

CSO Critique on AIIB's Energy Sector Strategy Update

The CSO Critique on the Asian Infrastructure Investment Bank's Energy Sector Strategy forwards alternative principles to those posed by the bank, in order to forward a rights-based, people-centered and climate-resilient future for the region and beyond. During this crucial time of compounding crises, there is a need to rethink the approach on the energy transition to ensure that it genuinely addresses the needs and concerns of the marginalized, who face the brunt of the impact of the climate emergency, and does not cause further impact on the environment. In this regard, the Reality of Aid-Asia Pacific initiates a sign-on campaign that forwards a CSO Critique on AIIB's Energy Sector Strategy.

To join the sign-on campaign, please fill in this [form](#) on or before June 27, 2022, Monday. RoA-AP will forward the CSO Critique to relevant AIIB units on June 30, 2022.

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I. Context

Despite labeling itself as a lean, clean, and green bank, the Asian Infrastructure Investment Bank (AIIB) only recently stated its commitment in aligning its operations with the Paris Agreement by July 1, 2023. Furthermore, the bank has declared its goal of appropriating half of its actual financing approvals to climate finance by 2025. An initial and critical step in undertaking this commitment is to update its Energy Sector Strategy, which was first released in 2017. The AIIB seeks to update its strategy and ways of working to reflect new developments and the urgency to respond to the impending climate crisis, especially in its member countries.

As the world is on the brink of climate change, and as the marginalized and vulnerable bear the disproportionate risks of the crisis, the bank's policies must be able to reflect and pursue a people-centered, rights-based, and climate-resilient for all. Contrary to the strategy's title, "Sustainable Energy for Tomorrow," it posits the same solutions by financing fossil fuels and promoting private sector financing, which have been proven to be environmentally, politically, economically and socially destructive to developing countries. Therefore, this critique seeks to appraise the strategy and to forward policy recommendations that will genuinely address the climate crisis and development challenges the region faces.

II. AIIB Principles vs. RoA-AP Critique

	AIIB Principles	RoA-AP Critique
1	<p><u>Transition to low carbon energy supply.</u></p> <p>Energy is the dominant contributor to climate change, accounting for around 60 percent of total global greenhouse gas emissions. AIIB’s support to its members to reduce the carbon intensity of energy supply helps them achieve their long-term climate goals developed in the wake of the Paris Agreement. Energy sector operations, therefore, play a crucial, albeit not exclusive, role in AIIB’s commitment to align its operations with the Paris Agreement by July 1, 2023, and its efforts to achieve its climate finance target by 2025.</p> <p>AIIB recognizes that the process of transitioning to a less carbon-intensive energy system is already underway and that the deployment strategies for low-carbon technical solutions reflect members’ individual primary energy resource endowment, affordability, financing capacity, knowledge, and regulation, among other factors. AIIB will support and accelerate its members’ respective transitions toward low-carbon energy mixes through investments in (i) renewable energy; (ii) enabling infrastructure and system flexibility for low carbon electricity and fuels; (iii) fuel shifts from carbon intensive fossil fuels such as</p>	<p><u>AIIB’s alignment with the Paris Agreement and prioritizing DMCs to meet their commitments.</u></p> <p>Last year, the AIIB declared that its operations will fully align with the Paris Agreement by July 1, 2023. While the bank reiterates its commitment to the Paris Agreement, an international treaty requiring economic and social transformation to address the climate emergency, the Strategy still lacks concrete and actionable steps to achieve these goals:</p> <ul style="list-style-type: none"> ● aligned with the 1.5 degrees Celsius goal, or even more ambitious climate goals; ● compatible with reaching a global CO₂ emissions decline of at least 45% from 2010 levels by 2030, and <i>real</i> zero CO₂ emissions before mid-century; and, ● not reliant on false or unproven solutions such as carbon pricing, carbon capture storage and energy efficient fossil fuel technologies. <p>While the AIIB maintains that fossil fuels are important in the transition phase, genuine alignment is only possible by ending all direct or indirect support to all kinds of fossil fuels. Findings show</p>

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coal and oil to lower carbon alternatives; and (iv) associated efforts to mitigate adverse social impacts of energy transition and facilitate a just transition.

that [for every dollar the bank allocates for renewable energy, more than twice that amount is used for fossil fuels.](#) While the bank states that it would not finance oil except for certain country contexts, it is necessary to divest from so-called natural gas and oil, due to their harmful carbon dioxide emissions. Fossil fuel extraction entails the construction and financing of high voltage transmission and distribution lines, and road projects, which also negatively impacts the communities and the environment.

Civil society welcomes the bank's contribution to decarbonization, or the process of reducing carbon emissions, through its commitment of halting direct financing for new coal-fired power and heating plants. Known for its hands-off lending, the AIIB must also suspend indirect financing for coal through financial intermediaries, such as commercial and specialized banks, as well as leasing and insurance companies.

The AIIB must also remain accountable for the fossil fuel plants it has financed, coming up with a detailed action plan on how the bank plans to mitigate health and environmental impacts caused.

In the path to decarbonization, the Strategy recognizes the different stages and contexts of its member countries, pursuing equity and the principle of common but differentiated responsibilities (CBDR) in allocating its financing. In line with this, the bank must declare its commitment to provide sufficient

		<p>financial and technical assistance to help member countries to decarbonize and advance renewable energy.</p> <p>Addressing the needs of affected sectors. Aside from unequal footing of member countries in their transition to renewable energy, various sectors from this transition are also disproportionately affected. The bank must address the affected livelihoods from the decommissioning of power plants, in the form of building capacities and increasing opportunities to minimize impacts. In pursuing less carbon-intensive alternatives in various industries, workers employed must be attended to and given the necessary assistance.</p>
2	<p><u>Promote energy access and security.</u></p> <p>Access to affordable and reliable modern energy services is instrumental in underpinning development and expanding economic opportunities for people to improve their lives. It is also a key aspiration of SDG 7. In Asia, lack of such access continues to deprive the most vulnerable people of the basic human needs. Reliance on traditional fuels also extends gender inequality and prolongs exposure to health risks. Furthermore, AIIB considers that the access agenda is not limited to last-mile electrification and realizes that the provision of entry-level solutions alone does not accomplish the mission of SDG 7.</p> <p>AIIB therefore supports its members in moving to higher service</p>	<p><u>Universal energy access.</u></p> <p>Guided by Agenda 2030 and Sustainable Development Goal 7 (SDG 7), the Strategy recognizes that access to clean, affordable, quality, reliable, convenient, and safe energy is crucial for development. The right to sufficient energy is a human right and must be upheld by development actors, such as governments and financial institutions like the AIIB.</p> <p>Energy security for all. Energy security, or the stable and affordable access to energy sources for consumption, should be ensured. To ensure access to the marginalized and vulnerable, such as rural women and children, workers, farmers, fisherfolk, urban poor and Indigenous Peoples, initiatives to provide</p>

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<p>levels of access, ensuring the clean energy services are affordable, of adequate capacity and good quality, available when needed, reliable, convenient, and safe. AIIB also recognizes that efforts to advance energy transition are to be considered in conjunction with the needs for energy access and security under specific member context for co-benefits to be reaped and for the most urgent needs to be addressed. In doing so, AIIB attaches great importance to new technologies and business models in extending modern energy and fostering access and prosperity through the transition process.</p> <p>AIIB will place emphasis on: (i) promoting, directly or indirectly, access to modern energy by those who currently have little or no access; (ii) improving the affordability, reliability, and quality of electricity supply to serve productive uses and modern society needs; and (iii) reducing the negative health impacts caused by indoor combustion of solid fuels.</p>	<p>electricity to remote and far-flung areas described as last-mile electrification programs, must be pursued. Going beyond last-mile electrification, energy infrastructure and supply must be able to address both basic and aspirational needs of communities.</p> <p>These can only be possible with the development and establishment of renewable energy systems that are democratically owned by the people who use it. Sustainable energy is assured when it is linked with peoples' capacity to design, manage, operate, and maintain such energy facilities. The AIIB should further promote the distributed generation of renewable energy, through the establishment of community mini and micro-grids. Along with micro-grids, decentralized solar initiatives are affordable and accessible technologies that can encourage democratic ownership of the communities over their energy source and infrastructures.</p>
<p>3 <u>Realize energy efficiency potential.</u> International experience and primary energy forecasts by international institutions indicate that energy efficiency is one of the major means to achieve global environmental objectives. Prosperity and well-being can no longer be gauged only by the consumption of energy. The focus should instead be placed on the efficient provision of the services derived from energy. Given the high energy intensity in most non-OECD countries in Asia,</p>	<p>Development and establishment of renewable energy systems must be consistent with the goals of promoting, protecting, and realizing human rights, and ensuring a climate-safe and equitable future for all. Energy access is inextricably linked to control over energy choices for people, especially the most vulnerable and marginalized.</p> <p>The energy sector should be based on public ownership, exercising democratic ownership of energy resources and</p>

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	<p>AIIB will cooperate with partners operating in Asia to tap the existing large, but dispersed, potential for energy efficiency in industry, buildings, and transport. Initially, AIIB will focus on projects that make the most of existing energy infrastructure stocks through (i) rehabilitation and upgrading of existing energy facilities; and (ii) aggressive loss reduction and utility-driven energy efficiency programs in power and gas T&D networks, including reduction of methane leakage. Over time, AIIB will also develop more tailored financial instruments and engage with potential financial intermediaries in these areas.</p>	<p>systems. Patents on renewable energy technologies that only profit the private sector must be abandoned, while technology transfer to developing member countries must be advanced.</p>
4	<p><u>Manage local and regional pollution.</u></p> <p>AIIB will support its clients in reducing, limiting, and mitigating the deleterious impact of pollution. Fossil fuel production, transport, and consumption have severe negative impacts on the local environment, especially in Asia’s densely populated cities. Historically, issues related to local and regional pollution have been addressed mainly by limiting emissions of fossil fuel-based power generation, especially coal-fired plants. While pollution from large energy infrastructure can be controlled through statutory measures, the dispersed energy end uses, such as traffic or household energy, are more challenging to address and often require a shift of energy sources embedded in a systemic transformation. AIIB will (i) support cross-sectoral projects aimed at pollution reduction at the city, national, and regional levels; (ii) support fuel shifts and cleaner energy</p>	<p><u>“Do no harm” principle.</u></p> <p>Following this principle, potential risks and adverse impacts resulting from projects must be prevented, reduced and controlled. Projects financed by the bank that neither contribute towards mitigating environmental and climate challenges nor aid in facilitating the needed shift towards low-carbon and sustainable development paths, must not be pursued.</p> <p><i>Techno-fixes.</i> While the Strategy does not outright endorse techno-fixes, it provides a leeway for the bank to still consider financing these. Techno-fixes are profit-oriented technologies proposed as solutions to climate change, usually in the form of carbon capture, utilization, and storage technologies. Such techno-fixes have long been criticized for not solving the root cause of the climate crisis, as these do not effectively lessen</p>

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<p>infrastructure solutions resulting in lower air pollution; and (iii) integrate air pollution control and carbon intensity reduction, where relevant.</p>	<p>emissions. Besides the need for more evidence regarding techno-fixes' long-term usage and benefits, their malfunction and destruction can also pose additional risks and danger to the environment. As such, these should not be imposed as a step towards decarbonization.</p> <p>Avoiding adverse impacts. Energy security must be promoted without threatening the development of other sectors. Implementation of cross-border and sub-regional electricity interconnection infrastructure must not impede on the people's development, peace, and security. Other sources of energy that prove to be costly for the local population, such as bioenergy and hydropower, should not be pursued. The AIIB should not finance large hydropower and solar infrastructure, which have served to impede on Indigenous Peoples' lands and rights, causing conflict, instability, and exploitation. Protection of human rights, in both the physical and digital landscape, are to be assured by the bank.</p> <p>AIIB's Environmental and Social Framework. Despite updating its Environmental and Social (ESF) last year, it remains faulty and inadequate to avoid and address negative impacts of its projects. The framework is lacking in upholding the rights of the affected communities, and diluted to pursue private sector interests. The ESF has ultimately failed in upholding the rights of the people and protecting the environment. There is also a lack of transparency with the AIIB's processes under the ESF, which makes it challenging for civil society to make the bank accountable.</p>
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		<p>Furthermore, redress to the victims of the bank’s flawed framework and mechanisms must be sufficiently distributed.</p> <p><i>Project-affected People’s Mechanism.</i> The bank has an existing Project-affected People’s Mechanism (PPM) that provides an avenue for victims of violated ESF policies to raise their concerns. However, the PPM does not cover projects co-financed with other institutions, leaving affected peoples no recourse. When available, it remains inaccessible to communities due to complicated requirements and processes. Furthermore, the mechanism fails to be transparent with the complaints it receives. To genuinely address the needs and mitigate the impacts of its projects, the PPM and its processes must be further improved to make it feasible for the marginalized and vulnerable to raise their concerns.</p>
5	<p><u>Mobilize private capital.</u> This principle reaffirms AIIB’s Corporate Strategy thematic priority on Private Capital Mobilization, which aims to help close the enormous infrastructure investment gaps in developing Asia through mobilizing private financing both at the project and sector level. For varying reasons, to date, private capital investments in energy and infrastructure have been marginal in non- OECD countries, although partial credits, investment, and country guarantees by MDBs have been instrumental in promoting successful projects. Innovative approaches have also</p>	<p><u>Priority to local players in the energy sector, especially to micro, small, and medium-sized enterprises.</u></p> <p>Reasoning an investment gap, the Strategy allows for the further entry of the private sector in the energy sector. Assigning a dominant role to the private sector must be reconsidered, as corporations have historically been major actors in worsening environmental degradation and the climate crisis.</p>

been initiated using grants and concessional financing to reduce the cost of electricity generated under public-private partnerships (PPP) or to improve risk sharing in PPP ventures. AIIB will: (i) explore innovative models, at both project and sector level, to mobilize private investments in energy infrastructure; (ii) build upon the successful experience of and lessons learned by MDBs operating in Asia, especially in PPPs, ensuring that the costs and risks are appropriately shared and distributed; (iii) explore new cooperation modalities with clients and private sector partners to meet members' needs; and (iv) in doing so, avoid crowding out the private sector. When pursuing such opportunities, AIIB will evaluate risk carefully and will put in place appropriate measures to mitigate and manage such risks.

Despite growing evidence against public-private partnerships (PPPs), AIIB promotes the use of this scheme to finance and construct energy infrastructure. The use of PPPs must be reconsidered as the public sector is disproportionately impacted with the financial risks, and the lack of transparency and accountability of the private sector. Instead of promoting private sector-led development, a focus on the most vulnerable countries and communities is critical and urgent for developing member countries' climate adaptation.

Private sector regulation. The regulation of the private sector is crucial in providing access to clean energy resources and services for all. Regulatory mechanisms shall adhere to the member country's action plans, as well as to human rights and the development effectiveness principles. While developing member countries' governments should strictly enforce international and national regulatory mechanisms, the private sector, including the AIIB, must genuinely comply with these processes. Private sector regulation should also extend to startups and emerging technologies. Furthermore, an accountability mechanism must also be established to ensure that the private sector remains answerable to the impacts they have caused.

In this regard, the bank should prioritize support for developing member countries' micro, small, and medium-sized enterprises (MSMEs) in the energy sector, which are vital for developing

		<p>member countries in reaching their adaptation goals. The AIIB must assist the local MSMEs to embark on clean energy projects, with the transfer of technology and knowledge. The promotion of the use of local goods and services can foster self-sustaining economies, which helps communities become more resilient to climate change.</p>
6	<p><u>Promote connectivity and regional cooperation.</u> This principle reflects AIIB’s Corporate Strategy thematic priority on Connectivity and Regional Cooperation. Regional and in-country connectivity, complemented by regional cooperation, are essential to take advantage of synergies, increase the market size to improve competitiveness, and create a critical mass for cooperative Research and Development (R&D) and manufacturing capabilities. Efforts deployed by MDBs and bilateral agencies in Asian countries and other regions have had moderate success. AIIB will engage its members and pursue regional, cross-regional, and domestic connectivity of energy systems, especially power and gas, with a view to: strengthening systems; improving the security and efficiency of energy supply; optimizing the use of resources; allowing for greater flexibility in their operation; reducing local, regional, and global adverse environmental and social impacts; and fostering greater use of renewable energy resources.</p>	<p><u>Effective development cooperation principles of democratic country ownership, focus on results, inclusive partnerships, transparency and mutual accountability.</u></p> <p>Development priorities determined by countries should reflect the needs of the people, and not the private sector nor the local elite. The bank’s energy projects should contribute towards eradicating poverty, reducing inequalities, and upholding sustainable development.</p> <p>The bank’s processes must be inclusive and participatory, ensuring that the democratic rights of communities, peoples’ organizations and civil society organizations are upheld in the design, implementation, and monitoring of projects. Transparency in its investments and accountability in its project implementation are also demanded from the bank.</p>

Democratic country ownership. Abandoning conditionalities and policy-based lending will allow for the upholding of self-determination and sovereign rights of developing member countries. Under the leadership of developing member countries, energy projects must be undertaken to reflect the development priorities of the people. Catering to the member country's specific needs and priorities are essential in promoting country ownership. The right to self-determination and to Free, Prior and Informed Consent (FPIC) of affected communities must always be upheld.

Focus on results. The bank's projects must contribute to genuine inclusive and sustainable development in its member countries. The Energy Sector Strategy must not further perpetuate underlying inequalities, impede on people's development and contribute to environmental degradation. Developing member countries should also be given sufficient knowledge and technologies that can serve to enhance their capacities in achieving their development priorities. Upholding a rights-based and people-centered approach, the AIIB must tackle the climate crisis with a focus on the marginalized sectors, as they are the most vulnerable to its impacts.

Inclusive partnerships. The planning, design, and implementation of energy projects should be inclusive and participatory, especially to the vulnerable and marginalized populations.

Communities should have a principal role in the identification, definition, implementation and evaluation of energy projects.

While the bank has recognized the imperative to include women and people with disabilities in the consultation for its projects, these processes must also include the voices of Indigenous Peoples, farmers, fisherfolk, workers, and urban poor, who continue to be the most impacted by the climate crisis.

Furthermore, environmental and social assessments must guarantee genuine free, prior and informed consent from communities. By strengthening these institutions, a people-centered and rights-based approach to development must be pursued, ensuring equal and affordable access to basic social services.

Role of civil society. Despite seeing merit in enhancing collaboration with other development actors such as other financial institutions, multilateral agencies, and think tanks, there remains no space for the civil society to participate in forwarding clean energy in the region. The bank must recognize civil society as development actors that will aid the transition of developing member countries and communities to clean energy. Civil society organizations, peoples' organizations and communities have the duty and right to criticize and welcome policies, as development actors in their own right and in their own contexts. Clearly defining the role of civil society secures the obligations of

developing member countries to respect the voices and spaces of civil society.

Transparency and accountability. To facilitate the transition to clean energy, a range of development actors such as civil society organizations, peoples' organizations, media and local authorities, must be consulted by the AIIB. The AIIB has been widely criticized for its hands-off lending, which has rid them of any responsibility for the negative impacts they have caused in the region. In partnering with the private sector and other financial institutions, the bank must remain transparent and accountable for its activities.

The civil society asks the bank to provide full transparency and disclosure on where their investments end up. As earlier argued, the bank must stop disbursing funds to financial intermediaries, which continue to finance coal projects and plants. Furthermore, comprehensive information regarding projects' prospective development impacts must be made available. This information should highlight the impact on marginalized sectors of society, by providing disaggregated data and statistics.

In implementing the Strategy, accountability is essential in securing energy access for all and in promoting a people-centered and rights-based approach. Accountability mechanisms to hold the bank and developing member country governments liable for energy projects and impacts must be set up. Information and

		documents from the PPM and project consultations should be made accessible to the public. Through these, the bank makes itself accountable to the people, who should be benefiting from these projects.
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III. Recommendations

With the principles presented above, Reality of Aid-Asia Pacific formulated recommendations for the AIIB to genuinely respond to the climate crisis and its disproportionate impact on the marginalized and vulnerable. As the bank updates its Energy Sector Strategy, we strongly urge the AIIB to take immediate and concrete steps to adopt the following policy recommendations:

1. *End all direct and indirect financing for fossil fuels.* The AIIB Energy Sector Strategy must state that it will stop supporting all fossil fuel projects (gas, oil, and coal). Indirect support through related infrastructure, advisory services, technical assistance, or financial intermediaries should also be halted by the bank.
2. *Scale up funding to sustainable renewable energy projects, and take a people-centered approach that ensures a climate safe and equitable future.* To help developing member countries in achieving the Sustainable Development Goal of universal energy access (SDG 7), the AIIB should realign investment in energy away from fossil fuels and towards distributed generation, with the use of micro-grid approaches and publicly owned renewable and climate resilient energy systems. The bank should also abandon financing large hydropower and solar infrastructures, which threaten land, rights and the environment of communities and Indigenous Peoples.

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3. *Promote universal energy access.* The AIIB Energy Sector Strategy must address the issue of energy access as a common good to be provided as a public service. Prioritizing access to free energy for the energy-deprived, as well as modernization and upscaling of traditionally free and indigenous energy sources, is fundamental. Accessibility and affordability are the main considerations in delivering sustainable energy access. Thus, public, not private sector, financing will be critical in eradicating energy poverty and inequality in the region.
4. *Demonstrate commitment to development effectiveness principles.* The AIIB must uphold a people-centered and rights-based approach to development, which guarantees open participation, accountability and transparency. The bank needs to establish accountability and monitoring mechanisms to ensure that the bank invests in micro-grid and off-grid generating capacity, and not in extending traditional power structures and grid areas. The bank should establish a formal, systematic process for CSO input into the creation and implementation of these mechanisms. Energy projects must especially include those who lack energy access in the decision-making about their technical options, implementation, and impact monitoring. Real sustainability of development gains will only ensue if communities themselves recognize, understand, and drive the processes. Moreover, transition to clean energy must be rooted on the needs and rights of the people and the environment, and not on private sector interests.