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Vienna, 9th of November 2020

Subject: Consultations on the Review of AIIB's Environmental and Social Framework – Written Comment

Dear President Jin Liqun,

the Austrian Platform for Development and Humanitarian Aid (Global Responsibility) and the Coordination Office of the Austrian Episcopal Conference for Development and Mission (KOO) represent Austrian CSOs active in the fields of development cooperation and humanitarian aid. Together we represent more than 50 member organisations. As Austria is one of the founding members of the AIIB, we welcome the opportunity to communicate our feedback regarding the Bank's Revised Draft Environmental and Social Framework (ESF).

Our submission summarizes selected concerns outlined in more detail in the submissions of other CSO's, including urgewald, Recourse, NGO Forum on ADB, Inclusive Development International, Coalition for Human Rights in Development, which we support.

Transparency & accountability

Transparency and accountability are key in mitigating the environmental and social risks of large-scale infrastructure projects. This requires time-bound public disclosure of key project documents and a project's environmental and social risks. Otherwise communities potentially affected by an investment's environmental and social risks learn too late about it to call for meaningful mitigation measures. The definition of "indicative" disclosure deadlines, including the possibility for the Bank's Management to shorten this period without approval by the Board (ESF 7.2.2), falls short of this transparency requirement. We therefore encourage the AIIB to define time-bound rules in its Revised ESF to ensure full disclosure of environmental and social impact assessments, including plans for land acquisition and resettlement, prior to project approval, when there is still a chance to influence the outcome.

Scope of ESF

A substantial share of the AIIB's portfolio is either co-financed with other development partners, channeled through financial intermediaries (FIs) or - a recent development - ESG funds. These investments



have in common that the ESF and its standards do not apply under certain circumstances. This risks the creation of accountability gaps. We consider it of utmost importance that the ESF applies to all projects supported by the AIIB, whether direct or indirect, and regardless of the complexity of the financial instrument, such that affected communities can hold the Bank accountable for potential environmental and social risks. We therefore encourage the Bank to extend the scope of the ESF to cover FI projects, co-financed projects and ESG funds.

- **Investments through financial intermediaries**

The AIIB channels a growing number of its investments through financial intermediaries. We therefore welcome the improvements in the Revised Draft ESF with respect to these investments, in particular, the enhanced information disclosure regarding sub-projects (ESS1, 2.18). We encourage the Bank to require, in addition, the disclosure of the AIIB's involvement in sub-projects directly at the project sites (and not only online) in a way that is clearly visible and understandable to affected communities.

We are, however, concerned that the Revised Draft ESF creates a loophole for FIs to push through investments involving Higher Risk Activities without prior approval by the Bank of the FIs environmental and social risk assessment if the FI is a repeated borrower (ESF 5.12.2). To avoid such loopholes, we encourage the AIIB to commit to always carrying out due diligence, monitoring and supervision whenever sub-projects involve Higher Risk Activities. This requires also that the Bank monitors the accuracy of the risk categorization of sub-projects, which is conducted by FI clients.

- **Co-financed projects**

In our opinion it is unfortunate that the Draft Revised ESF allows the Bank to exclude co-financed projects, which account for 55% of its portfolio, from the application of its own ESF (ESF 3.4). We are concerned because this implies that affected communities have no access to the AIIB's Project-affected People's Mechanism (PPM) and it is unclear what the role and responsibility of the AIIB is if affected communities access the accountability mechanism of the co-financiers. We consider it of utmost importance that the ESF ensures that the AIIB takes responsibility for the social and environmental outcomes of co-financed projects and guarantees affected communities access to its own PPM. Affected communities should be able to freely choose where and on which level to raise a concern or whether to file complaints with multiple mechanisms.

- **ESG funds**

Only recently the AIIB started to use Environmental, Social and Governance (ESG) Approaches to invest in private capital market projects, which so far have been exempt from the application of



the ESF. Instead the projects apply ESG Frameworks, which provide scores on a range of environmental, social and governance issues. They do not perform the same function as Environmental and Social Management Systems that require the application of processes and standards to identify, mitigate and address specific project risks on an ongoing basis. Unfortunately, the current Draft Revised ESF does not change the current practice of excluding ESG funds from the application of the ESF (ESF 2.16). In addition, the Draft Revised ESF states that these projects are not subject to the PPM (ESF 3.6). We consider it, however, very important that communities affected by projects supported by the AIIB have access to the PPM. This requires transparency regarding the AIIBs ESG portfolio, such that the Bank can be held accountable. We therefore encourage the Bank to extend the scope of the Draft Revised ESF and the PPM to include ESG funds.

Human rights and retaliation

Affected communities and other relevant stakeholders might shy away from expressing concerns regarding the environmental and social risks and impacts of projects or from accessing the PPM because they fear retaliation. We therefore welcome that the Draft Revised ESF recognizes the risks of retaliation (ESF 7.11), in particular in connection with submissions to the PPM (ESF 7.12), but the provision is still weak. Putting the responsibility on clients to develop measures against retaliations ignores the fact that reprisals are more often than not carried out in favour of the client (and the client might be complicit). We therefore encourage the Bank to develop mitigation measures that include proactive engagement of the Bank with communities to be affected by the project as well as proactive monitoring by the Bank itself. In addition, social and environmental risk assessments should be conducted prior to project approval. We also recommend that the Bank reviews all allegations of retaliations in connection with the projects it supports, and not only “if such allegations are substantiated to the Bank’s satisfaction” - in particular since there is no definition of what “to the Bank’s satisfaction” implies. We recommend further that the Bank discusses the steps to be taken in cases of retaliation with appropriate experts on defender security and not only, as the Draft Revised ESF currently states, with the client. Instead, the Bank should communicate directly with the affected person or community and defender security experts in order to ensure the safety of the affected person or community.

Climate change

In its recently published Corporate Strategy, the AIIB emphasizes its commitment to be a ‘green bank’ and presents a new climate financing target of 50% by 2025. In addition, only this summer, President Jin Liqun promised to end funding projects related to coal. In light of these promising announcements, we are disappointed that the Draft Revised ESF only includes minimal revisions on climate change compared to the current ESF. The AIIB has argued that issues related to climate change will be dealt with in the Energy Sector Strategy. Since not only the energy sector but many other sectors are highly relevant



to drivers or impacts of climate change, we think that issues related to climate change should be addressed in the overarching ESF.

We therefore encourage the Bank to refer in the Revised ESF to its new 50% climate financing target and to include a definition and list of projects the Bank aspires to support in order to reach this target. We recommend further that the Bank adds direct and indirect support of fossil fuels (coal, oil and gas; upstream and downstream) to its Environmental and Social Exclusion List, reflecting the statement by President Jin Liqun. Following best international practice, we encourage the AIIB to abstain also from financing associated facilities specifically designed for supporting fossil fuel projects. In order to align its portfolio with the Paris Agreement, the Bank should set specific portfolio and sector emission targets and establish an institutional wide cap on GHG emissions across its portfolio. We encourage the Bank to require project-level GHG emission assessments (including direct and indirect gross emissions) of all the projects it supports that are expected to emit above a specified GHG benchmark, following the good practice of other MDBs like the EIB, who includes the GHG footprint in the Environmental and Social Data Sheet of each investment project. Finally, this and other project-specific requirements already included in the Draft Revised ESF (ESS1 2.34) should apply not only to direct investments but also to indirect investments through FIs in order to ensure that the AIIB's entire portfolio is aligned with the goals of the Paris Agreement.

We thank you for taking our feedback into consideration and are looking forward to your response.

Yours sincerely,

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