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The AIIB's Road of Disillusionment: from the ESF to the Transport Sector Strategy.

Notes on Early Relationships between the Asian Infrastructure Investment Bank and Civil Society¹²



AIIB's President Jin. Historic "resettlement speech". Beijing, June 2016

Contents

Introduction	2
Is the AIIB a part of the Belt and Road Initiative?	3
AIIB Compliance, Effectiveness, and Integrity Unit (CEIU).....	4
First Encounter: Environmental and Social Framework (ESF).....	6
Long Battle: Energy Sector Strategy	8
Civil Society Self - Organizing	9
Little Progress in Ongoing Consultations	11
Long discussions about ever evolving Complaints Handling Mechanism	11
Draft Policy on Public Information (PPI).....	14
AIIB Transport Sector Strategy and Study.....	15
Conclusion	18

¹ Special thanks to Adina Matisoff, Researcher from Department of Geography, University of California, Los Angeles, who provided valuable comments and edits to initial draft.

² This overview of AIIB relations with CSOs was first written by Eugene Simonov (RwB) on request of WWF Russia to facilitate preparation for a teleconference with AIIB on Sept 12, 2017. It is partly based on notes taken by other members of CSO AIIB Working Group.

Introduction

The Asian Infrastructure Investment Bank (AIIB), created in 2015 following China's initiative, has become the most frequently discussed finance tool in implementing the Belt and Road Initiative (BRI). Fifty-seven countries joined in as founding members (and 80+ are members by mid-2018), but almost one third of the initial capital of \$100 billion will come from China. This bank's web-site specifically presents it as a motor driving the construction of "sustainable" infrastructure in Eurasia, with stated preference to cross-border and PPP projects. The AIIB founders also include more than a dozen European countries (such as France, Germany, the UK, and Italy), as well as Australia, which as many observers naively hope politically CANNOT afford to lower the bar of the environmental and social requirements compared to the existing international financial institutions. It was expected that under pressure from those members and civil society, the AIIB will be forced to adopt high standards in comparison to those developed by the World Bank and other Bretton-Woods institutions. (As the public learned later it opted for "comparable standards"). Emergence of the BRI and its multiple finance mechanisms affects conditions for operations of other multilateral development banks and bi-lateral finance institutions. Dozens of existing International Finance Organizations (IFIs) have already signed co-financing agreements with the AIIB and New Development Bank (BRICS-NDB).

Being the most advanced China-led multilateral finance institution related to Belt and Road Initiative (BRI) the AIIB naturally attracts much attention from civil society organizations (CSO) community. CSOs participated in commenting on AIIB's Environmental and Social Framework, Energy Sector Strategy, some projects and attended two AIIB Annual Meetings in 2016-17. Consultations on Draft Complaints Handling Mechanism³ (CHM) have been started in early 2017 with invitation for the public to submit any considerations upfront in absence of any draft document⁴ and only in early 2018 public meetings were held on the CHM and Public Information Policy. Finally in May 2018 the draft Transport Strategy was posted for public comment...

This paper tracks development of AIIB's dialogue with civil society organizations (using Rwb's experience as example) in first three years of its existence. It starts from the moment there was hope that the AIIB is genuinely seeking new unbeaten path to green development (mixed with fears it is a part of conspiracy for destruction of the existing safeguards in international finance) and traces the dialogue to the final boring revelation that it is just seeking to be "like other MDBs". Paper describes only episodes in which the Rwb Coalition took part and may omit certain other lines of action, where the Rwb was not active.



³ <https://www.aiib.org/en/policies-strategies/operational-policies/complaint-mechanism.html>

⁴ This author would argue it is a bizarre approach because it limits circle of potential participants of the first round to the most prepared CSOs and later may provide Bank with an excuse not to subject "Second Draft", incorporating\reflecting Bank's responses to comments from the first round, to the second round of consultations (as was duly done in case of the AIIB Energy Sector Strategy and in general is recognized as "good practice")

Author at the AIIB II AGM in Jeju, Korea,2017. Photo by Mark Grimsditch.



Source: [AIIB 2018 Presentation](#) (Symbolic picture - look what they have done with the mountain)

Is the AIIB a part of the Belt and Road Initiative?

In many public meetings in 2016-17 the AIIB officials assured various audiences that they are "not driven by China's Belt-and-Road Initiative" but by their own policies, which are "just at formation stage". They do it so insistently and passionately, that it is easy to believe, however, objective analysis shows that the AIIB is also one of most successful elements of overall BRI policy of China⁵.

Finally by the beginning of the 2018 the AIIB started to acknowledge its direct interconnection with the B&R, listing it as the largest of 3-4 regional economic integration initiatives it supports (e.g., Greater Mekong Subregion Economic Co-operation Program, Central Asia Regional Economic Cooperation, Belt and Road Initiative, ASEAN, etc.)⁶. Omission of the Eurasian Economic Union championed by Russia (as well as absence of projects on territory of that major AIIB stakeholder) is also a very telling detail, reflecting both Western international sanctions and rivalry with China over influence in Central Asia. The BRI is "building community of common destiny" but "with distinct Chinese characteristics". From all corridors and alliances set up to promote that, the AIIB so far has achieved widest acceptance among many countries, while it continues to promote core objectives and most important themes of the BRI. Examples include:

- Promoting large-scale infrastructure in Asia along "Belt and Road" economic corridors;
- Preference for cross-border energy high-voltage transmission options, which are one of core "advanced technologies" to be shared by China with the rest of the world (see Global Energy Interconnection⁷ and compare with the wording in the Energy Sector Strategy (AIIB ESS));
- Keeping India in the loop of "common destiny" despite the fact it opposes all other elements of BRI;
- Retaining transportation of hydrocarbons and development of large hydropower as key priorities;
- Not accepting need for free, prior and informed CONCENT of indigenous people as precondition for any project affecting them(try to find mentioning indigenous rights in declared BRI policies);

⁵ Standard mantra on the subject http://www.xinhuanet.com/english/2018-01/17/c_136901984.htm

⁶ https://www.aiib.org/en/policies-strategies/_download/transport/2018_May_AIIB-Transport-Strategy.pdf

⁷ http://www.geidco.org/html/qnycoen/col2015100724/column_2015100724_1.html

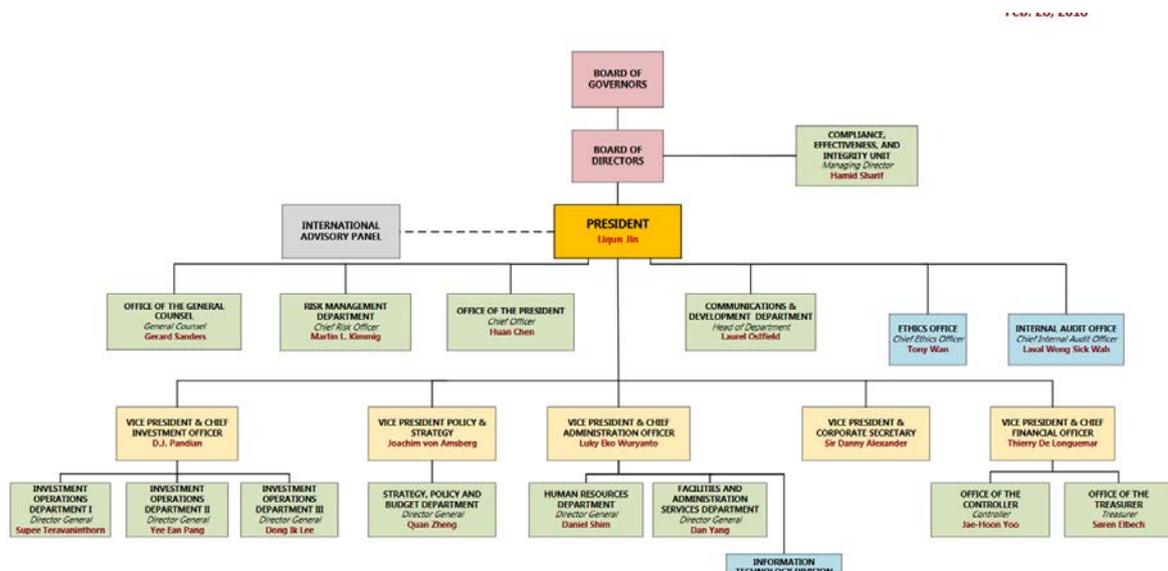
Finally Chinese government itself openly recognizes AIIB as key China-led IFI intended for the Belt and Road development. It is explicitly stated in the "Vision for the Belt and Road" and several other documents. For example, "Guidance to Promote Green BRI"(NDRC\MEP, April 2017⁸) states: "We will push China's financial institutions, **multilateral development agencies initiated and participated by China** and relevant enterprises to adopt the principle of voluntary environment risk management so as to support green 'Belt and Road' Initiative."

Therefore the AIIB is a multilateral development bank established to support the Belt and Road Initiative and broaden its reach. At the same time, in two years of its existence the AIIB has not yet significantly deviated from the mainstream pattern of lending of other multilateral development banks (MDBs) and by no means introduced any new models of lending and project design. Nevertheless, its emerging policies, as discussed further, do contain a risk to undermine global MDB standards for good governance and environmental protection. There has been a widespread hope that the AIIB dialogue with civil society organizations (CSOs) is helping to reveal such risk and confront them before there are fully legitimized and institutionalized.

All that said about AIIB and BRI we must note that most of Chinese overseas investment along the BRI economic corridors obviously is channeled and will be channeled in future through other finance institutions, such as policy banks and specialized funds. In this respect hyper-attention to AIIB as the "focus" of the BRI is misleading, as Hameiri and Jones argued recently.⁹

AIIB Compliance, Effectiveness, and Integrity Unit (CEIU)

The AIIB has structure quite generic for all MBDs, so we skip its description available on-line from the Bank. It has only one rather unique department - the Compliance, Effectiveness, and Integrity Unit (CEIU) - owes its broad mandate to perceived necessity to strengthen capacities of the non-resident Board. Hamid Sharif who served as Country Director for the People's Republic of China at the Asian Development Bank (ADB) was appointed as Director of CEIU in April 2017¹⁰.



February 2018 Organizational Structure of the AIIB

⁸关于推进绿色“一带一路”建设的指导意见 <https://eng.yidaiyilu.gov.cn/zchj/qwfb/12479.htm>

http://www.mep.gov.cn/gkml/hbb/bwj/201705/t20170505_413602.htm

⁹Hameiri and Jones 2018. China challenges global governance? *International Affairs* 94: 3 (2018) 573–593; doi: 10.1093/ia/iiy026 <https://academic.oup.com/ia/article-abstract/94/3/573/4992402>

¹⁰ https://www.aiib.org/en/news-events/news/2016/20160414_001.html

According to published AIIB Structure¹¹ the Compliance, Effectiveness, and Integrity Unit (CEIU) is the only department answerable directly to the Board of Directors. The CEI Unit's mandate includes monitoring and evaluating the Bank's portfolio, ensuring policy compliance¹², and overseeing internal and external grievance procedures. Some NGOs claim that not all those functions are compatible with each other.

We have not found did any mentioning of CEIU in publicly available statutory documents of the AIIB, neither any terms of reference for its work. According to the Bank's own writing "the primary responsibility of the CEIU is for the Bank's effectiveness assessment, including through evaluation". But in 2017, CEIU commissioned a small consultant study to start exploring what evaluation in AIIB might entail and can draw information from that document¹³. It is also known from Hamid Sharif that CEIU team visited some of accountability mechanisms at other MDBs¹⁴ and came to conclusion that "They all act too late", "they spend too much", and "we will be different".

The abovementioned Consultant ToR stresses that it also has to develop links between evaluation and the Unit's accountability and learning functions, and to deepen its approach to effectiveness. From AIIB web-site we know that:

-Complaints Handling Mechanism (CHM) should aim to proactively support compliance to prevent problems during project design and implementation, and respond rapidly to solve the problems of people who believe they have been or will be adversely affected by AIIB projects. The mechanism should also help AIIB to continuously learn from its experiences and strengthen its development practice. They also want complaints handling mechanism to play a role in dealing with systemic issues such as..., and generally helping AIIB to be a learning organization. By early 2018 the CHM was also called Project Affected Peoples Mechanism (PPM).

Beyond CHM\PPM the CEIU seeks to:

- Develop a definition of effectiveness/success for AIIB and to propose quantitative and qualitative indicators;
- Develop guidance on constructing a results framework for projects.

Beyond that by definition they also manage CORRUPTION, which is essential aspect of any project. AIIB recognizes the considerable work done by other multilateral development banks and unilaterally adopts the list of sanctioned firms and individuals put out by the five banks that are parties to [AMEDD](#), provided they also meet the additional criteria set out in AIIB's [Policy on Prohibited Practices](#). These banks are the [African Development Bank](#), the [Asian Development Bank](#), the [European Bank for Reconstruction and Development](#), the [Inter-American Development Bank](#), and the [World Bank Group](#).¹⁵ Beyond that little is known about advance of anti-corruption activities at the AIIB.

What else is AIIB CEIU planning on fighting? Optimistically thinking, the anti-corruption mechanism would also prevent megalomania in infrastructure project design, where costs (env. costs included) are routinely underestimated, while social and economic development outcomes are grossly overestimated. Brilliant precautionary approaches are developed and tested by Bent Flyvbjerg and his team at Oxford University¹⁶.

All that listed, the CSOs learned that by July 2017 the CEIU had hired only 3 workers...

So far it is difficult for outsiders to judge effectiveness of the CEIU work, since it is being done without publicizing the process and outcomes. CEUI Head reports to the Board, but there is extremely little

11 https://www.aiib.org/en/about-aiib/governance/_common/_download/AIIB_organizational_structure.pdf

12 https://www.aiib.org/en/policies-strategies/_download/policy-on-prohibited-practices/policy_on_prohibited_practices.pdf

13 <https://www.aiib.org/en/opportunities/career/job-vacancies/consultant/job-details/job-consultant-c16009.html>

14 <http://independentaccountabilitymechanism.net/>

15 https://www.aiib.org/en/news-events/news/2017/20170307_001.html

16 https://www.researchgate.net/profile/Bent_Flyvbjerg

information on its substantive activities and achievements in the public space. It is even unclear whether AIIB Policy on Public Information applies to the CEIU's work. As long as public information aspect is unresolved CSOs concerns regarding appropriateness of the Unit's setup remain fully justified.

First Encounter: Environmental and Social Framework (ESF)

The ESF was the first document to be discussed with CSOs.

In the Asian Infrastructure Investment Bank environmental safeguards function should be fulfilled by use of the Environmental and Social Framework (ESF) document written in aspirational language without specific measurable requirements. This policy guidelines, yet to be tested, in 2015 has been subject of heated discussion between the AIIB Interim Secretariat and international civil society. In the second half of 2015 AIIB Organizing Secretariat announced very short "public consultation period" for Draft Environmental and Social Framework¹⁷ (ESF) of the future Bank. The Secretariat denied requests for face-to-face consultations with CSOs and refused to translate drafts to languages other than English. This evoke fierce reaction from many civil society networks. Many NGOs from 20 countries of Eurasia claimed that ESF has not been designed with sufficient detail and was not subjected to due public consultation process conducted in national languages in AIIB member-countries. Still many organizations submitted written comments and participated in video-conferences with AIIB consultants collecting public comments. Although consultation process was clearly insufficient, ESF has been slightly modified in the course of this discussion, approved and now undergoes its first trials. The RwB¹⁸ did analyze which of its comments were adopted\rejected, but such analysis across the full collection of CSO requests is not available to us.

Some NGO experts believe that ESF has been improved in certain details, while others hold opposite views. Bank Information Centre (US NGO) keeps track of many CSO submissions^{19,20}. Some major points discussed in relation to ESF include such examples as:

a. Denying indigenous lands and rights. AIIB denied UN standard for FPIC (free-prior -informed-**consent**) on project from indigenous peoples and instead declared "FPICon" (free prior informed consultation), which is akin to abovementioned official's statement "*there's broad agreement that the consultations we had were meaningful*" where AIIB bureaucrat himself defines whether or not any agreement has been reached. At the first Annual Meeting in Beijing in 2016 the AIIB President gave passionate, sincere and completely arrogant speech on the topic of resettlement²¹: "*Of course, in resettlement in some of the countries, there might be some problems to deal with, but that's no excuse for any family to refuse to move ... it would probably create a little bit of a problem for them because they would be moved to a new neighborhood, but that's a sacrifice perhaps everybody has to make in order for everybody to benefit from this process. So we think we have to take care of these issues, but I think it is ultimately important for the **host government to look at all these aspects...***" This sets threatening perspectives for vast wild lands of Eurasia preserved as traditional use of their land by indigenous peoples.

b. Recognizing value of ecosystem services. On request of conservation NGOs the AIIB openly recognized the importance of "green infrastructure": The Environmental and Social Framework says "**The Bank recognizes the value of natural infrastructure, such as wetlands, and the importance of enhancing or restoring ecosystem services where appropriate.**" (AIIB ESF 2016).

c. The AIIB ESF has a very liberal "Exclusion list" that does not exclude projects with most likely heavy negative impacts, such as large dams. In our opinion it would be wise to remove such classes of projects from consideration at project identification phase, which would greatly help AIIB and other

17 <http://www.aiib.org/uploadfile/2016/0226/20160226043633542.pdf>

18 <https://www.researchgate.net/publication/325103059>

19 <http://www.bankinformationcenter.org/our-work/aiib/>

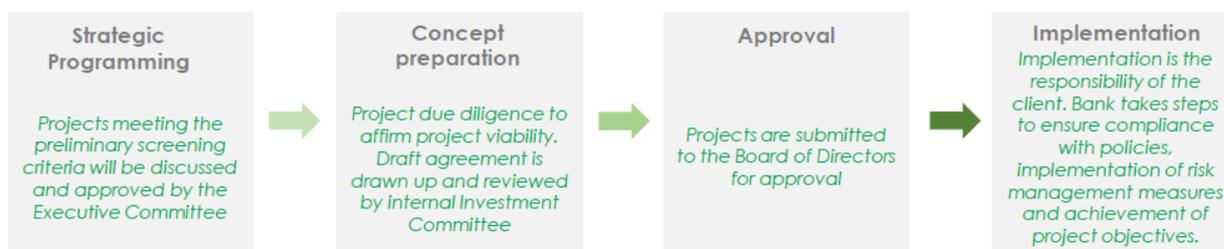
20 <http://www.safeguardcomments.org/aiib-esf-ngo-comments.html>

21 Workshop -Financing Green Infrastructure <https://www.aiib.org/en/news-events/events/2016-annual-meeting/index.html>

unexperienced, poorly staffed new finance institutions (at least until they demonstrate development of mature implementation mechanism for ESG safeguards and public accountability procedures).

Project Approval Process

AIIB will follow a clear and well-defined approval process before financing projects



Source: [AIIB 2018 Presentation](#)

d. The greatest of all problems is absence of true strategic planning and consideration of sustainability, potential alternatives, environmental and social risks at very late stages of project identification and approval process (which is very vaguely defined). Public participation in this process is also constrained. Any public information on project identification appears on the AIIB website at stage 3 out of 4 stages shown on AIIB's own slide above. Judging from AIIB's "strategies" and other publicly available documents until project concept is being produced there is, likely, no systemic application of environmental and social criteria (beyond simplistic GHG considerations), it is very much a process driven by financial and political considerations. Our appeals to AIIB Management to develop and reveal formal "Project screening and identification policy" yielded little result so far.

The RwB 's main comment during consultations went unanswered till nowadays: "The AIIB is about to fall into a trap common for all pre-existing MDB's - too narrow focus on specific "Projects" without profound evaluation of broader context, available options and policy environment in advance of project identification. For example the Draft AIIB ESF does not contain provisions for formal assessment procedures (and public consultations) even for AIIB own policies, which is exemplified by haphazard, non-transparent and inadequate evaluation\consultation procedure for Draft ESF itself. Unless AIIB itself implements serious strategic assessments of sectors\regions and screening of available alternatives, the idea of relegating major responsibility for due diligence and safeguards to the client becomes truly dangerous due to limited capacity and incentives for potential clients to identify sustainable low-impact projects. Besides as we explain elsewhere such viable projects are simply not available in most countries. We recommend AIIB to make mandatory use of SEAs and other means to proactively pre-select (and design) projects and work priorities, including assessments\comparison of available alternatives. ..."22

The operational policies that should guide implementation of the ESF have been under preparation for two years. In December 2017 without any prior notice and public consultations the Bank approved [Directive for ESF Implementation](#)²³. This largely logistical\procedural document should be followed by Administrative Guidance describing operational policies for the ESF implementation. At February 2018 hearings on Information Policy in February 2018 the RwB requested from AIIB to subject this Administrative Guidance to public consultations.

²² RwB submission at ESF Consultations, October 21, 2015

²³ https://www.aiib.org/en/policies-strategies/_download/environment-framework/environmental-and-social-directive.pdf

Long Battle: Energy Sector Strategy

So far the Energy Sector Strategy (ESS) was subject to longest and most elaborate public consultations from among all AIIB documents adopted to date (May 2018). The AIIB web-site²⁴ reflects sequence of Strategy drafts (two of them were subject to consultations). However the AIIB uses very inappropriate general format to display opinions expressed during consultations. It uses generalized "statistics of opinions" despite multiple requests to employ standard response matrices to answer one by one questions raised by consultation participants²⁵. So CSOs on their own web-sites disclosed available submissions to consultations²⁶. And the AIIB consistently refused to subject the "Strategy" to face-to-face consultations with potentially affected communities in countries of operation.

The WWF Russia, BCC and Greenpeace Russia also helped the RwB in developing second batch of comments in early 2017^{27,28}. In addition to general comments to the full Draft Strategy²⁹, The RwB Coalition was also asked by the AIIB Russian ED to develop special review on hydropower development issues. This [Review](#)³⁰ has been extensively used by CSOs, AIIB staff and BoD, experts, etc. Resulting Strategy has slightly improved according to those suggestions in many places, for example, it recommends basin-wide strategic assessments before any particular greenfield hydropower projects are considered. RwB advice (as expected) did not succeed in taking large hydro out of the strategy, but it helped to introduce many additional conditions and alternative solutions.

Another problem CSOs addressed is that the Strategy promotes "connectivity" as one of its key principles, on which some NGOs expressed their concern, emphasizing that "*financing high-voltage transmission lines across borders and regions may mean putting massive investments into the outdated energy systems that will freeze development of sustainable energy sources and more active involvement of citizens in energy production at a small scale.....*"³¹. Instead, they advocated for advancing "*state-of-the-art small scale renewable technologies, combined with the development of smarter grid management*" that can transform visions of energy systems. NGOs were also worried that export-oriented transboundary energy networks for electricity and gas may make resource-rich countries further focus on the development of the extraction of the natural resources and development of the infrastructure to ensure its export. . Finally we urged AIIB to pay attention "*to extremely high environmental and social risks as well as geopolitical tensions created by over-emphasizing export-oriented hydropower by such countries in Asia as Tajikistan, Myanmar and Lao DPR*".³² The AIIB slightly changed its tone on "connectivity" in the final text of the Strategy, emphasizing the need to pay attention to "*potential social impacts and risks of ecosystem fragmentation*". So far the AIIB approved only one high-voltage long distance transmission [project in India](#) that connects southern energy-thirsty provinces to northern energy sources. Likelihood that the AIIB finances transboundary transmission in near future is low due not so much to environmental or social risks, but to uncertainties of economic returns and transboundary political tensions causing delay to such projects. Thus [CASA-1000 Project](#) initiated by the [World Bank](#)³³ a decade ago to connect hydropower in Tajikistan and Kyrgyz Republic with consumers in Afghanistan and Pakistan. The project is still struggling to hire contractors for erecting transmission lines and protect them from Taliban guerillas.

Strategy document would have been much worse without our intervention, but it is still bad enough to keep pressing for improvements **and even full revision**. All in all despite concerted CSO effort and multiple changes of wording no decisive progress has been achieved in transforming this ESS as a whole

24 <https://www.aiib.org/en/policies-strategies/strategies/sustainable-energy-asia/index.html>

25 https://www.aiib.org/en/policies-strategies/strategies/sustainable-energy-asia/content/index/_download/Summary-of-Comments-on-Issues.pdf

26 <http://www.bankinformationcenter.org/civil-society-submissions-on-aiib-energy-policy/>

27 <https://www.researchgate.net/publication/322486527>

28 <https://www.researchgate.net/publication/325102977>

29 <http://www.bankinformationcenter.org/wp-content/uploads/2015/11/RwB-and-Sosnovka-Comments-on-AIIB-Energy-Strategy-Note.pdf>

30 https://www.researchgate.net/publication/322386465_

31 BothEnds and 6 other NGOs. Comments to AIIB's Energy Strategy: Sustainable Energy for Asia Issues Note for discussion November 8, 2016

32 RwB Coalition and CEE Bankwatch joint submission to AIIB, March 2017

33 <https://thediplomat.com/2016/05/world-bank-tries-to-answer-casa-1000-criticisms/>

into mechanism for green development. Instead the ESS still largely reflects thinking of the past and fears/aspirations of two mighty hydro-lobbies (hydro-carbon and hydro-power). This discrepancy was openly admitted and explored at the II Annual Meeting during Energy Workshop, which innovative contents was completely antithetical to the ESS adopted the same day. At the II Annual AIIB Meeting many CSOs openly expressed their severe disappointment to the AIIB Board of Governors³⁴.

AIIB at its first meeting proposed to discuss "why does there remain a shortage of bankable infrastructure projects?". The backwards nature of the ESS is partly due to severe lack of bankable "green" projects in Asian countries, that have support from their governments. Presently majority of infrastructure\energy project designs on the governmental tables are 30-70 years old ideas completely inappropriate for building sustainable future. AIIB competes with ADB³⁵ and other MDBs for infrastructure worth investing; many more promising projects are co-financed by several MDBs. In reality BRI finance institutions should adopt "green credit guidelines" and extensive training\technical support mechanisms to ensure preparation of greener bankable projects in all Belt and Road countries. Unfortunately, these needs are not reflected in "Application form" or "Rules and Procedures" for the AIIB Project Preparation Special Fund, which could serve this purpose³⁶. So far grants for project preparation have been given to only two non-energy projects in Nepal and Sri-Lanka.

Actual energy project portfolio funded by the AIIB³⁷ before the ESS adoption in June 2017 was much worse than the reading of ESS makes you expect, for it contains large gas pipeline in [Azerbaijan\Turkey](#), gas-thermal power plant in [Myanmar](#), gas infrastructure projects [Bangladesh](#), two large hydropower upgrades in [Pakistan](#) and [Tajikistan](#). The only two potentially benign projects in electricity grid development and upgrades are funded in [India](#) and [Bangladesh](#). There were no funded projects dedicated to wind, solar, energy storage facilities, smart grids or other more advanced alternative energy options. The only solar plant on the list located in Karaganda Province of Kazakhstan has been removed from "waiting list", likely, because it got funding from elsewhere. To confront criticism the AIIB in late 2017 funded a large solar project in [Egypt](#) and extremely controversial "Beijing Air Quality Improvement and coal Replacement Project"³⁸, but its list of proposed energy projects at the beginning of 2018 features only gas storage in Turkey, gas-diesel power plant in Bangladesh, power transmission in Tashkent (Uzbekistan) and the infamous Nenskra Hydro in Georgia³⁹. None of those in waiting could be characterized as genuinely "green energy".

Civil Society Self - Organizing

In June 2016 the newly formed AIIB ESF Civil Watch Coalition organized a CSO workshop to exchange views and coordinate actions during the AIIB Annual Meeting in Beijing. In July this was followed by broader-scope meeting on the "OBOR Energy and Infrastructure Nexus" organized by the NGO Forum on ADB(s), of which members mostly belong to countries of three southeastern BRI "economic corridors". Invitations were extended to groups from North Eurasia, the US and Europe, and that allowed for initiation of broader analysis of CSO opportunities to deal with risks of the BRI. Both 2016 above-mentioned meetings focused primarily on ways to hold BRI investors accountable.

In November in Moscow 2016 the Russian ED of the AIIB (then it was Timur Maksimov) came to Green Silk Road Initiative Workshop to discuss venues for cooperation with NGOs. At the same meeting NGOs raised concerns about AIIB Interim Public Information Policy (PIIP)⁴⁰.

34 <https://www.forum-adb.org/single-post/2017/06/17/Open-Letter-to-the-AIIB-Board-of-Governors>

35 <https://www.asiasentinel.com/econ-business/like-aiib-ADB-struggles-find-quality-borrowers/>

36 <https://www.aiib.org/en/projects/preparation-special-fund/index.html>

37 <https://www.aiib.org/en/projects/approved/index.html>

38 <https://www.aiib.org/en/projects/approved/2017/air-quality-improvement-coal-replacement.html>

39 <https://ejatlas.org/conflict/nenskra-hydropower-project-georgia>

40 <http://www.bankinformationcenter.org/asian-infrastructure-bank-access-to-information-policy-weak/>

With leading role of the NGO Forum on ADBs^{41 42}(HQ in Manila) an informal coordination group to influence AIIB was formed in early 2017 and played major role in CSO preparation for the II Annual Meeting on Jeju Island in June 2017⁴³ and in all subsequent consultations on various AIIB documents .

At the II Annual Meeting the AIIB made major effort to develop relationships with NGOs. Besides being main participants at several key (substance and safeguards oriented) workshops, the NGOs held one official closed meeting with AIIB management (AIIB President running away from it after listening to first two CSOs) and more than 10 ad-hoc side meetings on topics requested by NGOs ranging from specific projects (e.g. Nenskra Hydro in Georgia) to general policies (e.g. meeting on AIIB Strategy and project identification mechanism with AIIB VP). Special list-serve was established by AIIB PR department to inform NGOs, but so far it has been active only sporadically in periods immediately preceding consultations and meetings with NGOS.

With all these signs of good will the CSOs got no assurance that the AIIB is ready to go beyond "business as usual" mode of operations. The main impression was that it wants to look not worse than other MDBs, but do business faster without many conventionally used routines and with minimal number of staff (**the AIIB weasel-word is "lean"- which is notably different from the conventional term "efficient" which relates amount of effort with quality of end result**). Seeing little progress NGOs held small protest manifestation in Jeju and widely expressed their views in press⁴⁴.

CSO impressions and concerns after II AGM could be summarized as following:

- Although the President Jin said the AIIB is committed to working NGOs as "friends and supporters", who "can help AIIB maximize impact and minimize mistakes", this attitude may be short lived without firm institutionalization in policies and structures. So far there were many incidents of ad-hoc SCO communication with the AIIB, but none of mechanisms is enshrined in AIIB statues or Board Decisions. As soon as AIIB matures and starts daily violation of its own policies (which is quite common among MDBs), its relations with independent CSOs in absence of institutionalized cooperation and dispute resolution mechanism may become very problematic.
- So far AIIB has shown clear tendency to be "lean" at the expense of due implementation of environmental and social safeguards and did not streamline green development in its project preparation rules. Unless this is fixed the AIIB has a potential to surpass old MDBs in amount of harm it causes to people and environment per unit investment.
- NGOs largely are dissatisfied with adopted Energy Sector Strategy (ESS) and wish to see AIIB actively promoting new renewable technology as the key part of a broader strategy. AIIBs Strategy does not reflect recent advances in cleaner energy systems and proportion of investment in new renewable technologies is substantially less than even in global energy investments. Preference for cross-border energy transmission options stated upfront at the expense of distributed local generation\storage solutions is counterproductive socially, environmentally and in economic sense;
- AIIB has to ensure that projects are based on valid regional\country (energy) planning process, which employs safeguard mechanisms and robust strategic analysis of alternatives;
- AIIB has to implement screening and consultation procedures not to allow problematic projects to enter the pipeline (sieve them out at project identification phase). By selecting safer and greener projects is a pre-emptive way to avoid problems and remain "lean". Otherwise AIIB will be in constant need to improve and further operationalize the ESF to remedy harms of badly selected projects (instead of supporting green development).
- NGOs call for in-country consultation in local languages on most key policies (e.g. Public Information Policy (PIP), Transport Sector Strategy, the Complaints Handling Mechanism, etc).

41 <https://www.forum-adb.org/ngo-forum-letter-to-aiib>

42 <https://www.forum-adb.org/single-post/2017/06/17/NGO-FORUM-ON-ADB-STATEMENT-TO-PRESIDENT-JIN-LIQUN-AND-THE-MANAGEMENT>

43 Jeju seminar descriptions https://www.aiib.org/en/news-events/events/2017-annual-meeting/.content/_download/Summary_web_summaries.pdf

44 <https://www.business-humanrights.org/en/civil-society-analysis-finds-aiib-access-to-information-policy-needs-improvement#c158594>

AIIB should make key documents available on-line in Russian, Hindi, Chinese and other widely-used regional languages.

- One of the most important mechanisms at MDBs are procedural policies. These are lacking in AIIB. The AIIB ESF and ES are not “policies”, how can we draw on them? AIIB management does not see development of operational policies for them as an immediate priority. and it avoids having dialogue with CSOs on development of those policies.
- The Bank is not demonstrating how AIIB’s own safeguards are triggered in co-financing projects. Specifically, for projects proposed and financed by the AIIB, the project document sheet should demonstrate how various safeguards of the ESF are triggered. Even worse are risks of using financial intermediaries without fully subjecting projects they finance to safeguard review scrutiny⁴⁵.
- The lack of access to decision making is a serious problem. Not only CSOs but the AIIB own Board was ambushed by the management with two projects for vote without proper forewarning. Monitoring of projects and progress reports should be published on the web-site regularly. The agenda of the Board meeting should be on web at least a month in advance to (as practiced by other IFIs), including documents on projects and policies to be discussed;
- Unlike other MDBs the AIIB has non-resident Board, which has limited power to oversee its decision-making and react to wrong-doing. In April 2018 the AIIB management was proposing to give the power to approve some projects to the Bank’s Management, rather than the Bank’s 12-member Executive Board⁴⁶. Transferring the right of approval from the Board to Management undermines this crucial chain of accountability. CSOs believe it threatens the commitments made by shareholders such as the UK and Germany, as well as other member governments, that they would ensure the AIIB, as the world’s newest multilateral development bank, would uphold international standards and best practice⁴⁷.
- Reliance on local (in country) processes and grievance mechanisms is extremely risky, especially when land acquisition concerned. Corruption and non-transparency is so ingrained in many countries, that bank oversight is crucial in weak-governance contexts, especially with AIIB’s lean approach and lack of hands on the ground.
- There is a need to ensure that management is encouraged to develop a culture that is sensitive to human rights. By refusing to adopt FPIC the AIIB has already demonstrated disrespect for indigenous rights. By refusing to use local languages it already disrespects cultural rights, etc.
- Presently the AIIB cannot guarantee security for complainants, so people cannot raise concerns without fear of backlash. This also links into access to information, because as soon as activists connect with management their names and emails are recorded and they are exposed.

Little Progress in Ongoing Consultations

Although facing a risk to make inaccurate predictions or highlight concerns which will be consequently resolved or appear less significant, the author cannot draw a full picture without discussing on-going consultations on AIIB policies and strategies, which outcomes are yet to be seen.

Long discussions about ever evolving Complaints Handling Mechanism⁴⁸

In early February 2017, sixteen civil society organizations called on the AIIB’s Director-General for CEIU to conduct a public consultation process on a future accountability mechanism⁴⁹. In the letter, civil society recommended a set of measures to ensure a robust public consultation process focused on

45 <http://www.cenfa.org/blog/csos-call-for-accountability-and-disclosure-from-aiib-on-its-fi-investments/>

46 <http://www.cenfa.org/blog/csos-oppose-aiibs-proposal-to-allow-banks-management-to-approve-projects/>

47 <http://www.cenfa.org/statements/statement-from-concerned-civil-society-on-the-aiibs-accountability-framework/>

48 https://www.aiib.org/en/policies-strategies/_download/consultation/consultation_aiib.pdf

49 <http://www.bankinformationcenter.org/wp-content/uploads/2017/02/3.2.2017-Letter-to-AIIBs-CEIU-3.pdf>

feedback from the communities and local organizations that will ultimately be the users of the mechanism.

In April 2017, the AIIB requested public input in the development of a proposed Complaints Handling Mechanism (CHM), which the AIIB aimed to put in place by the end of 2017. “Great ideas can come from anywhere and we welcome suggestions from any individual, organization or stakeholder to shape and inform the development of the Bank’s complaints process.” said Hamid Sharif.⁵⁰

In response, a coalition of ten civil society organizations and networks submitted recommendations based on the best practice from independent accountability mechanisms around the world⁵¹. These recommendations emphasized that urgent adoption of an independent, fair, and effective accountability mechanism is crucial to the AIIB’s institutional commitment to sustainable development.

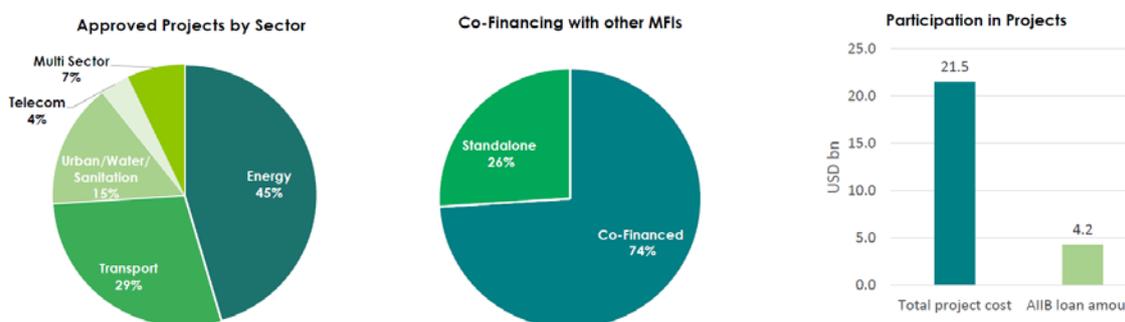
On June 9, 2017, the AIIB initiated a Call for Public Consultation for the Proposed AIIB Complaints Handling Mechanism (CHM) that included only video-conferences⁵². At the II Annual AIIB Meeting a group of CSOs met with Mr. Sharif and reiterated their desire to see local consultations on Draft CHM to be held in local languages in all principal regions of AIIB operations. In particular the RWB Representative requested consultations to be held in Vladivostok, Russia and got preliminary consent of the CEIU staff. In a month it became clear that original consultations scheduled for September will be postponed till November 2017, because Draft CHM Document has not been internally approved by the AIIB. The AIIB after some hesitation still agreed to general discussion via teleconference with stakeholders in Vladivostok , but without translation.

On September 12, the audience in Vladivostok included people from China, EU, Pakistan, Indonesia, Russia, mostly WWF staff, but there were also 4 independent NGO leaders from China and Russia. Connection was not very good. Short general introduction was made by Hamid Sharif and Irene Bain, CEIU Learning and Knowledge Specialist.

Given limitations of telecommunication technology and absence of any draft CHM document discussion contents was very basic, without much detail. Participants discussed wider spectrum of functions of CEIU interesting to participants and relevant to or Greening the BRI:

- approach for prevention of future harm
- soft power mechanisms available to the CEIU
- obstacles in addressing deficient policies
- selection rules at project identification process
- measuring effectiveness

So this interaction largely served introductory purposes and did not influence policy formulation. Further public consultations were expected in November 2017, but have been postponed till February-March 2018. Thus formation of the CHM has been repeatedly delayed, in the meantime, AIIB has been financing 24 projects for a total sum exceeding USD 4 billion, and there is no mechanism for independent review of complaints in place.

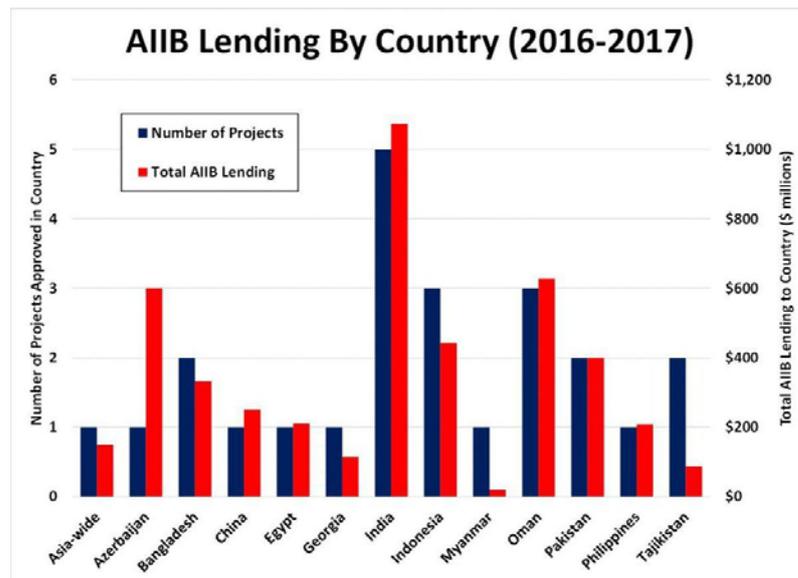


Source: [AIIB 2018 Presentation](#)

50 https://www.aiib.org/en/news-events/news/2017/20170427_001.html

51 <http://www.bankinformationcenter.org/wp-content/uploads/2017/07/AIIBCHM-joint-CSO-Cover-Letter-and-Submission.pdf>

52 https://www.aiib.org/en/news-events/news/2017/20170609_001.html



Source: Forbes⁵³

In winter-spring 2018 the Draft PPM (somehow still called CHM⁵⁴ in the AIIB Board meeting notes) was discussed together with Draft Policy on Public Information (PPI) at several regional rounds of CSO consultations in Manila, Dhaka and Bishkek co-organized by the AIIB and NGO Forum on ADB, which summarized comments and concerns on behalf of many NGOs, including the RwB⁵⁵.

Almost 30-page draft PPM document proves to be a complex read even for NGOs who are well aware of IFI policies and mechanisms. The PPM does not ensure at the onset that it will provide remedy to those who are aggrieved nor those who are potentially to be aggrieved through AIIB's Operations. The fact that PPM does not clearly establish that its goal is to provide remedy, this clearly demonstrates the lack of intent of the PPM to be meaningful to project affected peoples. The procedures for filing a complaint are too complex, too restrictive, placing undue burden on communities and CSOs seeking to file a complaint. From CSO point of view the PPM must be in a position to stop financing when there are violations or non-compliance with AIIB's standards. This is a best practice at other mechanisms (such as the UNDP's mechanism). Remedial funds should be established by the bank which should be included in loan agreement – for communities akin to a bond to secure project-affected communities from harms.

The scope of PPM is limited only to the Environmental and Social Policy (ESP) within the broader AIIB Environmental and Social Framework (ESF). Thus, in cases of AIIB's Operations causing harm, the current PPM will only look at it from a project operations social and environmental impacts' point of view. This limits the Bank from identifying non-compliance in other Bank Operations such as non-compliance in management decision-making, non-compliance of following directives, and non-compliance to fulfilling other AIIB policy requirements.

The RwB was particularly concerned by severe limitations, which make only "potentially affected people (2 or more individuals)" eligible to apply. We told Sharif Hamid that such approach makes no sense when it comes to preventing\mitigating damage done to natural systems. We promised, that unless eligibility criteria are broadened, the NGOs will initiate a complaint from two rivers in India (Ganga and Jamuna), which in 2017 were officially granted rights of legal persons by national court, to establish a precedent of complaint on behalf of nature.

We have no information how the AIIB will use results of those consultations, but from very uninformative reports on the AIIB web-site⁵⁶ assume that Dr. Sharif reported results of the "CHM

53 <https://www.forbes.com/sites/salvatorebabones/2018/01/16/chinas-aiib-expected-to-lend-10-15b-a-year-but-has-only-managed-4-4b-in-2-years/#9d92c2137f1d>

54 https://www.aiib.org/en/about-aiib/governance/board-directors/.content/index/_download/Minutes-Meeting-Directors-April-2018.pdf

55 NGO Forum on ADB's Comments on the DRAFT PROJECT AFFECTED PEOPLES MECHANISM (PPM)

56 https://www.aiib.org/en/about-aiib/governance/board-directors/.content/index/_download/Minutes-Meeting-Directors-April-2018.pdf

consultations" in his April 11, 2018 update to the Board of Directors and that the Board considered the President's Memorandum on the proposed "**Accountability Framework**" (**unavailable to the public**) and approved it with amendments.

Draft Policy on Public Information (PPI)⁵⁷

The Policy on Public Information (PPI)⁵⁸ is the key instrument for the Bank's communication with stakeholders and for improving its own operation through feedback and accountability. The best feature of the Draft PPI presented to CSOs in February 2018 was its length confined to 7 pages, which made it easy to discuss. All other features were more problematic, for the document is full of controversies. As many other AIIB policies the Draft PPI fails to recognize local communities as legitimate partners that participate in decision-making on AIIB undertakings.

In principle CSOs valued the boldness and ambition of the Principle 1, which **calls to disclose all information held by the Bank**, unless there is a serious reason to make an exception. However achieving accountability and efficient disclosure would be possible only if there is "information classification system" open to public comment and containing clear timeframes and procedure for disclosure of each type of document that AIIB produces. At consultations we were also given an impression that the PPI is not covering the information processes covered by the ESF, which creates major caveat and discrepancy. We suggest that the PPI covers all aspects of AIIB information disclosure to ensure sufficient disclosure by its clients, contractors, financial intermediaries.

Current draft PPI is so focused on non-disclosure that can be more accurately called the "Policy on Exceptions for Public Disclosure". We understand the legitimate intention to have a detailed definition of reasons for exceptions, but presented exception classes are vague and excessive, providing effective tools to conceal practically any information that AIIB staff may not want to disclose. There is a clear intention to allow exception process to become a dominant mode of information management in the AIIB and enable the Management to make very arbitrary judgements on use of those exceptions referring to "multiple legitimate interests" (list of which somehow fails to include affected communities). This cannot be excused if people and ecology could be negatively affected. CSOs requested that clear wording is inserted in PPI stating that any information related to environmental and social issues and impacts should not be exempt from timely disclosure.

The RwB was specifically concerned that the Draft PPI does not even mention public consultations related to drafting, reviewing and/or updating of any AIIB – policy and strategy documents. Consultation practices used by the AIIB have huge room for improvement and introduction of already tested tools (e.g. employment of accurate response matrices to stakeholder comments instead of currently used deceptive generalized narrative mixing comments together). We also strongly believe that policy directives and administrative guidelines should be subject to public consultation, because they describe rules and procedures most important for interaction between the AIIB, affected communities and other stakeholders. The PPI should provide clear standard for disclosure and consultations on policies, directives and administrative guidelines.

Disclosure as discussed in February 2018 draft PPI is not serving the needs of decision-making by affected communities and stakeholders and is not sufficiently facilitating accountability mechanism. To fulfill those functions the PPI should explicitly provide:

- a. AIIB Standards for meaningful consultation process (unless AIIB intends to have separate Policy on Public Consultations and other related mechanisms).
- b. Translation (or relevant information) into languages that most of local stakeholders understand (in former USSR Russian language may still be used);
- c. Means to deliver information to affected communities (e.g. considering the situation of the village women, nomadic peoples, etc.);

⁵⁷ The paragraph on the Draft PPI closely follows RwB submission during consultations on March 16, 2018 . https://www.researchgate.net/publication/325103245_RwB

⁵⁸ https://www.aiib.org/en/policies-strategies/operational-policies/public-consultation/.content/_download/draft_policy_on_public_information.pdf

- d. Sufficient time to be understood the documents properly before decisions are made of commenting deadlines end (we recommend posting drafts 120 days in advance of Board considering decision-making);
- e. Disclosure and communication environment which is guaranteed from intimidation or coercion;
- f. Binding public disclosure requirements for financial intermediaries and private sector projects.

The PPI text bluntly shows that authors did not seriously consider the PPI as the core policy central to the Banks mission, but rather as a nuisance that can decrease "Efficiency of the Bank". With such "attitude enshrined in the policy the institution will have strong incentive not to devote sufficient capacity and resources to information disclosure.

As with many other aspects of the AIIB management CSOs are deeply concerned that disclosure authority is solely in the hands of the President and information disclosure policies are being exempt from compliance review function of the proposed AIIB's PPM (Project Affected Peoples Mechanism) or any other independent compliance review mechanism. We urge AIIB to ensure that the PPI, its Directives and Guidelines are all subject to compliance review.

AIIB Transport Sector Strategy and Study



Photo: Famous Half-Bridge [across the Amur River](#)

On 10 May 2018 the Asian Infrastructure Investment Bank (AIIB) has launched public consultations on its [Draft Transport Sector Strategy](#)⁵⁹. The AIIB claims that the draft strategy outlines AIIB's vision to develop sustainable and integrated transport systems that promote trade and economic growth in Asia. AIIB's intended approach will embrace innovative and proven technologies, as well as promote environmental and social sustainability. While the energy sector presents a larger infrastructure demand need in Asia, the transport infrastructure sector arguably presents the bigger challenge.

In addition the AIIB presented a [AIIB Transport Sector Study](#)⁶⁰ – a rather eclectic paper telling how the Strategy should look like, but which somehow is not fully aligned with the contents of Draft Strategy.

However, unlike the Energy Strategy, which was discussed in two rounds, public consultations are going to be held just in one shot. The public consultations period will last eight weeks, starting from May 10, 2018 to July 4, 2018. Written comments must be submitted by July 4, 2017.

The draft Strategy says: *"It is necessary to develop sustainable transport that is financially and economically viable, fiscally responsible, environmentally sustainable, and socially acceptable".*

59 https://www.aiib.org/en/policies-strategies/_download/transport/2018_May_AIIB-Transport-Strategy.pdf

60 https://www.aiib.org/en/policies-strategies/_download/transport/2018_May_AIIB-Transport-Sector-Study.pdf

As we all know development of transportation systems is one of leading causes in environmental degradation and social tensions with key impacts related to:

1. Penetration of trade and industrial activities in previously unaffected areas which creates demand for plundering of natural resources in places with poor safeguards in place to confront it.
2. Fragmentation of natural ecosystems resulting in decreasing viability of wilderness areas, species populations and ecosystem services.
3. Massive displacement of local communities, conflicts related to hardships caused by transportation;
4. Intrusion into indigenous lifestyles, influx of migrant workforce, forced transformation of local cultures, ruining local productive system by influx of exported products;
5. Political conflicts due to expected shifts in power and influence due to new transportation routes.
6. Huge, usually inefficient, use of resources for development of major infrastructure and inefficient use of energy for transportation of massive amount of commodities (many of which could be procured locally) across the globe;
7. Massive pollution from fuels and lubricants used in machinery, additional pollution from waste generated along the transportation routes;
8. Greenhouse gas emissions generated through full cycle of development, use and maintenance of transportation systems.

Both the Strategy and the "Study" paper **partially address only #8** from this list of key factors that have to be assessed and framed within such planning document on transportation. This means that AIIB has practically zero environmental and social responsibility at strategic level of planning.

Meanwhile all factors of negative impact listed above are very evident in Asia, and especially along the Belt and Road economic corridors from tropics to the Arctic:

- Mekong river natural riverbed is planned to be blasted and ecosystems destroyed to give way to inland water transportation from China to Thailand and beyond;
- Myanmar wilderness is being severely dissected by planned transportation corridors with conflicts bursting out in politically unstable indigenous areas;
- In Russian Far East Primorsky Province three corridors connecting China to the Sea of Japan threaten populations of tigers, leopards and other rare wildlife;
- [A bridge and road to a pulp mill](#) planned in intact forest ecosystems across transboundary Amur-Heilong river from Heilongjiang to Zabaikalsky Province in Russia will result in fragmentation and devastation to last areas of old growth boreal ecosystems and subordinate [the area to resource needs of China](#), which lacks pulp and timber due to forest bans.
- Dredging in [Ob River Mouth](#) to facilitate passage of gas-carriers delivering LNG from Port Sabetta - location of new Russian-Chinese Yamal LNG project threatens large fish stocks on which indigenous people of the Arctic depend;
- list of such examples be continued on several pages.

Neither this Strategy addressed key questions of broader sustainable development.

The Strategy has very backward view of "changing demand conditions and technologies". It basically limits possible innovation to "*upper-middle and high-income countries, where basic transport provision has been met, projects financed by AIIB will come with additional focuses on spreading green transport technologies and uplifting transport productivity.*" Does this directly imply that in low-income countries the AIIB does not plan to promote new green transport technologies?

Little is said in the draft Strategy on what is being transported and how\why it is expected to change in next few decades. For example, coal makes huge % of past and current shipping (at least in Russia Coal is the King of railroads), but may go down if cleaner energy systems prevail. In broader developments, countries like China are reshaping their export capabilities and instead of shipping around bulk products (like steel or cement) seek to export "overcapacity" to produce steel and cement closer to emerging markets. Finally, in many sectors it is expected that much of production of everyday goods may be localized and production facilities scaled down to produce items needed by local clientele (3-D printing being just one extreme example of the trend).

Future is highly uncertain, but full of revolutionary promises already supported by obvious precedents, trends and commercialized technologies. Anyone who wants to participate in shaping this future takes responsibility to choose what trends and needs to support for better overall outcome.

The clearly stated choice of the AIIB is to support destructive mode of business as usual and deliberately closes its eyes on well-known social and environmental externalities. **The Strategy supports infrastructure for the sake of infrastructure**, thus not connecting it to well assessed societal good, but simply serving those who benefit from large infrastructure development: construction companies, traders, producers of machinery and construction materials, high officials benefitting from association with large projects, politicians using such projects to promote themselves. Three indicators suggested for monitoring\judging success of projects have little to with sustainable development: *Passengers handled per annum* \ *Tons of freight handled per annum* \ *Private capital mobilized*.

The Strategy and "Study" accompanying it do not address properly assessment of alternative options – absolutely key issue in planning of transportation routes. The Strategy has completely inappropriate section on "promoting environmental and social sustainability", which "*requires projects to minimize environmental and social impacts during project implementation and operation, in line with the requirements of AIIB's Environmental and Social Framework and Policy*". Thus it deliberately skips most important stages of Project Identification and Project Design\Planning at which most decisions regarding choosing right alternatives and promoting sustainability could be practically made. Later only partial mitigation is feasible at higher costs.

All it has to say about the key question of spatial planning is commonsensical phrase "*Avoiding excessive traffic requires better land use planning*" with a footnote hinting that the question is NOT going to be addressed within this strategy. At the same time the AIIB does not condition application for projects by presence of broader spatial development plans that passed strategic environmental assessments.

From "Developing strategic partnership" section we learn that civil society, local communities or local self-governments are not among partners to be dealt with when identifying new projects, while commercial banks, institutional investors, and infrastructure funds are. Absence of local communities on the list of partners is not just an omission, but sign of continued contempt for local people and their legitimate concerns, which was openly proclaimed by the AIIB President at a workshop during the 1st Annual Meeting of the Bank in Beijing in 2016 (see paragraph on the ESF).

Although deprived of any coherent section on environmental and social aspects beyond GHG emissions, the Study correctly calls for "*Clearly defining a set of priorities for the transport infrastructure sector, and*

adopting a framework to allow effective project selection. The set of priorities should include modal and cross border connectivity, and environment sustainability... Some assessment of projects' strategic value, how well they are integrated with national plans, how important they are in the overall network should be built into the project selection criteria."

The draft Strategy, however, completely avoids and downplays all those questions on selection process and criteria, thus showing the AIIB disregards its own "study" let alone all preceding experience of humankind with assessing and improving sustainability of infrastructure.

In general the AIIB seeks to fund "Projects with significant economic return but without sufficient financial return that would attract stand-alone private finance" as other MDBs routinely do. Given obvious absence of conceptual framework on sustainable development, productive ideas and green daring, the AIIB could simply opt to focus, at least in the beginning, on "upgrading of existing infrastructure". However, this is listed as the last choice out of 4 and instead "**co-financing of "trunk and strategic infrastructure"**" (whatever those buzzwords mean) is declared as near term focus without any clear justification for the choice.

Another interesting feature is the proposed use of the AIIB Special Fund to support the preparation of cross-border projects, including those in **middle-income countries** (earlier we thought that fund is primarily for the International Development Association recipients⁶¹). My reading is that by "middle-income countries" the AIIB means first of all China, whose Belt and Road Initiative is serviced by the Bank's operations. Creation of corridors linking China with its neighbors – likely priority imbedded into this strategy.

The document confesses: "**While the energy sector presents a larger infrastructure demand need in Asia, the transport infrastructure sector arguably presents the bigger challenge.**" (In previous paragraphs we have shown that the AIIB has already largely failed on setting innovative sustainable and integrated Energy Sector Strategy in 2017). Now we can see that AIIB failed to develop draft of its Transportation Strategy, which would worth meaningful public consultations. Similarly to the AIIB Energy Sector Strategy this is not a strategy, for a "strategy" is a specific type of planning document, it cannot provide just a framework, but should have clear objectives, indicators, and timelines. Document lacks essential rigor, key questions, and any criteria and indicators allowing to assess and monitor sustainability of projects. All it does – legitimizes a channel to spend money on business as usual. In a sense this draft strategy is a large step backward from its energy twin, which, however crooked, was at least setting some meaningful objectives related to sustainable development.

Conclusion

So far AIIB has shown clear tendency to be "lean" at the expense of due implementation of environmental and social safeguards and did not streamline green development in its project preparation rules. This is the main shortcoming, which may result in serious failures as it speeds up lending to earlier planned USD 10-15 billion/year. No significant breakthrough has been observed in lending for "green projects". At the same time the Bank has been extremely cautious not to initiate any controversial projects on its own. All worst cases it is involved in so far have been co-funded by other MDBs, who typically take a lead and perform due diligence (e.g. TANAP gas pipeline co-funded by WB, ADB, EBRD and EIB)).

Public consultations on new information disclosure and compliance handling policies have been significantly delayed, showing lack of genuine interest on the AIIB side. Drafts revealed after prolonged delays have shown wide gap between the AIIB's and CSO's understanding of key aspects of accountability. The AIIB "romance with NGOs" that reached its peak at the II AGM in Jeju has

61 <https://www.aiib.org/en/projects/preparation-special-fund/index.html>

significantly subsided since due lack of meaningful engagement processes and mutual disillusionment. On the other hand the AIIB's "new openness" bears for NGOs a risk of cooptation into the AIIB's business-as-usual mechanism with many routine activities but not much influence and little positive outcome.

General expectations expressed by many stakeholders\observers that "standards adopted for AIIB" will force change onto other Chinese investors so far have NO clear supporting evidence. For example, while the AIIB funds environmentally benign (but socially controversial) switch from coal to natural gas in Beijing heating systems, the Silk Road Fund, China EximBank and China Development Bank cater up to 15 billion USD to Yamal-LNG project in Russian Arctic, that is known for many serious unmitigated impacts on Ob river ecosystems and indigenous reindeer herders communities⁶². Both actions are pieces in the same puzzle of "gasification of Asian megacities", but China's policy banks and SRF are responsible for much more destructive and risky part of it. Although we clearly see this direct link it has no institutional, financial or legal dimension, which may incentivize policy banks to use "advanced AIIB standards" to control project risks. Issuance of "Guidance on Promoting Green Belt and Road" and new stricter rules for overseas investment by the Government of China may signify that "greening" of other overseas investment mechanisms could be pursued through different models\channels. Therefore the RwB also feels that at the moment there is a tendency of paying too much attention to less threatening and more transparent AIIB at the expense of efforts to be spent on other more problematic investors such as China's policy banks.

That said, we must note, that there is a value in constantly requesting the AIIB to implement every aspect of the "Guidance on Promoting Green Belt and Road" Policy, which is now the only common green development strategy proposed for the BRI space. Since now AIIB recognizes that it serves BRI objectives it is logical that, first of all, it should focus on "green development objectives".

NGO activities could also be optimized. The fact that by mid- 2017 40+ NGOs have been already working on "greening" AIIB allows specific CSO actors to limit\focus their involvement without much loss to overall CSO-advocacy process. For example, future RwB work on AIIB could be limited only to aspects of core interest that other NGOs are not fully addressing: SEA and basin-wide assessments, early analysis of project alternatives, safeguard screening at project identification stage, accounting for ecosystem services, etc. It is advisable that CSOs retain their unity and high level of communication, but divide leadership and responsibility by thematic or regional niche and coordinate in more structured manner.

Substandard Draft Transport Sector Strategy published by AIIB in May 2018 presents a new challenge for CSO community. It is yet to be seen how NGOs react to this document, but its emergence shows absence of any well-meaning institutional learning on the AIIB side. After much energy has been spent in discussions on planning standards and objectives and conditions of being "green", the new "draft strategy" has such a poor quality, that it discourages any counterparts from spending energy to improve AIIB policies as responsible institution "from inside".

Probably, exactly that was explicit intent of the AIIB Management, when posting this document for public consultations. As we remember "improvement" of other MDBs has been brought about not by good will and peaceful consultations, but through fierce struggle of affected peoples and massive international protests triggered by major flaws in project implementation. Does AIIB want to take the same path?

Eugene Simonov

May 12, 2018.

⁶² <http://www.transrivers.org/2018/2144/>