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Understanding the Asian Infrastructure Investment Bank's sustainable energy strategy

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The Asian Infrastructure Investment Bank (AIIB), [a recently established multilateral development bank \(MDB\)](#), published on October 17 its first issue note, "Energy Strategy: Sustainable Energy for Asia", for public consultation with an objective of finalising and approving this note by the first half of 2017. This blog post provides a critical analysis of this issue note, focusing on finance mechanisms and strategic investment choices towards sustainable investment and development.

Overarching principles

A general impression after reading this note is that the AIIB confirms its willingness of “being green under affordability logic” (despite the lack of precise definition on “green” and “affordability”), in line with development needs in Asia. By defining energy sustainability as access to adequate and reliable supplies of environmentally and socially acceptable forms of energy at competitive prices without compromising the energy needs of future generations, the AIIB reinforces the notion of intergenerational trade-offs (this explicit mention of intergenerational issues is noteworthy as it opens a discussion on long-term consequences of short-term investment decisions).

Two overarching goals predominate: the UN Sustainable Energy for All Initiative and the Paris Climate Agreement (COP21) on limiting the global temperature rise below 2°C. The notion of green bank is manifested not only by the projects that the AIIB finances, but also through environment and climate footprints of the AIIB itself. More precisely, the issue note provides six specific guiding principles that should become project selection criteria for the AIIB: to ensure energy security; to improve energy efficiency; to reduce carbon intensity of energy supply; to limit local pollution; to catalyse private capital; and to promote regional cooperation. Yet, a further explanation on priorities among these areas could be helpful for the public to better understand the AIIB's project decision process, in particular, with regard to sustainable development.

Promoting public-private partnerships

Here, a comment on the private sector investment. The AIIB has noticed limited private sector participation in energy infrastructures in non-OECD countries. By citing several concrete projects supported by other MDBs as examples of different instruments that promote private sector's investment in energy infrastructure (such as concessional loans, grants as well as public-private partnership [PPP]), the AIIB declares promoting new instruments and models, in particular PPP, to better engage private investment. As China is currently promoting PPP (with more and more PPP projects in sustainable development areas) where state-owned enterprises (SOE) and joint ventures have played an important driving force, the AIIB could bind together existing best practices of PPP in developed and developing countries with China's current pilot PPP projects, and develop PPP-based projects in areas coherent with 2030 climate and sustainable development agendas. However, as the AIIB declares incapacity to engage in knowledge-based and policy dialogue activities (capacity building), PPP will probably be project-specified and a systematic PPP framework and governance development might not be feasible, at least in the short term.

Energy priorities

In terms of sectors, the issue note explicitly points at sectors apt for future investment: power transmission and distribution; energy efficiency; renewable energy; local pollution control; adaptation projects; and natural gas and oil processing, transportation and distribution. The latter is considered to ensure energy security and promote cleaner transition and shift out of coal (as will be discussed in the next paragraph). Among renewable energy projects, firstly, hydropower will be financed either in the form of rehabilitation of existing facility to increase efficiency or in building new facility under the AIIB's Environmental and Social Framework; secondly, intermittent renewable energies will be promoted and the issue note specifically mentions concentrated solar power development as to mitigate fossil fuel consumption and decrease technology costs; finally, nuclear power projects are not considered at the current stage, reflecting prudence during initial phases of the AIIB's project financing.

For thermal power, the AIIB does not maintain a closed door: fossil fuel power generation investment is considered if it can contribute to reliably and securely meeting countries' energy needs and access goals. Natural gas is prioritised when feasible while coal and oil-fired power plants would exceptionally be considered if cleaner technologies are not

available for well-founded energy security or affordability reasons. So far, there is no approved project for such situations, yet this issue needs to be followed with specific care as the choice of coal-fired plants may be understood by the public as a wrong signal in the fight against climate change, given that cleaner technologies may become more and more available in the future.

The issue note then highlights several cross-cutting issues to promote green energy, for example, to reinvestigate discount rates (although no concrete level is given in the issue note) as to rebalance preferences for the present and the future as a new approach to evaluate projects' economic viability.

A Roadmap towards inclusive sustainable development

And finally, the proposed timeline is given as follows:

- October-November 2016: first round of consultation on the Energy Strategy Issues Note. Written summary of the consultation will be prepared.
- Early 2017: second round of consultation on the draft Energy Strategy. Written summary of the consultation will be prepared.
- June 2017: Finalization of the Strategy and submission to Board for approval.

One can anticipate a finalised energy strategy dominated by sustainable development. Yet the word "inclusive(ness)" is missing in the text, although the issue note clearly encourages further projects to take into account social impacts (in terms of equality). In addition, some articulation could be made with projects outside Asian countries (this is not mentioned in the issue note), for example, in Africa and Europe where the Chinese Belt and Road Initiative has an impact, to clearly demonstrate non-exclusiveness of the AIIB's projects (although main projects should take place in Asia).

As the AIIB remains coherent among projects in different sectors, its financing in other sectors may also comply with some overarching principles such as climate change and sustainable development. In this manner, all AIIB projects would be coherent with and contributive to the 2030 agendas.