AIIB'S CLIMATE FINANCE

Gender blind and fossil friendly

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Cover photo by CLEAN. Indigenous Santal Women in Rajshahi, Bangladesh.

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Efforts to address the climate crisis are intensifying and the multilateral development banks (MDBs) are being called upon to act. The outcome document from the UN's latest climate conference, COP28, called for a transition away from fossil fuels, while recognising that climate change requires a gender-responsive approach. It asked the MDBs to scale up investments in climate action, including "a continued increase in the scale, and effectiveness of, and simplified access to, climate finance".

The Asian Infrastructure Investment Bank (AIIB), the world's youngest MDB, came into operation in early 2016, just weeks after world leaders signed the Paris Agreement on climate change and a few months after the Sustainable Development Goals (SDGs) were born. In its first Corporate Strategy, launched in 2020, the AIIB committed to enhance its contribution to SDG 5 on gender equality. It also introduced an ambitious new target - that by 2025 at least 50% of the AIIB's financing approvals would be for climate finance. Only two years later, the AIIB announced that it had already exceeded this target.

On the surface, this looks like a major victory and a blueprint for how MDBs can shift their operating models towards greener goals within a very short timeframe. It fulfils the calls from COP28 and others who want the MDBs to play a bigger part in providing finance to address the climate challenge, such as the G20. But it also raises questions how the AIIB could exceed its ambitious target so quickly, while at the same time continuing to invest in fossil fuels. In the same year as the AIIB claimed to have met its climate finance target, the bank approved investment in a new greenfield gas power project in Bangladesh. It also reported a reduction in projects contributing to SDG 5 compared to the year before.[1]

The answer lies in how 'climate finance' is defined and accounted for. The COP28 outcome document notes a "diversity of definitions of climate finance", and a COP subcommittee is reviewing the implications of this. A group of MDBs, including the AIIB, has developed its own principles for how to assess and account for climate finance, one for mitigation and one for adaptation. The AIIB's climate finance assessments build on these principles, but with its own modification of what counts. Shockingly gender is not mentioned once and financing for fossil fuels is far from fully excluded.

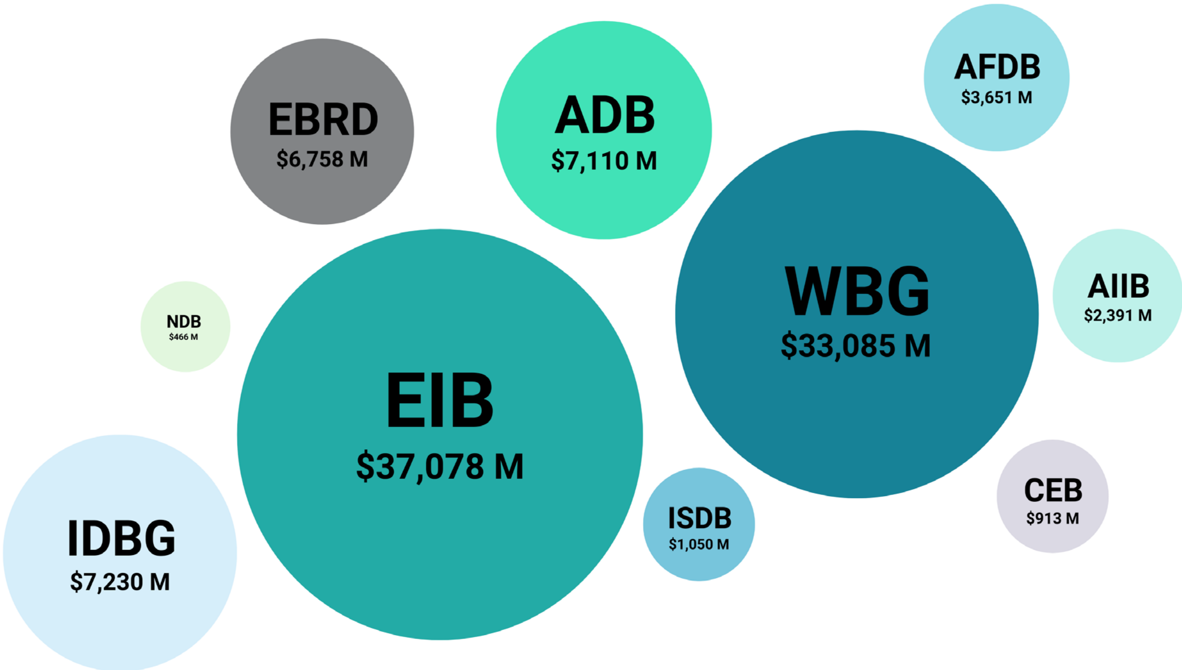
> *It raises questions how the AIIB could exceed its ambitious target so quickly, while at the same time continuing to invest in fossil fuels. The answer lies in how 'climate finance' is defined and accounted for.*

Another issue is the balance between financing for mitigation versus adaptation. Mitigation finance refers to investments aimed at reducing greenhouse gas (GHG) emissions, while adaptation finance provides resources needed to reduce the impacts of climate change and adapt to its adverse effects. The latter is particularly important for poor, climate-vulnerable countries in the Global South and communities directly experiencing climate change induced negative impacts, including women and girls, but remains woefully underfunded. According to the MDB's latest joint report on climate finance, adaptation only represented 25% of the total figure of almost $100 billion in 2022. In the same year, the AIIB only counted 19% as adaptation finance.

This briefing takes a critical look at the AIIB's climate finance portfolio in 2022, the year the AIIB claimed to have not just reached but exceeded its 50% target, based on publicly available information. It raises concerns about how MDBs in general and the AIIB in particular define and account for climate finance, as it includes projects with documented rights violations, fossil fuels leakages and a disregard for gender equality. Finally, it presents recommendations for what climate finance should cover instead.

[1] According to the AIIB, this is due to more stringent criteria, however, the methodology for assessing project contributions to SDG 5 is not publicly available.

MDB climate finance in 2022, USD millions



Source: 2022 Joint report on Multilateral Development Banks' Climate Finance

PROBLEMS IN THE MDBS' APPROACH TO CLIMATE FINANCE

The group of MDBs reported that their joint contribution to climate finance reached almost $100 billion in 2022.[2] The MDBs started developing joint methodologies and reporting on their climate finance spending in 2011, but the AIIB did not join and start reporting until 2019. The MDBs released the latest version of the methodologies – the common principles for climate adaptation and mitigation finance - in late 2023, so the data analysed in this briefing builds on earlier editions.

All MDBs do their individual climate finance accounting slightly differently, but adhere to the broader agreed principles. According to these, both mitigation and adaptation activities should be disaggregated from non-adaptation or mitigation activities "as far as reasonably possible". Adaptation finance activities should have an explicit intent to reduce vulnerability to climate change, while mitigation finance activities must meet a list of sector and sub-sector related criteria which the methodology deems to reduce GHG emissions and are compatible with low-emission development. A wide range of activities can be counted, including stand-alone projects, multiple projects under larger programmes, project components or sub-projects, including those financed through financial intermediaries.

The methodologies take a granular approach, so that climate finance should only count "components and/or sub-components or elements or proportions of projects that directly contribute to or promote adaptation and/or mitigation". A percentage of a project can therefore be classified as climate finance, even if the majority of the investment is not – this can be as low as one percent. For example, the AIIB counts one percent of the Guangxi Chongzuo Border Connectivity Improvement Project as climate finance, quoting a "climate-resilient design" in the project document. In practice, this means that an MDB financed project with highly problematic elements from a climate perspective can still be included in a list of 'climate finance' investments, if there is a project activity that matches the principles as the methodologies allow for only this part to be counted.

[2] The group currently consists of the African Development Bank (AfDB), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDBG), the Islamic Development Bank (IsDB), the New Development Bank (NDB) and the World Bank Group (WBG).

> *A percentage of a project can therefore be classified as climate finance, even if the majority of the investment is not – this can be as low as one percent.*

Oxfam has criticised the World Bank Group for failing to transparently account for its climate finance figures. Double counting is another problem, where different MDBs overlap on projects and where activities are counted as both mitigation and adaptation. But most significantly, the principles fail to fully exclude financing for fossil fuels, and do not include any kind of rights-based considerations. Shockingly, despite considerable evidence of how women are particularly impacted by climate change, language referring to gender or women is completely absent throughout.[3] These two elements will be explored further in this briefing.

MDB CLIMATE FINANCE VS PARIS ALIGNED FINANCE

In June 2023, the MDBs released a joint framework for Paris Alignment, which had been under preparation for several years. Similar to the climate finance principles, the framework only excludes financing for extraction and electricity generation from coal and peat. All other activities, including financing for oil and gas, can be considered Paris aligned. Assessments against member countries' Nationally Determined Contributions (NDCs), play a key role, but this is a false measure – analysis has found that these are far off the mark, resulting in at least 2.5°C warming. The latest joint MDB report on climate finance notes flaws in the MDBs' Paris alignment approach: "Not all activities consistent with countries' low-carbon and climate-resilient development pathways satisfy the principles and criteria in the Common Principles."

The AIIB has released its own Paris alignment methodology building on the MDB joint framework. Launched in July 2023, as the AIIB reached its deadline to align all of its financing approvals with the Paris Agreement, it was heavily criticised by Recourse, BRICS Feminist Watch and other organisations, including for the lack of rigorous restrictions on fossil fuel investments, in particular fossil gas, and weak protection of rights, including in relation to gender equality.

MDB MITIGATION FINANCE METHODOLOGY

MDB mitigation finance tracks activities that "by avoiding or reducing GHG emissions or increasing GHG sequestration contributes substantially to the stabilisation of GHG concentrations in the atmosphere at a level which prevents dangerous anthropogenic interference with the climate system consistent with the long-term goal of the Paris Agreement." Climate finance activities should not hamper the development and deployment of very low emission activities or lead to lock in of GHG intensive assets.

The MDB principles identify three types of activities that qualify as mitigation finance:

- Negative or very low-emission activities, compatible with the goals of the Paris Agreement.
- Activities that are still part of the GHG emissive system. but deemed "important for and contribute to the transition towards a climate-neutral economy.
- Activities which are instrumental in enabling other activities to make a substantial contribution to climate change mitigation.

The full list of eligible activities includes screening criteria for ten sectors plus one section for cross-sectoral activities, as well as further guidance. For example, some activities are not eligible if they include a fossil fuel component, while in other cases this is acceptable, such as for co-generation with renewable energy. The methodology does not specify quantitative thresholds, instead recognising that the institutions may want to set their own standards.

[3] Women are not a homogenous category. In this paper when we say women we mean all women–women in all their diversities, including rural women, indigenous women, urban poor and non-binary.

MDB ADAPTATION FINANCE METHODOLOGY

MDB adaptation finance tracks "activities that address current and expected effects of climate change, where such effects are material for the context of those activities." They need to be disaggregated from non-adaptation activities "as far as is reasonably possible", and qualitative or experience-based assessments should be under-reported rather than over-reported.

The MDB principles recognise three types of adaptation activities:

- Measures to manage physical climate risks and ensure that the project's intended objectives are realised despite these risks.
- Direct reduction of physical climate risk and activities that build the adaptive capacity of the system within which the activity takes place.
- Contribution to reducing the underlying causes of vulnerability to climate change at the systemic level and/or removing knowledge, capacity, technological and other barriers to adaptation.

The methodology outlines three steps for tracking adaptation finance, including to set out the context in terms of risks, vulnerabilities and impacts related to climate finance, and to demonstrate a link between these and the financed activities.

OVERVIEW OF THE AIIB'S 2022 CLIMATE FINANCE PORTFOLIO

The AIIB has announced that it reached its climate finance target in 2022 – three years ahead of its goal – hitting 56% of total approved financing, up from 48% in the year before. The AIIB stated that it calculated this percentage based on 42 approved projects, worth $6.8 billion. Out of this, only 19% went towards adaptation, a decrease from 2021 when the AIIB counted 20% as adaptation.

Since there is no agreed way on exactly how to count climate finance, the AIIB has developed its own model, building on the joint MDB principles. Importantly, when calculating the percentage figure, the bank excludes projects funded under the AIIB's Covid-19 Crisis Response Facility (CRF) from the total project tally. CRF projects represent almost $4 billion or 40% of financing for that year. Out of the MDBs, only the AIIB makes this exception.

While more detailed information was sparse in the first few years that the AIIB started reporting its climate finance figures, it finally published a table including climate finance data as an annex to its Sustainable Development Bonds Impact Report 2022, released in July 2023. This for the first time allowed scrutiny of its climate finance calculations. However, the AIIB has clarified that the released data is not the same as it builds the 56% figure on.[4] The new table includes projects with initial disbursement of funds – including projects approved from 2019 onwards – rather than the list of projects approved in 2022, which is where the 56% climate finance figure comes from.

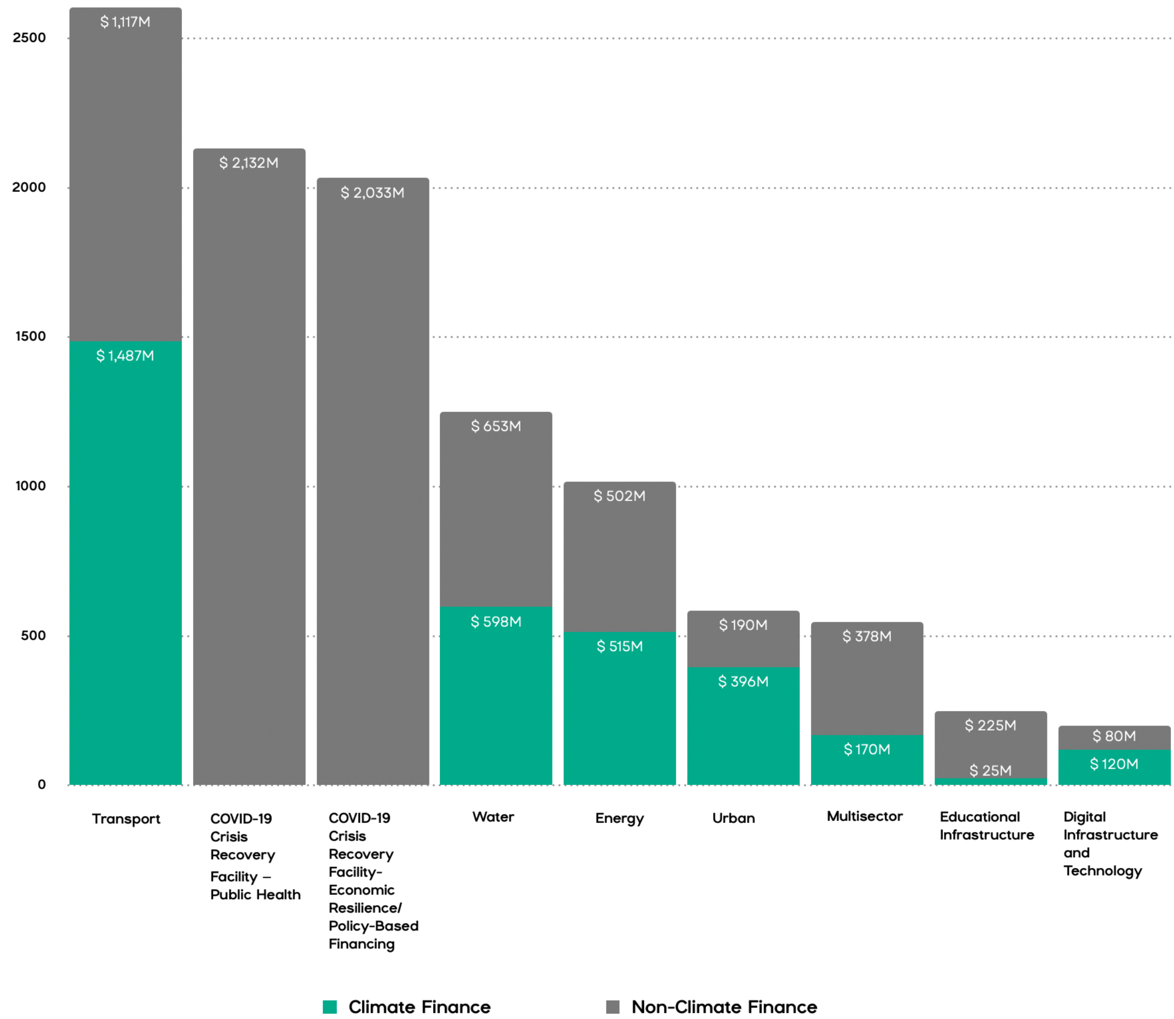
At the time of writing, the AIIB had not yet shared the full set of data on climate finance related to approved projects for 2022. This briefing therefore builds on the only publicly available data for the AIIB's climate finance investments, for projects disbursed in 2022. The total value is $6.5 billion for 35 projects, excluding the CRF projects. 29 of these projects are listed as contributing towards climate finance. The AIIB counts eight of these as 100% climate finance, with the rest contributing varying percentage points, down to two projects with only 1% each. The energy sector represents the largest share in terms of the number of projects that include climate finance, but the transport sector is far larger in terms of the value of climate finance, with over half of the projects assessed to be 100% climate finance. Should we calculate the AIIB's climate finance based on the disbursed figures, the AIIB still meets its target with 51%.

[4] Personal correspondence with the AIIB, 19 March 2024.

> *Notably, the joint MDB report for 2022 does not recognise the AIIB's 56% climate finance figure.*

Notably the joint MDB report for 2022 does not recognise the AIIB's 56% climate finance figure. It does not accept the AIIB's removal of CRF projects, which reduces the AIIB's climate finance figure to 35%, far below its 50% target. Rather than being towards the top, this leaves the AIIB far down the MDB ranking, at sixth place out of ten, with the European Investment Bank leading at 59%, followed by the European Bank for Reconstruction and Development at 47% and the African Development Bank at 43%.

The AIIB's 2022 portfolio of disbursed projects by sector, including climate finance



GENDER BLIND - HOW CLIMATE FINANCE FAILS TO INTEGRATE GENDER EQUALITY

Men and women in all their diversities are affected differently by climate change because of differences in resource use and traditions, including gender specific roles and responsibilities. If gender is not taken into account, adaptation and mitigation action risks being ineffective and exacerbating gender inequalities. This in turn increases women's vulnerability to adverse changes in the climate. Women must therefore be at the centre of climate change solutions.

It is extremely disappointing that the MDB principles for both mitigation and adaptation are completely gender blind – shockingly they do not mention gender or women even once. This is a missed opportunity and sets a poor example of what climate finance could and should be. Climate finance has a critical role to play in addressing deep-rooted vulnerabilities and gender inequalities. Women face additional barriers to access and benefit from financial resources due to their gender roles and socio-economic status. Gender disparities in ownership and access to resources (such as land, credit and technology), coupled with socio-cultural barriers, impoverish women, lower their adaptive capacity, and increase their exposure to climatic risk.

Ignoring women's needs can severely impact the effectiveness and sustainability of projects. For example, if their needs are not integrated into public transport projects, this will not just result in decreased usage of the system by women and girls, but could also result in an increase in gender-based violence. Conversely, adequate, well-designed and properly executed climate finance can address climate challenges, as well as socio-economic inequalities and injustices, to help build resilience and address gender gaps, ensuring women and girls benefit from climate action equally.

But women should not just be seen as a vulnerable group or victims, since they are also consumers, workers, borrowers, producers, entrepreneurs and community leaders who are critical for climate action to be effective and impactful. For example, women can help communities, households, and enterprises to switch to sustainable practices, thus ensuring a multiplier effect. Women should therefore be fully integrated as leaders in decision making for the whole planning, design, implementation, monitoring and evaluation of all projects, including climate finance.

WHY GENDER MATTERS FOR CLIMATE ACTION

The UN lists five reasons why climate action needs women:

- Climate action requires 100% of the population.
- Empowering women means better climate solutions.
- Women are key to building climate resilience in communities.
- Climate change affects everyone, but not equally.
- Countries are starting to recognise the importance of gender in climate planning.

BRICS Feminist Watch has developed a set of climate finance gender equality indicators and matched these against the projects that the AIIB classified as climate finance in 2022, based on the publicly available list of disbursed projects. Scores are based on information in the AIIB's publicly available project summaries and documents. Out of the 29 projects with climate finance, almost a third have no mention of gender or women at all. The majority of these are financial intermediary projects, most of which are in the multisector category, which already suffer from poor disclosure. Concerningly, energy projects represent the second worst sector. Half of the energy projects that include climate finance do not score against any of the 13 indicators, and those that do have a very low score. The urban sector followed by the transport sector score the highest on average. Only a quarter of all the projects ensure women receive project-related information and communication, and less than a third have Gender Action Plans. 75% of the projects in the climate finance portfolio either have no gender language or score against less than five of our indicators. This is very disappointing, especially since the AIIB has committed to developing a more systematic gender approach to address gender gaps.

It is important to note that these findings rely on desk-based analysis, and field-based research might reveal gender-related deficiencies even for projects that score well against the indicators. In addition, the projects are scored in full even though the climate finance element may not have any gender-related activities. This is because the AIIB does not publish easily accessible information on exactly which activities are counted as climate finance, when the total percentage is less than 100%. Finally, a high gender score does not necessarily mean a good project in other respects, for example, if it provides financing for fossil fuels.

BEST IN TEST ON GENDER

The majority of climate finance projects score poorly, meeting five or fewer of the gender indicators. Only six projects score against ten or more of the indicators. The Kerala Solid Waste Management Project in India is the only project that score against all of the gender indicators. The project has gender equality as one of the core objectives. The project documentation references work with local communities, including women's collectives, which is a good strategy for effective implementation of any project. Two other projects in the urban sector with gender equality as a core objective also score highly against our indicators, including the Pakistan Khyber Pakhtunkhwa Cities Improvement Project, which only misses out on one point. Two projects in the transport sector also miss out on only one point, both in India. It is clear that gender commitments are more integrated in all aspects of a project if gender is part of the core objectives.

AIIB 2022 CLIMATE FINANCE PROJECTS MATCHED AGAINST OUR GENDER INDICATORS

1	Women recognised as economic agents	34%
2	Gender Action Plan integral to project	31%
3	Women's needs integrated	31%
4	Women's full and effective participation in community consultations	41%
5	Women as beneficiaries of the project	45%
6	Women recognised as climate champions and leaders	21%
7	Women have access, control, management and ownership of resources	24%
8	Women have access to project benefits	28%
9	Women have access to information and communication about the project	24%
10	Impact of project on women and girls is recognised	41%
11	Gender indicators in monitoring framework	34%
12	Grievance redress mechanism	48%
13	Gender equality as core objective	10%

FOSSIL FRIENDLY – HOW CLIMATE FINANCE FAILS TO STOP EMISSIONS

The MDB climate finance principles only fully rule out a few activities that cannot be counted: "activities in support of upstream and midstream activities in the fossil fuel industry, electricity generation from coal or peat, and those that lead to deforestation". There are also some additional restrictions in the list of climate mitigation activities, for example, "activities dedicated to transport of fossil fuels or blended fossil fuels … are not eligible". This should in practice mean that, for example, projects involving transport of LNG cannot be counted as climate finance.

While this is welcome, the principles do not exclude all activities associated with GHG emissions, including for other types of fossil fuels. In fact, climate finance can include "negative- or very-low-emission activities, which result in negative zero or very low GHG emissions"; "transitional activities, which are still part of systems emitting material greenhouse gases", which includes fossil fuels if deemed an important element for the transition; as well as activities "enabling" other critical activities contributing to climate mitigation. As a result, the MDB principles include a plethora of eligible activities where elements of fossil fuels or other highly polluting activities are allowed. For example, joint use of renewable energy and fossil fuels can count as climate finance, as long as the fossil fuel consumption is "minimised", but without qualifying the latter. Electricity transmission and distribution projects also qualify if 'low-carbon', but again without further definition of what this means in practice.

It is problematic that not all uses of coal are explicitly excluded in the MDB principles. For example, the section on eligible activities in the manufacturing section includes a number of references to industrial processes. This could potentially include projects functionally related to coal, such as smelters powered by 'captive coal' units that produce transition minerals for renewable energy and electric vehicle supply chains. Controversial and often costly so-called 'false solutions' are also included in the principles, for example, carbon capture of fossil fuel emissions for power generation is permitted, but with the condition that permanent or long-term storage is available. Hydrogen produced from fossil gas is also eligible as climate finance, if coupled with carbon capture, storage (CCS). Besides continuing to allow fossil fuels, CCS is yet to be proven to work at scale or be economically viable. There is also much controversy over whether CCS can be considered 'permanent' as this is untested at scale.

WASTE-TO-ENERGY

Waste-to-energy (WTE) projects qualify as climate finance according to the MDB principles, as long as they can demonstrate "a substantial reduction in relative GHG emissions compared to the alternative of waste management and disposal." But this ignores the fact that WTE projects are highly polluting in their own right, with incinerators emitting almost 70% more greenhouse gases per unit of energy than coal plants. WTE projects have a preference for dry solid waste as feedstock because they can produce more energy than wet organic waste. The burning of fossil-derived plastics is highly likely to occur. The plants are often placed in low income and marginalised communities, already overburdened with pollution from other sources, and impact negatively on waste-pickers, too.

Only a fraction of municipal organic solid waste can be considered to have renewable energy potential, according to the Intergovernmental Panel on Climate Change (IPCC). This poses a challenge to developing countries in Asia because proper waste segregation is a major issue. For example, the AIIB classifies the Greater Malé Waste-to-Energy Project in the Maldives as 100% climate finance, but it has come under heavy criticism from civil society. Besides the impacts on local communities and the associated GHG emissions, organisations like GAIA argue that the project is a disincentive to reducing waste and that the Maldives could start importing plastic waste to feed the plant. There is also a lack of air quality monitoring regulations and capacity to adequately ensure emissions are 'safe'. This project matched less than a third of our gender indicators for climate finance.

Energy transition programmes to support closure of fossil fuel plants are also eligible as climate finance. The joint climate mitigation principles include criteria that the decommissioning of a plant must take place "well before the end of its economic life", which is welcome. However, it does not explicitly exclude the possibility of changing one fossil fuel system for another one – the only criterion in this respect is that "the replacement for the decommissioned fossil fuel plant is on a path to declining fossil fuel intensity." This would in theory allow, for example, a coal power plant to be replaced by a fossil gas power plant or ammonia or fossil-based hydrogen co-firing, without any clear incentives to prioritise truly sustainable renewable energy options instead. The benefits are also questionable and would only reduce the carbon emissions by at most 20%, and even less when considering manufacturing and transporting of the fuels.

IDCOL – CLIMATE FINANCE WITH FOSSIL FUELS

In 2022, the AIIB approved a $200 million loan to IDCOL, a Bangladeshi financial intermediary, to support infrastructure projects. The AIIB argued that the investment aligned with its thematic priority to finance "green" projects, and listed containing it as 30% climate finance. But the financing agreement lacks clear restrictions to ensure it solely supports renewable energy. Project documentation from the AIIB includes potential funding for gas power plants under this loan, despite a broader commitment to reducing carbon emissions. Since 2015, loans to gas and oil projects have increased in IDCOL's portfolio and held the largest share in 2021. Meanwhile funding for renewables decreased. It is problematic that the AIIB labels a project as climate finance, even if just for a percentage, if it also includes support for fossil fuels. This puts the credibility of AIIB's climate finance claims into question and also risks reinforcing a reliance on fossil fuels in developing nations like Bangladesh. Disappointingly this project also only matched three out of the 13 gender indicators.

SNAPSHOT - OTHER PROBLEMS WITH THE MDBS' CLIMATE FINANCE APPROACH

Rights

It is essential that climate finance protects and promotes rather than undermines human rights, in particular for project affected communities. A submission to COP28 by a group of civil society organisations, including Amnesty International, noted that climate finance lacks human rights and gender assessments and "thus fails to adequately take the needs and priorities of differentially affected and often marginalized communities and people, including women and diverse gender groups, Indigenous Peoples, youth and people living with disability into account in the design, implementation and monitoring and evaluation of funded climate actions." The UN in turn calls for a "human rights-based approach to climate finance", that would "guard against the risk of climate finance being used to support projects that result in human rights violations, exacerbate social and economic inequalities and/or deepen inequity between countries."

Despite these concerns, the MDB principles do not mention rights or gender equality at all, and thus MDB climate finance could cause serious harm. For example, renewable energy is classified as climate finance, without any recognition of potential risks for project-affected communities, especially women and girls. "Mining for climate action", meaning mining for minerals or ores critical for renewable energy technologies, also qualify as climate finance without any rights-based criteria, despite a growing body of evidence of how rights-based approaches are essential to ensure that the environment is protected and no one is put at harm. This is extremely concerning and relevant for the AIIB, too. High risk Category A projects represent almost half of the projects in the AIIB's 2022 climate finance portfolio, based on disbursed projects. Climate finance must also go beyond 'do no harm' – everyone should benefit equally from climate finance, including women and girls, especially from marginalised communities.

> *High risk Category A projects represent almost half of the projects in the AIIB's 2022 climate finance portfolio.*

Transparency and accountability

A major problem with how the MDBs account for climate finance is a lack of transparency, coupled with unclear methodologies. One of the main limitations with this briefing is that the AIIB has not publicly released its dataset that corresponds to its 56% climate finance figure. Instead, we have had to base our analysis on a publicly available table that is limited to projects disbursed in 2022, which includes data on climate finance. Another issue is the lack of information on exactly what activities are counted as climate finance for projects where only a percentage qualifies. Over a third of the AIIB's climate finance projects disbursed in 2022 lack publicly available full project documentation. One of the reasons for this is that a large share is multi-sector and/or FI projects, with limited information of exactly what will be funded – hence it is hard or impossible to assess whether the claims of climate finance are valid or not.

This lack of transparency is not unique to the AIIB, but further undermines trust in the validity of its figures. For example, an Oxfam analysis of the World Bank Group's climate finance figures for financial year 2020 could not verify about 40% (approximately $7 billion) of what it claimed as climate finance due to a lack of proper information disclosure and reporting practices by the bank.

CLIMATE FINANCE VIOLATING INDIGENOUS PEOPLES' RIGHTS

As part of its climate finance portfolio, the AIIB is funding risky projects in vulnerable areas. The Nepal Upper Trishuli-1 hydroelectric project, classified as 100% climate finance by the AIIB, has marginalised and adversely affected Indigenous Peoples in several critical ways. The project's development underscores the critical need for climate to require inclusive planning, Free, Prior and Informed Consent, and comprehensive impact mitigation strategies to protect the rights and well-being of Indigenous Peoples.

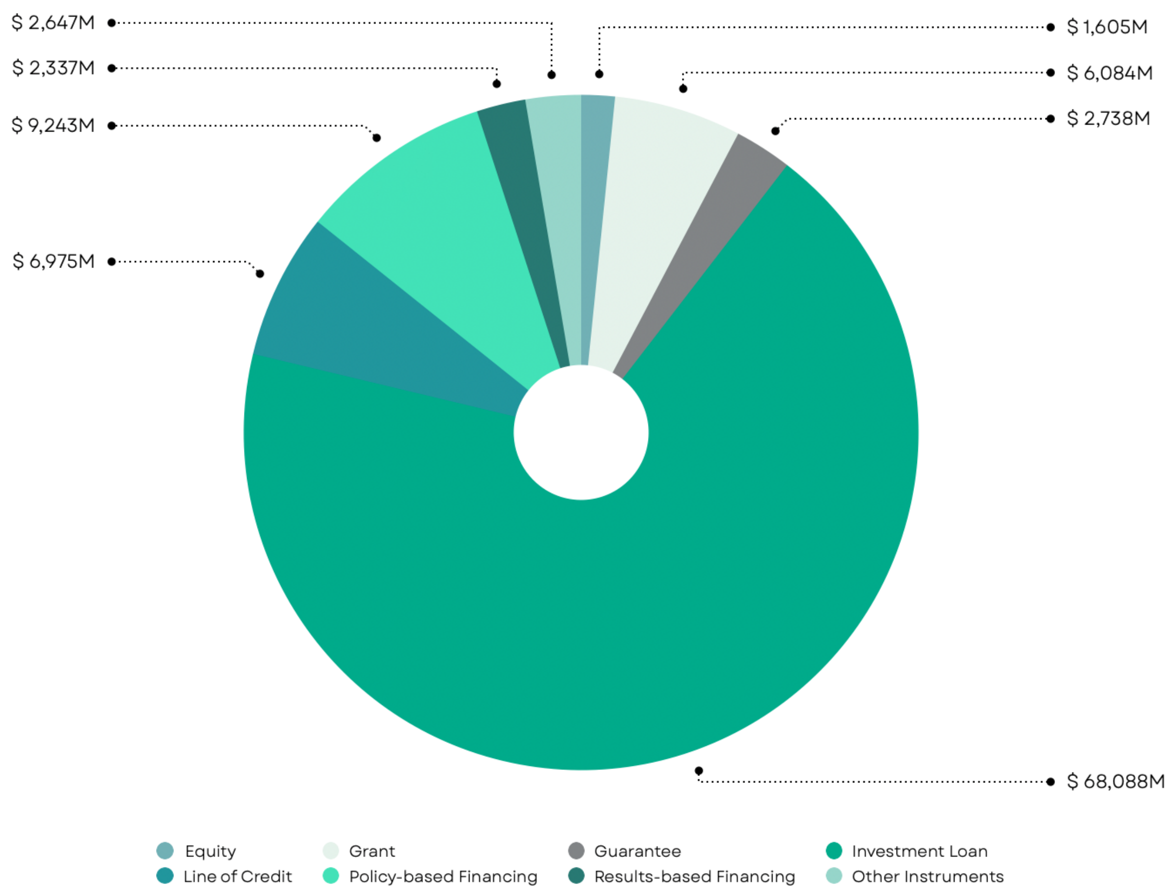
Firstly, the construction and associated land acquisition for the project has resulted in physical and economic displacement of indigenous households, stripping them of their ancestral lands and traditional livelihoods without providing adequate compensation. Secondly, despite the requirement for Free, Prior, and Informed Consent (FPIC) for Indigenous Peoples under international standards, the consultations did not fully engage the affected communities in a meaningful way. The language barrier, with only Nepali used in consultations, marginalised the community as it limited the community members' ability to participate effectively in the consultations. Thirdly, the project has contributed to environmental degradation, affecting the natural resources that the indigenous communities depend on for their livelihoods. For example, the diversion of water from the Trishuli River for hydroelectric power generation has impacted negatively on the aquatic habitats and reduced availability of water for agriculture, the primary source of livelihood. The project scored extremely poorly against our gender and climate finance indicators, only matching 15%. The project document mentions a gender action plan and women's participation in consultations but fails to link the project in any other way to women and to gender equality.

Furthermore, the AIIB's accountability mechanism makes it extremely difficult for project-affected communities to raise complaints. This means that the AIIB will not hear from communities if their climate finance is not hitting its mark and risks its projects causing harm. Also, the AIIB has introduced fast tracking procedures for project approvals outside of Board oversight, further reducing transparency and accountability for the AIIB's projects, including for climate finance.

Debt

The COP28 outcome document called on the MDBs to provide climate finance as "grants and other highly concessional forms of finance." Climate finance should not add to already unsustainable debt burdens. This is particularly important for adaptation finance, as countries should not have to pay for protection against a crisis for which they are not responsible. Many low-income countries are already spending more on servicing debt payments, than on basic infrastructure, health, education, social protection and other vital public services. Despite this, the vast majority of MDB climate finance is delivered as different types of loans, equity or other types of instruments. The AIIB primarily provides loans since it does not have a proper grant function. In 2022, only 6% of total MDB climate finance was for grants, in contrast to almost 70% for loans. For the least developed countries, less than a third of climate finance was delivered as grants. Analysis by Oxfam revealed that the majority of the MDBs' climate finance in 2019-2020 was for non-concessional loans and other instruments. Another problem with loans is that they encourage projects where the MDB can ensure debt repayment in hard currency (export-oriented, or highly profitable), rather than projects based on the needs of poor and vulnerable communities – where public finance could make a real difference.

MDB climate finance for 2022 according to financing instrument



RECOMMENDATIONS

This briefing reveals how the AIIB's claim to have reached over 50% climate finance approvals in 2022 is based on false premises, including misleading calculations, support for fossil fuel projects and a lack of recognition of rights, including no consideration of gender equality. These critical problems in turn stem from the MDBs' joint climate finance methodologies for how to account for climate finance, including the principles for mitigation and adaptation.

For MDB climate finance to be aligned with the Paris Agreement's 1.5°C goal and the SDGs, it must:

- Exclude all financing for fossil fuels and other GHG intensive activities, including through loopholes, such as financing through financial intermediaries.
- Exclude projects that would not be carried out without dedicated fossil fuel based power supply.
- Stop promoting false and costly 'solutions', such as carbon capture and storage and fossil fuels-derived hydrogen.
- Harmonise accounting and improve transparency and disclosure.
- Balance funding for adaptation and mitigation.
- Be grant based or highly concessional, to avoid adding to poor countries' debt burden.
- Ensure everyone benefits equally from climate finance, including women and girls in all their diversities, especially from marginalised communities.
- Include a gender policy to ensure all projects are gender inclusive with gender equality as a core objective, and with gender analysis, tools, perspectives and principles integrated. All projects should have gender action plans, gender indicators, and budget lines for gender commitments.
- Incorporate a human rights-based approach, that protects against the risk of climate finance being used to support projects that result in human rights violations and exacerbate social and economic inequalities.
- Require inclusive planning, Free, Prior and Informed Consent (FPIC), and comprehensive impact mitigation strategies to protect and promote the rights and well-being of Indigenous Peoples.

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