HIDDEN CASH FOR FOSSILS

How multilateral banks are diverting Australian tax dollars to fossil fuels

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We acknowledge and pay our respects to the Traditional Owners of the land on which we work, live and play. We pay our respects to the First Peoples of this country, their culture, and Elders past, present and emerging. We recognise that this land was and always will be Aboriginal and Torres Strait Islander land because sovereignty was never ceded.

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A woman walks along the bank of the Meghna River. The Unique Meghnaghat Power Plant is situated on the right bank of the Meghna River.

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Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
AU$	Australian Dollar
CSO	Civil society organisation
DMC	Developing member country
DFAT	Department of Foreign Affairs and Trade
ETM	Energy Transition Mechanism
ETMPTF	Energy Transition Mechanism Partnership Trust Fund
FDA	French Development Agency of France
FMO	Financierings-Maatschappij voor Ontwikkelingslanden of the Netherlands
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for the Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IPP	Independent Power Plant
MDB	Multilateral development banks
MIGA	Multilateral Investment Guarantee Agency
OCI	Oil Change International
ODA	Official Development Assistance
UK	United Kingdom
US	United States
US$	United States Dollar

Briefing Paper

Hidden cash for fossils: how multilateral banks are diverting Australian tax dollars to fossil fuels

Executive Summary

The fight against climate change is urgent. As the latest report from the Intergovernmental Panel on Climate Change (IPCC) has highlighted, "[T]here is a rapidly closing window of opportunity to secure a liveable and sustainable future for all."[1] Climate impacts are not felt evenly, with the hardest affected being particularly marginalised groups like women, young people and people with disabilities in low- and middle-income countries. As global temperatures have risen 1.1°C above pre-industrial levels, climate change is further deepening inequality and poverty, causing loss of lives, croplands and livelihoods.

The Paris Agreement's goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels. Achieving this goal will require rapid and significant changes in energy use and a significant amount of financing. The International Energy Authority (IEA) has warned that that staying below 1.5°C of warming means an immediate halt to any new fossil fuel supply projects.[2]

Despite rhetoric on alignment with the Paris Agreement's goals, multilateral development banks (MDBs) continue to provide financing for fossil fuels – including through Australia's aid program. The banks' slow progress in moving away from fossil fuels is inconsistent with the global achievement of the Paris Agreement's goal to limit global temperature rise to 1.5°C.

The Australian Government has announced its desire to act on climate change and transform Australia into a "renewable energy superpower". As a significant and influential shareholder in several MDBs, Australia has a responsibility to help shift the banks away from fossil fuel development and toward genuine Paris alignment.

Key findings

- In 2020, **19% of Australia's Official Development Assistance (ODA) went to the MDBs**, including the World Bank, Asian Development Bank and Asian Infrastructure Investment Bank. Australia provides its funding in the form of capital subscription costs, replenishments for development funds, trust funds and special funds for specific MDB projects.
- Australia is also a shareholder in the MDBs and is the **fifth largest shareholder in the Asian Development Bank (ADB) and sixth largest shareholder in the Asian Infrastructure Investment Bank (AIIB).** Australia's shareholdings give it leverage to influence decisions at these banks. The Australian Government has also appointed Directors in the governance bodies of the ADB and AIIB, and currently has an Alternate Executive Director to the World Bank.
- Between 2016 and 2021, the World Bank, the ADB and the AIIB together **provided over US$23.84 billion (AU$32.85 billion)**[3] **to fossil fuel development projects.** The World Bank was the biggest spender at about US$16.18 billion (AU$22.29 billion), followed by ADB at US$5.36 billion (AU$7.38 billion) and AIIB at US$2.37 billion (AU$3.26 billion). Gas development projects represent more than 60% of all fossil fuel investments from each MDB.
- Based on Australia's shareholdings in each MDB, Australia's 'share' of this fossil fuel financing would represent **US$601 million (AU$828 million)** over the same period.
- **Australia can influence MDBs to shift their lending toward Paris alignment by developing and implementing strong and transparent policies on overseas fossil fuel financing.** This starts with Australia signing up to the Statement on International Public Support for the Clean Energy Transition (the Glasgow Statement) and developing clear policies to implement the Statement – including by ruling out investments in fossil fuels through the multilateral development banks.

The Cirebon-1 coal-fired power plant in West Java, Indonesia.

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Introduction

The Paris Agreement's goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels. Achieving this goal requires cutting off fossil fuel investment and production – with global production needing to drop by 3% annually until 2050.[4] Despite this, governments' national plans for fossil fuel production, if realised, would see 240% more coal, 57% more oil and 71% more gas produced by 2030.[5]

Australia is one of the largest global producers and exporters of fossil fuels.[6] The Australian Government also provided $11.6 billion of public money in 2021-22 in subsidies or other contributions to assist the fossil fuel industry.[7]

While most public financing for fossil fuels is provided as domestic subsidies, Australia has also indirectly financed coal, oil and gas through its aid program – particularly the funding it provides to multilateral development banks (MDBs).

MDBs are international banks established by groups of countries to support economic growth and social development in member states, with a focus on low- and middle-income members. According to the Department of Foreign Affairs and Trade (DFAT), Australia engages with MDBs because "multilateral banks have significant convening power and presence in many partner countries where Australia delivers aid... Australia's partnerships with multilateral banks allow us to access their significant expertise, leveraging their analytical, financial and human resources."[8]

This paper aims to provide clear information on Australia's funding to the MDBs and the MDBs' financing of fossil fuels. It calls on Australia to use its role in the banks to redirect that financing towards a just energy transition and scaling up climate finance to low-income countries that have contributed the least to climate change.

Australia has indirectly financed coal, oil and gas through its aid program – particularly the funding it provides to multilateral development banks.

01

How much does Australia give to the MDBs?

Australia provides financial support to four MDBs: the World Bank, Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB) and European Bank for Reconstruction and Development (EBRD).

This paper focuses on the first three of these banks, as the institutions where Australia has the most significant involvement, and which prioritise the Asia-Pacific region.

The World Bank Group consists of five arms — the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID). Australia is a member of all five arms of the World Bank. Each institution of the World Bank has a different role:

- The IBRD provides loans, guarantees, risk management products and advisory services to middle-income and creditworthy low-income countries.[9]
- The IDA provides zero to low-interest loans (credits) and grants to governments of its members, including debt relief.[10]
- The IFC offers investment, advisory and asset-management services to encourage private-sector development in less developed countries.[11]
- MIGA promotes cross-border investment in developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders.[12]
- The ICSID provides facilities for conciliation and arbitration of international investment disputes.[13]

The ADB provides financing to both the public sector (sovereign lending) to its lower- to middle-income member countries, and to the private sector (non-sovereign lending) from its Ordinary Capital Resources (OCR). Like the World Bank, it provides loans, technical assistance, grants and equity investments to promote social and economic development. The ADB also has a concessional arm, the Asian Development Fund (ADF), which is now grant only.[14]

The AIIB provides or facilitates financing (e.g. loans) to member countries, entities operating in member countries and international agencies concerned with economic development in Asia. The AIIB's operations consist of ordinary operations financed from its ordinary resources and special operations financed from its special fund resources. The AIIB provides funding to both sovereign projects and non-sovereign projects.[15] It has no concessional arm.

Australia contributes funding to and invests in the MDBs in several ways — through capital subscriptions, replenishments and through other funding arrangements such as trust funds and special funds.

...in practice, the wealthy member countries dominate the governance of the banks (or, in the AIIB's case, its largest member which is China).[16]

Capital Subscriptions

As the banks are multilateral institutions that are owned and governed by member governments, member governments are shareholders in each bank. The subscribed capital and shareholdings of these members largely determine the proportion of their voting power, which decides financing approval, policies and operations of the banks. This means that, in practice, the wealthy member countries dominate the governance of the banks (or, in the AIIB's case, its largest member which is China).[16]

Australia is one of the largest shareholders in the ADB and the AIIB, and a significant shareholder in the World Bank. Treasury Annual Reports suggest that Australia has continued to add to its subscribed capital in the banks over the years.[17]

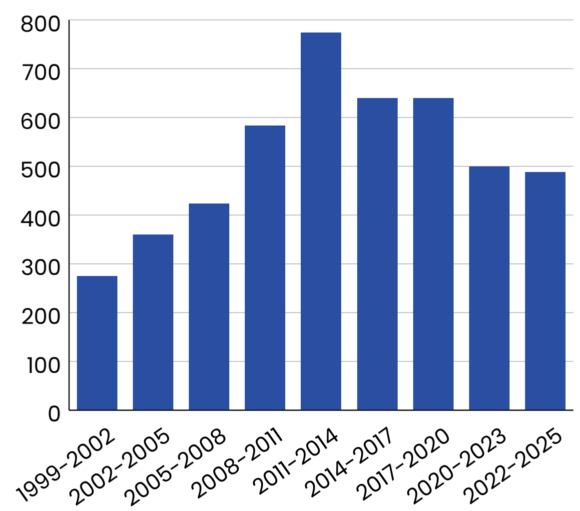
Table 1. Australia's investment in the MDBs

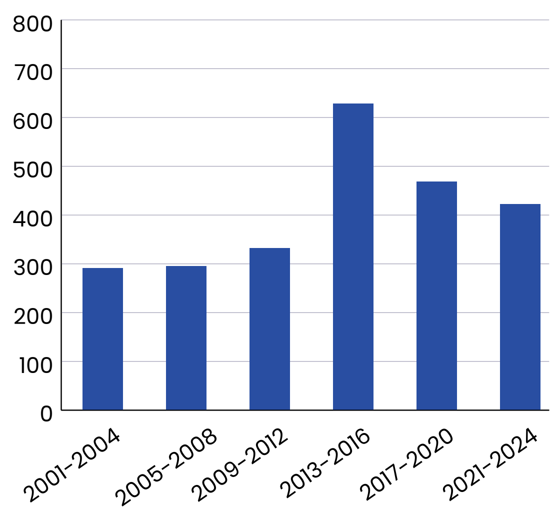
MDB	Year of membership	Australia's capital subscription [%]	Ranking
World Bank	1948	IBRD – US$3.76 billion (AU$5.65 billion) or 1.45% of total shareholdings as of 2023 IFC – US$442.76 million (AU$665.67 million) or 2.01% as of 2023 IDA – US$366.67 million (AU$539.83 million) or 1.07% as of 2022 MIGA – SDR 30.18 million or 1.70% as of 2022	18th for the IDA
ADB	1966	US$8.60 billion (AU$11.85 billion) or 5.77 % as of 2021	5th
AIIB	2015	US$3.69 billion (AU$5.55 billion) or 3.81% as of 2023	6th

Sources: World Bank, Voting Power, 2023; Asian Development Bank, Credit Fundamentals, 2021; Asian Infrastructure Investment Bank, Members and Prospective Members of the Bank, 2023.

Replenishments

Australia has committed to every replenishment of the IDA of the World Bank since 1999 and to the replenishments of the ADF of the ADB since 2001. Replenishments are nominally committed for a three-year period, but the actual payments disbursed to the banks may be over a timetable of up to 10 years.[18] Australia is the 18th largest donor in the current IDA20 replenishment and the second largest donor in the small current ADF13 replenishment. As the AIIB does not have a grant-making fund, it does not require replenishments.





Figures 1 and 2. Australia's replenishment to World Bank (Left) and ADB (Right) (AU$ million)

Sources: Australian National University, Australian Aid Tracker, 2023

Other funding mechanisms

MDBs also receive targeted financial support from member countries for specific projects. Projects may have a geographical focus — global, regional, or single country — or a sectoral focus. They can be single/multi-sector projects or on a cross-cutting issue; they may involve research and analytical work, or post-conflict or crisis reconstruction.[19]

Funding mechanisms include multi-donor trust funds and project co-financing. Co-financing is where two or more partners, such as the bank and a government, design, fund and run a project together.[20] MDBs also co-finance projects. For example, the ADB and AIIB signed a Memorandum of Understanding in 2016 which includes an agreement to co-finance projects.[21]

As well as replenishments, Australia provides co-financing to the different funding mechanisms established by MDBs. Australia also provides parallel financing (funds for a discrete sub-project) and money to allow for debt relief for borrowing countries of MDBs.[22]

Australia has committed to every replenishment of the IDA of the World Bank since 1999 and to the replenishments of the ADF of the ADB since 2001.

Box 1. Australian co-financing to the ADB

Australia has provided co-financing to several ADB Trust Funds.[23] In two of these, the Australian Climate Finance Partnership and ASEAN Australia Smart Cities Trust Fund, Australia is the only partner. Australia partners with other country members of the ADB in other trust funds, including Asia Pacific Project Preparation Facility, Carbon Capture and Storage Fund, Clean Energy Fund, Cooperation Fund for Regional Trade and Financial Security Initiative, Gender and Development Cooperation Fund, Multidonor Trust Fund under the Water Financing Partnership Facility and Regional Malaria and Other Communicable Disease Threats Trust Fund.

Australia has contributed to several Special Funds, including US$232.6 million (AU$349.7 million) for the Technical Assistance Special Fund, US$3.8 million (AU$5.7 million) to the Asian Tsunami Fund, US$15.0 million (AU$22.6 million) to the Pakistan Earthquake Fund and US$1.6 million (AU$2.3 million) to the Asian Development Bank Institute.

02

How does Australia influence MDBs' decisions?

Voting power in most MDBs is linked to the size of the members' shareholding. The largest shareholders can appoint their own directors to the bank boards.

The next largest shareholders can join with a small group of countries to appoint a director, whereas the smaller states need to form large constituencies to get a director. For example, the World Bank's Africa Group 1 Constituency has 22 members. The shareholding system echoes a corporate governance structure, and most MDBs have their dominant shareholders, which raises concerns around hegemonic power.[24]

As the fifth and sixth largest shareholder in the ADB and the AIIB respectively, Australia has the potential to wield substantial influence on the banks' decision-making.

The Treasurer represents Australia on each bank's Board of Governors. The Board of Governors are the highest decision-making bodies of each MDB. They delegate their powers to the Board of Directors.

The Board of Directors are responsible for supervising the banks' strategies, operations and administrative budget. They review and approve policy documents and all loans, grants and technical assistance. Australia is in constituencies that see it generally have either a Director or Alternate Director at the World Bank, ABD and AIIB. Currently, we have a Director at the ABD and AIIB and an Alternate Director at the World Bank. The Australian Director at the ADB currently represents Australia, Azerbaijan, Cambodia, Georgia, Hong Kong, China, Kiribati, Federated States of Micronesia, Nauru, Palau, Solomon Islands and Tuvalu. The Australian Director at the AIIB represents Australia, Cook Islands, New Zealand, Singapore and Viet Nam, with Singapore appointing the Alternate Director. The Australian Alternate Executive Director at the World Bank is for Asia and the Pacific constituency, which has 15 Pacific Island states and South Korea holding the Executive Director role.

While members can increase their influence over the banks by adjusting their capital shareholdings and contributions in practice, members tend to maintain their proportional positions as contributors to the banks. They must decide collectively about increases or decreases in the level of core contributions to the bank. Despite this, there are opportunities during capital increases and replenishments for member countries to try to influence the banks' priorities.

Australia has influenced and facilitated budget allocations to IDA-initiated projects for the Indo-Pacific, to ensure they align with Australia's aid program.[25] In the past decades, Australia succeeded in advocating for allocated resources to Pacific countries to be tripled from an average of 0.51% in IDA15 (FY2009-FY2011) to 1.58% in IDA18 (FY2018-FY2020).[26]

Additionally, the member countries of MDBs may exercise specific influence by providing other funds (e.g. trust funds and special funds) to direct bank operations towards a specific geographical area or political priority of their interest.

Australia takes a different approach in its engagement with different MDBs – in some cases developing a formal partnership framework. The current Australia-Asian Development Bank Partnership Framework (2021 – 2025) emphasises helping the Indo-Pacific region to grow sustainable and robust economies. This Partnership Framework has also identified transparency of outcomes as a priority — including a recognition of where Australian money is spent and the results.[27]

As the fifth and sixth largest shareholder in the ADB and the AIIB respectively, Australia has the potential to wield substantial influence on the banks' decision-making.

03

How much financing have the World Bank, the ADB and the AIIB given to fossil fuels?

From 2016 to 2021, the World Bank, the ADB and the AIIB have together provided over US$23.84 billion (AU$32.85 billion) in public finance for fossil fuels.

The World Bank was the biggest spender at about US$16.18 billion.[28] This figure primarily includes direct finance provided by the banks to fossil fuel projects — it does not generally cover indirect finance provided through financial intermediaries (for example, when one of the MDBs finances another financial institution, which then lends money to support a fossil fuel project). It is thus likely to be a significant underestimation of the total support for fossil fuels provided by the banks.

In 2018, the World Bank, the ADB and the AIIB, along with other MDBs, signed the Joint Declaration on the MDBs' alignment approach to the objectives of the Paris Agreement. Despite this, they have continued funding fossil fuel projects each year.

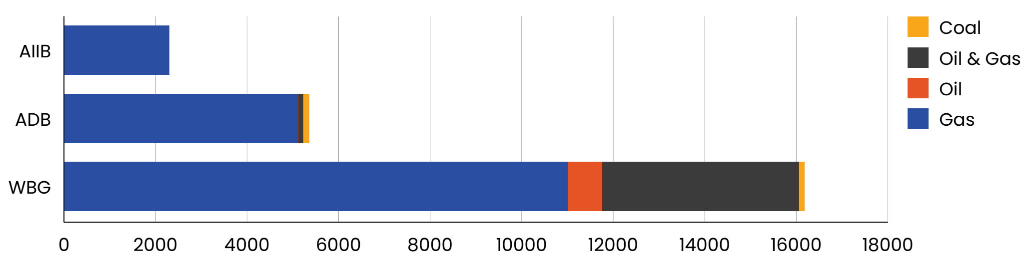


Figure 3. The total of public energy finance from the major MDBs to fossil fuels, from 2016 - 2021 (US$ million)

Source: Oil Change International (OCI), Public Finance for Energy Database, 2022

Before the Paris Agreement was signed, the World Bank and ADB provided almost the same financing amount for fossil fuel projects as they provided to clean energy projects. For example, in 2015-16, the World Bank provided US$1.20 billion (AU$1.66 billion) to energy-related climate finance projects but provided almost as much – US$1 billion (AU$1.38 billion) — to fossil fuels.[29]

In 2018, the World Bank, the ADB and the AIIB, along with other MDBs, signed the Joint Declaration on the MDBs' alignment approach to the objectives of the Paris Agreement.[30]

Despite this, they have continued to commit funding each year to fossil fuels, with the greatest proportion going to gas. Between 2019 and 2021, the World Bank had the highest spend – of the US$1.3 billion (AU$1.80 billion) per year devoted to fossil fuels, around 60% went to gas projects. The ADB financed US$150 million (AU$207 million) per year for gas projects and US$160 million for oil and gas projects, and the AIIB funded US$230 million (AU$317 million) annually for gas projects.[31]

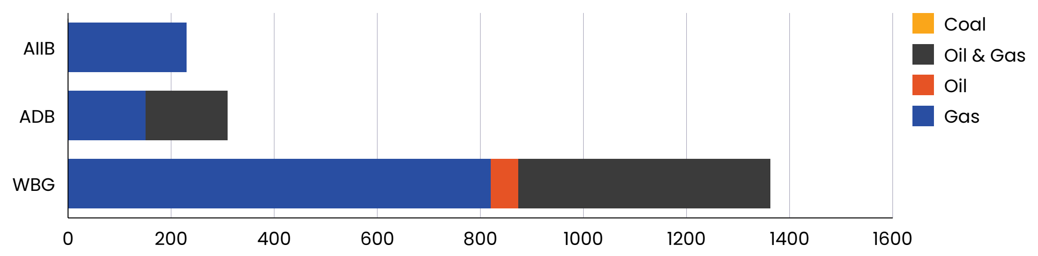


Figure 4. The annual average of public fossil fuel energy finance from the major MDBs from 2019-2021 (US$ million)

Source: OCI, Public Finance for Energy Database, 2022

3.1 Case study of ADB fossil fuel financing in the region

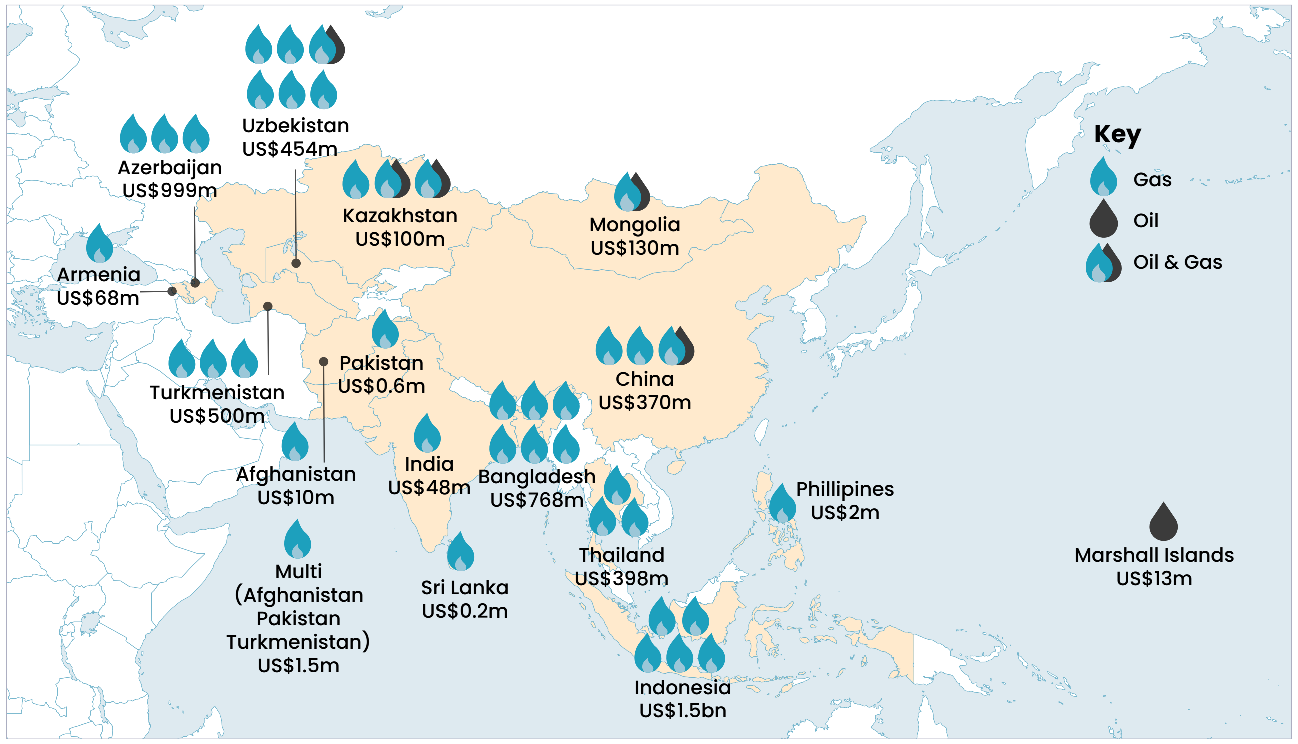
Post the Paris Agreement, from 2016-2021 the ADB still directly financed over US$5.36 billion (AU$7.38 billion) in 41 fossil fuel projects throughout Asia (Figure 5). Over US$1 billion was provided to Indonesia. The ADB has directly supported six projects each in Bangladesh and Uzbekistan and five projects in Indonesia (see Figure 5).[32] On top of this, the ADB has likely also indirectly financed fossil fuels through its lending to financial intermediaries, such as private banks.[33]

In 2021, the ADB approved a new [Energy Policy: 'Supporting Low-Carbon Transition in Asia and the Pacific'], resulting in a ban on funding for coal projects under most circumstances. The Policy states, "ADB will withdraw from financing new coal-fired power and heating plants, support developing member countries (DMCs) in achieving a planned phase-out of coal in the Asia and Pacific region and foster a just transition that considers its impacts on people and communities."[34] However, the policy allows gas investment in certain circumstances.

The new energy policy promotes inclusive energy operations aligning with the ADB's environmental and social safeguard policies. In particular, the policy highlights gender equality, stating; "Gender equality in employment, decision-making, and leadership will therefore continue to be an important goal throughout the consultation, planning, and implementation of energy sector operations."[35] The policy argues that promoting energy access and development are noted to contribute to solving gender gaps and inequality in the borrower member countries.

On top of this, the ADB's Energy Transition Mechanism (ETM) has seen further finance committed to coal in the name of supporting a clean energy transition[36]. The ETM has been criticised by civil society organisations (CSOs) (see Box 2).

Figure 5. Fossil fuel projects financed by ADB in Asia after Paris, from 2016-2021



Country	No. of projects	Total financed amount (US$ million)	Gas	Oil	Oil & Gas
Afghanistan	1	10.00	1	0	0
Armenia	1	68.40	1	0	0
Azerbaijan	3	999.30	3	0	0
Bangladesh	6	768.43	6	0	0
China	3	370.00	2	0	1
India	1	48.00	1	0	0
Indonesia	5	1470.10	5	0	0
Kazakhstan	3	99.82	1	0	2
Marshall Islands	1	12.70	0	1	0
Mongolia	1	130.00	0	0	1
Pakistan	1	0.60	1	0	0
Philippines	1	2.00	1	0	0
Sri Lanka	1	0.23	1	0	0
Thailand	3	397.70	3	0	0
Turkmenistan	3	500.33	3	0	0
Uzbekistan	6	454.23	5	0	1
Multi (Afghanistan, Pakistan, Turkmenistan)	1	1.50	1	0	0

Source: OCI, Public Finance for Energy Database, 2022

Box 2. The ETM project in West Java, Indonesia

ADB's Energy Transition Mechanism is a proposed initiative in partnership with developing member countries that "will leverage a market-based approach to accelerate the transition from fossil fuels to clean energy."[37] Under an ETM approach, ADB launched the Energy Transition Mechanism Partnership Trust Fund (ETMPTF), aiming to accelerate the retirement of coal plants and transition country members to clean energy to reduce greenhouse gas emissions.[38] One pilot project was launched on 14 November 2022 in Indonesia. The ADB's President signed a Memorandum of Understanding with the Presidents of Cirebon Electric Power, PT PLN (Persero) and Indonesian Investment Authority (INA), to accelerate the retirement of Cirebon-1, a 660-megawatt coal-fired power plant owned by Cirebon Electric Power in West Java.[39] The project would be refinanced with US$250-300 million on the condition of terminating the operation of the Cirebon-1 power plant 10 to 15 years before the end of its previous 40-to-50-year lifespan.

Although the Cirebon-1 coal power project may be decommissioned 10 to 15 years earlier than planned, there are a range of environmental and social impacts that remain unaddressed since the project began. Most notably, pollution has encroached to farmland and fishing grounds of coastal villages in the area for more than ten years.[40] Impacts on women included changes to their economic activities, from farming to raising cattle, because the rice paddy field was affected by pollution.[41]

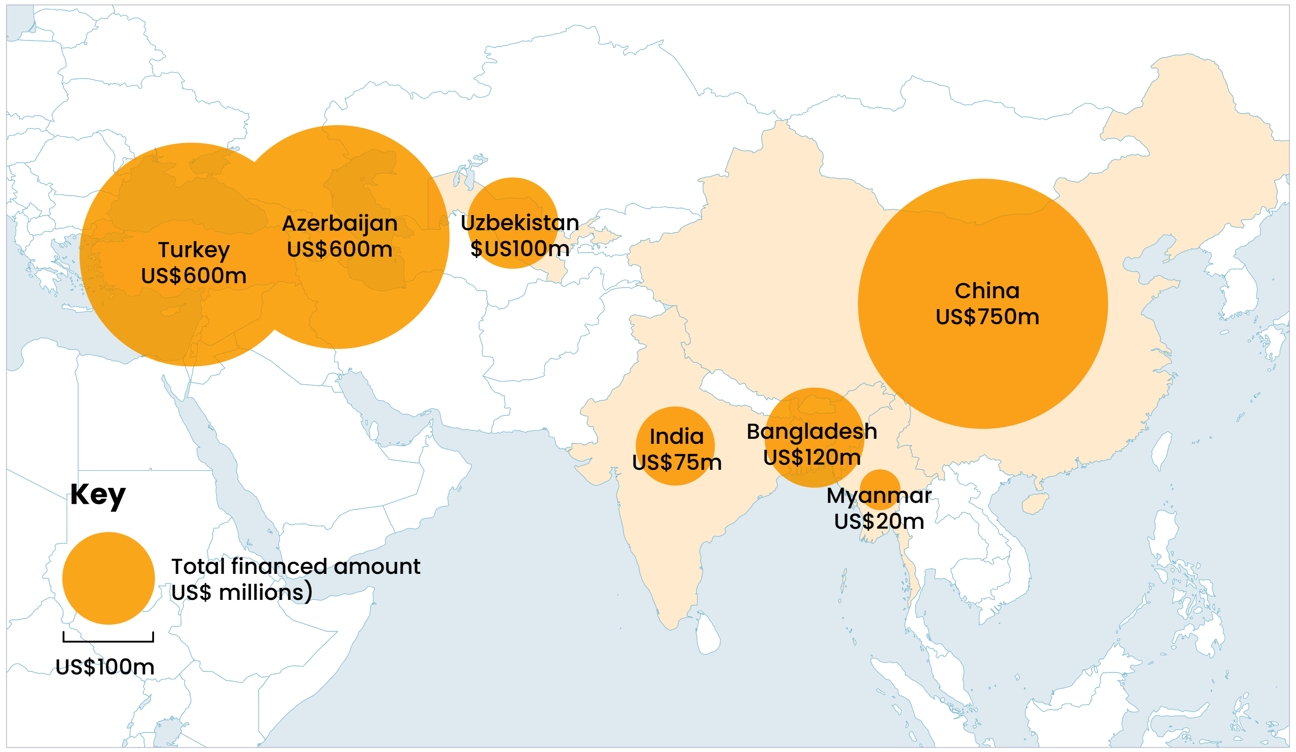
CSOs have flagged their suspicion of these new 'coal-to-clean' schemes and questioned whether this project will continue to cause social and environmental damage.[42] They have questioned whether this funding will help Indonesia reduce greenhouse gas emissions, or whether it may pose a debt trap.[43] CSOs have also observed that this ETM project was discussed and decided upon without the involvement or perspectives of community groups and workers.[44] The ADB has responded to criticisms of Cirebon-1 by suggesting that communities should access the company's grievance mechanism.[45]

The Cirebon-1 project also raises questions about whether it is appropriate for the ADB to, in effect, provide public financing to a coal company. As the ADB is providing public financing for retirement of Cirebon-1, the plant's parent company is on the verge of opening a new 1000-megawatt coal powered unit, Cirebon-2, in the same area.[46] While the ADB's financing aims to accelerate the energy transition, in other contexts, market pressures have led to the early closures of coal-fired plants. As noted by the NGO Forum on ADB, the ETM as it stands provides no assurance that capacities lost to early retirement of coal plants will be replaced by renewable energy sources, and the process of buying out coal plants would effectively absolve coal companies from paying for the negative outcomes they have created.[47] In this complex and rapidly shifting environment, it is unclear whether such a large public payout for coal will prove to be the right move.

3.2 Case study of AIIB fossil fuel financing in the region

Since the AIIB began operations in 2016 and up to 2021, it funded US$2.37 billion (AU$3.26 billion) for fossil fuel projects in Asia. AIIB fossil fuel financing was provided to nine gas projects across seven countries in Asia. China received the most financing, followed by Azerbaijan and Turkey. Each country had at least one project financed by the AIIB. [48]

Figure 6. Projects financed by AIIB in Asia, 2016-2021



Source: OCI, Public Finance for Energy Database, 2022

AIIB approved its first Energy Sector Strategy (ESS) in 2017. The ESS did not include any restrictions for fossil fuels, including coal. Civil society was highly critical, calling for a transition out of all fossil fuels.[49] At the end of 2022, the AIIB approved an updated version of the ESS, titled 'Sustainable Energy for Tomorrow'.

This resulted in the following restrictions on fossil fuel investments:

- AIIB will not finance thermal coal mining, coal-fired power and heating plants or projects that are functionally related to coal.
- AIIB will only support oil sector investments under exceptional circumstances to improve basic energy access and control GHG emissions from flaring and leakage.
- AIIB will not support gas upstream exploration and drilling activities.
- AIIB will support gas midstream infrastructure, natural gas-fired power generation and downstream facilities (subject to certain criteria).[50]

As a major contributor to climate change, fossil fuels have a significant impact on gender inequality. Extreme weather, droughts and floods impact on activities traditionally undertaken by women, such as collecting water, home gardening and gathering crabs and clams. Energy access can also be important for women. For example, access to electric or gas stoves can reduce women's unpaid care burden. The AIIB has recognised this in its energy strategy, which states that enhancing and developing energy access will promote gender equality. The strategy states:

> "AIIB recognizes that access to modern, sustainable energy and energy-based technologies can significantly enhance women's lives by reducing their time and labour burdens, improving their health, and providing them with opportunities to engage in economic activities. Women can thus increase their incomes through entrepreneurship, and young girls can attend school... AIIB will support project specific measures to address gender gaps with respect to access to energy."[51]

However, energy measures that deepen climate change risk addressing some aspects of gender inequality while exacerbating others.

In the AIIB's Sustainable Development Bonds Impact Report 2021, the AIIB noted: "Gender is not currently the primary driver for AIIB's investment decisions, at least not to the same extent as climate. However, it is an increasingly important project component and an area that deserves enhanced attention."[52]

The 2017 ESS was weak on gender — and the results are telling. Research by BRICS Feminist Watch and Recourse shows that almost half of all AIIB's approved energy sector projects since 2016 lack any mention of gender commitments in its project documentation. While the updated ESS includes more gender references, many are superficial and there are no gender indicators in the ESS Results Monitoring Framework.[53]

Although the updated ESS put restrictions on gas projects in November 2022, the AIIB approved the Unique Meghnaghat Independent Power Plant (IPP), a greenfield gas project in Bangladesh, just a month later — putting the effectiveness of the restrictions into question.[54] The bank approved the project through a fast-track approval process via the use of its Accountability Framework.[55] The Accountability Framework mechanism gives decision-making power on project financing to the bank's President rather than the Board, which means there is a lack of democratic oversight. The Unique Meghnaghat IPP raised concerns regarding its costs and benefits to social and economic development.

As a major contributor to climate change, fossil fuels have a significant impact on gender inequality.

The development of the Unique Meghnaghat LNG-based power plant.
© CLEAN (Coastal Livelihood and Environmental Action Network)

Box 3. Is Unique Meghnaghat IPP really needed for Bangladesh?

The Unique Meghnaghat IPP was initiated to increase gas power generation capacity in Bangladesh. The AIIB approved financing of US$110 million for "...the design, financing, engineering, construction, operation, and maintenance of a 584-megawatt (MW) greenfield gas-fired combined-cycle gas turbine (CCGT) plant on a Build-Own-Operate (BDO) basis..." in December 2022.[56] The project was developed by Unique Meghnaghat Power Limited (UMPL) and is expected to be operational in late 2023. UMPL has signed a Power Purchase Agreement (PPA) with the Bangladesh Power Development Board (BPDB) for 22 years. The power plant is being constructed in the Narayanganj District of Bangladesh.

Civil society organisations have questioned whether the benefits of this project outweigh the costs. Currently, over one-third of power generation capacity in Bangladesh is not being used.[57] The current capacity of the power sector of the country is 22,512 MW, while the highest demand for electricity is 14,782 MW. Therefore, this new power plant will increase the existing overcapacity and create a risk for carbon lock-in or stranded assets.[58] Both the ADB[59] and AIIB have invested in other gas infrastructure projects in Bangladesh, contributing to the country's overcapacity problem. The recent AIIB investment looks set to entrench this.

AIIB's project document claimed that this project is aligned with the Paris Agreement, but this claim is questionable. The plant has been predicted to emit 2-3 million tonnes of CO2e per annum.[60] Bangladesh emitted 36.98 million tonnes of CO2e in 2019.[61] Hence, the plant will significantly add to the country's carbon emissions, which could compromise Bangladesh's achievement of its goals under the Paris Agreement.

The project relies on the most expensive source of energy, LNG, which in no way can be claimed to be efficient, nor part of a low-carbon transition. Solar is currently the cheapest source of energy in the country. Lack of LNG supply is also an issue – if the plant is idle due to supply issues, Bangladesh would face capacity charges, potentially generating debt and pushing up energy costs for citizens.[62]

Social impact is another issue. Civil society has questioned whether the land acquisition process provided fair compensation.[63] The construction of this plant has also affected livelihood activities. For example, the plant took the grazing land of locals and the boundary wall established for the plant blocked the local walkway which prevented women's access to the river for their water consumption.[64]

04

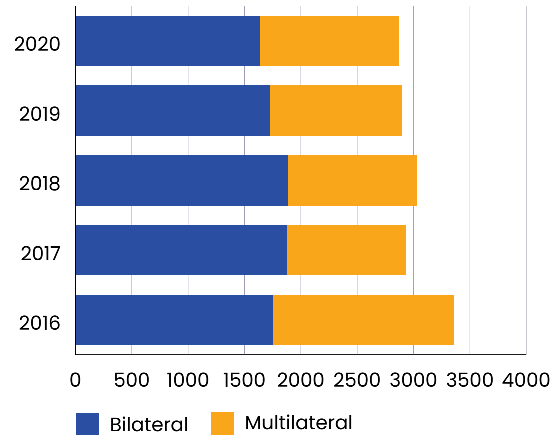
How much has Australia contributed to the MDBs' fossil fuel financing?

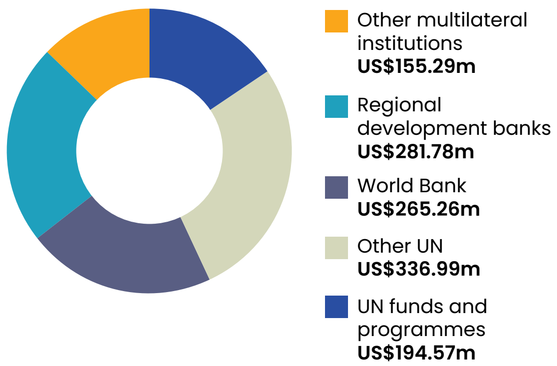
From 2016 to 2020, an average of 40% of Australia's ODA went to multilateral organisations (including United Nations agencies and MDBs). MDBs received around half of this.

In 2020, MDBs (including the World Bank, the ADB and the AIIB) received around 19% of Australia's annual ODA, making them a key player in the Australian aid landscape.[65]

While the Australian Government reports on its financing of multilateral organisations in DFAT's annual statistical summaries, it does not currently provide disaggregated data showing how much is provided to each MDB. This data is available through the Organisation for Economic Cooperation and Development but is challenging to disaggregate.

General contributions to MDBs are core funding, so each donor should be seen as responsible for investment in fossil fuels as per their share of the organisation.[66]





Figures 7 and 8: Australia's bilateral and multilateral ODA allocations (Gross disbursements, US$ million, 2020 constant prices) (Left), and Australia's contributions to multilateral organisations in 2020 (Gross disbursements, US$ million, 2020 constant prices) (Right)[67]

Source: OECD, Development Co-operation Profiles: Australia, 2023

In 2020, MDBs (including the World Bank, the ADB and the AIIB) received around 19% of Australia's annual ODA, making them a key player in the Australian aid landscape.

As Australia is a shareholder in the MDBs, we have calculated Australia's share of each bank's fossil fuel spending from 2016-2021 based on the proportion of its shareholding.

On this calculation, Australia's share of this fossil fuel financing represents US$601 million (AU$828 million) of the MDBs' fossil fuel financing.[68]

Based on its shareholding, Australia's share of the MDBs' fossil fuel financing 2016-21 is AU$828 million.

The development of the Unique Meghnaghat LNG-based power plant.
© CLEAN (Coastal Livelihood and Environmental Action Network)

05

What have MDBs done to align their operations with the Paris Agreement?

After the Paris Agreement was signed, the three MDBs have made various commitments to implement it.

Since 2015, the three MDBs have worked towards supporting clean energy development by issuing several Joint Statements and frameworks, together with the other MDBs as part of the MDB Working Group on Paris Alignment. This has resulted in some changes to their public financing on fossil fuels (see Figure 9).

Although the three MDBs have continually committed to the outcomes of the Paris Agreement, there is a gap between rhetoric and reality.

The three MDBs have committed to aligning their operations with the Paris Agreement. For instance, the World Bank has committed to aligning new operations starting 1 July 2023. IFC and MIGA will align 85% of new direct operations starting 1 July 2023 and 100% starting 1 July 2025. The ADB committed to align its sovereign operations by 1 July 2023 and 85% of its non-sovereign operations by that same date, with full alignment by 1 July 2025. The AIIB will align all its operations by 1 July 2023.

Though the three MDBs have not fully met Paris alignment yet, some progress has been made. Fossil fuels financing by the World Bank and the ADB declined by 40% in 2018-2020 compared to the period 2015-2017.

Each of the three MDBs has developed its own policy to respond to the need for Paris alignment over their direct and indirect fossil fuel financing. However, all their policies on fossil fuel financing include loopholes.

2015	Increased their annual climate finance commitment to US$100 billion (AU$137.19 billion) by 2020.
2017	Committed to go beyond specific MDBs' 2020 and 2030 climate finance targets, amounting to US$35 billion (AU$44.82 billion).
2018	Initiated the six building blocks for Paris alignment: 1) Alignment with mitigation goals 2) Adaptation and climate-resilient operations 3) Accelerated contribution the transitions through climate finance 4) Engagement and policy development support 5) Reporting 6) Align internal activities
2019	Identified a framework for testing their actions toward Paris alignment.
2021	Raised the increasing of mitigation and adaptation financing, promoting natural capital, supporting Just Transitions, addressing the Paris Alignment of policy-based lending, supporting countries to meet the Agreement goals, decommissioning coal and other high-GHG emission system, financing for carbon pricing instruments for cities.
2022	Supported low-carbon and climate-resilient transition and the six priorities - Implementing Paris Alignment approaches, Mainstreaming Just Transition efforts, Boosting Adaptation Finance, Supporting Efforts on Nature, Increasing Concessional Finance, Scaling up Private Sector Mobilisation, and Voluntary Cooperative Approaches.

Figure 9. Timeline of the policy actions of the MDBs towards Paris alignment

Source: The Joint Statement by the Multilateral Development Banks at Paris, COP21: Delivering Climate Change Action at Scale: Our Commitment to Implementation, 2015; Mainstreaming Climate Action Within Financial Institutions: Five Voluntary Principles, 2017; The MDBs' alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient development, 2018; Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations, 2019 & 2021; Collective climate ambition – A joint Statement at COP 26 by the Multilateral Development Banks, 2021; and COP 27 Multilateral Development Banks Joint Statement, 2022

The development of the Unique Meghnaghat LNG-based power plant.

Table 2. Policies of the three MDBs responding to fossil fuels financing exclusion

MDB	Coal Exclusion Policies	Oil Exclusion Policies	Gas Exclusion Policies	Indirect Finance Exclusions
World Bank Group	No thermal coal mining or coal plants except in rare cases. No coal support identified.	No upstream or oil pipelines.	No upstream projects. For other projects, undefined screening criteria where there are 'urgent energy demands and no short-term renewable alternatives to reliably serve such demand.'	The recently updated International Finance Corporation's Green Equity Strategy 2023 excludes clients that do not have a plan to exit coal by 2030, although the definition of coal exposure is limited.
ADB	No coal mining, processing, storage and transportation, no new coal-fired power generation.	2021 energy policy excludes upstream and midstream oil finance.	No upstream gas with some unclear criteria to limit downstream and midstream finance.	Its 2021 energy policy applies to indirect finance.
AIIB	2022 energy strategy (not a policy, so it is not mandatory) excludes coal finance.	2022 energy strategy allows oil-fired power only as part of renewable energy hybrid systems.	2022 energy strategy allows for gas midstream infrastructure, natural gas-fired power generation and downstream facilities development.	Its 2022 energy strategy applies to indirect finance.

Source: OCI, 2022; IFC, 2023; ADB, 2021; AIIB, 2022

Although the three MDBs have continually committed to the outcomes of the Paris Agreement, there is a gap between rhetoric and reality. Some gaps and concerns that are yet to be addressed are as follows:

- In general, the MDBs don't report on their fossil fuel financing with the same rigour as they report on their climate finance performance. In addition, indirect finance through intermediaries is very opaque, with little information on where money ends up.[69]
- Although the ADB's energy policy and AIIB energy strategy will apply to funding through financial intermediaries, in practice, without disclosure of subprojects, there is no way to verify this. The result will be the creation of loopholes that could only be closed off if there was more explicit wording and a commitment towards transparency in subprojects.
- The last Joint Statement of the MDBs was criticised by civil society for not mentioning energy, not committing to phasing out fossil fuels and not providing detail on how the MDB commitments are being implemented.[70]
- None of the three MDBs has signed the Statement on International Public Support for the Clean Energy Transition (the Glasgow Statement). While most of the signatories are national governments or national institutions, MDBs can sign up. The European Investment Bank and East African Investment Bank have done so.
- Although the ADB's Energy Policy excludes financing for coal under most circumstances,[71] midstream and downstream gas investment are still possible, subject to some restrictions. A similar exemption is applied in AIIB's updated Energy Sector Strategy. This contrasts with the EIB, whose policy rules out virtually all financing for coal, oil and gas projects.

06

How does Australia's approach to fossil fuel financing compare to other large MDB shareholders?

As a shareholder in the World Bank, the ADB and the AIIB, Australia has an opportunity to influence the banks' policies and investment decisions.

In recent years, several major MDB shareholders have made public commitments to limit the extent to which public financing is going to fossil fuels – including through MDBs.

However, Australia lags behind several other major shareholding countries in this regard.

Additionally, Australia has not yet signed the Glasgow Statement, compared to the other largest shareholders of the three MDBs such as the United Kingdom (UK), the United States (US) and France.

Box 4. The US Fossil Fuel Energy Guidance for MDBs

The US Treasury Department released a new guidance for MDB investments on 16 August 2021.[72] The guidance stated that the US "will promote ending international financing of carbon-intensive fossil fuel-based energy while simultaneously advancing sustainable development and a green recovery… We will work with MDB Management and shareholders to prioritize clean energy, innovation, and energy efficiency. When considering projects, we will advocate for MDB staff to assess these options first, and only consider fossil fuels if they are unfeasible…"

The guidance covered both direct and indirect investment projects.

Regarding direct investment projects, the US will oppose new coal-based project development and oil-based energy project development, narrow the support for natural gas projects to midstream and downstream projects, and be open to supporting Carbon Capture, Use & Storage (CCUS) and methane abatement projects including the use of natural gas and oil heat generation.

For other types of projects, the US will oppose operations with policy reforms that directly support fossil fuel activities. The US will also oppose all investments in financial intermediaries or companies where they can reasonably determine that the MDB funds will be used for subprojects or activities that are not consistent with their approach for direct investment projects.

Cirebon-2, a new 1000-megawatt Indonesian coal power plant in the same area as Cirebon-1, which the ADB is helping to decommission.

© Friends of the Earth Japan

07

What can Australia do to stop MDBs financing fossil fuels?

It is time for Australia to take a clear position on public financing for fossil fuels and use its influence – particularly in the ADB and the AIIB – to shift the banks out of coal and gas.

Public finance is scarce. Directing limited public money to fossil fuels essentially directs taxpayer funds to industries that contribute to climate change. This in turn causes harm to people and the environment in Australia and globally. Australia could use its influence to ensure that public finance through the MDBs helps catalyse a just energy transition through increased global climate finance to countries that have done the least to cause climate change.

The Australian Government should commit to the following actions.

Recommendation 1

Sign and implement the Statement on International Public Support for the Clean Energy Transition (Glasgow Statement)

The Glasgow Statement is a key driver that is helping the global community to reach the Paris Agreement's goals. The relevant measures identified under this statement are:

2) We (signatories) will end new direct public support for the international unabated fossil fuel energy sector within one year of signing this statement, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement.

3) We will encourage further governments, their official export credit agencies and public finance institutions to implement similar commitments into COP27 and beyond. This includes driving multilateral negotiations in international bodies, particularly in the OECD, to review, update and strengthen their governance frameworks to align with the Paris Agreement goals. For government signatories, this will also guide our approach on the boards of multilateral development banks.

If current signatories implemented the Glasgow Statement globally, it could move US$28 billion (AU$42.10 billion) in international public financing for fossil fuels toward clean energy investment and just transition each year.[73] As of February 2023, 39 signatories have committed to this statement, including large shareholders such as the US, the UK and France. It is opportune now for the Australian Government to join others in signing this Statement and developing clear policies to implement it. A policy to implement Glasgow should explicitly apply to fossil fuel financing that goes through MDBs and to Australia's voting position in the MDBs. The participation and commitment from MDBs' major shareholders means MDBs may soon be forced to end their fossil fuel finance. Current analysis by CSOs revealed that the Glasgow signatory countries now make up:

- **45%** of World Bank (International Bank for Reconstruction and Development) voting power
- **35%** of Asian Development Bank voting power; and
- **22%** of Asian Infrastructure Investment Bank voting power.[74]

Recommendation 2

Increase transparency and develop a publicly available MDB Engagement Framework

Some of the largest MDB shareholders have issued policies that instruct their MDB directors not to support fossil fuel investments of the banks (with some exceptions). For instance, the US launched their Guidance on Fossil Fuel Energy at the Multilateral Development Banks in 2021. Switzerland launched guidance in 2022 and the Netherlands and Belgium have unpublished guidance.[75] In contrast, it is not public knowledge in Australia as to whether government ministers or officials provide policy guidance to MDB directors and, if so, what policy positions directors are asked to take. This lack of transparency means that Australia's influence over these significant bodies happens behind closed doors, possibly without oversight from elected officials or civil society.

An option to increase transparency would be for Australia to publish specific voting guidance for its MDB directors. The US guidance provides a clear statement of position that the public or elected officials can hold the US accountable for. It is not perfect — the guidance still has some fossil fuel loopholes that allow for investments in midstream and downstream fossil fuel projects. The effectiveness of the guidance has also been questioned as it has been disregarded on at least one occasion, with US directors abstaining rather than voting 'no' on an oil project in Suriname.[76] However, it provides a greater level of transparency than the opaque system currently in place in Australia.

Another option would be for Department of Foreign Affairs and Trade to initiate and develop an overarching Multilateral Engagement Strategy, including a declaration of a position that is opposed to investment in fossil fuels. Although DFAT has developed a partnership framework with ADB, this Australia-ADB partnership framework does not cover questions of fossil fuel financing. Neither does Australia have any frameworks with the AIIB or the World Bank. Developing clearer policies, including a prohibition on fossil fuel investment, would send a clear signal about Australia's priorities.

As part of its MDB engagement, Australia should also push for the banks themselves to be more transparent and accountable, to allow for better public scrutiny of climate commitments and their implementation. There is a particular need for stronger disclosure around the climate impacts of financial intermediary sub-projects and for the banks to open their Paris alignment methodologies for consultation and ongoing review. While the EBRD has consulted civil society on its Paris alignment methodology, the World Bank, ADB and AIIB have not. Australia can use its influence in the banks to encourage them to strengthen accountability mechanisms and improve information-sharing and consultation with civil society on climate.

Recommendation 3

Issue a national policy that prohibits public financing for fossil fuels through the aid program

Australia has not issued any direct policy covering its overseas fossil fuel funding.

The Albanese Government has clearly stated its intention to transform Australia into a "renewable energy superpower".[77] The Hon Chris Bowen, Minister for Climate Change and Energy, spoke strongly at COP27 about encouraging multilateral actions in greenhouse gas emission reduction, including the efforts from the international financial institutions. He said, "Just as we commit to this agenda as individual nations, our multilateral development banks – including the World Bank – must be wholeheartedly committed to this, from their purpose to their actions…"[78]

A fossil fuel exclusion policy should be a whole-of-government policy that also applies to fossil fuel financing through Export Finance Australia. Formulating and endorsing clear policies on fossil fuels funding would be an effective mechanism to change Australia's reputation from being a big polluter to a renewable superpower. Some of the largest shareholders of different MDBs, such as Canada, Denmark and the UK, have committed to the changes in their actions and financing. Equally, the policies of the Swedfund of Sweden, the French Development Agency (FDA) of France and the Financierings-Maatschappij voor Ontwikkelingslanden (FMO) of the Netherlands support change.[79] A strong and clear policy from Australia, that also applies to MDBs, would be a significant step forward.

Box 5. The UK Government Policy on Fossil Fuel Energy Sector Development

Under the policy titled 'Aligning UK International Support for the Clean Energy Transition', the UK Government announced that it will no longer provide support for the fossil fuel energy sector overseas, with some limited exemptions, from 31 March 2021.[80] This policy covers UK Export Finance support, international aid funding and trade promotion for new crude oil, natural gas and thermal coal projects. Its position at the boards of multilateral development banks and other bodies is to be used to influence the investment policies of those organisations and other development financial institutions that receive UK government funding.

The policy applies both to direct and indirect financing (where it is possible to determine where the indirect financing is going) and sets out guidance to deal with financing through financial intermediaries.

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