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**Subject: Submission from civil society organizations
from Argentina, Brazil, Chile, Ecuador, Mexico, Peru and Uruguay
on REVIEW DRAFT Energy Sector Strategy: Sustainable Energy for Tomorrow**

Cover Letter

Dear Review Team,

We are organizations from Latin America with longstanding records of working on environmental, social and economic issues related to international development financing in Latin America and the Caribbean. It is in this capacity that we take the opportunity to jointly submit these comments concerning the updated Energy Sector Strategy which has been renamed and re-worded to indicate that it now applies to all AIIB members rather than only Asian regional members. We trust that all recommendations concerning this draft will be duly considered as part of a diligent review process.

We agree with AIIB that energy services “are essential to economic activity, social development and quality of life” (paragraph 1). Indeed, this draft strategy informs that energy is AIIB’s “largest infrastructure sector by investment volume” (paragraph 22) and that its investments in this sector will continue to be significant. In this scenario, it is concerning that while AIIB portrays an image of prioritizing “sustainable energy for tomorrow” by “facilitating the transition to a lower carbon energy system,” research concludes that AIIB has spent almost double on fossil fuels (mostly gas) as it has on renewable energy.¹

We consider the revision of the Energy Sector Strategy to be an important opportunity to rethink and re-evaluate AIIB’s relationship with themes such as energy, climate change, sustainability and people. While we understand that there will continue to be some demand for destructive and outdated energy like gas, coal and oil, AIIB does not have to include such projects in its portfolio. While this draft of the ESS shows that AIIB is effectively ruling out coal and nuclear, some of the energy options that are prioritized are alarming. Hydropower is very costly, not climate resilient and often exacerbates impacts from climate change. AIIB describes fossil fuels such as oil and

¹Recourse, NGO Forum on ADB, The Big Shift Global. 2020. AIIB and Paris Alignment.
<https://www.re-course.org/wp-content/uploads/2020/11/AIIB-and-Paris-Alignment-Nov-20-FINAL.pdf>.

gas (including LNG) as transitional solutions while **the UN Secretary General urges that we can and must transition away from them immediately and the International Energy Agency (IEA) concludes that “no new oil or gas fields are needed beyond those already producing or under development”**.² This is more urgent than ever, as the 6th Assessment Report of the IPCC Working Group II and World Meteorological Organization warn that extreme climate phenomena are occurring sooner and more strongly than expected. AIIB can become a champion for rapid redirection of investments away from conventional energy to energy efficiency, clean power generation, and electricity infrastructure. But doing so requires changes to the current draft of the Energy Sector Strategy.

In order to truly embrace all the members, it is important that the updated document of the ESS includes more background regarding each region and AIIB’s strategies and objectives in each of these regions. For example, Latin America currently generates twice the global average of renewable energy³ and it is critical for future energy infrastructure projects in our region to be climate resilient as our countries are extremely vulnerable to climate change and extreme weather events.⁴ In addition, any projects in the region must consider the views of indigenous peoples and local communities and take preventative measures to protect them from retaliations. Indeed, many countries in the region have signed the legally binding ILO Convention on Indigenous and Tribal Peoples (169) and free, prior and informed consent is enshrined in many constitutions.

These comments are submitted with respect and the intention and hope that the concerns outlined can be part of a constructive discussion rather than treated as part of a rubber-stamping process in order to approve the draft in its current form.

We look forward to your response and are available for further discussions regarding this Strategy.

Our comments are presented by section:

Background and Acknowledgements.

It is concerning that this document describes that updates “were developed through an interactive consultative process including one round of public consultations” (ii). At the time that the document was written, the statement was not accurate. The session hosted by AIIB on February 25th, 2022 was described in the invitation sent by AIIB as being “informative” and the bank stated the objective as providing “an overview of the process of the AIIB Energy Sector Strategy Update.” During the session, many NGOs clearly stated that this information session should not be considered as a consultation.

Two weeks before the original deadline for submissions, AIIB arranged two additional sessions (May 19 and May 20) which were collectively denounced by CSOs from around the world for not providing an adequate space for meaningful and inclusive discussions.⁵ AIIB subsequently extended the period for submissions from June 3 to July 8, 2022 and announced additional

² IEA. 2021. Net Zero by 2050. <https://www.iea.org/reports/net-zero-by-2050>.

³ IRENA. 2022. Latin America and the Caribbean. <https://www.irena.org/lac>.

⁴ WMO. 2021. New report shows impacts of climate change and extreme weather in Latin America and the Caribbean. <https://public.wmo.int/en/media/press-release/new-report-shows-impacts-of-climate-change-and-extreme-weather-latin-america-and>.

⁵ Recourse. 2022. Media Release: Civil Society Groups Dismiss Asian Infrastructure Investment Bank’s Online Consultations As Neither Meaningful Nor Inclusive. <https://www.re-course.org/news/media-release-civil-society-groups-dismiss-asian-infrastructure-investment-banks-online-consultation-s-as-neither-meaningful-nor-inclusive/>

consultation sessions on relevant themes and in relevant geographies scheduled to take place between June 23 and July 6.

It is very important for AIIB to ensure that its revision processes allow meaningful participation by hosting consultation sessions where participants are invited to share comments on themes or proposed text in their regional languages. If AIIB can take steps to remedy the situation, it can chart a path to show its commitment towards ensuring truly consultative and inclusive processes. In failing to do so, the AIIB gradually shuts off meaningful engagement with civil society and other stakeholders.

Now that AIIB has arranged for additional consultation sessions, it should provide some level of confidence that comments provided by external actors will be considered and integrated into a revised text.

Introduction.

The statement by the UN Secretary General in paragraph 1 is good but it is general and is now twelve years out of date. The current UN Secretary General calls for an urgent transition away from fossil fuels to renewables. “Our addiction to fossil fuels is pushing humanity to the brink [...] we must keep the goal of 1.5 degrees Celsius alive.”⁶

One of the points (perhaps in paragraph 2 or 3) should make it more clear whether the Energy Strategy applies to all members.

AIIB references to the Paris Agreement in paragraph 4 and elsewhere in the document are critical and are a minimum baseline as the Paris Agreement is legally binding and has been ratified by over 190 parties, meaning virtually all AIIB members are legally bound by it. Since the Paris Agreement objective to “finance flows consistent with a pathway toward low greenhouse gas emissions and climate-resilient development” is quite general, we recommend that AIIB add text in Box 1 to explain how it plans to monitor this and communicate it in a transparent way.

AIIB should explicitly refer to the preferred marker in the Paris Agreement and in all subsequent reports and communications from climate experts which is to limit global warming to 1.5 degrees Celsius compared to pre-industrial levels (article 2a). Indeed, the Glasgow Climate Pact “resolves to pursue efforts to limit the temperature increase to 1.5 degrees Celsius” (article 16). Should AIIB instead support the objective to stay “well below 2 degrees Celsius,” it simply cannot claim to be an institution that is “at the forefront of addressing climate change (paragraph 4).”

Box 1 Global Initiatives describes the Glasgow Climate Pact. We recommend that AIIB use this space to clarify whether or not it pledges to contribute to the goal of net-zero emissions by 2050 as per the Glasgow Climate Pact?

The Global Energy Landscape.

Paragraph 6: Recommend revising the text “low or zero-carbon energy system” so that it can be time bound. Recommend adding “by 2050” which would be in line with the latest IPCC reports.

⁶ United Nations. 2021. Secretary-General's remarks to the World Leaders Summit - COP 26. <https://www.un.org/sg/en/content/sg/statement/2021-11-01/secretary-generals-remarks-the-world-leaders-summit-cop-26-delivered-sroll-down-for-french-version>.

Paragraph 7: The reference to SDG 7 should include the word ‘sustainable.’

The last bullet point in paragraph 20 seems to fit better in the section on Global Energy Landscape rather than in the section on Issues and Challenges in Asia.

Issues and Challenges in Asia.

It is implied, though not explicit, that this energy sector strategy applies to all members. Despite the fact that this strategy applies to all members, 4.5 pages are dedicated to issues and challenges in Asia and there is no text for other regions. While we understand that the AIIB Energy Sector Strategy must support AIIB’s “vision of a prosperous Asia”, the document does refer to “help its members meet societal demands for essential energy services, facilitate their transition to a lower carbon energy system.” It is therefore important to include context, issues and challenges about the other regions as different regions have vastly different energy situations. The AIIB should also describe its regional approaches and priorities.

As a point of comparison, the Energy Strategy for the World Bank Group recognizes that “different countries and regions have different needs and present diverse energy challenges and related solutions (WBG 31)” and as such includes descriptions and business plans for each region. As civil society organizations from Latin America, we would like to know AIIB priorities for investing in energy related projects in our continent.

Proposed section on ‘**Issues and Challenges in Latin America**’:

Historically, Latin America has relied on renewable resources for its energy. The region currently generates 25% of its energy, twice the global average, from renewable sources. Brazil, Chile and Mexico lead globally as some of the largest renewable energy markets. Meanwhile Uruguay, Paraguay and Costa Rica generate virtually all of their energy from renewable sources. A high percentage of the population in the region, 96%,⁷ has access to electricity. To make further improvements related to energy access, it will be important to consider how to bring energy to more remote users through off-grid systems and mini-grids.

The sources of energy that have been and continue to be prioritized in the region have environmental and social consequences. The World Meteorological Organization states that Latin America and the Caribbean are among the regions most challenged by extreme hydro-meteorological events. For this reason, energy projects should be climate resilient and should not worsen the impacts on people and ecosystems of these extreme weather events. The Latin America and Caribbean region hosts approximately 60 percent of known terrestrial species.⁸ WWF warns that over the past year, Latin America has seen more significant losses in biodiversity than any other region. Energy projects should not cause further losses in these priceless resources.

Almost 10 percent of the region’s population, 58 million people, belong to more than 800 indigenous groups.⁹ Free, prior and informed consent is fundamental and is enshrined in the

⁷ IADB. 2018. Meeting Challenges, Measuring Progress: The Benefits of Sustainable Energy Access in Latin America and the Caribbean. <https://publications.iadb.org/en/meeting-challenges-measuring-progress-benefits-sustainable-energy-access-latin-america-and-caribbean#:~:text=With%20electricity%20coverage%20at%20more,people%20are%20without%20electricity%20access.>

⁸ UNEP. 2016. The State of Biodiversity in Latin America and the Caribbean. <https://www.cbd.int/gbo/gbo4/outlook-grulac-en.pdf>

⁹ Economic Commission for Latin America and the Caribbean (ECLAC). 2021. *The impact of COVID-19 on indigenous peoples in Latin America (Abya Yala): Between invisibility and collective resistance*. Project Documents. https://repositorio.cepal.org/bitstream/handle/11362/46698/1/S2000893_en.pdf

constitutions of many countries in the region. Latin America is the region with the highest number of ratifications to the legally binding ILO convention 169. Seven of AIIB's members from Latin America are bound by this convention. In 2021, Latin American countries also adopted the legally binding Escazú Agreement, a treaty which includes provisions to guarantee transparency, accountability, access to information and participation in decision making in environmental matters. This agreement also protects individuals known as environmental and human rights defenders, many of whom actively advocate against mining or energy projects that are destructive to their territories.

Hydropower is the main source for electricity generation in Latin America and has been historically pivotal in developing the region's energy mix. But hydropower is no longer the most desirable source of energy for the region. Climate change and other environmental changes have increased temperatures, fluctuations in rainfall patterns, melted glaciers, and increased the occurrence of extreme weather events, all of which have seriously impacted the generation of hydropower in the region. Many countries will lose hydropower capacity. Countries such as Ecuador and Costa Rica which are expected to increase their hydropower capacity will increase stream flow and exacerbate problems in erosion, sedimentation which will limit the useful life of reservoirs.¹⁰ Large dams affect local populations, migratory species, archeological heritage and put endemic species at risk of extinction. It is widely recognized and accepted that increasing hydropower causes losses in value from ecosystem services, systems that indigenous people in the region rely on. Hydropower, like green renewable energy options, is variable and intermittent. However, other renewable energy technologies have decreased in price and are quicker to install. IRENA states that it will be important for countries with high shares of hydropower to "invest in non-hydropower renewables as these present valuable complementarities – climatic, technical and economic – and greater power system reliability."¹¹

Energy generated in the continent should come from diverse sources, prioritizing renewable energies, and the rational and efficient use of energy.¹²

There is an emerging trend in the region to install large scale hydrogen plants in order to produce supposedly clean energy, often destined for export. These large scale projects have many unintended consequences which are not adequately considered. In Chile alone, these investments amount to USD 220 billion until 2030 and are mainly destined for export. The AIIB has expressed interest in financing this emerging industry and must consider whether doing so is truly sustainable and whether it contributes to an energy transition that is fair for all.

Mining has a distressing legacy in Latin America where open-pit mines that have been closed or abandoned must continue to be monitored to ensure that these facilities do not collapse or contaminate water sources or surrounding areas. The damages from these mining projects are borne by communities and biodiversity long after the extractive phase ends. Despite this and because the region does have reserves of metals that are important components for VRE technologies, batteries or electricity transmission, mining in this region continues to be of interest to financial institutions and corporations.

¹⁰ IPCC. 2014. Central and South America. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Regional Aspects. Contribution of Working Group II to the Fifth Assessment Report of the IPCC. https://www.ipcc.ch/site/assets/uploads/2018/02/WGIIAR5-Chap27_FINAL.pdf

¹¹ IRENA. 2016. Renewable Energy Market Analysis- Latin America. https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2016/IRENA_Market_Analysis_Latin_America_summary_EN_2016.pdf?la=en&hash=979D55D82A257826C0AAE4105C7F2BE37C60DF80

¹² Banco de Bosques, FARN, FVSA, Aves Argentinas, Fundacion Vida Silvestre. Alternativas Energéticas, Argentina. <http://www.riosantacruzlibre.org/pdf/Represas-vs-Alternativas-Informe-Final.pdf>

There will continue to be pressure to mine these metals. These extractive processes which are environmentally polluting and socially destructive will continue to be outsourced to developing nations. This emerging issue will continue to be of importance and relevance in Latin America.

Bolivia, Chile and Argentina are among the countries with important reserves of lithium. Lithium extraction in these countries has been documented to contaminate soil, degrade and deplete water sources (in areas that are already water-stressed) and exacerbate losses in biodiversity. Lithium mining in these countries also often violates the right to free, prior and informed consent, which are enshrined in constitutions and are legally binding under ILO C169.

It is critical for AIIB to heed the context described above and to avoid investments in Latin America which are in highly sensitive socio-environmental areas, such as: areas recognized by international conventions and agreements (including and not limited to the Bonn Convention, Ramsar Convention, World Heritage Convention, Convention on Biological Diversity, UNESCO Biosphere Reserves, UNESCO Global Geoparks, IUCN Designated Areas Categories IA-VI); nationally and sub nationally recognized and protected areas (including traditionally held conserved areas by Indigenous peoples and communities - ICCAs, and protected or at risk marine or coastland ecosystems); biodiversity hot-spots; primary forests; free-flowing rivers; iconic ecosystems for their cultural value; areas where the free, prior, informed consent of Indigenous and Traditional Communities has not been obtained.

Lessons learned.

Paragraph 24 refers to commitments by MDBs to support a just transition and “tightening conditions for financing fossil fuel-related projects with a notable intent to exclude coal.” The AIIB should exclude any new oil and gas projects. Reports by leading institutions in climate change research urge that there is “no room for any nation to increase oil and gas production”¹³ though poorer nations should be given longer to end their production of fossil fuels. The UN Secretary General goes further by emphasizing that “investing in new fossil fuels infrastructure is moral and economic madness. Such investments will soon be stranded assets-a blot on the landscape and a blight on investment portfolios.”¹⁴ Stranded fossil-related assets could amount to trillions of dollars. While coal assets “are most vulnerable over the coming decade; oil and gas assets are more vulnerable toward mid-century.”¹⁵

The AIIB’s exclusion of coal in the revised energy strategy is a basic and minimum standard. To show leadership, AIIB must not finance any fossil fuel-related projects, be they coal, crude oil or natural gas.

Objective of the Energy Sector Strategy.

Paragraph 26: We suggest that this strategy also refers to and reflects alignment with the latest findings from the IPCC, including the series in the Sixth Assessment Report and Special and

¹³ Tyndall Centre. 2022. Phaseout Pathways for Fossil Fuel Production Within Paris-compliant Carbon Budgets. [https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets\(c7235a8e-e3b1-4f44-99de-c27958c03758\).html](https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets(c7235a8e-e3b1-4f44-99de-c27958c03758).html).

¹⁴ United Nations. 2022. Secretary-General Warns of Climate Emergency, Calling Intergovernmental Panel’s Report ‘a File of Shame’, While Saying Leaders ‘Are Lying’, Fuelling Flames. <https://www.un.org/press/en/2022/sgsm21228.doc.htm#:~:text=Investing%20in%20new%20fossil%20fuels,focused%20on%20mitigation%20%E2%80%94%20cutting%20emissions>.

¹⁵ IPCC. 6th Assessment Report, Technical Summary. https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_TS.pdf.

Methodology Reports.

Paragraph 27: Please outline how “regular monitoring and reporting of portfolio composition” will be conducted and how findings will be shared with external stakeholders, including civil society. It is important for civil society to be aware of how the portfolio is being built and adapted.

Paragraph 28 refers to how AIIB will use this framework to support its members “to develop and improve their energy infrastructure; increase energy access; facilitate their transition to a less carbon-intensive energy mix; and meet their goals and commitments under the global initiatives.” This blind support to AIIB members is concerning as it does not necessarily guide towards a sustainable energy transition. On the contrary, it can perpetuate conventional energy sources which remain problematic. Relying on the goals and commitments of AIIB members is not the best way to ensure sustainable energy for tomorrow as it has been accepted that most NDCs in their current form go beyond 2 degrees Celsius¹⁶- in fact they condemn the world to a calamitous 2.7 degrees increase¹⁷

Guiding Principles.

The Energy Sector Strategy does not make it explicit whether it is going by IPCC objectives. Rather, it says that its “guiding principles are flexible to meet the needs of members to access affordable, secure, efficient, clean and sustainable energy in support of their future development through this transition” (Paragraph 29). We recommend that AIIB clarify how it intends to meet the needs of members while also ensuring that these actions remain within the target of limiting global warming by 1.5 degrees Celsius and avoid new funding for destructive technologies such as oil and gas?

Principle 1: Transition to low carbon energy supply.

In Paragraph 30, please detail how the AIIB will align its operations with the Paris Agreement by July 1, 2023.

The addition of text in Paragraph 31 that refers to “mitigating adverse social impacts and facilitating a just transition” is good.

Principle 2: Promote energy access and security.

We appreciate that AIIB will ensure that access to energy is affordable, reliable, of adequate capacity and good quality, convenient, and safe. In Paragraph 32, we suggest adding wording and commitment that this energy is also “sustainable.” While SDG 7 is “Access to affordable, reliable, sustainable and modern energy for all”, Principle 2 does not include a reference to promoting “sustainable” energy.

Paragraph 33: Can AIIB commit that in promoting energy access and affordability, it will only finance the most sustainable options?

Principle 3: Realize energy efficiency potential.

Paragraph 34: It is certainly positive that AIIB has a focus on improving energy efficiency. Again, we reiterate the necessity to completely stay away from gas and oil. Please clarify whether

¹⁶ Idem.

¹⁷ United Nations. 2021. Secretary-General's remarks to the World Leaders Summit - COP 26.

<https://www.un.org/sg/en/content/sg/statement/2021-11-01/secretary-generals-remarks-the-world-leaders-summit-cop-26-delivered-scr-oll-down-for-french-version>

instruments to engage with financial intermediaries in these areas will share information with the public and to which conditions/ standards these intermediaries will be held. Please clarify the instruments that will be used for public engagement? AIIB must ensure that Financial Intermediaries follow the AIIB Environmental and Social Framework and that information about subprojects is readily disclosed.

Principle 4: Manage local and regional pollution.

Paragraph 35: The text concerning the required “shift of energy sources embedded in a systemic transformation” and “support (for) fuel shifts and cleaner energy infrastructure solutions resulting in lower air pollution” is good and is not compatible with investments in oil or gas.

Principle 5: Mobilize private capital.

Paragraph 36: We appreciate the necessity to mobilize private capital and appreciate that AIIB “will evaluate risk carefully and will put in place appropriate measures to mitigate and manage such risks.” We ask that AIIB include text to reflect how projects mobilized by private capital will share information in a transparent manner.

It is important to ensure that AIIB efforts to mobilize private capital are also in line with SDGs, the Paris Agreement and findings from the IEA and IPCC.

Paragraph 36: Please add a definition of public-private partnerships.

Principle 6: Promote connectivity and regional cooperation.

We are concerned by the statement in Paragraph 37 that “AIIB will engage its members and pursue regional, cross-regional, and domestic connectivity of energy systems, especially power and gas”.

Gas is not a sustainable energy for tomorrow. We repeat the urgent need to transition away from gas. Financing this sector also diverts resources from better and renewable energy solutions. Investing in new gas projects is “moral and economic madness.”¹⁸

Implementation

Paragraph 38 states that implementation “will be reviewed as needed so that AIIB’s financing addresses the most current needs of its members and the energy landscape.” Implementation should in fact prioritize the urgent moral and economic imperative to transition out of fossil fuels.

We appreciate that AIIB “will align its support with members’ energy related policies and commitments including NDCs” (Paragraph 40). As explained previously, NDCs in their current form condemn the world to a calamitous 2.7 degrees Celsius increase. If AIIB intends for this Energy Strategy to be at the forefront of addressing climate change (paragraph 4), it must ensure that investments are in line with a maximum increase of 1.5 degrees Celsius. AIIB has a responsibility to heed the research from IPCC reports and climate scientists and to encourage its members to do the same.

Paragraph 40 states that “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).” Can this be interpreted to include sub-projects, financial intermediary projects and projects that are co-financed?

¹⁸ United Nations. 2022. Secretary-General Warns of Climate Emergency, Calling Intergovernmental Panel’s Report ‘a File of Shame’, While Saying Leaders ‘Are Lying’, Fuelling Flames. <https://www.un.org/press/en/2022/sgsm21228.doc.htm#:~:text=Investing%20in%20new%20fossil%20fuels,focused%20on%20mitigation%20%E2%80%94%20cutting%20emissions.>

Implementation- Sectoral approach.
Power Transmission and Distribution.

T&D should also consider social impacts which are often interlinked with environmental ones.

Paragraph 41: We suggest adding that “AIIB will share associated risks regarding investments in Power T&D.”

Energy efficiency investments.

Paragraph 43 refers to financial intermediaries, especially for implementing demand-side efficiency investments. It is critical that projects by financial intermediaries be disclosed in a timely and transparent manner and that they are held accountable to the same standards as other AIIB investments.

Paragraph 44: Please clarify whether “MDBs and bilateral agencies operating in the region” that AIIB will partner with are also working in line with latest research by the IPCC.

Renewable energy investments.

Paragraph 45: Please add a definition of renewable energy.

Paragraph 45 provides support for centralized and decentralized renewable energy generation, especially in wind and solar. We welcome this focus as well as AIIB’s affirmation to share associated risks of investments regarding wind and solar projects. In fact, we recommend that AIIB share associated risks of investments for all of its energy projects.

We note with concern that the revised energy strategy continues to support hydropower- both new dams as well upgrades and rehabilitation and multipurpose dams. Paragraph 10 refers to the fact that the energy sector is vulnerable to climate change. Dams, including for hydropower, are particularly susceptible to climate change. Climate change causes increases in temperatures, changes in precipitation, melts glaciers- which all have significant impacts on rivers, their flow and sedimentation loads. In addition, hydropower and other dams exacerbate impacts of climate change at a time when the world calls for increased climate resiliency. Dams also adversely impact biodiversity that rely on rivers, most notably fish populations. Research on the impacts of hydropower dams globally, and especially in the Global South increasingly finds that they “are associated with decreased GDP, urban land, and population”¹⁹ and that hydropower dams reduce greenness in their surroundings in Africa.²⁰ Supporting hydropower is not compatible with solving the urgent and existential crises of climate change and massive biodiversity loss.

Fossil fuel investments.

Paragraph 46 demonstrates a concerning continuation of business as usual. AIIB rationalizes its support for fossil fuels by claiming that these will continue to “play a role in the energy mix of most AIIB members for some time” and refers to the “principle of common but differentiated responsibilities, as per the Paris Agreement.” In fact, encouraging developing nations to extract and use fossil fuels is economically damaging to them as it is expected that between 2015 and 2050, these will contribute USD 1-4 trillion in stranded assets.²¹ Developed nations are called to

¹⁹ P. Fan, M. Cho, Z. Lin, E Moran. 2022. Recently constructed hydropower dams were associated with reduced economic production, population, and greenness in nearby areas. <https://www.pnas.org/doi/10.1073/pnas.2108038119>.

²⁰ Idem.

²¹ IPCC. 2022. Climate Change 2022- Mitigation of Climate Change, full report. https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_FinalDraft_FullReport.pdf (c.4.4)

end fossil fuel production by 2034 while developing nations are given slightly longer time frames.²² Should AIIB insist on propping up fossil fuel investments, it should identify the timeframe in which it will continue to do so. It should also be noted that AIIB support for CCS helps to perpetuate fossil fuels and distract from phasing them out.

In paragraph 46, we suggest adding: “AIIB will share associated risks regarding investments in fossil fuels”.

Coal.

There is a lot of good language in Paragraph 47 about how AIIB “will not finance new coal-fired power and heating plants or projects that are functionally related to coal.” That said, this paragraph should be a firm commitment to AIIB not funding any projects related to coal.

Oil.

Please clarify whether oil derivatives are also included in the oil sector investment ban in Paragraph 48? AIIB should find alternatives and not 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.”

Natural gas.

To date, AIIB’s portfolio has backed numerous natural gas projects. The continued support for natural gas including LNG terminals, storage, and transmission pipelines in Paragraph 49 is alarming. The energy intensity of natural gas has meant that it is the main driver of the global increases in carbon dioxide emissions since 2013. We reject the claim that “Gas-fired power offers flexibility for balancing the variability of renewable energy and can thus enable a higher share of renewables in the generation mix.” Natural gas is not a transition fuel and clean and more competitive alternatives already exist. It is time to transition away from all fossil fuel energies, including natural gas. The IPCC warns that natural gas assets will be vulnerable towards mid-century.²³ While AIIB insists that its investments in natural gas will be commensurate with members’ decarbonization trajectories, we remind that the guidance is that developed nations are called to end all fossil fuel production by 2034 while developing nations are given slightly longer time frames.²⁴

Rather than “enabling a higher share of renewables” or “assisting with the integration of renewable energy”, AIIB’s support for natural gas runs a higher risk of displacing funding for low-carbon solutions.

Should AIIB insist on continuing to finance natural gas, it must clarify the amount and percentage of such projects that it will fund. It is critical that AIIB clearly identifies how it will continue to reduce its support for an energy that will become a vulnerable asset by mid-century while also condemning the planet in a catastrophic direction.

AIIB should follow the lead of the European Investment Bank (EIB) which has ended all funding for fossil fuels, including oil and gas.²⁵

²² Tyndall Centre. 2022. Phaseout Pathways for Fossil Fuel Production Within Paris-compliant Carbon Budgets. [https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets\(c7235a8e-e3b1-4f44-99de-c27958c03758\).html](https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets(c7235a8e-e3b1-4f44-99de-c27958c03758).html).

²³ IPCC. 6th Assessment Report, Technical Summary. https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_TS.pdf.

²⁴ Tyndall Centre. 2022. Phaseout Pathways for Fossil Fuel Production Within Paris-compliant Carbon Budgets. [https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets\(c7235a8e-e3b1-4f44-99de-c27958c03758\).html](https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets(c7235a8e-e3b1-4f44-99de-c27958c03758).html).

²⁵ Climate Home News. 2021. ‘Gas is over’: EU bank chief signals phaseout of fossil fuel finance. <https://www.climatechangenews.com/2021/01/21/gas-eib-president-signals-complete-phase-unabated-fossil-fuels/>

Nuclear power generation.

Paragraph 51: We appreciate that this paragraph gives a fairly clear indication that AIIB will not fund nuclear, though it is not completely ruled out.

Implementation- Cross-cutting Issues.

Conducting economic evaluation.

Paragraph 53: Indeed, it is very important to use an appropriate discount rate and shadow price for carbon emissions and other externalities in economic evaluation of projects to determine their economic viability.

Please specify objectives to build staff capacity for robust economic evaluations and what staff capacity for this is at present.

Building highly skilled multi-disciplinary teams.

Paragraph 54: We commend AIIB on building a diversified team of staff and consultants with recognized expertise in the sector. We hope that this expertise can result in a portfolio with higher quality projects and a better understanding of the sectoral landscape.

One of the ways in which the AIIB has built a diverse team is by recruiting talent from many parts of the world. AIIB should use this asset as an institution to communicate with civil society in other parts of the world, including Latin America. We valued the first AIIB-CSO discussion on AIIB in Latin America which took place in 2021 and was a bilingual discussion in Spanish and English.

Addressing environmental and social aspects.

In Paragraph 55, please clarify how AIIB will ensure “accountability of financial intermediaries’ capacity for environmental and social management and careful screening of subprojects”

Information about subprojects needs to be shared in a timely manner. No information about the subprojects was shared for either the loan to Brazil (2022) or Ecuador (2020).

The environmental and social assessments referred to in this paragraph should be exhaustive including cumulative effects of projects, alternatives, mitigation measures and monitoring. Furthermore, the environmental and social assessments should incorporate an environmental contingency plan in case a natural disaster takes place within the operations area of the project.

Climate Change.

Will the information in Paragraph 56 be publicly accessible so that civil society can check that the estimations of ex-ante GHG accounting assessment (i.e., gross emissions) for the project before approval are thorough and impartial. AIIB should not only focus on meeting country NDC but more ambitious objectives under the Paris Agreement and recent reports in the IPCC’s Sixth Assessment.

Greenhouse Gas Reporting.

Will AIIB report gross emissions of greenhouse gasses for all projects in the energy sector (Paragraph 56)?

Commitment to Social Sustainability and Inclusiveness.

The commitments in Paragraph 58 that “AIIB will support project specific measures to address

gender gaps with respect to access to energy” and “measures will be supported to include women/people with disabilities in project consultations” are important commitments. In order to not become empty words, AIIB should commit to ensuring that these consultations are inclusive, including by ensuring consultation in language, place, times that are accessible for the targeted stakeholders. Sessions exclusively for women should also provide a safe space for them.

Promoting collaborative approaches among infrastructure subsectors.

It is evident that commitments in paragraph 59 reflect AIIB priority to meet client needs in the most efficient way rather than committing to and prioritizing projects that bring us to a Paris Aligned, IPCC vision.

Partnerships.

Building and deepening collaborations with partners is good. Paragraph 60 includes collaborations with think tanks and other financiers. We are disappointed that CSOs and affected communities are not included.

Results Monitoring Framework.

Will information collected for the Results Monitoring Framework be shared with stakeholders? If so, how often?

Have the results from AIIB’s 2018 Results Monitoring Framework of the first Energy Sector Strategy been shared?

In the section “promote energy access and security” and the indicator “Number of households with increased /improved access to energy, million”, please differentiate by energy subsector.

For the indicator “total generation capacity and total T&D lines”, please clearly identify by subsector (i.e. gas, oil, hydro).

Please consider including an indicator about how to show the percentage of financial intermediaries and other partners that have been proven to be in accordance with AIIB standards.

Please include an indicator on the development of staff capacity.

Having shared these comments and concerns, we request responses to the following:

1. Seeing as the updated Energy Sector Strategy applies to all members, will AIIB add sections concerning the energy situation in each region as well as AIIB’s regional approaches and priorities?
2. Please elaborate on the economic and moral justifications why this energy strategy supports fossil fuels at a time when reports by leading institutions in climate change research reveal that these will become stranded assets by mid-century and urge to move away from oil and gas production immediately. Can AIIB clarify a system by which it does not finance any fossil fuel energy in developed countries (effective immediately) and identifies a time frame to cease these investments and end fossil fuel production in developing nations? Has AIIB considered the viability of following the European Investment Bank’s decision to end all funding for fossil fuels, including oil and gas? Why

or why not?

3. How does AIIB plan to balance global sustainability agreements that urge limiting global warming by 1.5 degrees Celsius with supporting member priorities and NDC which in their current form condemn the world to a 2.7 degrees Celsius increase?
4. How can AIIB leverage its energy strategy to encourage members to heed and act upon the latest research from climate scientists?
5. Is AIIB willing to refer to the preferred marker in the Paris Agreement which is to limit global warming to 1.5 degrees Celsius compared to pre-industrial levels? Should AIIB continue to use the objective to stay “well below 2 degrees Celsius,” it simply cannot claim to “be at the forefront of addressing climate change.”
6. How will AIIB monitor energy projects throughout the project cycle to ensure that they (even if financed through associated facilities) follow the AIIB Environmental and Social Framework and are in line with IPCC recommendations and the Paris Agreement? Please outline how “regular monitoring and reporting of portfolio composition” (paragraph 27) will be conducted and how findings will be shared with civil society and other stakeholders in a transparent and timely manner.
7. We commend AIIB for striving towards diversity and for building a diversified team of staff and consultants. We would like to know what knowledge AIIB has about FPIC, ILO Convention 169, the Escazú Agreement, the state of indigenous peoples in Latin America and protecting environmental and human rights defenders from reprisals?
8. Will AIIB consider IRENA’s recommendation that countries with high shares of hydropower should “invest in non-hydropower renewables as these present valuable complementarities – climatic, technical and economic – and greater power system reliability”?
9. Can the Revised Energy Strategy commit to not finance hydropower in places where climate change and other environmental changes have increased temperatures, fluctuations in rainfall patterns, melted glaciers, and increased the occurrence of extreme weather events, thus impacting the generation of hydropower?

END

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