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AIIB Headquarters Building. Source: Wikimedia Commons.

The Asian Infrastructure Investment Bank, Paris Alignment, and the Role of China

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The Asian Infrastructure Investment Bank (AIIB) was launched as a new multilateral development bank (MDB) in early 2016, just over a month after governments adopted the Paris Agreement—the landmark international treaty on climate change. To counter fears that the new China-initiated bank would engage in a race to the bottom in terms of upholding social and environmental standards, in his inauguration speech, AIIB President Jin Liqun promised to build the new institution 'on transparency, openness, accountability and independence'. Moreover, he committed the AIIB to doing its 'best to protect the environment' and to running the 'AIIB as an organisation which is "lean, clean and green"' (AIIB 2016).

Despite these promising commitments, and despite the AIIB being created without the high carbon legacy of other MDBs, it has to date failed to put its 'green' aspirations into practice. From the early adoption of its Energy Sector Strategy (ESS), which failed to rule out fossil fuels, even coal, and continues to support natural gas in the new update, the AIIB has not seized the opportunity to leapfrog dirty development to more sustainable investments. Questions arise as to why the AIIB has failed to make its mark as a truly 'green' institution and whether its Chinese leadership plays a part or whether it is simply caught in the same 'business as usual' operational model as its peers, preventing it from paving its own more sustainable and 'greener' path as a post-Paris financial institution.

A Chinese Bank or a New Multilateral?

> The bank was born with the birthmark of China because China proposed it, but it's been brought up deeply embedded in the international community.
>
> —Jin Liqun, AIIB President, February 2021 (Campbell 2021)

In October 2013, on a visit to Indonesia, Chinese President Xi Jinping first announced the country's intention to set up the AIIB, with the aim of bringing 'greater connectivity' between China and the member countries of the Association of Southeast Asian Nations (ASEAN). Xi presented the commitment as 'win-win cooperation' that would bring 'more benefits to both China and ASEAN and the people in the region' (Xi 2013). Eighteen months later, in April 2015, 21 Asian countries signed a memorandum of understanding (MoU) on establishing the AIIB (AIIB 2015a).

The motivation for China's move to initiate the bank has been much debated. Some analysts point to China's unsuccessful calls for reform of the World Bank's shareholding formula, which has left China with no more than 5 per cent of voting power despite its gross domestic product (GDP) now representing almost one-fifth of the global economy (Humphrey 2021). China also failed to secure a larger GDP-based share of the New Development Bank set up by the so-called BRICS countries (Brazil, Russia, India, China, and South Africa), which was under development at the same time as the AIIB and launched in July 2014 (Bretton Woods Project 2014). Others point to the AIIB as a vehicle for Xi's Belt and Road Initiative (BRI)—launched in 2013 (Dollar 2015)—or as a challenge to the reign of the US and Japan–dominated Asian Development Bank (ADB) in the region (Campbell 2021), or a mixture of all these factors (Grieger 2021).

Jin Liqun became the AIIB's first president when it was launched in early 2016. He had taken on the position of secretary-general of the interim secretariat tasked with establishing the bank in October 2014 and became president-designate in August 2015. Jin has served at China's Ministry of Finance, climbing to the rank of vice-minister, but also has significant MDB experience, having held several senior positions representing China at the World Bank and, from 2003 to 2008, was vice-president and ranking vice-president of the ADB (WEF n.d.).

At the time of its launch, the AIIB's mission had expanded from the original announcement and its links to China were downplayed. It was no longer described primarily as a vehicle for improved cooperation with ASEAN countries. In Jin's inauguration speech, he thanked not only President Xi and China's government 'for their extraordinary support and visionary leadership in spearheading AIIB's establishment' (AIIB 2016), but also the members of the 'MDB family', including the World Bank Group and the ADB, calling their support 'most valuable'. In the next 13 months, the AIIB proceeded to sign MoUs with all the main MDBs (AIIB n.d.).

The AIIB is headquartered in Beijing and China continues to hold the presidency, with Jin re-elected for another five-year period from January 2021 (AIIB 2020). While officially the presidency is determined by election by bank members, it is plausible that the AIIB will follow a similar tradition to the World Bank, the International Monetary Fund (IMF), and the ADB, which have always been led by a US national, a European, and a Japanese national, respectively (Lichtenstein 2018).

Shareholder Dynamism: Who Are the Main Players?

> The UK was the first major Western economy to join the AIIB ... Joining the AIIB is a further step in the government's plan to build a closer political and economic relationship with the Asia region and maximise opportunities for British businesses.
>
> —UK Chancellor George Osborne, November 2015 (AIIB 2015b)

Almost a decade after it was first announced, with over 200 projects worth nearly 39 billion USD approved, the AIIB is now a truly global institution. Since its inception, the bank's membership has almost doubled to 106 countries, covering most continents (AIIB 2022c). This makes it the second-largest MDB by membership, after the World Bank (Gu and Liu 2022). Even in its early investments, it was clear the AIIB did not intend to restrict itself to ASEAN countries—in fact, the first project approved was in Tajikistan in Central Asia, followed by two projects in Pakistan and one in Oman. The latest influx of AIIB member countries come from Latin America—six approved and two prospective. Several more African countries are also prospective members (AIIB 2022c).

The AIIB applies a GDP-based formula for shareholding, but only for Asian members, which, according to its Articles of Agreement, must represent at least 75 per cent of total subscribed capital stock (Gu and Liu 2022). China thus holds the largest share with more than one-quarter of voting power (26.6 per cent) (AIIB 2022c). Significantly, several European countries came onboard just before the AIIB was launched. Luxembourg was the first, in March 2015 (Ministry of Finance 2015). It was rewarded by hosting the first annual meeting outside Asia, in 2019 (AIIB 2019). The United Kingdom followed soon after, then a rush of European countries including Germany, France, Italy, and the Netherlands joined just before the mid-April deadline (Reuters 2015). Germany holds the fourth-largest vote share (4.2 per cent), after China, India (7.6 per cent), and Russia (6 per cent). If European countries vote as a bloc, their share represents 22 per cent of votes—almost matching China's share (AIIB 2022c).

The United States confirmed early on that it would not join, and Japan has also not joined; the two countries are jointly the largest shareholders of the ADB. The United States actively lobbied allies to not join the AIIB, leading to the absence of Australia, Indonesia, and South Korea at the inauguration ceremony in 2014; however, these countries subsequently joined as the bank began operations (The Economist 2014). The United Kingdom's decision to apply for membership upset its relations with the United States (Bremmer 2015). The move came as the UK Government was actively soliciting new investments from China. At that time, a US official warned of 'a trend toward constant accommodation of China, which is not the best way to engage a rising power' (Watt et al. 2015).

Further, the White House publicly questioned whether a China-led institution would be able—or willing—to meet the standards of other MDBs, such as the World Bank (Watt et al. 2015). To counter these claims, the AIIB released its first Environmental and Social Framework (ESF) shortly after it officially opened in January 2016, following a brief consultation period. This was vital for the bank's

European shareholders, who needed to prove to their governments and citizens that the new institution was taking environmental and social issues seriously.

At the AIIB's official launch in 2016, President Jin did not make any references to the BRI and, while many AIIB members have signed MoUs and/or expressed support for the initiative, its second-largest shareholder, India, is firmly sceptical of it (Grieger 2021). Turning down its invitation to join the BRI, India emphasised the fact that China had failed to 'engage in meaningful dialogue', suggesting the BRI did not respect 'sovereignty and territorial integrity' and lacked necessary principles such as 'balanced ecological and environmental protection and preservation standards' (MEA 2017). Despite this, India joined the AIIB as a founding member and is its second-largest shareholder (AIIB 2022c). In a speech shortly after the AIIB's launch, India's then foreign secretary explained that India preferred the AIIB's 'consultative processes' to 'more unilateral decisions' (MEA 2015). To date, India has received by far the largest share of the AIIB's investments, with 36 (20 per cent) of all approved projects disclosed as of the end of September 2022. India's projects were worth almost 9 billion USD—more than double the bank's investments in China or Turkey, which have received the second-largest investment by value and by number of projects, respectively (AIIB 2022d).

Further complicating the shareholder dynamic, Russia is the AIIB's third-largest shareholder and was due to host the bank's annual meeting in October 2022. After Russia's invasion of Ukraine, however, the AIIB withdrew this offer. In an unprecedented statement, the AIIB expressed 'thoughts and sympathy to everyone affected' by the invasion and announced that 'all activities relating to Russia and Belarus are on hold and under review' (AIIB 2022a). Two projects in Russia and two in Belarus were subsequently moved to a new page on the bank's website titled 'On Hold', where they remain at the time of writing.

Europeans quickly made their mark in the top ranks at the AIIB. German-born World Bank veteran Joachim von Amsberg and former UK Government minister Danny Alexander joined as vice-presidents in February 2016, soon followed by French national Thierry de Longuemar—another MDB veteran. The AIIB's management extends to the other top shareholders, too, with Indian, Russian, and Indonesian nationals holding senior management positions since its inception.

AIIB and Paris Alignment

> We are at a defining moment in history—one which calls for bold, fast and wide-ranging collective action if we are to limit global warming and protect our fragile planet.
>
> —Jin Liqun, AIIB President, October 2021 (Jiang 2021)

The AIIB has set a 1 July 2023 deadline to align its operations with the Paris Agreement (AIIB 2021). What this means in practice is less clear and the AIIB has so far refused to open the process for developing its institutional methodology for Paris alignment (Recourse 2022b). There is no agreed definition of what 'Paris alignment' means in practice, but the methodology will build on a framework in development by a group of MDBs. However, this process is also obscure, and the group generally only publicly reports back during the UN Framework Convention on Climate Change (UNFCCC) yearly Conference of Parties (COP). The latest COP, in Egypt in November 2022, failed to report much progress, and civil society campaigners remain concerned about loopholes in the framework for fossil fuel funding (The Big Shift Global 2022b).

It is therefore unclear whether the AIIB's forthcoming methodology will be ambitious enough to adequately respond to the Paris Agreement's goal to limit global warming to 1.5°C above pre-industrial levels. The IPCC's most recent assessment further raised the threat of catastrophic impacts of climate change in the coming decades if rapid decarbonisation does not occur—in particular, in the energy sector (IPCC 2022). This leaves no room for emissions growth.

The AIIB's first ESS, approved in June 2017 (AIIB 2018), was widely criticised as failing to introduce limits on the funding of fossil fuel projects, particularly those involving coal (Recourse 2022a). This not only contravened the Paris Agreement, but also went against other institutions, such as the World Bank, which had in 2013 outlined tight restrictions on financing for coal power (World Bank 2013). Early analysis and media coverage suggested that at least four of the major shareholders—China, India, Indonesia, and Australia—

would resist a move to ban coal investments (Horta et al. 2016; Hutchens 2016). Reporting on the consultations, the AIIB (2017) noted 'split opinions on support for coal'.

Just days before the approval of the ESS, in a move possibly meant to calm European shareholders, AIIB Vice-President Longuemar told the media that the bank would not finance coal-fired power plants (Baert 2017). President Jin has since repeatedly stated a similar message, countering claims that China was behind the setback on coal exclusion. In 2020, he added that the AIIB would also 'not finance any projects that are functionally related to coal—for instance, roads leading to the plant or transmission lines serving coal power' (Yi 2020). The review of the ESS finally began after China in September 2021 pledged to stop building coal-fired power projects overseas and the ADB, in the following month, committed to phase out most of its support for coal power (Ng 2021).

It is, however, not true that the AIIB has not supported coal. Research by several nongovernmental organisations revealed that the AIIB invested in the International Finance Corporation (IFC) Emerging Asia Fund in 2017, which in turn invested in Shwe Taung Cement in early 2018—a project in Myanmar involving both the use of coal in the industrial process, nearly quadrupling greenhouse gas emissions from the cement plant, and increased extraction from a dedicated coalmine (BIC Europe et al. 2018).

This form of financial intermediary (FI) investment, where the AIIB essentially 'outsources' funding decisions to commercial banks or private equity funds, which in turn invest capital in 'subprojects' or 'subclients', represents a growing share of the AIIB's overall portfolio—almost doubling in value over the past four years. The AIIB has also funded other fossil fuel projects through FIs, including gas projects in Bangladesh. In response to civil society and shareholder concerns, the AIIB strengthened the language on FI due diligence in its revised ESF, which came into effect in October 2021. However, further reforms are necessary to improve FI transparency and accountability, including in the ESS (Recourse 2022a).

Next Steps for AIIB's Energy Sector Strategy

After the AIIB updated the ESS five years since it was approved, it is at long last on track to exclude coal investments in most circumstances (AIIB 2022b). However, this is the bare minimum needed to address climate change and become Paris aligned. Unfortunately, fossil fuels still feature strongly in the updated ESS, sending mixed signals about the AIIB's priorities. Significantly, the draft puts a strong emphasis on gas as a 'transition fuel' with loose restrictions, leaving giant loopholes for unabated support for gas to continue. Meanwhile, references to renewable energy are weak and often associated with outdated assumptions (Recourse 2022a).

Since 2016, the AIIB has invested almost 2.3 billion USD in gas projects, excluding indirect finance, representing almost 40 per cent of its energy portfolio. While the proportion has dropped from more than 60 per cent in 2018 (BIC Europe and The Big Shift Global 2018), it remains a significant share. This includes financing for the controversial greenfield Bhola gas power plant in Bangladesh, which has caused widespread social and environmental harms (BIC Europe et al. 2019), and the Myingyan gas power plant in Myanmar, which was chosen over wind and solar alternatives. Concerningly, the AIIB added two new greenfield gas projects into its pipeline in 2022—one in Bangladesh, which was approved in December 2022, after the new ESS came into effect, and one in Uzbekistan. Moreover, the bank's renewable energy share has not grown proportionally; in four years, it has increased by only a few percentage points and now represents just over one-quarter of the energy portfolio.

A first draft of the ESS was made available for public comment in April 2022. Further drafts were not made public before the ESS, which retained a focus on gas, was approved in late November 2022. Gas is often promoted as a transition fuel, but most of its uses already have cost-competitive renewable energy–based alternatives (Muttitt et al. 2021). In its 2021 report *Net Zero by 2050*, the International Energy Agency (IEA 2021) concluded 'there is no need for investments in new fossil fuel supply'—not just coal but also 'no new oil and natural gas'. In fact, gas, rather than coal, is now the main driver of the global increase in carbon dioxide emissions (Hausfather 2019). This leaves the AIIB behind the curve. The European Investment Bank (EIB 2019), which is at the forefront of Paris alignment among MDBs, is already phasing out support for all fossil fuel energy projects, including gas.

The AIIB's European members should have been natural allies in the shift away from gas; for example, the United Kingdom introduced a new policy on financing overseas fossil fuel projects in March 2021. However, this ruled out support for coal but allows support for gas in certain circumstances, including the condition that it 'does not delay or diminish the transition to renewables' (Department for Business, Energy & Industrial Strategy 2021). In February 2022, the European Commission endorsed a controversial proposal to include gas as a transition fuel in the European Union's new taxonomy, which will classify whether activities are environmentally sustainable. Germany was a major proponent for gas to be included. The proposal caused uproar, including an open letter from the Institutional Investors Group on Climate Change, which represents almost 400 investors managing more than 50 trillion EUR in assets, in which it declared it 'strongly opposed … any inclusion of gas within the scope of the Taxonomy' (IIGCC 2022). Russia's invasion of Ukraine has since changed the narrative on gas in Europe, but so far mainly from a security perspective (see, for example, EC 2022). Allowing a 'green card' for gas leaves Europe lagging behind China, which excludes gas power from its own taxonomy (Ng 2022).

More hope came from a new initiative launched at the UN climate conference in Glasgow in November 2021, which saw 39 countries and institutions from around the world (including 22 per cent of the AIIB's members) committing to end direct international public finance for unabated coal, oil, and gas by the end of 2022 (UKCOP26 2021). This includes the European Investment Bank, but so far, no other MDBs have joined. This represents an opportunity for the AIIB to join the climate leaders, rather than being a laggard.

In his inauguration speech in 2016, President Jin promised that the AIIB would be an 'agile and innovative institution that learns from the past and recognises the promise and opportunities for the future' (AIIB 2016). As has been shown, while China will no doubt maintain a leadership role, the AIIB has primarily sought to establish itself as part of the MDB landscape, rather than following in the footsteps of China's bilateral banks. Dealing with the enormity of the climate challenge, public finance has an important role to play in shifting incentives away from 'business as usual'. As the AIIB sets out to become Paris aligned, it remains to be seen whether it will lift its ambitions and support a truly green, gender-responsive, and sustainable transition away from fossil fuels. Disappointingly, judging from the updated ESS, it seems that rather than learning from the mistakes of the past, the AIIB is on course to replicate the fossil fuel–heavy practices of its MDB peers.