

A call for a climate change-centred systematic approach by the BRICS development banks

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"We are at a defining moment in history - one which calls for bold, fast and wide-ranging collective action if we are to limit global warming and protect our fragile planet." [1]

Jin Liqun, President and Chair of the Board of Directors at AIIB

The demand for infrastructure investment is exponentially growing in developing countries [2], and it already amounted to 820 billion US dollars per year over the period 2014-2020 [3]. Since the developing countries are unable to provide these massive funds, several international financial institutions, along with other stakeholders (such as commercial banks, trust funds, companies and NGOs) are playing a dominant role in filling the gap caused by this lack of financial resources. In particular, Multilateral Development Banks (MDBs) are channelling an important part of the funding dedicated by the States to this specific purpose. At the same time, climate change and global warming are accelerating at an unprecedented pace [4], calling for substantive action, especially by climate finance, to remedy or at least mitigate their effects. Since 2015, year of adoption of the Paris Agreement, MDBs have continuously supported developing countries in the accomplishment of their objectives [5] under their own National Determined Contributions (NDCs). As they reported in a high-level statement in 2019, MDBs, and particularly the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), as co-signatories, are committed to helping their clients deliver on the goals of the Paris Agreement [6]. They were also signatories of the joint statement by MDBs at COP26 [7].

The main purpose of this analysis is to provide a few insights on the links between NDB and AIIB [8] and climate change adaptation and mitigation, which leads to contrasted findings. Formerly, development finance was structured around one 'universal' US-led Bank, the World Bank (and more particularly IBRD and IDA, its public-loaning institutions), and several regional and subregional Banks. But the progressive changes in international relations and the growing place of emerging markets and developing countries have created a paradigmatic shift. Nowadays, in a context of counter-institutionalization [9], governments of the BRICS States (Brazil, Russia, India, China and South Africa) have established the NDB and the AIIB. Both of their Articles of Agreement,

adopted in the mid 2010s, affirm their affiliation to global and regional development finance institutions, and embrace sustainable development as a goal.

Yet, the actual problem is a developmental one: on one side, development projects are essential to meet the needs of developing countries; on the other side, the more these huge projects take place, the more climate change adverse effects intensify [10]. In this sense, MDBs can be considered as part of the problem. To make sure that they are also part of the solution, different tools are in the hands of these financial institutions. These complementary actions are required to ensure an adequate consideration of the climate change challenges in the overall scope of their activities: prioritizing climate change mitigation and adaptation projects in NDB's and AIIB's respective portfolios, and adopting a cross-cutting, mainstreaming approach to climate change issues in every project funded.

The most important tool is corporate strategy. Most of the MDBs promote a green turn in their approval process, especially since 2015 and the adoption of the Paris Agreement. Each institution has individually committed to support increased climate finance levels over time, with an expectation of a collective total of at least 65 billion US dollars annually by 2025 [11].
For AIIB, it became more precise when its Management issued a commitment on October 26, 2021, that the Bank 'would align their operations with the goals of the Paris Agreement by July 1, 2023' [12] and that 'it would target at least a 50% share of climate finance in actual financing approvals by 2025' [13].
For NDB, the 2022-2026 General Strategy, endorsed by its Management on May 22, 2022, contains a commitment that NDB will 'dedicate 40% of its total volume of approvals to projects contributing to climate change mitigation and adaptation' [14]. In the 2021 Annual Report, another big figure is mentioned: the development results of the projects financed by the Bank in 2021 are expected to prevent 7.5 million tonnes/year of CO2 emissions[15].
This race to the top is a good signal of a desire to tackle climate change, but a problem arises from the high percentage of climate finance, and is found in what is left unsaid: What about the rest of the projects?
A striking illustration of this ambiguous posture can be seen in the latest projects approved by NDB's Board of Directors. Recently, the Board approved the Qingdao Metro Line Six (Phase I) Project [16], designed to improve mass public traffic with a subway line, whose expected benefits specifically mention 'emission reduction such as CO2 emissions' [17]. Conversely, Chinese projects approved in July 2022, such as the Lanzhou Zhongchuan International Airport Phase III Expansion Project [18], and the Xi'an Xianyang International Airport Phase III Expansion Project [19], are explicitly driven by the expected increase of annual passenger and cargo throughputs [20].
While these projects might be crucial for regional or national short-term development, their consequences for climate will certainly be deleterious. It is not possible to delay radical change in the economy and in the society anymore. Firstly, targets should keep on being updated. Secondly, alternative ways of travelling for the passengers and movement of goods must be chosen over CO2 emitting ones. In a broader sense, projects with a smaller gas-emitting effect

should become the first choice automatically to mainstream climate action.
Besides, in the already-happening scenario in which these Banks expand their activities to other sectors than infrastructure, the trend to strengthen the institutional and national capacities of the Borrowers reveals hypothetical loopholes in their approach. Even if the digital transition seeks to build a more efficient administration, questions result from the increased use of digital systems in health and education. In fact, without proper training about digital sobriety, abusive use of digital technologies can lead to massive waste of energy [21]. For an example of good practice, in December 2021, AIIB's Board of Directors approved co-financing of the Rwanda Digital Acceleration Project [22]. In this project, a two-step requirement is detailed: specification of energy efficiency requirements in procurement packages [23], and incorporation of high energy-efficiency requirements in all bidding documents for all the equipment [24]. In the end, the issue remains the same, i.e., a proper and adequate assessment of the key risks of a project is crucial to prevent environmental harm and address climate change.

Another tool is the common approach of MDBs with respect to Paris Agreement alignment. In order to comply with the objectives of the Paris Agreement, MDBs jointly crafted a Paris Agreement Alignment Approach [25], composed of six complementary building blocks: alignment with mitigation goals (BB1), adaptation and climate-resilient operations (BB2), accelerated contribution to the transition through climate finance (BB3), engagement and policy development support (BB4), reporting (BB5), and alignment of internal activities (BB6). To put it in simple words, a highly-sophisticated process has been developed for BB1 and BB2 to determine if a project is aligned or not with the objectives set in the Paris Agreement. Since the screening process [26] is often oriented to preserve country ownership and therefore reduces the scope of the assessment required from the Borrower, a possible track to foster consideration of climate change adaptation and mitigation might be to formalize an ex-ante conditionality for every project, based on the requirement to be aligned with the Paris Agreement.
As it is still a technical note, parts of the methodology to establish Paris Agreement alignment [27] of the projects might keep on evolving. Nonetheless, this methodology is meant to provide guidance for the achievement of NDCs and Long Term Strategies (LTSs) to the Parties of the Paris Agreement. But as it is standing now, this note offers short-term solutions that might actually worsen the long-term situation. For example, the manufacture of electric vehicles is included in the table of Annex 1: Activities considered universally aligned or not aligned with the Paris Agreement's mitigation goals, whereas the extraction of rare metals, essential for the batteries is highly energy-consuming and polluting [28], even if the use of electric cars might reduce CO2 emissions. The hypocritical unwillingness to recognise the long-term impact of the Anthropocene needs to be swept away, otherwise these solutions will only delay the problem of human beings' exploitation of the earth and its consequences [29].
The legal framework of MDB activities also contains a valuable tool: environmental and social frameworks or policies. These policies are meant to prevent interconnected phenomenon, such as environmental harm and pollution [30], but also climate change itself, during the whole cycle of a project. However, the binding nature and the effectiveness of these framework policies, operating in a managerial space, remains clearly debated in the literature [31], even when a comprehensive environmental assessment of the risks induced by the project has been conducted [32]. For instance, climate change is explicitly included in NDB's environmental and

social policy [33], regarding the screening by Management [34] and environmental assessment requirements of the Borrower [35]. These policies could create a crucial change, if the institutions agreed to formally recognize their binding nature and would encourage the practice of keeping environmental and social exclusion lists to stop financing projects generating high-emissions of CO2 [36].

In conclusion, one can say that the problem is not awareness anymore, but lack of radical action. NDB and AIIB have reframed the global financial context and are key actors for climate finance, but they clearly need to use their emerging influence to support and not undermine the Paris Agreement's purpose. The avenues for reflection presented in this paper could provide guidance in this process. As Ken O'Flaherty, United Kingdom's COP26 regional ambassador for Asia-Pacific and South Asia stated unambiguously: 'All MDBs will need to make efforts to ensure (...) that Paris alignment is more than just a slogan, and that it is a real way of doing business.' [37] More broadly, a counterintuitive point of view to climate finance and sustainable development as it is understood today could be to lift the taboo of degrowth [38] for developed countries, and promote low-techs worldwide, in accordance with the principles of equity and common but differentiated responsibilities and respective capabilities.

References

1. *Asian Infrastructure Investment Bank, AIIB to fully align with Paris Agreement goals by mid-2023, Beijing, October 26, 2021 (online here : https://www.aiib.org/en/news-events/news/2021/AIIB-to-Fully-Align-with-Paris-Agreement-Goals-by-Mid-2023.html)*

2. *New Development Bank, General Strategy 2022-2026, p. 6: "Estimates indicate a financing gap of nearly USD 12 trillion in meeting the infrastructure investment requirements of emerging markets and developing countries between 2021 and 2030"*

3. *RUIZ-NUNEZ F.; WEI Z., "Infrastructure Investment Demands in Emerging Markets and Developing Economies. Policy Research Working Paper n°7414", World Bank, Washington DC, 2015, p. 10*

4. *Intergovernmental Panel on Climate Change, Climate Change 2021: The Physical Science Basis, Summary for Policymakers, 7 August 2021, p.7*

5. *In line with Paris Agreement, Article 2 1.(c): "(...) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"*

6. *MDBs, High-Level MDB Statement for publication at the UNSG Climate Action Summit, Action 3, 22 September 2019, (online here: https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1729984378-16)*

7. *MDBs, Collective climate ambition: a joint statement at COP26 by the Multilateral Development Banks, 5 November 2021*

8. *Focusing on NDB and AIIB is justified by the fact that they are the newest Banks in development finance. The scientific choice of NDB and AIIB is also the consequence of the fact that they overlap and compete with the scope of the World Bank (for the NDB) and a regional Bank, the Asian Development Bank (for the AIIB, even if it already funds projects outside of Asia, like COVID-19 Recovery projects in Africa).*

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10. *HOOIJMAAIJERS B., "The internal and external institutionalization of the BRICS countries: The case of the New Development Bank", International Political Science Review, 2021, pp. 1-14*

11. *United Nations, Climate Action: Causes and Effects of Climate Change, 2022 (online here: https://www.un.org/en/climatechange/science/causes-effects-climate-change)*

12. *MDBs, High-Level MDB Statement for publication at the UNSG Climate Action Summit, Action 3, 22 September 2019, (online here : https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1729984378-16)*

13. *Asian Infrastructure Investment Bank, AIIB to fully align with Paris Agreement goals by mid-2023, Beijing, October 26, 2021 (online here : https://www.aiib.org/en/news-events/news/2021/AIIB-to-Fully-Align-with-Paris-Agreement-Goals-by-Mid-2023.html)*

14. *Ibid*

15. *New Development Bank, General Strategy 2022-2026, p. 4*

16. *New Development Bank, Annual Report 2021, p. 6*

17. *New Development Bank, Qingdao Metro Line Six (Phase 1) Project Summary for Public Disclosure, 14 December 2021, p. 1*

18. *Ibid, p. 2*

19. *New Development Bank, Lanzhou Zhongchuan International Airport Phase III Expansion Project Summary for Public Disclosure, 18 July 2022, p. 2*

20. *New Development Bank, Xi'an Xianyang International Airport Phase III Expansion Project Summary for Public Disclosure, 18 July 2022, p. 2*

21. *New Development Bank, Lanzhou Zhongchuan International Airport Phase III Expansion Project Summary for Public Disclosure, 18 July 2022, p. 1*

22. *PITRON G., L'enfer numérique : Voyage au bout d'un like, Les liens qui libèrent, 2021, 345 p.*

23. *Interesting point, the project document identifies this risk: Asian Infrastructure Investment Bank, Project Document of the AIIB, Sovereign-backed Financing, Republic of Rwanda Digital Acceleration Project (Digitalization for Resilience, Recovery and Connectivity), 30 November 2021, §82 : 'This will reduce electricity demand associated with the increased use of digital devices and systems.'*

24.

25. *Ibid, §79*

26. *Ibid, §82*

27. *MDBs, 2020 Joint Report on Multilateral Development Bank's Climate Finance, June 2021, p. 4*

28. *Simply said, MDBs screen projects that are submitted, to evaluate the need to assess the environmental and social risks associated with a project.*

29.

30. *African Development Bank Group, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank, New Development Bank, World Bank Group, Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations*

31. *PITRON G., La guerre des métaux rares, Les liens qui libèrent, 2018, 295 p.*

32. *It is a now commonly admitted scientific fact, which can be traced back to the 1970's. For example, BEHRENS III W. W., MEADOWS D. L., MEADOWS D. H., and RANDERS J., The Limits to Growth, Potomac Associates, 2 March 1972*

33. *Asian Infrastructure Investment Bank, Environmental and Social Policy, VI: Environmental and Social Assessment by the Client, 2021, pp. 15-31*

34. *For a critical analysis of the binding nature of the World Bank's Safeguards, which can be applied to other MDB policies, see JOKUBAUSKAITE Giedre, The Legal Nature of the World Bank Safeguards, Law and Politics in Asia, Africa and Latin America, Volume 78, 2018*

35. *Environmental assessment is nowadays the most common requirement for the Borrower in development finance. It is found in every environmental and social policy from every MDB.*

36. *New Development Bank, Environmental and Social Framework, Overview of the Environment and Social Framework, 2016, C.5.d), 'Climate change: NDB seeks to promote mitigation and adaptation measures to address climate change. Recognizing the sustainable nature of green economic growth and the associated benefits, NDB aims to build upon existing green economic growth initiatives and provide support for the new ones at regional, national, sub-national and private sector level. NDB also encourages climate proofing of its infrastructure financing and investments to build resilience to climate change.'*

37. *New Development Bank, Environmental and Social Framework, Part 1. Environment and Social Policy, 2016, p. 7*

38. *New Development Bank, Environmental and Social Framework, Part 2. Environment and Social Standards, ESS1: Environmental and Social Assessment, 2016, p. 14*

39. *An exclusion list is a list of projects that will not be knowingly supported by a MDB. New Development Bank, Environmental and Social Framework, Part 1. Environment and Social Policy, Annex 1, 2016, p. 13*

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41. *Asian Infrastructure Investment Bank, UK COP26 Ambassador : AIIB Paris Alignment is Welcome; Should Not be Just a Slogan, Beijing, 3 November 2021, (online here : https://www.aiib.org/en/news-events/media-center/blog/2021/UK-COP26-Ambassador-AIIB-Paris-Alignment-is-Welcome-Should-Not-be-Just-a-Slogan.html)*

42. *HALLEGATTE S. & HICKEL J., "Can we live within environmental limits and still reduce poverty? Degrowth or decoupling?", Development Policy Review, 2021*