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## Information for European shareholders on approval of AIIB energy strategy review

### **AIIB Energy Strategy: Still sticking to gas and oil, no fossil energy exit in sight**

*“AIIB's energy sector investments (...) amounted to over USD 5.8 billion over the period 2016-2021, representing 28 percent of AIIB's total regular financing amount and making the energy sector the largest infrastructure sector by investment volume.” (AIIB Energy Sector Review, 2022, the p. 10)*

Nearly one third of AIIB investments went to the energy sector – mainly into fossil energy.

Shortly before the winter break last year, the AIIB approved its reviewed “energy strategy”. There is no climate protection strategy with this investment bank. Nevertheless, expectations were high on civil society side, because this “new kid on the block” wants to be better than all the other banks, an innovation showcase on “green and clean” lending. In January 2022, an alliance of NGOs celebrated the withdrawal of an AIIB loan proposal for a gas power plant in Thailand. This happened in the midst of our pressing for more information on the announced review of the energy strategy on the AIIB. Together with the NGO Forum on ADB/AIIB and NGOs from South America and Europe, we held several lobbying meetings since September 2021 regarding a Paris Alignment of the AIIB. We submitted written recommendation papers and discussed the energy strategy with the Vice President at COP26 in Glasgow and in virtual dialogues with the management. The final draft published in September 2022 was commented by some European shareholders by saying: “We have received the second draft, we don't think there will be an additional consultation. We are positively surprised that some concerns have been taken on board, but not all. ‘No fossil fuel’ policy is not realistic.”

What did we get?

- An explicit “No coal policy”, but no further clarification on how to operationalize
- Stricter criteria on gas, but gas / LNG will stay an acceptable “bridge fuel”
- Renewables are dominated by hydropower (Approved Renewables: 14/ Hydro: 6, Solar: 5, Wind: 2, Geothermal: 1). Big Hydropower stations are still considered in the energy strategy – no exclusion for non-sustainable types<sup>i</sup> and no definition of ‘environmentally sound hydropower’ (p.17).
- SDG7 with reference to universal energy access and the regional electrification rate (according to AIIB the rate is 97 percent for Asia, p. 5) as well as affordability are used as 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. There is no formulated priority for renewable energy to reach these goals. The energy strategy states that China and India together represent over 54 percent of Asia’s total energy demand. It is expected that Asia’s energy demand will continue to rise at an annual rate between 0.6% to 1.6% in the next decade. The bank sees this as an improvement of development, and does not feel obliged to also support e.g. building incentives for saving energy.

The review lacks priorities for combatting climate change and for sustainable energy systems.

The “strategy” is hardly in line with the AIIB’s stated commitment to align its operations with the Paris Agreement by July 1, 2023, and its efforts to achieve its climate finance target by 2025. AIIB commits to appraising the Paris Agreement goals by following the guidance of the [joint MDB assessment approach](#). This though is only designed for direct lending and defining investments in fossil fuels as Paris Aligned project according to Paris Agreement’s Mitigation Goals if “Operations economic feasibility depends on external fossil fuel exploitation” (e.g., a railway line that will have a significant income from the transport of coal from a coal mine) or “operations whose economic feasibility depends on existing fossil fuel subsidies (e.g., a fishing fleet).

We clearly see that all the Net-Zero agreements like the umbrella initiative Glasgow Finance Alliance for Net Zero (GFANZ), the Net-Zero Banking Alliance, the “Net Zero Banking Alliance Germany/ Green and Sustainable Finance Cluster Germany”, as well as the commitments to “net zero emissions by 2050” — meaning to reduce the emissions from the companies and projects they finance — are extremely untrustworthy. European shareholders, who signed these agreements, are responsible towards their citizens to urge the bank to concretely define measurements to become Paris-aligned. The strategy stays very vague, there is no mentioning of the 1,5 degrees goal, instead it reads: „Energy efficiency investments hold a crucial role in achieving the “well below 2°C” target of the Paris Agreement.”

**This definition of alignment is not for an *infrastructure for yesterday* and not an *infrastructure for tomorrow*. Economic feasibility should be influenced for an energy transition to renewables and not for oil and gas exploitation. The bank and its shareholders need to push for rigid divestment from fossil fuels of AIIB.**

Additional to the ESS commentaries of our partners (esp. [CEED, NGO Forum on ADB/AIIB](#)) we would like to highlight here only some facts on AIIB’s gas investments.

### **AIIB’s gas focus**

According to UNEP’s 2020 Emissions Gap Report, greenhouse gas emissions from oil and gas are rapidly growing, with **gas now the largest contributor to fossil CO<sup>2</sup> emissions** in some regions. Even if the use of coal was phased out overnight, emissions from developed oil and gas reserves would soon exhaust our carbon budget for 1.5°C.

The *guiding principles* as well as the *sectoral approach* defined in the energy strategy review are good, very similar to ADB. **Gas investments criteria** are defined concerning what kind of gas projects will be funded under what conditions (p. 20):

AIIB will not support gas upstream exploration and drilling activities.

AIIB will support gas mid-stream infrastructure (LNG terminals, storage, and transmission pipelines), natural gas-fired power generation, and downstream (distribution and end-use) facilities under specific criteria.

However, we need more ambitious definitions for the criteria and define clear priority for renewables: 1) Why argue that gas and not renewable investments should be supported when “replacing higher carbon fuels, inefficient technologies, or oil- and coal-fired energy facilities, or supporting the integration of renewable energy”? 2) Also, it should be made mandatory to first prove if (p. 20) “Investments will not displace low-carbon solutions, or a mix of such solutions, that are equally or more technically and economically feasible and are able to provide the service at an equivalent quality and scale as proposed for the natural gas investments”, and publish the results of the examination. Shareholders should push for this.

**Loopholes:** The European shareholders of this bank, which has taken up the cause of promoting "green technology", cannot afford a [hidden promotion of the fossil industry](#) through the massive expansion of investments in so-called financial intermediaries. This is where the energy strategy needs to be improved. Seven of the 42 approved energy projects consist of loans and funds to crowd-in energy investments, these can go to an often vaguely described array of subprojects. Only three of the seven projects are exclusively dedicated to renewable energy.

Oil is coming back in, a step back (p. 19): “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. Such investments will have to demonstrate that an entirely renewables-based system is not technically or financially feasible. In the [draft for consultation](#), it was clearly stated that “AIIB will not finance oil sector investments” (p. 16).

**Increasing gas portfolio:** The massive [promotion of fossil energy in Bangladesh](#) since the existence of the bank,) will be able to continue under the revised energy strategy of the bank. In Dec. 2022, we saw the fast-track approval of the gas power plant "Unique Meghnaghat 584MW Combined Cycle Power Plant" (the project supports the [expansion of the largest gas power plant complex in Bangladesh](#)) The AIIB has invested USD 715 million in the energy sector of Bangladesh, with investments increasing at an average rate of 23% each year.

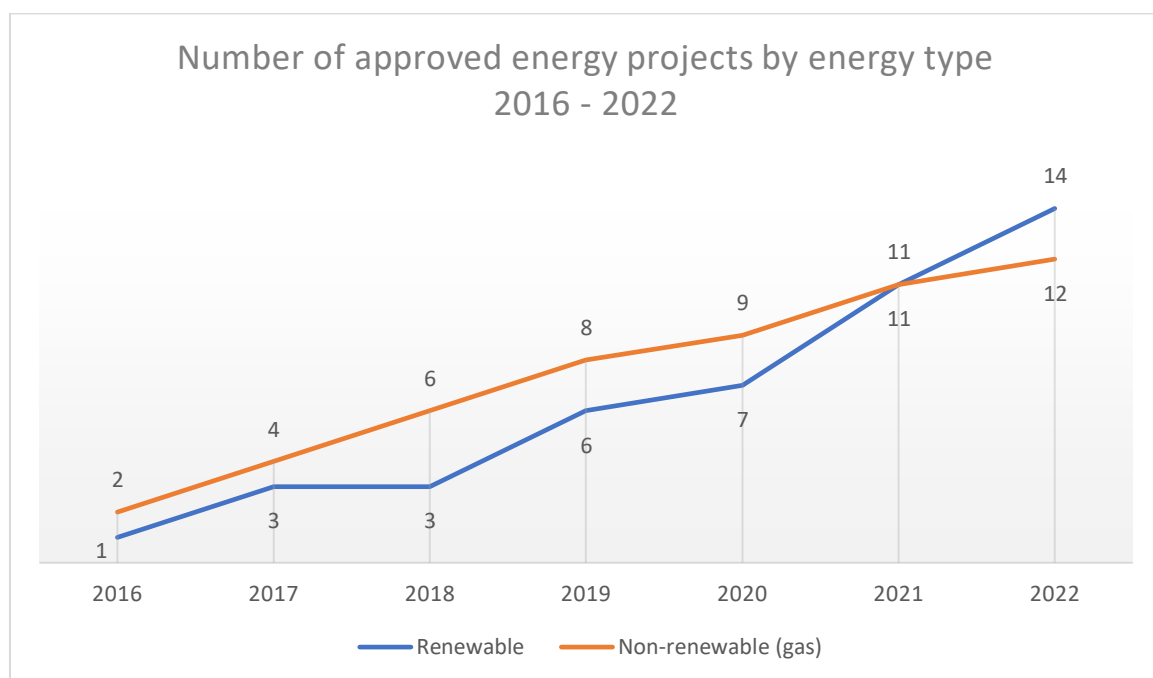
European shareholders are complicit in further exacerbating climate change especially in an LDC countries like Bangladesh, which has a target of 100% renewable by 2050. Similar, the Philippines are facing [massive gas investments expansion](#) in the years to come. The Philippine Energy Plan (PEP), in fact, estimates the installed capacity of fossil gas to rise to 21,660 GW by 2040. European shareholders of AIIB should not support this general trend and push for another pathway.

## Gas and Energy Projects AIIB

- The AIIB currently has 42 approved projects in the energy sector and 10 pipeline projects.

## Approved

- Four of the approved projects are gas power plants, 2 of them in Bangladesh, 1 in Uzbekistan and 1 in Myanmar.
- Another six projects are investing in gas infrastructure, mainly pipelines and storage facilities. Two of these projects are located in China, the remaining in Azerbaijan, Bangladesh, Turkey, and India respectively.
- **Bangladesh and China currently house no approved renewable energy projects.**
- A total of around 2.37 billion USD is currently approved for investment into gas power and gas infrastructure. Around two third of it, a total investment amount of around 1.66 billion USD, is going towards renewable energy.
- All four approved gas power plants aligned will provide 2529 MW in total. Combined the approved renewable energies are estimated to generate up to 9514.6 MW<sup>ii</sup>.



## Future investments

As of the time of writing (February 2023), the pipeline projects consist of one gas plant project for 1560MW in Uzbekistan, and one planned transmission infrastructure project in Bangladesh (likely to be connected to forthcoming coal power facilities). Five pipeline projects can be classified as renewable with three investments going towards solar, and two towards hydropower, incl. the [Nenskra-project](#) (although, [EBRD and EIB](#) already found the project not compliant with their standards, AIIB still keeps it in its portfolio).

- Out of the remaining three energy projects, two are dedicated to transmission infrastructure, specifically linking switch stations and grid substations. One project falls into the financial intermediary category and will go towards funding investment for solar systems and batteries in Turkey.

## Resettlement and gas projects

The gas projects of AIIB do not only hinder energy transition but also cause massive social harm. Out of the 10 gas and gas infrastructure projects, seven have been classified as having

significant social and environmental effects on the project locality (E&S-Category A). And nine out of the 10 projects involve land acquisition or resettlement (see Appendix).

Land acquisition affects the livelihood sources of local communities. With a [dysfunctional complaint mechanism](#) in place there is no hope for affected communities to protect themselves. Additionally, certain projects like for example Bhola IPP, have caused controversy as local project affected people state they were not compensated fairly for the land that was taken for the project. After years of talking with the management, local communities tried the [complaint mechanism, being the first](#). What happened? The bank sold its shares and hides to take responsibilities. As stated in the submitted complaint by CLEAN/NGO Forum on ADB/AIIB: *“Due to the destruction of the Mandartoli Shakha Khal, monsoon water overflows during high tide. It directly floods the Dakshin Kutba village, where an estimated 400 Betel leaf farms have been destroyed, **displacing over 2000 families dependent on agriculture**. Over 100 households are approximated to be directly waterlogged and left completely disconnected from public services, communication, health care, and other necessary services.”*

As we can see, numbers estimated in the AIIB project description vary widely from realities: it was state in the papers of AIIB that the Bhola IPP Project will affect 63 households through land acquisition, with five of them facing resettlement.

*The complaint also raises that: “In addition, there was no proper water, sanitation, and hygiene (WASH) plan for the labor colony constructing the power plant. The effluent, sewage, and waste are discharged in large amounts into the surrounding villages, leading to uninhabitable living conditions. The project site has also taken over half of all grazing land in the area, directly impacting goat herders, who are mainly women. Other problematic issues were also raised by impacted communities ranging from lack of Information Disclosure and Meaningful Consultation, poor and misleading translation of critical documents, and the absence of documentation or outputs from the consultation reports.”*

The [Natural Gas Infrastructure and Efficiency Improvement Project](#) in Bangladesh is expected (according to AIIB) to impact 7,880 households, with 908 households facing resettlement due to the project affecting their residential structures. The Tuz Golu Türkiye Gas Storage Expansion Project in Turkey is also expected to involve land acquisition, with the possibility of resettlement not being ruled out. The India City Gas Distribution (CGD) Financing AGPCGPL Project has a generic resettlement plan, as the possibility of land acquisition and resettlement cannot be excluded for the various sub-projects.

In Myanmar, the Myingyan 225 MW Combined Cycle Gas Turbine (CCGT) Power Plant Project has involved land acquisition. The same is true for the Trans Anatolian Natural Gas Pipeline Project (TANAP) in Azerbaijan, the Beijing-Tianjin-Hebei Low Carbon Energy Transition and Air Quality Improvement Project in China where 54 households were affected, the Unique Meghnaghat IPP in Bangladesh for which 343 landowners had to give up parts of their land, and the Sirdarya 1,500MW CCGT Power Project in Uzbekistan. In the case of the Sirdarya project, 12 farmers have been affected, with the project taking up more than 50% of the land they previously used for crop cultivation for nine of them.

## REQUESTS to European shareholders:

- Implement Divestment Tools: True divestment needs complex knowledge on who is involved in the coal industry. European shareholders should push AIIB management to use widely recognized and used divestment tools like GCEL (<https://www.coalexit.org>), which is used widely in the financial sector (public and private) to divest from coal.
- Renewable energy should be mainstreamed and clearly prioritized. Big Hydropower plants needs to be excluded.
- Gas/LNG phase out date needs to be mentioned.

Further information:

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<sup>i</sup> There are several studies which can prove big hydro as non-sustainable renewable energy: [https://horizon.documentation.ird.fr/exl-doc/pleins\\_textes/divers16-05/010050254.pdf](https://horizon.documentation.ird.fr/exl-doc/pleins_textes/divers16-05/010050254.pdf). The "Environmental Guidance on Renewable Energy - Hydro Projects" (2012), para 3.1: „Opic will not support projects involving the construction of dams that significantly and irreversibly [...] displace large numbers of inhabitants (5000 persons or more)" ... "In addition to the factors related to the construction of dams OPIC will not support the following types of projects: ... Projects that require resettlement of 5000 or more persons". <https://www.dfc.gov/sites/default/files/2019-08/Solar-Jan31-to-OPIC.pdf>, see also: <https://op.europa.eu/en/publication-detail/-/publication/b0279310-a5b4-11e8-99ee-01aa75ed71a1/>

<sup>ii</sup> This estimation includes the overall targets for some of the solar projects where it is unclear how much the AIIB's investment will contribute to the overall target and whether the full power generation target will be realised in the first place. It does not include the 3000 MW hydropower restoration project in Tajikistan as no new and additional energy is being added to the countries supply.