Time to Raise the Bar: Reflecting on Four Years of AIIB Projects

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BACKGROUND

After its establishment in 2015, the Asian Infrastructure Investment Bank (AIIB) hit the ground running. With a bold agenda to create a “lean, clean and green” multilateral development bank for the 21st century, the AIIB set about developing the structures, staffing and policies required to achieve this vision.

This included creating an **Environmental and Social Framework (ESF)** containing the policies that bind the bank and standards that AIIB clients are expected to uphold in their projects. A draft version of the ESF was opened to very limited public consultation, but after appeals from civil society groups, the process was extended and made more inclusive, although it still fell far short of the standard set by the AIIB's multilateral peers.

The final ESF was adopted in February 2016 and received mixed reviews from civil society observers. In response to public comments, the bank made important adjustments to the draft, but many still view the framework as a stripped back version of the safeguards in place at other established institutions. Fortunately, the bank wrote into the ESF a clause that after three years there would be a review of the document and its application during the bank's start-up phase. This review commenced in late January 2020.

The AIIB’s first project was approved in June 2016, and as of early March 2020, the bank has approved 64 projects worth over US$12 billion.

This brief looks at the bank’s portfolio of approved and proposed projects. This review seeks to inform readers on where and how AIIB funds are flowing, in order to provide a solid grounding for those seeking to engage in the public consultations on the ESF review.

THE GEOGRAPHY OF AIIB PROJECTS

While there has been much discussion of the ownership of the bank, principally China’s 30% shareholding and the potential influence this grants it over the bank, there has been less discussion of where the AIIB’s money is actually going.

A review of the bank’s project portfolio shows that it is heavily skewed towards South Asia, where 50% of all approved projects are located. By far the largest share of projects are located in India, which accounts for almost a quarter of all

![Figure 1. Approved and Proposed Projects – Top 15 Countries](image)
approved projects. If we combine approved and proposed projects, just two countries, India and Bangladesh, account for 32% of all projects. This is followed by Indonesia with 8% (figure 1).

LANGUAGE AND THE AIIB

Although it is an Asian bank, the AIIB’s Articles of Association state that its working language is English, and the ESF itself is only available in English. Likewise, the policy and rules of procedure for the bank’s complaints mechanism are only available in English. Disclosure of local-language project documents is inconsistent, and a review of the AIIB approved projects page shows that out of 64 approved projects, only 13 have published local language documents, most of which are summaries of the more detailed English documents.

In order to ensure that the public is fully informed about AIIB projects and policies, and the environmental and social protections the bank has in place, it is crucial that the bank moves beyond its English-centric approach. Given the high portion of projects in India, Bangladesh and Indonesia, these countries represent an appropriate starting point for translating important Bank policies, including the ESF and complaints mechanism. At the very least, summary documents should always be made available for projects and published or linked on the AIIB website.

CATEGORIZING RISKS

After the AIIB receives a project proposal from a potential client, it reviews and assesses the type, location, and potential environmental and social risks of the project. Based on this, the bank gives each project a category: A, B, C or FI.

Category A projects have significant adverse impacts, category B more limited and often reversible impacts, and category C indicates minimal or no adverse impacts. FI refers to financial intermediary projects, which are returned to below. The higher the risk categorization, the more thorough environmental and social protections must be in place.

During its first three and a half years of operations, the AIIB approved more category B projects than anything else, accounting for 42% of all projects (figure 2). This has now begun to shift, and looking at the proposed pipeline we can see that the majority of pipeline projects are category A (figure 3).

With the AIIB developing and now taking on more high-risk projects, the need for a more robust and well-implemented ESF is increasingly important.
Another important shift that has taken place is the move towards what the bank refers to as “standalone” projects.

While still developing its staffing and institutional policies, the bank began by mostly funding co-financed projects. Co-financing involves the AIIB contributing funds to projects led by another financial institution, which handles principal project oversight, and applies its own institutional safeguards.

At present, 45% of projects are co-financed (figure 4). In the almost four years since the ESF was adopted, it has been applicable to less than half of the bank’s portfolio. At present, the AIIB’s grievance mechanism too can only be utilized in standalone projects.

There is, however, a clear trend towards standalone projects. In its first year, the AIIB approved just two standalone projects. This increased to four in 2017, six the following year, and sixteen in 2019. The bank has also approved nine financial intermediary projects that apply AIIB safeguard policies (the three others being co-financed).

While almost half of approved projects are co-financed, the proposed pipeline shows a major shift towards standalone projects. By number, standalones account for 75% of proposed projects (figure 5). This accounts for 85% of the total dollar value of the proposed project pipeline.

Alongside this shift, it is striking that there is an increase in the number of proposed standalone projects that have received a category A. Among approved standalone projects, only 6 of 19 are category A, whereas half of proposed standalone projects are category A (figure 6).

India and Bangladesh account for the majority of standalone projects (36% of approved projects and 40% of proposed).

With the bank shifting in the direction of more standalone projects, the ESF and the bank’s capacity to implement and enforce it will be put to the test. This illustrates the need for both strengthening the framework, but also expanding the team of environmental and social specialists within the bank that are available to conduct due diligence on proposed projects, support clients to meet the environmental and social requirements, and monitor their performance.
The presence of such a high number of standalone projects in India and Bangladesh again makes it clear that extra efforts need to be taken to ensure that the public and civil society groups are adequately informed of the AIIB’s work in these countries. This includes ensuring AIIB policies are available in local languages, as well as project documents, and also indicates the need for increased outreach in these countries, including during the ESF review process.

INFRASTRUCTURE PRIORITIES

In line with the Bank’s focus on infrastructure, the top recipients of AIIB funding are energy and transport projects. Approved and proposed energy and transport projects account for more than half of the bank’s portfolio (figure 7).

NGOs monitoring the implementation of AIIB projects have begun to document concerns associated with specific projects, creating a useful evidence base for informing improvements to both the content and implementation of the ESF. This includes the Bhola gas power plant in Bangladesh, which has been linked to water pollution, inadequate compensation payments and poor information disclosure.1 In India, failures to address important gender considerations in a rural road project in Gujarat have also been documented and raised with the bank.2 As more standalone projects roll-out, further assessments will be possible.

The significant environmental and social impacts associated with large-scale infrastructure projects are well-documented, and valuable lessons have been learned in the implementation of such projects at other multilateral banks.

Importantly, stronger safeguards on land acquisition and involuntary resettlement are crucial, and the bank must increase its capacity to monitor implementation. At present, the ESF is seriously lacking with regards to gender issues, which must be a key focus of the review process.

Figure 7. Sectoral Focus of AIIB Project Portfolio (Approved and Proposed Projects)
GREENING THE AIIB’S PORTFOLIO

Despite its commitment to being an innovative and “green” bank, the AIIB has been slow to develop its portfolio of renewable energy projects. As documented by Recourse, to date the bank’s energy portfolio has leaned more towards fossil fuel projects and infrastructure for energy transmission and distribution. In terms of project value, the portfolio leans much more heavily towards fossil fuels than renewable alternatives, with four times as much funding flowing to natural gas projects as to renewable energy projects.

There was a shift during 2019, with three renewable energy projects approved, as well as two lending facilities, a climate bond portfolio, and an energy transition fund. However, the bank has yet to live up to its professed green promise, and despite symbolic commitments, the current version of the ESF is weak in terms of concrete measures to address climate change and the promotion of renewable energy.

FINANCIAL INTERMEDIARIES

As with all major multilateral banks, financial intermediary (FI) lending (where the bank provides funding to another financial institution, which then invests in sub-projects) is an important part of the AIIB’s project portfolio. As of November 2019, the AIIB had around 300 staff, compared to over 3,300 at the Asian Development Bank, and 10,000 plus at the World Bank. Financing through intermediaries and other types of funds is therefore likely to be a priority for the bank as it seeks to maximize its reach.

Currently, financial intermediary projects make up just under 20% of the AIIB project portfolio. Of these 12 projects, three are co-financed and follow the safeguard policies of other institutions. The remaining nine apply the AIIB’s ESF.

However, the ESF contains only basic provisions for financial intermediary lending, lagging behind the policies and procedures of the AIIB’s peers. To date, intermediary lending has taken place in a somewhat ad hoc manner, as the bank developed its approach, and no documents have yet been published that shed light on the bank’s assessment and monitoring processes for this type of lending.

The ESF review represents an important opportunity to enhance the AIIB’s safeguards around financial intermediary lending. Other institutions, including the International Finance Corporation (IFC), have learned difficult lessons about the risks of using a “hands-off” approach to financial intermediary lending, after it was revealed that the IFC was exposed to a range of harmful projects across the globe, including coal mines and coal plants. These lessons should be heeded and incorporated into the AIIB’s revised ESF.

In order to bring the ESF into line with (and ideally exceed) the standards of other banks regarding financial intermediary lending, the ESF should require disclosure of the name, location and sector of all Category A and B projects, along with key environmental and social project documents. AIIB involvement in sub-projects should be made public.
so that affected people are aware of their entitlements under the ESF and their ability to access the AIIB’s grievance mechanism.

AIIB funds given to financial intermediaries should be strictly targeted towards low-risk projects with genuine development impacts and ring fenced to ensure that AIIB funds will not flow to harmful activities. Crucially, the AIIB must conduct adequate due diligence, monitoring and evaluation on financial intermediary projects at both the FI and the sub-project level. The main requirements should be set out in the revised ESF and supplemented with publicly available guidance documents.6

ESG FUNDS

A new development that occurred in December of 2018 was the approval of the Bank’s first investment in an “ESG fund.” These projects establish a fund managed by a third party, in accordance with a tailored set of environmental, social and governance criteria. Similar investments in a further two such funds were approved in 2019. These three funds now account for almost 9% of the bank’s portfolio in terms of value (over US$1 billion).

The use of ESG funds could represent a new path for the AIIB going forward. One concerning aspect that sets these funds apart from other investments is that they do not apply the AIIB’s ESF. The bank’s board approved a derogation from the ESF for these projects on the grounds that the ESF is not “fit for purpose” for application to capital markets or debt and equity security instruments.7

In place of the ESF, these projects have developed (or will develop) specific ESG frameworks that are “consistent with the spirit and vision of the AIIB’s Environmental and Social Framework.”8 These frameworks remain untested, and have not been subject to public consultation.

The current situation regarding ESG funds is problematic as it removes projects from the governance of the ESF, which represents a gaping loophole. If the current version of the ESF is indeed “not fit for purpose”, during the review process it should be amended to cover investments in ESG funds, and in the process ensure transparency and consistency in the way such investments are assessed, monitored and evaluated, as well as the environmental and social standards that govern the end use of these funds. Importantly, AIIB’s grievance mechanism should be accessible to people adversely affected by projects and companies that receive capital from AIIB’s ESG funds.

AVOIDING HARM & ADDRESSING GRIEVANCES: THE DISCLOSURE BARRIER

One major weakness of the ESF concerns information disclosure. Although it makes multiple references to disclosure, the ESF does not include time-bound requirements for when important project documents should be released. It was hoped that this would be addressed in the bank’s Policy on Public Information, however, civil society groups were disappointed to find that this was not the case.
Without timely disclosure of information related to projects, including sub-projects via financial intermediaries and funds, potentially affected people and civil society groups may not even be aware of AIIB involvement in a project, and therefore also unaware of entitlements under the ESF and the grievance mechanisms that may be available to them. If project assessment and planning documents are not disclosed in a timely manner and in a format that is accessible to affected people, opportunities to avoid or mitigate harms may be lost.

The ESF review presents an important opportunity to address these concerns by following the best practice of other multilateral banks and requiring time-bound disclosure of project related documents. In cases where projects are co-financed, the AIIB should provide links to lead financier websites, and in case of standalone projects, all documents must be posted in a timely manner, as required by a time-bound disclosure policy, with key documents translated into local languages.

Creating an Environmental and Social Framework That Raises the Bar

With the review of the AIIB’s Environmental and Social Framework now underway, the bank has an opportunity to raise the bar. Building on the experiences of its multilateral peers, as well as the experiences it has gathered as its own institutions and portfolio have developed, the bank can fill the gaps in the existing framework and address the shortcomings of its first iteration.

With its portfolio of standalone projects growing, and an increasing number of category A projects filling the pipeline, this is an opportunity that bank cannot afford to miss.

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Note: All data current as of 1 March 2020. Information gathered from the AIIB website’s Approved Projects and Proposed Projects pages. One approved project has not been disclosed, and appears in charts above as “unknown”.

3 Previously known as Bank Information Center Europe.