

CSO briefing on Paris Alignment, energy and hydropower for AIIB European shareholders¹

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Public finance could and should be one of the tools the world's governments use to catalyse and accelerate the urgent shift away from fossil fuels and towards sustainable renewable energy. However, as of the end of January 2023, the Asian Infrastructure Investment Bank (AIIB) had invested almost \$2.4 billion in gas projects, excluding indirect finance, representing almost 40 percent of its energy portfolio. Fossil gas should not be considered a 'transition' fuel to cleaner energy systems. Rather it is a carbon intensive high emitting fossil fuel that is potentially diverting funds from sustainable renewable alternatives. The AIIB's newly-agreed Energy Sector Strategy (ESS) paves the way for further support for fossil gas, classifying it as a 'transition' energy source. The updated ESS does introduce restrictions for gas support, including committing the AIIB to only support gas-fired power generation if it fulfils a set of criteria, including that it must "not conflict with, or will actively contribute to, the achievement of a Member's climate policy and commitments including its NDC, LTS and net zero/carbon neutrality pledges" and "not create a risk for carbon lock-in or stranded assets." Despite this, as the first energy sector project since the updated ESS came into effect, in December 2022, the AIIB's President approved an investment of \$110 million for the [Unique Meghnaghat IPP](#), a 584 Megawatt (MW) greenfield gas power plant in Bangladesh. This did not only breach the new gas restrictions, but controversially, the AIIB also labelled this huge new fossil fuel project 'Paris aligned'.

According to the AIIB, the *"energy sector is the largest infrastructure sector by investment volume."* The ESS explicitly mentions a **"no coal policy"**, but does not clarify how to operationalise. Sustainable Development Goal 7 on universal energy access and the regional electrification rate (according to the AIIB it is 97 percent for Asia, p. 5) as well as affordability are used as the main argument for increasing investments into energy infrastructure. The argument that the electrification level needs to be lifted is the proclaimed need for transitioning to "modern society" (meaning higher electricity consumption) and transitioning to a clean energy system. The ESS lacks priorities for combating climate change and for robust sustainable energy systems without gas and oil. As analysed by Urgewald [here](#) there are several strong weaknesses which need to be urgently addressed to align with the Paris Agreement goals.

The Intergovernmental Panel on Climate Change (IPCC) and other international bodies (e.g. CBD COP15) clearly emphasise the dual goal to simultaneously achieve protection of climate and biodiversity, which requires investment in projects that serve both goals. Protecting and restoring 50% of natural habitats is especially challenging for freshwater ecosystems. Presently the AIIB project selection\identification and approval process for energy projects does not incorporate sufficient safeguards and analysis of alternatives to make sure that financed energy projects do not negatively affect natural ecosystems and species, as well as local communities dependent on them. Although the problem is generic for all energy projects, the examples of the AIIB's involvement in hydropower is especially worrying, as those include encroachment on or threat to nationally and internationally designated key biodiversity areas (e.g. Nenskra, Upper Trishuli 1, etc.) and habitats of endangered and endemic species (e.g. Balakot, Rogun, projects in Laos, etc.), as well as projects with clear history of suppression\deprivation of local communities or serious cross-border tensions (Rogun, Tarbela, Xekaman, etc.). Meanwhile given high and steadily growing construction costs and huge methane emissions from newly created reservoirs, conventional hydropower by now cannot be justified as "low carbon" source of electricity.

It is well documented that there are large pulses of methane emissions released within the initial 10-20 years of dam operations, which coincides with the limited time window to minimise GHG emissions

¹ This briefing includes contributions from Recourse, Urgewald, Rivers without Boundaries and NGO Forum on ADB

and avoid overshooting 1.5C. This means that any build out of hydropower supported by the AIIB would decisively contribute to undermining the recommendations of the IPCC and the concerted global effort to comply with provisions of the Paris Agreement. In reality, for hydropower dams, like other energy generating infrastructure, a comprehensive lifecycle approach is needed to account for emissions over time.² Investments in other means of decarbonisation, if properly planned, could yield much greater benefits with much less negative impact on nature and people.

The AIIB is currently finalising its **Paris alignment methodology**, with a deadline of 1 July 2023. However, it has to date refused repeated calls for stakeholder consultation. How the AIIB aligns its investments with Paris is a matter of public interest and should therefore be subject to public scrutiny and input on an ongoing basis. The EBRD has shown that it is possible - and preferable - to invite public comment on its methodology. Also, while the goal of the Paris Agreement - of keeping global warming to below 1.5°C - is essential, the content of the Agreement and the country pledges that contribute to it are insufficient as they would result in at least 2.4°C warming. A [report by Recourse, CLEAN and BRICS Feminist Watch](#) therefore called for the AIIB - and other MDBs - to go 'beyond Paris'. However, being green is not solely a question of narrowly supporting only climate-compatible investments, such as those that reduce emissions. The methodology must also consider whether an investment supports equity at a deeper level: by benefiting people and the planet at the same time, by being transparent and inclusive, by promoting gender equality, by doing no harm and by respecting and advancing human rights.

Furthermore, we understand that after years of civil society pressure, the AIIB is finally developing a **Climate Action Plan**. However, the AIIB has not shared any information publicly, indicating a lack of transparency from the outset. We are concerned that the plan will not be as robust as this urgent issue requires.

Questions:

- How will the European shareholders support civil society calls for urgent disclosure and consultation on the AIIB's **Paris Alignment methodology**? Further, will shareholders ensure that the methodology includes a commitment for regular, evidence-based reviews of the methodology to ensure existing and future investments made by the AIIB are truly green: that they do no harm, prevent human rights abuses and negative social and environmental impacts, and promote gender equity?
- How will shareholders ensure that the **Climate Action Plan** under development is comprehensive and robust, and that the process is transparent and accountable, including stakeholder consultation?
- How will European shareholders support civil society calls for the Climate Action Plan to explicitly take into account the devastating environmental, social and climate-related consequences of conventional **hydropower dams** (distinct from pumped hydropower), including by applying a rigorous GHG emissions lifecycle approach applied to the entirety of the project, acknowledging the natural carbon sequestered by free flowing rivers and surrounding ecosystems, and explicitly excluding greenfield conventional dams or the expansion of projects on largely free-flowing river stretches from eligibility for climate financing?
- How will European shareholders make sure there is an operational plan for the **coal-exit policy**, for example by using internationally recognised [coal exit tools](#)?

² This includes those that result, for example, from construction activities, eutrophication of reservoir waters over time, degassing at turbines, as well as the processes related to decommissioning (for example, from methane released when reservoir sediments that have accumulated behind the dam wall are exposed), along with the loss in natural carbon sequestration capacity by vegetation submerged by reservoir as well as flowing river ecosystems