



Accountability briefing for AIIB European shareholders, June 2023

Accountability matters - not only to provide justice to communities that have suffered harm as a result of projects, but also so that AIIB can learn from its own and other's mistakes and avoid repeating them. AIIB recognises this and it's why the bank established the Project Affected Peoples Mechanism (PPM) in 2019. Yet [joint research](#) by Recourse and urgewald, published just over a year ago, showed that in six years of AIIB's operation, after 142 projects and over \$28 billion invested, the PPM has **not accepted a single complaint** (these figures now stand at 217 projects and \$41 billion invested).

Our research looked into the reasons for this. We found:

Majority ineligible: Of 142 projects, the majority (72) were not eligible for the PPM.

- The majority of AIIB's investments are co-financed which automatically excludes them, with rare exceptions. CEIU says this makes things easier for borrowers. But AIIB is an outlier among MDBs on this – it is the only one to exclude co-financed projects from accountability. Also, there is an exception: AIIB will accept complaints relating to projects co-financed with IFC, even when IFC standards apply. This shows it is possible (and preferable) to do so.
- AIIB excludes capital markets projects from both the ESF and therefore the PPM. 4 of the 72 ineligible projects were excluded for this reason.

Largest proportion Financial Intermediaries: Of the 70 eligible projects, the largest proportion - fully 30 - are FI investments, which are incredibly difficult to examine as there is very limited transparency about where money ends up.

Political space is another vital factor. Of the remaining 40 potentially eligible projects, we looked at where they were located. Top four countries: India, Turkey, China, Bangladesh – there is a lack of political space and freedom of expression which have a chilling effect on communities' ability to speak out.

The very first complaint received by the PPM was the **Bhola IPP project** complaint in 2022. Again, it has been proven very drastically, that the PPM is useless for harmed people since right after receiving the complaint the project was sold by the bank. Up to now, there is **no responsible exit strategy** with the bank. Furthermore, the complaint was rejected on the grounds that there had not been sufficient engagement from complainants with the AIIB - despite four years of recorded and sustained engagements.

⇒ **Question: Will the European shareholders ensure that the review of the PPM occurs as promised and is a root and branch review, in consultation with civil society and affected communities?**

We are also deeply concerned about the innovation concept the bank's management is advertising and which is directly concerned with the accountability framework (AF). If the word "lean" in the triad "lean, clean and green" means to deprive the Board of participation and oversight to become "more effective" and agile accountability is deprived of its meaning. Over 60 NGOs raised accountability concerns in 2018 when the AF was proposed by the AIIB; in a statement, they said "This decision goes to the heart of the question of governance at the Bank. Board members are accountable to their constituent governments, shareholders of the AIIB, for their decisions. Shareholder governments in turn are responsible to their citizens for ensuring that the Bank upholds its environmental and social standards in its lending operations. ...Transferring the right of approval from the Board to Management undermines this crucial chain of accountability. 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 practice."

As already analysed in [urgewalds early paper on the bank](#) "the accountability framework is advertised as "a new model to serve the bank's clients effectively and efficiently by having the president decide on the financing of projects up to a certain threshold which is set to grow over time (p. 18). Today, four years after that study, we witness the danger of this "new model": although the board has "call-in-rights" these rights are seldom used. Instead, the power of the President is growing continuously. Category A projects with high social and environmental risks like the fossil Unique Meghnaghat 584 Megawatt (MW) liquefied natural gas (LNG)-based power plant was fast-tracked and approved by the President, bypassing the Board of Directors. As the [recent study on Meghnaghat](#) has shown the project was already under construction when the loan was approved, it is not clear how/if the AIIB will manage, mitigate and respond to violations of its Environmental and Social Management Framework (ESMF) retrospectively.

Question: Will European shareholders ensure that all Category A and high-risk Category B projects, as well as higher risk Financial Intermediary projects, will be recalled for Board scrutiny? How do you secure you have enough information and robust EIAs in hand to make meaningful use of Board-scrutiny and call-ins for projects which fall under president-only approval?

Safeguarding the PPM Policy Review Process: AIIB's PPM lags behind peer institutions (see **Annexure A**), and the PPM policy review must result in substantial improvements to meet international good practice. We know from experience that a good review process provides safeguards against the risk of regression and supports a more effective and community-oriented accountability mechanism. Here are minimal steps the AIIB can take to support a successful review process:

- The AIIB should disclose and solicit comments from civil society on any document that will inform the review process, such as an approach paper, terms of reference, or any internal or external review of the PPM.
- The AIIB should conduct an independent external review of the functioning of the PPM and consult project-affected communities and CSOs prior to the drafting of the revised policy.
- To maintain the independence of the review process, the CEIU/PPM staff should be the lead authors of the revised policy.

The Board also plays a pivotal role in safeguarding the review process. The Board should set:

- A principle of no regression to ensure that the review does not risk a worse outcome; and
- A minimum mandate of improvement on particular issues including promoting independence and reducing eligibility barriers.

Question: Will the European shareholder take steps to safeguard the review of the PPM Policy to avoid regression and follow a review process that is transparent, independent, and consults with project-affected communities and civil society organisations?

Large Hydropower Projects:

AIIB's proposed and current support for large hydropower dams includes those which have significant transboundary implications, including for example the approved Project Preparation Special Fund grant for the [Rogun Hydropower Project](#) in Tajikistan and the proposed refinancing of the [Xekaman Hydropower Projects](#) in Lao PDR. Yet there is no clarity on how affected communities located in neighbouring countries



upstream/downstream such as in the case of Laos/Cambodia/Vietnam (particularly if there were to be instances of mechanical failure or other impacts) would be informed of AIIB's role in the project and be able to avail of the PPM. In addition, we note that conventional large hydropower projects such as the two noted above as well as the proposed [Nenskra Hydropower Dam](#) in Georgia, have immense associated social and environmental implications. Issues include:

- negative impacts in countries, specifically for affected communities, including resettlement and loss of livelihood;
- results of debt stress on populations;
- change in flow of water and sediments affecting environmental conditions and economic activities;
- real risk of dam failure;
- exacerbating already high tensions related with transboundary water issues.

As a result, considering support for hydropower projects requires tailored risk assessments and an explicit precautionary approach – to do no harm — as well as the corollary, where harm has already been inflicted, remedy is required. In addition, there are times when shareholders should proactively refrain from approving support for hydropower projects in any capacity, such as greenfield hydropower projects in free-flowing river stretches.

Questions:

- a) When considering proposals for financing or refinancing hydropower projects, will European shareholders take specific precautions to ensure transboundary impacts will be accounted for, monitored and addressed accordingly?**
- b) Will European shareholders take steps to explicitly ensure that project compliance with AIIB's ESF will be sought from the earliest stages of project conception, and that project approval should not rely on the assumption that there will be eventual compliance with relevant standards?**
- c) When refinancing or rehabilitation/expansion is being considered, will European shareholders take steps to ensure all outstanding legacy issues will be identified and addressed before proceeding?**



Annexure A Comparison of Institutions' IAMs on Key Effectiveness Criteria

	AIIB	IFC	EBRD	AfDB	EIB	IDB	WB	ADB	GCF	UNDP
Accountability mechanism is independent from the monitoring and evaluation function of the Bank		✓	✓	✓	*	✓	✓	#	✓	
Does not exclude co-financed projects from accessing the independent accountability mechanism		✓	✓	✓	✓	✓	✓	✓	✓	✓
Permits complaints after 2 years from date of loan disbursement.			✓	✓	✓				✓	✓
Does not require complainants to engage with the operational department in charge of implementing the project		✓	✓	✓	✓	✓	✓		✓	✓
Does not require complainants to allege that adverse impacts are material		✓	✓	✓	✓				✓	✓
Does not limit "non-local" representation		✓	✓	✓	✓	✓	^		✓	✓
Does not require Board approval for Compliance Investigations		✓	✓	✓	✓				✓	✓
Allows IAM to provide substantive remedial recommendations along with findings.		✓	✓	✓	✓	✓			✓	✓
Monitoring mandate continues until all instances of non-compliance are addressed		✓	✓	✓						✓

* Other independence concerns exist given its unique structure ; # Only compliance review function is independent ; ^ Allows non-local advisor