB must also adopt MDB's common principles on climate mitigation and adaptation finance tracking and reporting. Last 2015, MDBs set out agreed climate change mitigation finance tracking principles for development finance, which consist of a set of common Definitions and Guidelines. This includes the list of activities, but does not cover aspects related to their implementation, including quality control procedures, which remain the sole responsibility of each institution and/or group.[175] While these principles still need to be updated to categorically rule out support

for fossil fuel generation, they serve as a common metric for assessing progress in climate mitigation and adaptation financing undertaken by MDBs. AIIB needs to subject itself to such institutional standards in the interest of transparency and accountability to stakeholders and affected sectors.

SUMMARY OF RECOMMENDATIONS

The AIIB has a potential to set a new standard for how IFIs and MDBs could operate, specifically in contributing to the global initiative to keep the global temperature below the aspirational target set by the Paris Agreement. These initiatives include the following:

1. Adopt a Strictly Paris Aligned Energy Policy
2. End all direct and indirect coal investments
   - Include all coal projects in the Bank's Environmental and Social Exclusion List as cited in its ESF.
   - Adopt a comprehensive policy in restricting coal financing
   - Extend application of Exclusion List and comprehensive restrictions to indirect investments facilitated through the backdoor.
3. Discontinue financing for all new fossil gas projects and exit financing fossil gas
   - Divert funding into replacement renewable energy sources in order to ensure a just transition into a fully-decarbonized energy sector by 2050.
4. Prioritize enabling infrastructure and new innovations
   - Support innovative technologies and new types of energy infrastructure, excluding CCUS, fossil fuel sourced hydrogen or fossil fuel reliant projects, as its initiative to an effective long-term response to climate change.
   - Adopt a policy that prioritizes distributed renewable projects over large-scale transmission and distribution projects.
   - Enforce a more restrictive eligibility list for mitigation activities that favors less resource- and carbon-intensive projects.
   - Upgrade national grids into smart grids with increased capacity in order to maximize the integration of more variable RE.
   - Secure enabling infrastructures and investments to allow the integration of new, diversified energy sources from renewables.
   - Reconsider policy on nuclear power plants and projects, in that they should be completely removed from among possible investments.
5. Adopt more stringent safeguards for direct and indirect investments
   - Set an EPS for all energy and non-energy projects.
   - Subject energy projects to shadow carbon pricing and establish a ceiling carbon price.
6. Enhance transparency and monitoring of climate and energy finance
   - Ensure stringent application of AIIB's policy safeguards and Paris Alignment for all approved projects.
   - Stipulate in its contracts with FI clients that the latter must publicly disclose all AIIB sub-investments at the earliest stages.
   - Ensure that FI sub-projects remain accountable to AIIB oversight and due diligence at all stages of the project cycle.
   - Adopt MDB's common principles on climate mitigation and adaptation finance tracking and reporting.

These recommendations can be reflected in the 2022 AIIB Energy Sector Strategy as follows -

Original Text	Recommendations
26. The Strategy embraces AIIB's vision, mission, the four thematic priorities, and other institutional goals set out in the Corporate Strategy. It finds inspiration from the 2030 Agenda for Sustainable Development to pursue universal access to affordable, reliable, and modern energy services by 2030. It also aligns with AIIB's commitment to the Paris Agreement.	26. The AIIB's commits to the Paris Agreement's goal of limiting the global average temperature increase to 1.5°C above pre-industrial levels, specifically the recommended P1 Scenario of the Intergovernmental Panel on Climate Change's Special Report on Global Warming of 1.5°C without false solutions. As such, the Strategy aligns with this commitment and embraces AIIB's vision, mission, the four thematic priorities, and other institutional goals set out in the Corporate Strategy. It complements the 2030 Agenda for Sustainable Development to pursue universal access to affordable, reliable, and modern energy services by 2030.
40. Application of the guiding principles will take into account, to the extent possible, members' constraints and unique circumstances. AIIB will align its support with members' energy related policies and commitments, including the long-term low greenhouse gas emission development strategies (LTS) and NDCs, and conduct project-level assessments to align them with the goals of the Paris Agreement. All AIIB supported projects will go through a comprehensive due diligence process to confirm that they meet the policy provisions of the AIIB's Environmental and Social Framework (ESF).	40. Application of the guiding principles will take into account, to the extent possible, members' constraints and unique circumstances. AIIB will align its support with members' energy related policies and commitments, including the long-term low greenhouse gas emission development strategies (LTS) and NDCs, and conduct project-level assessments to align them with the 1.5C temperature goal of the Paris Agreement. All AIIB supported projects will go through a comprehensive due diligence process to confirm that they meet the policy provisions of the AIIB's Environmental and Social Framework (ESF).
46. Fossil fuel investments. Fossil fuels will inevitably continue to play a role in the energy mix of most AIIB members for some time. However, the Glasgow Climate Pact, adopted at the COP 26, called on the Parties to transition to low-emission energy systems, including accelerating the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies. Many AIIB members have pledged to transform their energy systems to reach net-zero emissions or carbon neutrality. Consequently, AIIB's approach to fossil fuels will follow its commitment to Paris Alignment and the underlying assessment methodology and will take into account the climate impact of the intended energy services, in addition to the development benefits. AIIB will assess all projects in the sector for the risk of creating carbon lock-in and stranded assets with consideration to the member's national energy strategies, climate policies and commitments expressed in its NDC and LTS. AIIB will consider the unique circumstances of its members and seek to build an energy sector portfolio that reflects equity and the principle of common but differentiated responsibilities, as per the Paris Agreement. In light of the potential role of emerging technologies like hydrogen and CCS in decarbonization, AIIB will also consider their future integration in projects.	46. Fossil fuel investments. ~~Fossil fuels will inevitably continue to play a role in the energy mix of most AIIB members for some time. However,~~ The Glasgow Climate Pact, adopted at the COP 26, called on the Parties to transition to low-emission energy systems, including accelerating the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies. Many AIIB members have pledged to transform their energy systems to reach net-zero emissions or carbon neutrality. Consequently, AIIB's approach to fossil fuels will follow its commitment to the 1.5°C Paris Agreement temperature goal, specifically the recommended P1 Scenario of the Intergovernmental Panel on Climate Change's Special Report on Global Warming of 1.5°C and the underlying assessment methodology and will take into account the climate impact of the intended energy services, in addition to the development benefits. AIIB will assess all projects in the sector for the risk of creating carbon lock-in and stranded assets with consideration to the member's national energy strategies, climate policies and commitments expressed in its NDC and LTS. AIIB will consider the unique circumstances of its members and seek to build an energy sector portfolio that reflects equity and the principle of common but differentiated responsibilities, as per the Paris Agreement. In light of its commitment to the P1 Scenario of the 1.5°C Pathway, which does not leave room for false solutions, AIIB will not consider technologies like fossil fuel sourced hydrogen and CCS in decarbonization.

47. Coal. Financing new thermal coal mining and power generation from coal is not aligned with the Paris Agreement. AIIB will not finance new coal-fired power and heating plants or projects that are functionally related to coal, meaning associated facilities enabling coal use such as roads or transmission lines serving coal-based facilities directly and materially, or industrial plants drawing their energy from dedicated coal-based facilities. AIIB may support investments in and efficiency improvements of power and heat distribution networks to improve energy access irrespective of the supply-side energy mix. AIIB may also support projects that aim at early retirement of coal plants, replacement of coal with lower-carbon fuel sources, or projects for decommissioning, remediation, and redevelopment of affected coal facility sites and communities.	47. Coal. Financing new thermal coal mining and power generation from coal is not aligned with the Paris Agreement. AIIB will not finance new coal-fired power and heating plants or projects that are functionally related to coal, meaning associated facilities enabling coal use such as roads or transmission lines serving coal-based facilities directly and materially, or industrial plants drawing their energy from dedicated coal- based facilities. AIIB will not support investments in and efficiency improvements of power and heat distribution networks which may lengthen the lifespan and operations of coal infrastructure ~~to improve energy access irrespective of the supply-side energy mix.~~ AIIB may also support projects that aim at early retirement of coal plants, replacement of coal with lower-carbon fuel sources, or projects for decommissioning, remediation, and redevelopment of affected coal facility sites and communities, provided that the projects align with the 1.5°C Paris Agreement temperature goal, and does not absolve project proponents and financiers from accountability for harm or reprisals and the externalities produced by their projects.
48. Oil. Considering the high carbon intensity of oil consumption and the availability of private sector financing, AIIB will not finance oil sector investments. AIIB may support investments in oil-fired power generation as part of renewable energy hybrid systems to supply clean and reliable energy for small grids in isolated locations, island communities, and temporary disaster response initiatives.	48. Oil. Considering the high carbon intensity of oil consumption and the availability of private sector financing, AIIB will not finance oil sector investments. ~~AIIB may support investments in oil-fired power generation as part of renewable energy hybrid systems to supply clean and reliable energy for small grids in isolated locations, island communities, and temporary disaster response initiatives.~~
49. Natural gas. The increased use of natural gas instead of oil and coal has helped many developed economies reduce carbon emissions and air pollution. It is expected that natural gas will also play an essential role in the transition strategies for many developing countries in the region, especially in hard-to-abate sectors. In addition, natural gas potentially contributes favorably to members' energy security, particularly when the resource is domestic. Gas-fired power also offers flexibility for balancing the variability of renewable energy and can thus enable a higher share of renewables in the generation mix. However, it is recognized that the transitional role of gas will evolve over time and should be carefully assessed within the context of commitments under the Paris Agreement. Therefore, AIIB will focus its funding for natural gas investments on projects linked to members' energy and climate objectives and decarbonization trajectories.	49. Natural gas. AIIB recognizes its duty to lead the energy transition in the region through the most ambitious Paris Aligned energy policies and strategies to finance the necessary energy transformation. As such, while many expect that natural gas will play an essential role in the transition strategies for many developing countries, AIIB took into consideration the exponentially decreasing costs of solar and wind technologies, along with the increasingly evident negative environmental impacts of fossil gas emissions and infrastructure, and will prohibit financing for new fossil gas projects and for all companies engaged in fossil gas expansion projects. This policy is also in light of the implications the rising cost of already expensive fossil gas, as exacerbated by the Russia-Ukraine war, will have on the members' energy security. AIIB will also not finance natural gas upstream activities because of their risk of long-term fossil lock-in. Neither will it support mid-stream infrastructure (LNG terminals, storage, and transmission pipelines), natural gas-fired power generation, and downstream (distribution and end-use) and other associated facilities.

50. AIIB's support to natural gas mid-stream infrastructure (LNG terminals, storage, and transmission pipelines), natural gas-fired power generation and downstream (distribution and end-use) facilities is conditional on the investments credibly replacing higher carbon fuels, inefficient technologies, or oil- and coal-fired energy facilities, thus reducing the carbon intensity of the energy sector immediately or over time. AIIB also supports investments in natural gas designed to assist the integration of renewable energy. AIIB will consider each member's LTS, NDC, and other such plans and scenarios that enable a context for a credible assessment of Paris Alignment. AIIB investments in natural gas should avoid displacement of low-carbon solutions, or a mix of such solutions, that are equally or more feasible technically and economically and that would be able to provide the service at equivalent quality and scale as proposed for the natural gas investment. AIIB will not finance natural gas upstream activities because of their risk of long-term carbon lock-in. AIIB will, however, actively support international initiatives for the reduction of methane leakage and routine gas flaring.	~~50. AIIB's support to natural gas mid-stream infrastructure (LNG terminals, storage, and transmission pipelines), natural gas-fired power generation and downstream (distribution and end-use) facilities is conditional on the investments credibly replacing higher carbon fuels, inefficient technologies, or oil- and coal-fired energy facilities, thus reducing the carbon intensity of the energy sector immediately or over time. AIIB also supports investments in natural gas designed to assist the integration of renewable energy. AIIB will consider each member's LTS, NDC, and other such plans and scenarios that enable a context for a credible assessment of Paris Alignment. AIIB investments in natural gas should avoid displacement of low-carbon solutions, or a mix of such solutions, that are equally or more feasible technically and economically and that would be able to provide the service at equivalent quality and scale as proposed for the natural gas investment. AIIB will not finance natural gas upstream activities because of their risk of long-term carbon lock-in. AIIB will, however, actively support international initiatives for the reduction of methane leakage and routine gas flaring.~~
51. ***Nuclear power generation***. Financing of nuclear plants will not be considered by AIIB. Should demand arise for very special cases of support for safety improvement, AIIB could possibly consider engagement. AIIB does not anticipate developing the highly specialized expertise required to be involved in technically complex and capital- intensive nuclear projects.	51. ***Nuclear power generation***. Financing of nuclear plants will not be considered by AIIB. ~~Should demand arise for very special cases of support for safety improvement, AIIB could possibly consider engagement. AIIB does not anticipate developing the highly specialized expertise required to be involved in technically complex and capital- intensive nuclear projects.~~
56. Climate Change. Under the provisions of the ESF, AIIB requires its clients to assess proposed projects with respect to climate change mitigation and adaptation. This includes assessing the impacts of the project on climate change (i.e., GHG emissions), and designing and implementing the project so as to minimize emissions in accordance with the aims of the Paris Agreement. Clients are required to assess the risks induced by climate change on the project, and to design and implement the project so as to minimize the project's vulnerability and increase its resilience to the adverse impacts of climate change. AIIB also requires its clients to assess alternatives under their projects and implement technically and financially feasible and cost-effective options that support them in meeting their NDCs. Finally, AIIB requires its clients to develop an estimation of GHG emissions under their projects, with AIIB support where they lack the necessary capacity to do so.	56. Climate Change. Under the provisions of the ESF, AIIB requires its clients to assess proposed projects with respect to climate change mitigation and adaptation. This includes assessing the impacts of the project on climate change (i.e., GHG emissions), and designing and implementing the project so as to minimize emissions in accordance with the 1.5°C Paris Agreement temperature goal, specifically the recommended P1 Scenario of the Intergovernmental Panel on Climate Change. Clients are required to assess the risks induced by climate change on the project, and to design and implement the project so as to minimize the project's vulnerability and increase its resilience to the adverse impacts of climate change. AIIB also requires its clients to assess alternatives under their projects and implement technically and financially feasible and cost-effective options that support them in meeting their NDCs. Finally, AIIB requires its clients to develop an estimation of GHG emissions under their projects, with AIIB support where they lack the necessary capacity to do so.

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ANNEXES

Annex 1: Carbon Mitigation Tools by MDBs[176]

TOOLS BY BANK		AFRICAN DEVELOPMENT BANK	ASIAN DEVELOPMENT BANK	EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	EUROPEAN INVESTMENT BANK	WORLD BANK GROUP (INCLUDING THE IFC)	ASIAN INFRASTRUCTURE INVESTMENT BANK
Exclusion List	Coal	Not Applicable (N/A)	Excludes new coal-based capacity for power and heat.	Thermal coal mining or coal-fired generation capacity (draft energy strategy) Greenfield projects involving coal. Thermal coal mining, coal-fired electricity generation capacity.	Excludes unabated coal projects,[177] including: 1. large scale heat production based on unabated coal; 2. energy infrastructure directly associated with unabated coal.	Coal exception "rare and exceptional circumstances"	N/A (mere promise to exclude coal projects but is yet to write such exclusionary measure to a policy)
	Oil	Exploration of new oil fields	Exploration of new oil fields; Extraction of oil	Upstream oil exploration; Upstream oil development projects except if project reduces GHG flaring (draft energy strategy)	Excludes unabated oil projects.; production of oil and natural gas; large scale heat production based on unabated oil; energy infrastructure directly associated with unabated oil[178]	All upstream oil activities after 2019	N/A
	Logging	Purchase of logging equipment to be used in primary tropical rainforests	Commercial logging operations in primary tropical or old growth forests	N/A	Converting natural forests to plantations; Commercial logging in primary tropical and subtropical forests	N/A	Commercial logging operations in primary tropical or old-growth forests
Emissions Performance Standard (EPS)		N/A	N/A	N/A	250 gCO2 per kWh for all energy projects	Over 25ktCO2 net emissions.	N/A
Shadow Carbon Pricing		N/A	$36.30/tCO2e in 2017 (which equates to $43.20/ton CO2e in 2020).	A range of US$ 40-80 (~€ 37-74) per metric tonne of CO2e in 2020, rising to US$ 50-100 (~€ 46-92) per metric tonne of CO2e by 2030.	€250/tCO2e per tonne by 2030, €800/tCO2e by 2050.	Between $50 and $100 in 2030, $150 by 2050	Between $50 and $100 in 2030, $150 by 2050
GHG Accounting		Follow International Financial Institution Framework for a Harmonized Approach to Greenhouse Gas Accounting					Under Development
Eligibility List		Harmonized list for a project's eligibility for the Common Methodology for Joint Reporting for Climate Finance					

Annex 2. Approved AIIB Energy Projects as of March 2022[179]

NO.	PROJECT NAME AND DESCRIPTION	COUNTRY	DATE APPROVED	TYPE OF ENERGY PROJECT	ENERGY SOURCE	CAPACITY	AIIB LOAN (USD millions)
1	Distribution system upgrade and expansion project	Bangladesh	June 2016	Power distribution	Mix of fossil fuels and renewables	NA	165
2	Myingyan power plant project	Myanmar	September 2016	Power generation	Fossil gas	225 MW	20
3	Tarbela 5 hydropower extension project	Pakistan	September 2016	Power generation	Hydropower	2820 MW	300
4	Trans-Anatolian Fossil gas pipeline project	Azerbaijan	December 2016	Oil and Fossil gas storage, processing, transmission and distribution	Fossil gas	NA	600
5	Fossil gas infrastructure and efficiency improvement project	Bangladesh	March 2017	Oil and Fossil gas storage, processing, transmission and distribution	Fossil gas	NA	60
6	Andhra Pradesh 24x7 - Power for all project	India	May 2017	Power transmission and distribution	Mix of fossil fuels and renewables	NA	160
7	Nurek hydropower rehabilitation project, phase I	Tajikistan	June 2017	Energy efficiency	Hydropower	3000 MW	60
8	Egypt round II solar photovoltaic feed-in tariffs program	Egypt	September 2017	Power generation	Solar	490 MW	210
9	Transmission system strengthening project (Tamil Nadu)	India	September 2017	Power transmission	Mix of fossil fuels and renewables	NA	100
10	Beijing air quality improvement and coal replacement project	China	December 2017	Oil and Fossil gas storage, processing, transmission and distribution	Fossil gas	NA	250
11	Bangladesh Bhola IPP	Bangladesh	February 2018	Power generation	Fossil gas	220 MW	60
12	Tuz Golu gas storage expansion project	Turkey	June 2018	Oil and Fossil gas storage, processing, transmission and distribution	Fossil gas	NA	600
13	Power system upgrade and expansion project	Bangladesh	March 2019	Power transmission	Fossil gas and Oil	NA	120
14	Upper Trishuli-1 hydropower project	Nepal	May 2019	Power generation	Hydropower	216 MW	90
15	Efeler 97.6 MWE geothermal power plant expansion project	Turkey	July 2019	Power generation	Geothermal	97.6 MW	100

16	SUSI Asia energy transition fund	Multi-Country	November 2019	Adaptation Project	Renewable energy - Not specified	NA	100
17	Rajasthan 250 MW solar project - Hero future energies	India	December 2019	Power generation	Solar	250 MW	65
18	Beijing-Tianjin-Hebei low carbon energy transition and air quality improvement project	China	December 2019	Oil and Fossil gas storage, processing, transmission and distribution	Fossil gas	NA	500
19	Zhanatas 100 MW wind power plant	Kazakhstan	December 2019	Power generation	Wind	100 MW	46.7
20	Power distribution system upgrade and expansion project	Nepal	December 2019	Power transmission and distribution	Mix of fossil fuels and renewables	NA	112.3
21	Dhaka and west zone transmission grid expansion project	Bangladesh	January 2020	Power transmission	Oil	NA	200
22	Ibri II 500MW solar photovoltaic independent power plant project	Oman	March 2020	Power generation	Solar	500 MW	60
23	Ayana Anantapuramu NTPC Solar Project	India	March 2020	NA	Renewable energy - Solar	250 MW	50
24	ADM Capital [Elkhorn] Emerging Asia Renewable Energy Fund	Multi-Country	November 2020	NA	Unspecified Renewable Energy	NA	150
25	PLN East Java & Bali Power Distribution Strengthening Project	Indonesia	January 2021	NA	NA	NA	310
26	Assam Intra-State Transmission System Enhancement Project	India	January 2021	NA	NA	NA	304
27	Solar Power Development and Energy Storage Solution	Maldives	February 2021	NA	Renewable energy - solar	36 MW	20
27	Solar Power Development and Energy Storage Solution - Battery Energy Storage	Maldives	February 2021	NA	Renewable energy - solar	50 MW	20
28	India City Gas Distribution (CGD) Financing AGPCGPL	India	May 2021	NA	Fossil gas	NA	75
29	Sirdarya 1,500MW CCGT Power Project	Uzbekistan	June 2021	Power Generation	Fossil gas	1,500 MW	100
30	Pakistan: Balakot Hydropower Development Project	Pakistan	July 2021	Dam	Hydropower	300 MW	250

31	India: Enel Green 300 MW Solar Project - Rajasthan	India	July 2021	Power Plant	Solar	300 MW	50
32	Viet Nam: Dakdrinh 125MW Hydropower Plant	Vietnam	November 2021	Dam	Hydropow-er	125 MW	47.5
33	Turkey: Osmangazi Electricity Distri-bution Network Modernization and Expansion Project	Turkey	December 2021	NA	NA	NA	85
34	India: West Bengal Electricity Distribu-tion Grid Moderniza-tion Project	India	January 2022	NA	NA	NA	135
35	India: Assam Elec-tricity Distribution System Enhance-ment Project	India	February 2022	NA	NA	NA	386
36	Indonesia: Develop-ment of Pumped Storage Hydropower in Java bali System (the Project)	Indonesia	April 2022	NA	Hydropow-er	NA	230
TOTAL		**NA**	**NA**	**NA**	**NA**	**10, 479.6 MW**	**USD 6, 191.5 million**

Annex 3. Approved AIIB Financing Projects and Projects Under other Sectors Coursed through Financing Programs[180]

NO.	PROJECT NAME AND DESCRIPTION	COUNTRY	DATE APPROVED	AIIB LOAN (USD mil-lions)	Notes
1	Regional infrastructure development fund project	Indonesia	March 2017	100	Urban Sector, Financing Program
2	India infrastructure fund	India	June 2017	150	
4	International Finance Corporation emerging Asia fund	Asia	September 2017	150	
5	National investment and infrastructure fund, Phase I	India	June 2018	100	
6	Turkiye Sinai Kalkinma Bankasi sustainable ener-gy and infrastructure on-lending facility	Turkey	September 2018	200	
7	AIIB Asia environmental, social, and governance enhanced credit managed portfolio	Asia	December 2018	500	
8	Larsen & Toubro's sustainable infrastructure on-lending facility	India	July 2019	100	
9	Asia investment fund	China, Hong Kong	July 2019	75	
10	Infrastructure private capital mobilization plat-form	Singapore	July 2019	54	
11	Asia climate bond portfolio	Asia	August 2019	500	
12	Tata cleantech sustainable infrastructure on-lending facility	India	September 2019	75	
13	TKYB renewable energy and energy efficiency on-lending facility	Turkey	November 2019	200	
14	SUSI Asia energy transition fund	Asia	November 2019	100	Energy Sector, Financing Program
15	National Bank of Egypt on-lending facility for infrastructure	Egypt	December 2019	150	
16	Transport sector investment loan	Russia	December 2019	500	
17	CITIC capital pan-Eurasia growth fund	Multi-country	December 2019	125	Multisector, Financing Program
18	Keppel Asia infrastructure fund	Multi-country	April 2020	150	Multisector, Financing Program
19	COVID-19 Active Response and Expenditure Support Program	Indonesia	May 2020	750	Others Sector, Financing Program
20	COVID-19 Active Response and Expenditure Support (CARES) Program	Bangladesh	May 2020	250	Others Sector, Financing Program
21	COVID-19 Active Response and Expenditure Support (CARES) Program	Philippines	May 2020	750	Others Sector, Financing Program

22	Mongolia COVID-19 Rapid Response Program	Mongolia	Jun 2020	100	Others Sector, Financing Program
23	India COVID-19 Active Response and Expenditure Support (CARES)	India	Jun 2020	750	Others Sector, Financing Program
24	COVID-19 Active Response and Expenditure Support (CARES) Program	Pakistan	Jun 2020	500	Others Sector, Financing Program
25	Emergency Response to COVID-19 Program	Indonesia	Jun 2020	250	Others Sector, Financing Program
26	Emergency Response and Health Systems Preparedness Project	Maldives	Jun 2020	7.3	Others Sector, Financing Program
27	COVID-19 Active Response and Expenditure Support (CARES) Program	Kazakhstan	Jun 2020	750	Others Sector, Financing Program
28	Turkey COVID-19 Credit Line Project	Turkey	Jun 2020	500	
29	Resilient Institutions for Sustainable Economy (RISE) Program	Pakistan	Jun 2020	250	Others Sector, Financing Program
30	Economic Management and Competitiveness Program: COVID-19 Crisis Mitigation	Georgia	July 2020	45	Others Sector, Financing Program
31	VP Bank COVID-19 Response Facility	Vietnam	July 2020	100	
32	Sustained Private Sector-Led Growth Reform Program	Fiji	Aug 2020	50	Multisector, Financing Program
33	Kyrgyz Emergency Support for Private and Financial Sector Project	Kyrgystan	Aug 2020	50	
34	COVID-19 Medical Emergency Response (MER) Project	Turkey	Aug 2020	82.6	Social Sector, Financing Program
35	COVID-19 Emergency Response and Pandemic Preparedness Project	Bangladesh	Aug 2020	100	Others Sector, Financing Program
36	HDFC Line of Credit for Affordable Housing	India	Sep 2020	200	
37	Climate Resilience Improvement of National Road 13 South Project (Section 3)	Laos	Oct 2020	30	Transport Sector, Financing Program
38	Russian Railways COVID-19 Emergency Response Project	Russia	Oct 2020	300	Transport Sector, Financing Program
39	Legend Capital Healthcare Technology Fund	China	Oct 2020	30	
40	National Bank for Foreign Economic Activity of the Republic of Uzbekistan COVID-19 Credit Line Project	Uzbekistan	Nov 2020	200	
41	ADM Capital [Elkhorn] Emerging Asia Renewable Energy Fund	Multi-Country	Nov 2020	150	Renewable Energy Sector, Financing Program

42	Akbank COVID-19 Crisis Recovery Facility	Turkey	Nov 2020	200	
43	COVID-19 Active Response and Economic Support Program	Cook Islands	Dec 2020	20	Economic Resilience Sector, Financing Program
44	COVID-19 Emergency and Crisis Response Facility	Bangladesh	Jan 2021	300	
45	ISQ Growth Markets Infrastructure Fund	Multi-Country	Jan 2021	150	
46	COVID-19 Emergency and Crisis Response Facility	Sri Lanka	Feb 2021	180	
47	Second Health System Enhancement to Address and Limit COVID-19 under Asia Pacific Vaccine Access Facility Project (HEAL 2)	Philippines	Mar 2021	300	Public Health Sector, Financing Program
48	India City Gas Distribution (CGD) Financing AGPCGPL	India	May 2021	75	Energy Sector, Financing Program
49	TBC Bank COVID-19 Credit Line Project	Georgia	May 2021	100	
50	Asia Infrastructure Securitization Program	Singapore	May 2021	80	
51	Eximbank COVID-19 Credit Line Project	Turkey	May 2021	250	
52	Medium-size Cities Integrated Urban Development Project	Uzbekistan	Jun 2021	100	Urban Sector, Financing Program
53	Support for COVID-19 Vaccine Delivery in Mongolia under the Asia Pacific Vaccine Access Facility	Mongolia	Jun 2021	21	Public Health Sector, Financing Program
54	Emergency Response to COVID-19 Program - Additional Financing	Indonesia	Jun 2021	500	Others Sector, Financing Program
55	Global Infrastructure Partners Emerging Markets Fund I ("GIP EM" or the "Fund")	Multi-Country	Jun 2021	100	
56	Hungary: Emergency Assistance for Healthcare Expenditures	Hungary	Aug 2021	216.1	Public Health Sector, Financing Program
57	Multicountry: Keppel-Pierfront Private Credit Fund L.P	Multi-country	2021	100	
58	China: Sinovation Disrupt Fund	China	Sept 2021	75	
59	Multicountry: STIC Asia Infrastructure Innovation Fund	Multi-country	2021	60	
60	Turkey: Turkey Isbank COVID-19 Credit Line Project	Turkey	Sept 2021	100	
61	Brazil: BDMG Renewables and Asia Connectivity Facility	Brazil	Jan 2022	100	
62	China: China EXIM Bank Green On-lending Facility	China	Jan 2022	200	
63	China: NIO Capital Eve ONE Fund II	China	Jan 2022	50	
64	China: GLP China Logistics Fund III	China	March 2022	125	

65	Bangladesh: IDCOL Multi-Sector On-lending Lending Facility	Bangladesh	March 2022	200	
66	Cambodia: Cambodia PRASAC COVID-19 Response Facility	Cambodia	April 2022	75	
67	Cambodia: Emergency and Crisis Response Facility	Cambodia	April 2022	100	

Annex 4. Adopted Environmental and Social Policy per Approved Energy Project[181]

NO.	PROJECT NAME AND DESCRIPTION	ENERGY SOURCE	COUNTRY	CO-FINANCIER	APPLICABLE SAFEGUARDS
1	Efeler 97.6 MWE geothermal power plant expansion project	Geothermal	Turkey	EBRD	EBRD
2	Nurek hydropower rehabilitation project, phase I	Hydropower	Tajikistan	IDA, EaDB	WB
3	Tarbela 5 hydropower extension project	Hydropower	Pakistan	WB	WB
4	Upper Trishuli-1 hydropower project	Hydropower	Nepal	ADB, IFC	IFC
5	Bangladesh Bhola IPP	Fossil gas	Bangladesh	NA	AIIB
6	Trans-Anatolian Fossil gas pipeline project	Fossil gas	Azerbaijan	ADB, EBRD, EIB, WB	WB
7	Tuz Golu gas storage expansion project	Fossil gas	Turkey	IDB, WB	WB
8	Beijing air quality improvement and coal replacement project	Fossil gas	China	NA	AIIB
9	Beijing-Tianjin-Hebei low carbon energy transition and air quality improvement project	Fossil gas	China	NA	AIIB
10	Myingyan power plant project	Fossil gas	Myanmar	ADB, IFC	IFC
11	Fossil gas infrastructure and efficiency improvement project	Fossil gas	Bangladesh	ADB	ADB
12	Power system upgrade and expansion project	Fossil gas and oil	Bangladesh	NA	AIIB
13	Dhaka and west zone transmission grid expansion project	Oil	Bangladesh	ADB	ADB
14	Zhanatas 100 MW wind power plant	Wind	Kazakhstan	NA	AIIB
15	Egypt round II solar photovoltaic feed-in tariffs program	Solar	Egypt	IFC	IFC
16	Rajasthan 250 MW solar project - Hero future energies	Solar	India	IFC	IFC
17	Ibri II 500MW solar photovoltaic independent power plant project	Solar	Oman	NA	AIIB

18	Distribution system upgrade and expansion project	Mix of fossil fuels and renewables	Bangladesh	NA	AIIB
19	Andhra Pradesh 24x7 - Power for all project	Mix of fossil fuels and renewables	India	WB	WB
20	Transmission system strengthening project (Tamil Nadu)	Mix of fossil fuels and renewables	India	ADB	ADB
21	Power distribution system upgrade and expansion	Mix of fossil fuels and renewables	Nepal	NA	AIIB
22	Ayana Anantapuramu NTPC Solar Project	Renewable energy - Solar	India	NA	AIIB
23	ADM Capital [Elkhorn] Emerging Asia Renewable Energy	Unspecified Renewable Energy	Multi-Country	NA	AIIB
24	SUSI Asia energy transition fund	Renewable energy - Not specified	Multi-Country	NA	AIIB
25	PLN East Java & Bali Power Distribution Strengthening Project	NA	Indonesia	PLN	AIIB
26	Assam Intra-State Transmission System Enhancement Project	NA	India	Government of Assam	AIIB
27	Solar Power Development and Energy Storage Solution	Renewable energy - Solar	Maldives	WB	WB
28	India City Gas Distribution (CGD) Financing AGPCGPL	Fossil gas	India	OeEB	AIIB
29	Sirdarya 1,500MW CCGT Power Project	Fossil gas	Uzbekistan	EBRD	EBRD
30	Pakistan: Balakot Hydropower Development Project	Hydropower	Pakistan	ADB	ADB
31	India: Enel Green 300 MW Solar Project - Rajasthan	Solar	India	IFC	IFC
32	Viet Nam: Dakdrinh 125MW Hydropower Plant	Hydropower	Vietnam	GoV	AIIB
33	Turkey: Osmangazi Electricity Distribution Network Modernization and Expansion Project	NA	Turkey	EBRD	EBRD
34	India: West Bengal Electricity Distribution Grid Modernization Project	NA	India	WB	WB
35	India: Assam Electricity Distribution System Enhancement Project	NA	India	NA	AIIB
36	Indonesia: Development of Pumped Storage Hydropower in Java bali System (the Project)	Hydropower	Indonesia	WB	WB

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