Methodology for

ASSESSING THE ALIGNMENT OF AIIB INVESTMENT OPERATIONS WITH THE PARIS AGREEMENT

July 2023

ASIAN INFRASTRUCTURE INVESTMENT BANK

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TABLE OF CONTENTS

ABBREVIATIONS

AIIB	Asian Infrastructure Investment Bank
BB	Building block
CAFI	Climate Assessment for Financial Institutions
CRVA	Climate risk and vulnerability assessment
EU	European Union
FI	Financial intermediary
GDP	Gross domestic product
GHG	Greenhouse gas
LTS	Long-term low GHG emissions development strategy
MDB	Multilateral Development Bank
NAP	National adaptation plan
NDC	Nationally determined contributions
PA	Paris Agreement
PAA	Paris Agreement alignment
PAAP	Paris Alignment Action Plan
SC	Specific assessment criteria
TCFD	Task Force on Climate-Related Financial Disclosures
UC	Uniform assessment criteria
UN PRI	United Nations Principles for Responsible Investment
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change

FOREWORD

The world continues to grapple with the unprecedented polycrisis of escalating energy and food price, climate change, biodiversity loss and environmental degradation that are mutually reinforcing and intrinsically linked. Multilateral development banks (MDBs) face the historical challenge of responding to the climate crisis at scale and with great urgency while delivering on vital socio-economic development objectives.

As an MDB established right after the adoption of the Paris Agreement, the Asian Infrastructure Investment Bank (AIIB) is determined to play its part in supporting its members in transitioning to a low-carbon and climate-resilient future. With the United Nations estimates that infrastructure is responsible for nearly 80% of all greenhouse gas emissions and accounts for 88% of all adaptation costs, AIIB's focus on financing sustainable Infrastructure for Tomorrow—what we call "i4t"— places us in a pivotal position in the global response to the climate change crisis. In its first Corporate Strategy, AIIB has set an ambitious target of ensuring at least 50 percent of its actual financial approvals contribute to climate mitigation and/or adaptation by 2025. In addition, AIIB has commited to align all its new financing operations with the goals of the Paris Agreement by 1 July 2023.

Since its inception, AIIB has been actively engaged in the joint MDB efforts in developing a framework for aligning our investment operations with the goals of the Paris Agreement. In line with the joint MDB methodological framework, this document provides further technical details on how AIIB investment operations will be assessed for their alignment. I also want to stress our belief that Paris alignment should be regarded as a significant value addition to our clients by allowing greater focus on ensuring that projects are designed, prepared and implemented with climate considerations at their core thereby also fully reflecting our mandate.

Today, the launch of this document marks a significant milestone for AIIB in its determined pursuit to financing a green, resilient and inclusive future.

Jin Liqun
President and Chair of the Board of Directors
Asian Infrastructure Investment Bank

EXECUTIVE SUMMARY

The Paris Agreement (PA) is a legally binding international treaty on climate change. It was adopted by 196 Parties in December 2015 and entered into force less than a year later in November 2016. The vast majority of members of the Asian Infrastructure Investment Bank (AIIB) ratified the PA and committed to pursuing efforts to limit the increase in the global average temperature (mitigation), increasing the ability to adapt to the adverse impacts of climate change (adaptation and resilience), and aligning finance flows with these goals.

AIIB, as a MDB established right after PA was adopted, is committed to supporting its members sustainable economic growth including their respective climate commitment by investing in infrastructure and other productive sectors.

In aligning its investment operations with the PA, AIIB is guided by:

a. Its corporate commitment, made in October 2021, to align all its new financing operations with the goals of the PA by July 1, 2023.[1]

b. The joint MDB Alignment Approach,[2] which consists of six Building Blocks (BBs), covering the alignment of multilateral development bank (MDB) investment operations (BB1 and BB2), MDBs' accelerated contribution to the transition through climate finance (BB3), engagement and policy development support (BB4), reporting (BB5), and alignment of internal activities (BB6).

c. The Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment, covering BB1 (alignment with mitigation goals) and BB2 (alignment with climate adaptation and resilience goals).[3]

The joint MDB Alignment Approach and the Methodological Principles are collectively referred to in this document as the "joint MDB methodological framework."

This document elaborates the application of the joint MDB methodological framework to aligning AIIB investment operations with the PA (specifically, BB1 and BB2). It reflects the Bank's consistent positioning of PA, which goes beyond safeguards or compliance, to identify opportunities where the Bank can provide additional value. In line with the joint MDB methodological framework, AIIB investment operations will:

a. Be aligned with the overall mitigation goals (BB1) of the PA, that is, be consistent with a low greenhouse gas (GHG) emissions development pathway for the respective country and not undermine a transition to a decarbonized economy, in that country or globally, taking into account countries' common but differentiated responsibilities and respective capabilities; and

b. Actively manage material physical climate risks, based on systematic and robust risk screening and assessment, in a manner consistent with climate-resilient development (BB2). In addition, AIIB will seek to support enhancement of climate-related disaster resilience of clients and their communities to the adverse impacts of climate change.

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1 https://www.aiib.org/en/news-events/news/2021/AIIB-to-Fully-Align-with-Paris-Agreement-Goals-by-Mid-2023.html

2 See details in the joint MDB statement on the Framework at COP24 in 2018: https://www.aiib.org/en/about-aiib/who-we-are/partnership/_download/alignment-approach-paris-agreement.pdf

3 https://www.aiib.org/en/news-events/news/2023/MDBs-Agree-How-to-Align-New-Financial-Flows-with-the-Paris-Agreement-Goals.html

Taking into account the Bank's operations and business model, AIIB Methodology focuses on application of the joint MDB methodological framework to the following instruments:

a. Direct investment operations; and
b. Investment through financial intermediaries (FIs).

Fulfilling AIIB's commitment to PA alignment (PAA) means not only assessing projects as part of the due diligence for project approval, but also actively selecting and designing operations that are PA aligned and therefore making use of AIIB's PA commitment as an opportunity to develop new business.

Acknowledging that application of the joint MDB methodological framework is at an early stage and will evolve, AIIB Methodology will be updated periodically reflecting the experience of AIIB and its peer MDBs in operationalizing the PA alignment. As such, the Bank also expects, and welcomes, feedback from its members, clients, and other stakeholders during its PA methodology application.

I. INTRODUCTION

AIIB Commitment

The Asian Infrastructure Investment Bank (AIIB) committed to aligning all its new financing operations with the goals of the Paris Agreement (PA) by July 1, 2023. This means that AIIB's investment operations must not be inconsistent with low-carbon, climate-resilient development pathways, and requires AIIB to strengthen, among others, its existing climate risk management processes by operationalizing the joint MDB methodological framework for Paris Agreement alignment (PAA).

Goals of the Paris Agreement

The goals of the PA, which the vast majority of members of the AIIB ratified, are articulated in its Article 2:[4]

a. Mitigation: "*... Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change*;"

b. Adaptation and climate resilience: "*... Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production*;" and

c. Finance: "*... Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.*"

Alignment with the PA

Following the adoption of the PA in 2015, the multilateral development banks (MDBs) started work on a joint methodological framework for PAA.[5] Over the past few years, MDBs have been working together to develop their common understanding of what PAA entails operationally. The framework defines six core areas of work, known as building blocks (BBs) (see Figure 1):

a. BB1 – Aligning with mitigation goals;

b. BB2 – Aligning with climate adaptation and resilience goals;

c. BB3 – Accelerating contribution to the transition through climate finance;

d. BB4 – Providing support for engagement and policy development;

e. BB5 – Characterizing, monitoring and reporting on the results of Paris-aligned investment operations; and

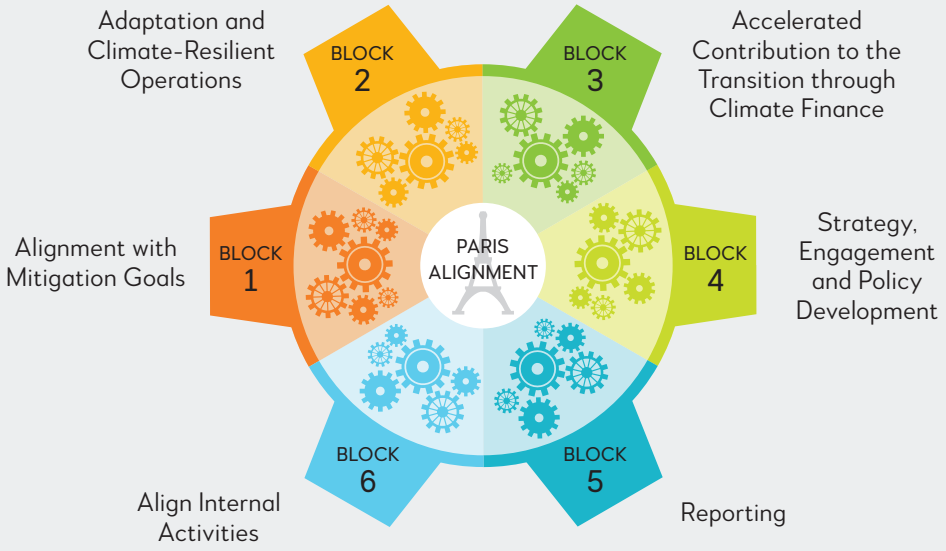
f. BB6 – Aligning MDB internal activities.

This framework is expected to be implemented by each MDB, taking into account its own specific circumstances. The two building blocks that concern alignment of investment operations are BB1 and BB2. To be considered PA aligned, an investment operation must be aligned with both. AIIB methodology therefore focuses on these two BBs.

[4] https://unfccc.int/sites/default/files/english_paris_agreement.pdf

[5] This framework was outlined in a joint MDB statement at COP24 in 2018.

Figure 1. The Six Core Areas ("Building Blocks" or BBs) of the MDB Joint Methodological Framework for PAA



Source: MDB Paris Alignment Working Group (2019).

BB1: Alignment with mitigation goals

AIIB investment operations will be aligned with the overall mitigation goals of the PA by focusing on an operation's consistency with a low greenhouse gas (GHG) development pathway for the country concerned and ensuring it does not undermine a transition to a decarbonized economy in that country and globally,[6] taking into account countries' common but differentiated responsibilities and respective capabilities.

BB2: Climate adaptation and resilience goals

AIIB investment operations will actively manage material physical climate risks based on systematic and robust risk screening and assessment, in a manner consistent with climate-resilient development. In addition, AIIB will seek to support adaptation by and enhance climate resilience of clients and their communities to the adverse impacts of climate change.

The MDBs are expected to carry out BB1 and BB2 assessments in light of the information and tools at their disposal. This will remain a judgment call by each MDB based on available information. For example, definitive references as to what constitutes low-GHG and climate-resilient development pathways in a country are often not yet defined, and they are likely to evolve over time as new scientific and economic information emerges and becomes available to the MDBs and their clients. Despite these limitations, many countries are working to identify their low-GHG, resilient development pathways, and the MDBs plan to continue to support them in preparing and updating their respective national policies (e.g., Nationally Determined Contributions or NDCs), including through the MDBs' work under BB4 on engagement and policy development support.[7] Therefore, it is important to be transparent about the fact that the outcome of the assessment will be based on the best available information at the time it is conducted.

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6 Rather than the activity's specific physical impact in terms of projected CO2e emissions.

7 The MDBs have worked together to develop a set of high-level principles that can guide each institution in its support to countries in developing, implementing, and monitoring robust, inclusive, and ambitious, long-term, low-GHG emissions development strategies (LTSs).

AIIB has provided a set of resources (e.g., climate sensitivity matrix) and tools (e.g., questionnaire for financial intermediaries) to facilitate the assessment of an operation's alignment, or not, with BB1 and BB2. In line with the Bank's commitment, from July 1, 2023 onward, all AIIB investment operations should include a confirmation in the project approval document that the operation has been assessed as PA aligned, based on the best available information at the time of assessment.

Types of Investment Instruments and PAA Assessment Methodologies

Different PAA assessment approaches are provided to reflect the nature of different investment instruments, which are defined in the joint MDB methodological framework. Table 1 provides a summary of the instruments most relevant to the Bank's core business at present and applicable PAA assessment approaches.[8]

Table 1. Investment Instruments Assessed for Alignment with Paris Agreement

INVESTMENT INSTRUMENTS		
	Direct lending	**Financial intermediaries**
Definition	• Borrower receives funds directly • Use of proceeds (UoP) known	• Funding flowing through a financial intermediary (FI)
Examples	• Large-scale Solar Photovoltaic • Hydro project • Electric Vehicles (EVs) Investment Facility • Road rehabilitation	• Equity funds with defined scope or pipeline; • Renewable energy facility through a national bank; • Partial Debt Guarantee (PDG) with loan component through FI
Location in the methodology	Section II	Section III

PAA and Climate Finance

Climate finance plays an important role in the overall MDB PAA methodological framework—specifically through BB3 (Accelerated contribution to the transition through climate finance). Climate finance is defined as financial resources committed to development operations and components thereof which enable activities that mitigate climate change and/or support adaptation to climate change. The concept builds on the extensive work that MDBs have jointly developed over the past few years, including common definitions for climate finance and methodologies for estimating mitigation and adaptation finance.[9]

The MDB climate finance tracking methodology and the joint MDB PAA methodological framework are separate methodologies. The latter focuses on the project's consistency or not with the country's low-carbon and climate-resilient pathway. For example, a social or public health-related project may easily be considered as PA aligned based on the fact that the operation does not have a material (positive or negative) impact on climate change. However, it may not include any climate finance-eligible components recognized in the joint MDB climate finance tracking methodology.

[8] For projects falling into the categories of general corporate purpose (e.g., working capital) and policy-based lending, the Bank will follow the joint MDB approach directly (https://www.aiib.org/en/news-events/news/2023/MDBs-Agree-How-to-Align-New-Financial-Flows-with-the-Paris-Agreement-Goals.html).

[9] See Annex C to the 2021 Joint MDB Climate Finance Report, https://www.aiib.org/en/about-aiib/who-we-are/partnership/_download/The-2021-Joint-Report-on-Multilateral-Development-Banks-Climate-Finance_2022-0092.pdf

II. PAA ASSESSMENT FOR DIRECT INVESTMENT OPERATIONS

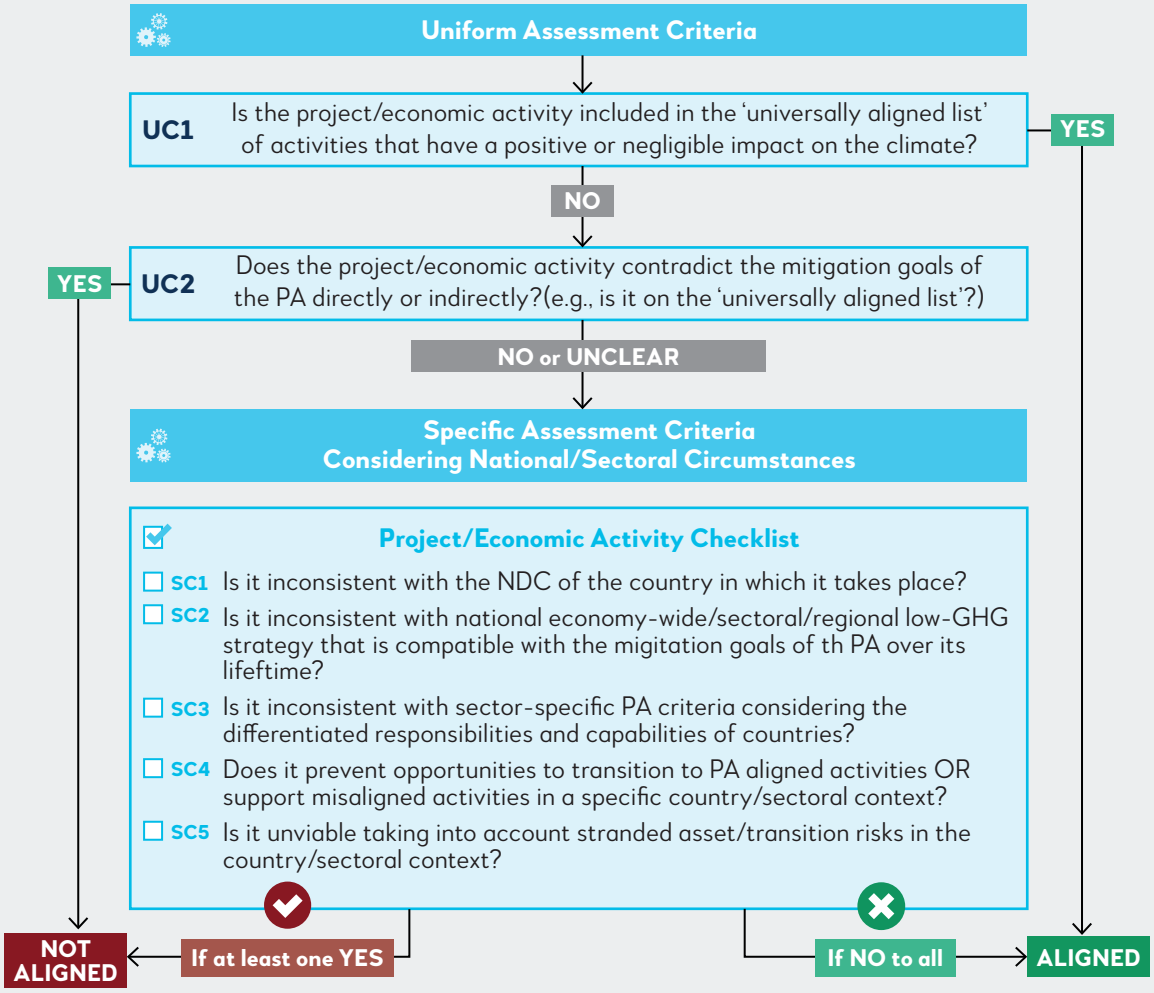
A. ASSESSMENT FOR PAA UNDER BB1

The joint MDB methodological framework presents a two-pronged assessment approach, as illustrated in Figure 2 below. It includes:

a. An initial screening using uniform assessment criteria (UC), which identify operations or activity types that are universally considered to be aligned (UC1) or not aligned (UC2); and

b. Specific assessment criteria (SC) for operations or activities are not included in either UC1 or UC2, taking into account national circumstances and other operation-specific contexts.

Figure 2. Decision-making approach for determining the alignment of direct investment operations with the PA's mitigation goals (BB1)



Source: Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Direct Investment Lending Operations

Annex 1 contains lists of activities that the MDBs currently consider to be universally aligned or unaligned. These lists serve as a "positive list" and an "exclusion list," respectively, for PAA. Both lists

will be updated periodically to reflect the latest evolution of technologies, policies, practices, and consumer behavior.

Five specific criteria (SC1-SC5) are applied to operations that do not automatically meet either UC1 or UC2, so as to evaluate the operation in light of the specific country circumstances and national and sectoral strategies that are likely to define that country's transition pathway(s) to low-GHG development (and its contribution to the mitigation goals of the PA). Specifically, it should be noted that

a. Information availability may be a challenge, especially at the early stages of implementation of this framework (e.g., limited number of existing country or sectoral decarbonization strategies). However, these limitations are not expected to prevent an assessment from being carried out, i.e., it will simply be based on the information that can reasonably be obtained at that time.

b. The SCs are considered in parallel; they do not have a hierarchy. Depending on information available, it may not be possible to apply some of the criteria. However, lack of information does not mean that the criteria/SC is not met. Relevant information to other criteria/SC can be applied to complement any missing information. For instance, where a "national strategy compatible with the goals of the Paris Alignment" does not yet exist, SC2 will not lead to a classification as not aligned. Instead, the activity would be deemed as aligned or not aligned on the basis of the other criteria, as long as there is not a high risk of inconsistency with the type of strategies highlighted in SC2.

The elaboration on the SCs below has been developed by the joint MDBs[10] to provide information on each specific criterion and what the framework aims to capture/assess.

Table 2. Explanation of SCs for PAA in the joint MDB methodological framework

SC1: Is operation / economic activity inconsistent with NDC of country in which it takes place?
Clarification/Consideration
This specific criterion involves checking whether the operation is "inconsistent with" the country's NDC. It will only lead to a "yes" answer (and therefore to an assessment of "not aligned") if the NDC rules out the operation.
Further consideration
To check for inconsistency, the MDB verifies whether the NDC covers the sector or activity in question. If so, the MDB checks whether the operation is in line with the pathways laid out for that particular sector or activity (see example 1 below). If the activity or sector is not included in the relevant strategy, then in most cases it can be concluded that the activity is not inconsistent with the strategy, and the MDB can continue applying the remaining specific criteria to determine alignment. However, there may be cases where the MDB can infer from the information available in the strategy that the activity is likely inconsistent with the strategy (see examples below). Several operation types, especially those that do not have significant direct or indirect GHG emissions, are normally not mentioned in NDCs, LTSs, or global low-GHG emissions pathways. In those cases, the assessment would focus mainly on SC4 and SC5. As noted above, the expert judgment made by MDBs of operations should not be interpreted as a judgment or endorsement of the country's NDC or other relevant documents used in the assessment. The more aligned an NDC is with the long-term goals of the PA (for instance, when the NDC is informed by a pathway to decarbonization by mid-century), and the more sectors it covers, the more robust the assessment under SC1 is expected to be.

[10] Based on the working draft published by MDBs for direct investment operations in November 2021. https://www.aiib.org/en/about-aiib/who-we-are/partnership/_download/COP26-MDB-Paris-alignment-Note-en.pdf

Examples

1. If the NDC of a country says, a fossil-fuel powered technology should be phased out by 2035, an operation in 2025 that would support such technology with an expected lifetime of 10 or more years could be deemed to be inconsistent with the NDC, and thus not aligned under SC1.
2. If the NDC makes no mention of the fossil-fuel powered technology but sets up an ambitious renewable energy target that would make such technology unnecessary unless renewable energy deployment is limited, the assessment under SC1 would be expected to be considered together with the assessment under SC4. This could possibly lead to it being deemed "inconsistent" with the NDC and not aligned with the Paris mitigation goals.

SC2: Is operation/economic activity, over its lifetime, inconsistent with country's LTS or other similar long-term national economy-wide, sectoral, or regional low-GHG strategies compatible with the mitigation goals of the PA?

Clarification/Consideration

SC2 assesses the operation's consistency with the country's long-term strategies and other official national, sectoral, or sub-national strategies or policies (or drafts undergoing public consultations).

LTSs and other relevant national, local, or sectoral low-GHG development strategies are expected to achieve long-term decarbonization, in line with the mitigation goals of the PA. Other relevant national, local, or sectoral low-GHG emission strategies, as well as the MDB's own or other publicly available analysis, should be used to inform the assessment.

Further consideration

Follow the same approach as with SC1 but applied to the LTS and other relevant low-GHG strategies.

The more ambitious and realistic an LTS is, the more robust the assessment under SC2 will be. The consistency of the operation with that LTS considerably reinforces the likelihood of characterization of the operation as "Paris-aligned," as it is then not only consistent with a plausible pathway, but with a formal country-owned strategy. LTSs can lay out a path for countries to decarbonize in a timely manner to keep global warming well below 2°C (while pursuing efforts to limit it to 1.5°C), build climate resilience, and facilitate an orderly transition for all sectors of the economy and society. With more countries developing their LTSs and updating their NDCs accordingly, the information gap in applying the SC2 is expected to be reduced..

Example

If the LTS says that the energy sector or the whole economy will be carbon-neutral by year X, and the expected lifetime of a fossil fuel power installation (without carbon capture and storage) extends significantly beyond that year, then this operation could be deemed to be incompatible with the LTS and be not aligned.

SC3: Is the operation/economic activity inconsistent with global sector-specific decarbonization pathways in line with the PA mitigation goals, considering countries' common but differentiated responsibilities and respective capabilities?

Clarification/Consideration

SC3 checks the operation's compatibility with widely accepted data and findings in the global literature on sector-specific decarbonization pathways in line with the PA's mitigation goals.

Sector-specific decarbonization pathways may include sector roadmaps developed by international organizations, academia, or industry associations. Sector scenarios (with a more limited scope than pathways) provide estimates in terms of emission thresholds (e.g., tonnes of CO_2 per tonne of cement) that could also inform the assessment, as applicable.

Further consideration

See further information for SC1. Considering countries' "common but differentiated responsibilities and respective capabilities," a foundational principle within the United Nations Framework Convention on Climate Change (UNFCCC), means taking into account that countries are at different stages of development and have different resources and capacities that may affect their ability to decarbonize their economies in line with global pathways. As a result, an operation that would be deemed inconsistent in one country context might be deemed consistent in another context.

Examples

An operation will finance the procurement of diesel-fuelled buses. Prospective studies (such as those published by the International Energy Agency, IEA) suggest that in some countries, it is feasible to electrify public transport in the near term, as a step toward decarbonization. However, the pace at which this transformation can occur depends on the country context. In countries that are more advanced in their capabilities or opportunities for electrification of transport, the transition can be faster than in countries with more limited capacity or opportunities to transition to electrified fleet for several more years.

SC4: Does the operation/economic activity prevent opportunities to transition to Paris-aligned activities, OR primarily support or directly depend on non-aligned activities in a specific country/sectoral context?

Clarification/Consideration

SC4 compares the operation to lower-carbon alternatives and considers the risks of (i) creating lock-in or (ii) preventing future deployment of Paris-aligned activities.

SC4 also considers the broader impact the operation could have on the likelihood of achieving the low-GHG transition, even beyond the immediate scope of the operation, as applicable ("is the operation preventing opportunities to transition?").

SC4 may be informed by relevant low-GHG development pathways (same or other than those considered under SC2) and by studies carried out under BB4 or other country strategy support provided by the MDBs. When such studies are available, the MDBs will assess the consistency of operations with such pathways, according to the MDBs' own expert judgment.

Further consideration

Low-GHG development pathways considered under SC4 can be either economy-wide or sector-specific. They need to be consistent with the objectives of the PA, but also consider the circumstances of the country, best available technologies, and capabilities of the client (in other words, they must be plausible).

Even before countries reach the stage of having an official LTS, interim analyses produced as part of capacity-building efforts or other country-level diagnostics, including those supported by MDBs, may represent useful inputs for assessment under SC4. The more such interim analyses comply with the principles for a robust LTS, the more useful they will be for enabling a robust assessment.

SC5: Is the operation/economic activity economically unviable, when taking into account the risks of stranded assets and transition risks in the national/sectoral context?
Clarification/Consideration
SC5 incorporates climate change considerations into the quantitative economic or financial analysis of the operation. This, in turn, involves monetizing, to the extent possible, the costs and benefits related to risks associated with climate change impacts and relevant climate policies. Each MDB is expected to apply the SC5 based on its internal methods and approaches. An operation will be considered not aligned if it fails to meet the individual MDB's criteria for economic or financial viability once such considerations are incorporated in the analysis or in an equivalent qualitative assessment, if available. Shadow carbon prices can be a possible simplified way to incorporate climate change considerations into the economic analysis.
Further consideration
SC5 may be linked to the adaptation and resilience assessment under BB2. For example, the economic or financial analysis may also consider physical climate change risks faced by an asset.

The joint MDB methodological framework provides the common basis for determining PAA, while leaving individual MDBs to implement it, taking into account their respective policies and strategies, business model, client base and priorities. In this context, AIIB developed additional sector-specific approach to facilitate the application of the joint MDB framework. The key sectors currently covered are energy, transport, desalination, waste to energy and data center projects, as included in Annex 2. More sectors/sub-sectors may be added as the Bank expands its business. Such sector-specific approach will also be reviewed periodically to reflect the insights and experience the Bank gains during application.

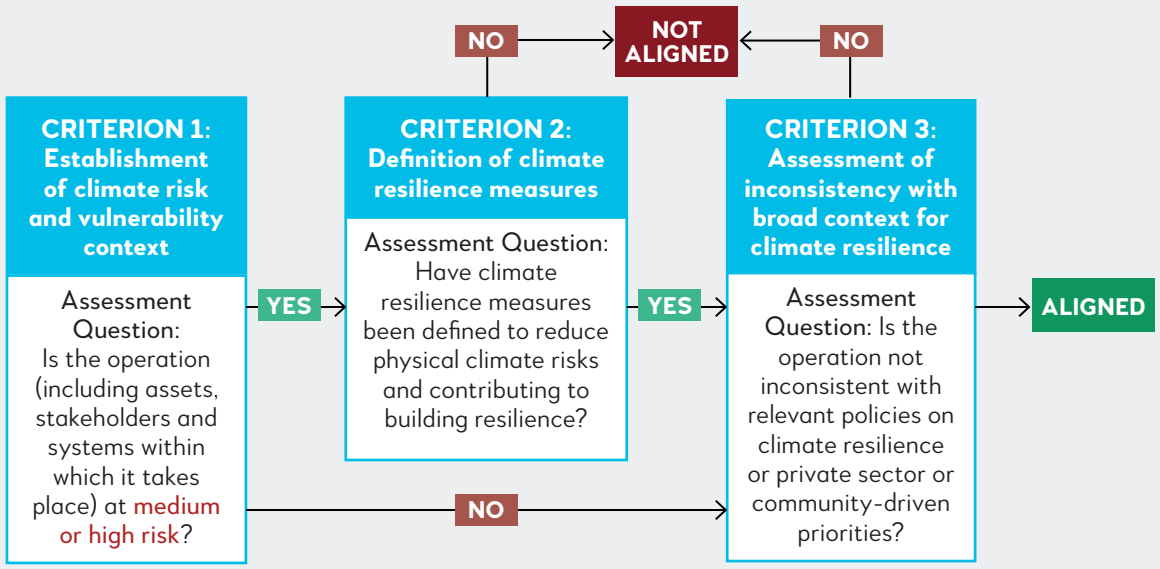
B. ASSESSMENT FOR PAA UNDER BB2

The PAA Criteria

The joint MDB methodological framework for assessing PAA under BB2 for direct investment operations is largely based on the core steps for tracking adaptation finance in MDB operations.[11] Central to the approach are three assessment criteria. Figure 3 summarizes the overall process for assessing PAA for the adaptation and climate resilience goals in direct investment operations.

[11] https://www.aiib.org/en/about-aiib/who-we-are/partnership/_download/mdbs_joint_methodology_climate_finance_en_20220242.pdf

Figure 3. The Overall Process for Assessing PAA in Direct Investment Operations (BB2)



Source: AIIB.

The three PAA criteria are:

a. Criterion 1: **The Climate Risk and Vulnerability Context is established.** This requires an operation to identify any material physical climate risks that could adversely impact its activities, and assess the sensitivity, exposure, and overall vulnerability of the project to relevant climate-related hazards. The timeframe for the assessment should be appropriate for the lifetime of the investment. A number of data and analytical tools are available to support an initial project physical climate risk screening. Where risks have been identified as medium or high (i.e., material), a detailed climate risk and vulnerability assessment (CRVA) is required in order to support the consideration of suitable adaptation measures (see Criterion 2). As shown in Figure 3, if physical climate risks to the operation are considered low, Criterion 2 is not applicable and the PAA assessment proceeds to Criterion 3.

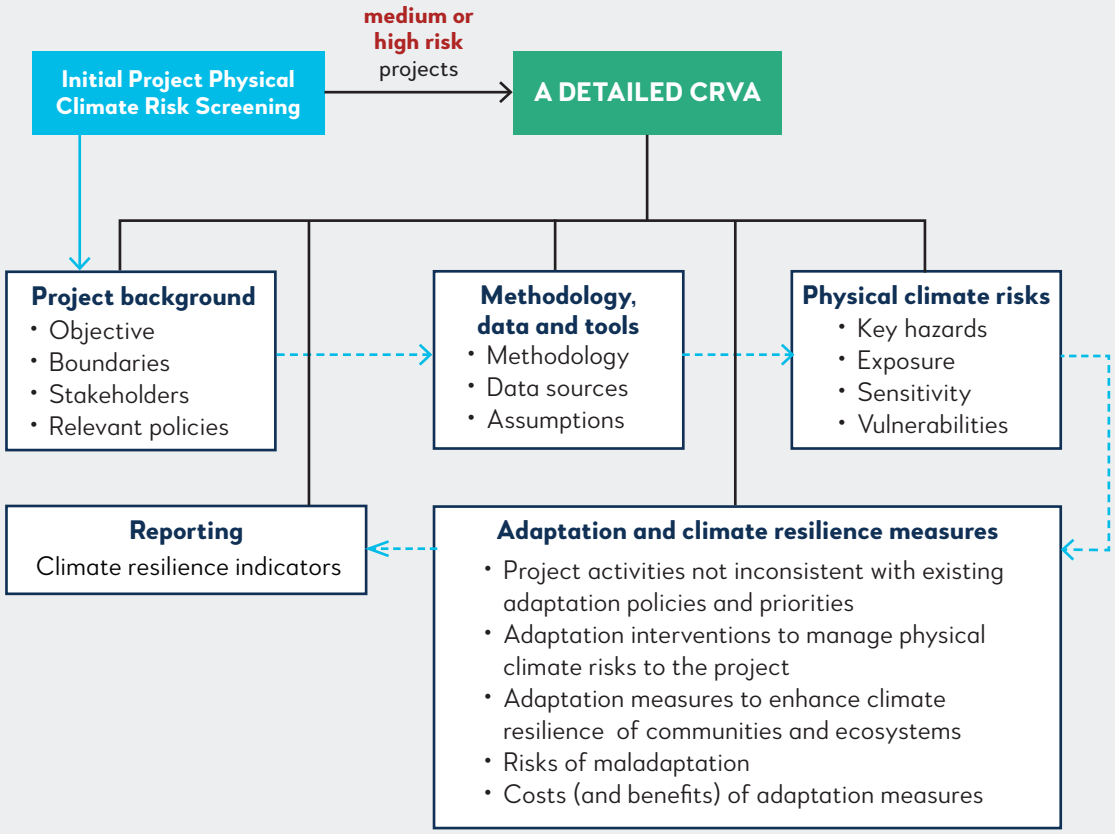
b. Criterion 2: **Adaptation measures for managing material risks are identified and integrated into project design.** This criterion seeks to ensure that the material risks identified have been managed by the inclusion of adaptation measures within the operation. This may include, for example, designing drainage infrastructure to account for more intense rainfall, or including the development of a drought risk management plan to support the resilience of a water management system. This criterion also requires an assessment of whether any proposed adaptation measures could increase vulnerability elsewhere (i.e., contribute to maladaptation), and recommendations for additional activities that could build wider climate and disaster resilience.

c. Criterion 3: **The operation and its components are not inconsistent with the sectoral or national priorities for climate resilience.** This requires an assessment of whether project activities are inconsistent with existing local, national, regional or sectoral policies and priorities for adaptation and resilience. An operation is considered to meet this criterion if it does not contradict adaptation priorities. However, explicit policies may not exist in many cases at present.

Steps for Assessing PAA

Information is required on physical climate risks to the operation, adaptation measures that could be adopted to address material physical climate risks as well as the consistency of proposed project activities with wider adaptation and resilience priorities. As illustrated in Figure 4, such information is expected to be made available through a projects CRVA, if the project is deemed to be at medium or high climate risk through the initial project risk screening.

Figure 4. Project Level Physical Climate Risk Screening and Adaptation Assessment



Source: AIIB.

The following paragraphs explain how the relevant results from a CRVA can facilitate the assessment of PAA. They are not intended as guidance on how to conduct a CRVA (although closely related). Instead, they explain how the PAA requirements can be assessed based on information from the CRVA and presented in a way that directly corresponds to the criteria.

Steps for project level physial climate risk assessment

STEP 1. Establishing the risk and vulnerability context

As an initial step, an appropriate assessment of climate risk and vulnerability for an operation needs to be carried out. This involves:

a. *Defining boundaries and scope.*

To conduct a robust assessment of the risks to an operation, the boundary and scope of activities should be clearly understood and defined. This may include the physical footprint of the investment,

social boundaries (for example the different groups impacted by project activities) and the economic boundary, including, for example, the supply chain for an operation. It is also necessary to establish the temporal boundary for the assessment: is the relevant timeframe of interest the tenor of the loan, or the economic lifetime of the asset? Boundaries for the assessment depend on the nature of the operation, and as such vary according to the specific aims, investment type, and the location or sector within which it operates. Clearly defined boundaries and scope inform decisions on the data needed for the assessment, and the approach to take for subsequent steps. They also help to place the operation within the wider system that it influences or by which it is influenced. This placement allows the assessment to identify critical points of interaction where the operation may be subject to direct and indirect impacts from climate change.

b. *Assessing sensitivity, exposure and vulnerability.*

To determine whether an operation is at material physical climate risks, an assessment of the three key components of physical climate risk is required, i.e., sensitivity, exposure and vulnerability.

(1) Sensitivity Analysis: Sensitivity analysis aims to identify which climate hazards are relevant to the specific activity, and acts as an initial filter for hazards that are not relevant to the operation in question. Sensitivity analysis is irrespective of location and should consider various components of the activity's operation and how it operates within a wider sector or system. It should consider any onsite assets and processes, inputs and resources, products and services and wider transport links, and how these might be affected by different climate hazards, including, for example, flood risk, drought, sea-level rise, landslides, wildfires and heatwave risk. There are a number of sensitivity matrices with varying degrees of detail (both in relation to the granularity of economic activity, and the levels of sensitivity assigned) that can be used to support this step.

(2) Exposure Analysis: Once the climate hazards that may affect an operation have been identified, location-specific data should be used to understand the level of exposure to different hazards and how this may change under differing climate scenarios. Good practice would use at least two emissions scenarios in the assessment, and draw from the ensemble of climate model projections in order to account for future uncertainties. When using publicly available data for exposure analysis, several aspects of data should be considered to ensure a robust assessment is made, including:

- Spatial coverage and resolution;
- Temporal coverage and timeframe;
- Representativeness; and
- Replicability (for re-assessment)

(3) Vulnerability Analysis: This combines exposure and sensitivity to determine the overall vulnerability of the operation to a specific hazard. In this assessment framework there is no need to include adaptive capacity, as the second step is to demonstrate how specific vulnerabilities are managed through the project – so if the capacity of the beneficiary is high then this will be reflected in the adaptation measures included in the project and listed in the second step below.

In summary, an operation must be able to demonstrate that an initial physical climate risk screening or a CRVA has been carried out, including sensitivity, exposure and vulnerability, and that key vulnerabilities have been identified. Reporting for this step should be able to summarize:

a. The boundaries of the assessment;
b. Data sources used for the assessment and any limitations; and
c. Priority vulnerabilities identified and to be addressed

STEP 2. Identifying and integrating adaptation and climate resilience measures

a. *Incorporating measures to address climate risks and opportunities and enhance climate resilience.*

Once key vulnerabilities and risks have been identified, it is important to ensure that appropriate climate resilience measures are in place to manage risks and reduce vulnerability. Therefore, for each climate vulnerability identified, appropriate resilience measures need to be identified and integrated within the design of the project or activity. These may include structural measures – increasing resilience by adjusting the design of infrastructure and technology to mitigate physical climate risks and avoid the worst impacts, operational measures such as the development of emergency plans for different risks, or non-structural measures such as capacity-building, improved maintenance schemes or improved systems for monitoring and early warning. Applicable engineering design standards should be considered. Typically, where engineering standards and codes exists, the design measures to mitigate climate risks are covered, however an assessment on how the standards and codes have been applied should be undertaken, especially regarding the relevant hydrometeorological parameters. The assessment should consider whether changes in relevant hydrometeorological design parameters have been factored in, based on best available science and taking into account associated uncertainties.[12] More information on sector specific CRVA, including considerations for design standards, is provided in Annex 3.

The minimum requirement for PAA is that the operation itself is made resilient to identified climate risks. More ambitious projects may also seek to enhance the resilience of the wider system – for example through updating building codes and standards to address changing flood risk and extreme temperatures. Although not necessary for demonstrating PAA, projects that aim to enhance resilience more generally, and contribute to climate-resilient development outcomes, can report higher climate finance contributions.

b. *Considering the potential for maladaptation.*

In some cases, proposed climate adaptation can induce negative outcomes and increase the climate risk and vulnerability of an activity and its location(s). A specific example of maladaptation is the planting of trees to reduce flood risk or enhance biodiversity in an area that is specifically prone to wildfires and as a result increases the activity's risk from climate change as well as the activity's impact on the surrounding environment and carbon emissions. Additionally, adaptation measures can have a negative impact on wider ecosystems and communities, such as an activity/project drilling boreholes to ensure effective water supply, which dries up wetlands in the community, leading to ecosystem and livelihood impacts. Other examples with impacts on wider infrastructure that also generate additional emissions include the installation of additional air-conditioning to overcome prolonged hot weather, which adds stress to power networks and releases additional GHG emissions. To demonstrate PAA, it is important to show that the project does not lead to maladaptation. The proposed adaptation measures for the project should be assessed against the three types of maladaptation shown in Table 3.

[12] Projections of changes in relevant design climate parameters may not be available or easily accessible at the temporal (e.g., hourly) and spatial (e.g., site-specific) resolution required to perform the assessment. In such situations, international good practices for characterizing and managing uncertainties associated with future changes in climate conditions should be sought and applied. For example, even though there is no specific projections of dry season precipitation for a project location for 2040, if trends in observed dry season precipitation over the past 30 years in the location points to a significant decrease, AND precipitation during the dry months in a larger area (which includes the project location) are projected to further decrease over the next 2-3 decades, it is reasonable to consider increased risk of water scarcity in project location in the 2040s. This piece of information could be used to assess whether the design parameters in line with the prevailing performance/service standards need to be adjusted.

Table 3. Illustrative Examples of Maladaptation

TYPE OF MALADAPTATION	FOCUS OF ASSESSMENT
Impacts negatively on ecosystems	The project has no negative impacts on ecosystems beyond its boundary. Assessment of water resources needed for the project demonstrates that sufficient water remains for environmental use.
Impacts negatively on communities	The project has no negative impact on local or wider communities, such as excessive water consumption that deprives communities downstream.
Increases carbon emissions	The project has no negative impact on GHG emissions beyond its project boundary, such as the installation of additional air-conditioning with energy met by fossil fuels releasing additional GHGs.

Sector-specific explanation with further information on sector-specific considerations for identifying and assessing adaptation measures is provided in Annex 3 for energy, water supply and sanitation, transport and urban development.

For this second step, PAA reporting should show: (1) evidence that adaptation measures have been included to ensure that all key vulnerabilities/risks have been addressed;[13] and (2) evidence that the project has considered the risk of maladaptation, and none has been found.

STEP 3. Assessing potential inconsistency with broader climate resilience priorities

The final step is to confirm that the activity is "not inconsistent" with national, regional, local, or sectoral plans or priorities for adaptation. For example, in a country where the national adaptation plan for the water sector states that desalinization is not considered an appropriate response to water scarcity (e.g., due to its high energy requirement), an operation that plans to invest in desalinization plants as a way of increasing resilience to drought in coastal areas would have to be assessed as inconsistent.

In practice, there will be relatively few cases where an operation runs counter to stated adaptation priorities,[14] in part because detailed adaptation plans are not yet common, but also because a well-designed project is unlikely to be inconsistent with any stated priorities. Importantly, such an assessment does not make a judgment on the adequacy or appropriateness of the policies/ strategies/ plans for adaptation, but merely reviews them and confirms that the project is not inconsistent with any stated priorities or policies.

To begin with, the relevant national, regional or city-level adaptation policies or strategies should be identified, as well as any relevant private sector or community-driven policies or priorities for adaptation. Common policies will include NDCs,[15] National Adaptation Plans,[16] Sector Adaptation Plans, and City Resilience Plans or Climate Strategies. For the private sector, different trade or industry bodies may have position statements, or policies relating to adaptation and resilience.

The proposed project should then be assessed to determine whether it is aligned with stated priorities; there is no evidence of inconsistency; or it is in fact inconsistent. Table 4 provides a possible template for recording the results of this final step. If no such policy and strategy on adaptation/resilience exists, it should be concluded that there is no evidence of inconsistency and the assessment passes through this step.

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[13] If existing national engineering design standards factor in projected changes in relevant design hydrometeorological parameters (e.g., derived from the latest climate model simulations), PAA report should provide summary of such findings.

[14] This step is more relevant for mitigation, where sectoral decarbonization plans are more developed, and operations could be inconsistent with stated emissions targets, whereas for adaptation, policies tend to be formulated at a much higher level.

[15] See NDCs submitted by countries at UNFCCC, NDC registry. https://unfccc.int/NDCREG

[16] See submitted National Adaptation Plans at NAP Central

Table 4. Suggested Template for Recording the Results of Step 3 in the PAA Assessment

POLICY	ASSESSMENT OF INCONSISTENCY	EXAMPLE JUSTIFICATION
NDC	The project is clearly aligned with stated priorities	The project does not impact the country's adaptation agreed at the 2015 UN PA. This is a water resources project and the NDC clearly highlights the need for further investment in water to respond to droughts.
Sector Adaptation Policy	No evidence in policy that the project is inconsistent	The project focuses on the rehabilitation of irrigation canals, and more efficient irrigation technology. Although the water adaptation policy notes the need for demand-reduction measures, there is no specific reference to irrigation. The document, however, does not state the oppose either.
National Adaptation Plan (NAP)	The project is inconsistent with stated priorities	The project is investing in hydropower, but the NAP clearly states that hydropower is not a suitable adaptation measure for the water sector because of adverse environmental impacts.

In this third step, the project will be deemed to be not aligned for adaptation if there is evidence of inconsistency or contradiction with relevant adaptation and resilience priorities.

III. PAA ASSESSMENT FOR INTERMEDIATED INVESTMENT OPERATIONS

THE ASSESSMENT PROCESS

The objective

The methodology is for assessing the PAA of intermediated finance, including investment delivered through banks, non-banking financial institutions, leasing companies, funds, and other financial intermediaries (FI). The methodology is designed to support and enable FI clients to:

a. Improve their systems and processes for the management of transition and material physical climate risks; and

b. Adopt policies and strategies that will enable them to be consistent with the objectives of the PA within the jurisdiction where they operate.

AIIB will work closely with its FI clients and support them in achieving these objectives.

The Two Assessment Approaches: Transaction- and Counterparty-Based

Depending on the availability of information and the nature of the operation at the time of the assessment, AIIB may follow one or both of the assessment approaches: transaction-based and counterparty-based.

a. The *transaction-based approach* generally applies when the use of AIIB finance is known, and the sector(s) and geographic location(s) of AIIB financed activities are defined. This approach restricts the use of AIIB investment to projects within the scope of aligned activities/low risk, and assured by adequate management of transition and material physical risks from the FIs.

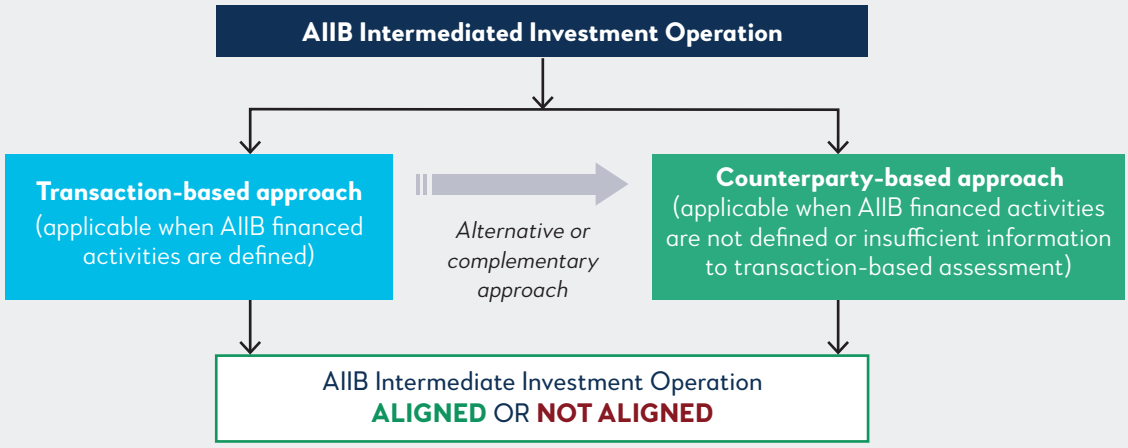
b. The *counterparty-based approach* can be applied when there is insufficient information to apply the transaction-based approach (e.g., project pipeline is unknown or when there is insufficient information on the project locations' exposure to climate risks). This approach applies a system-level perspective, focusing on the client's internal climate risk management system and processes.

The overall assessment process is illustrated in Figure 5. Depending on the specific circumstances of an operation, it is possible to use a combination of both approaches for certain operations, e.g., transaction-based for mitigation and counterparty-based for adaptation, or vice versa. Project teams may also choose to apply the counterparty-based approach to operations with defined activities but without sufficient information required to apply the transaction-based approach.

PAA assessment under FI may require the client to make certain commitments to AIIB, either related to the use of proceeds from AIIB investment, and/or their corporate systems and policies, including a set of indicators and milestones for monitoring and periodic reporting on the progress back to AIIB.

Based on project specificities, AIIB may apply both approaches, while acknowledging that counterparty-based approach has potentially transformative impact as the effect extends beyond the underlying AIIB financed activity alone.

Figure 5. The Two Approaches to PAA Assessment for FI Operations



Source: AIIB.

TRANSACTION-BASED APPROACH

BB1 Transaction-based approach

Under this approach, an FI operation is considered PA aligned if it:

a. Excludes any investments/activities that are considered universally not aligned with the PA goals (the list is the same as for BB1 direct lending, see Annex 1); and shall be in line with AIIB's Energy Sector Strategy[17] (for example, exclusion of upstream oil and gas); and

b. Is limited to universally aligned activities (BB1 direct lending list, see Annex 1); or

c. Is limited to those that do not have a material impact on climate change, does not lead to the lock-in of carbon-intensive patterns that would be inconsistent with the mitigation objectives of the PA, and is not inconsistent with a country's transition to low-GHG development pathways; or

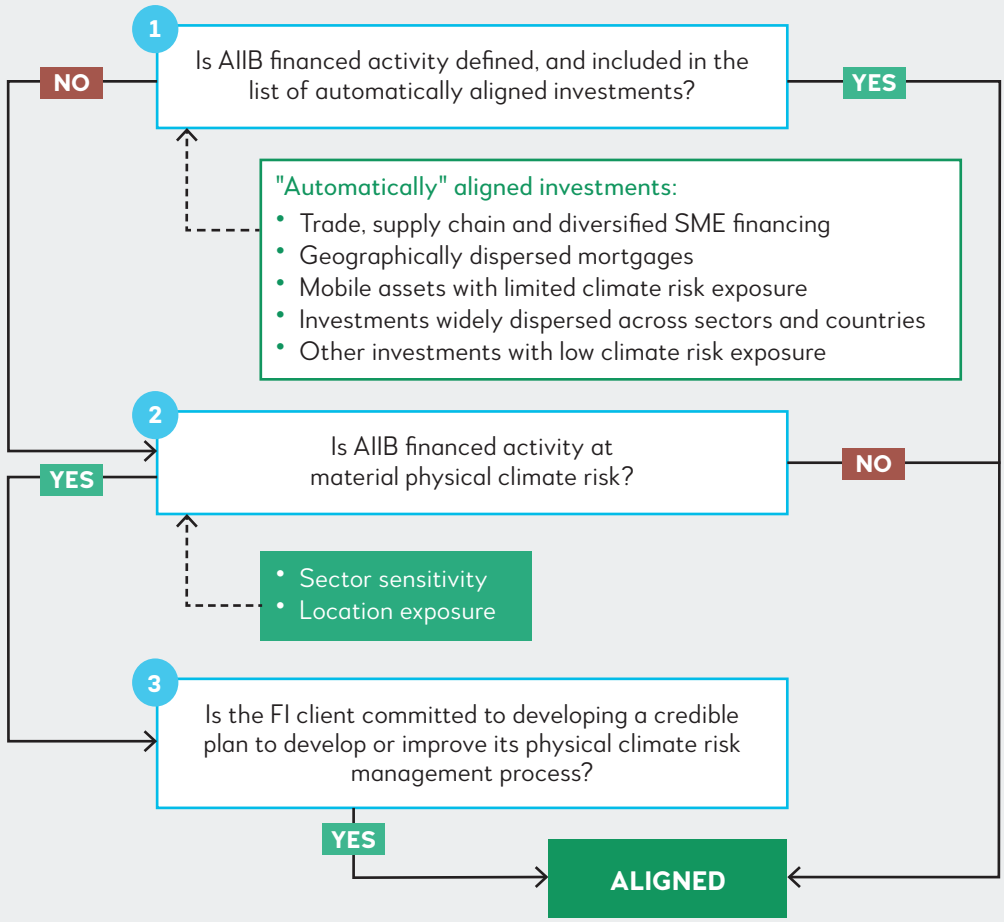
d. Is limited to activities and assets that individually represent small volumes and are diversified across industries, including SME finance that exhibits a low-carbon footprint.

BB2 Transaction-based approach

Figure 6 summarizes the key steps and assessment questions for PAA assessment under BB2 following the transaction-based approach. In Step 1, the assessment considers whether the AIIB financed operation meets the conditions for automatic alignment. If project activities do not have automatically aligned characteristics, the assessment proceeds to Step 2, which focuses on the materiality of physical climate risk exposure of AIIB financed activities. If AIIB financed activities are deemed to be at material physical climate risk, the PAA assessment moves to Step 3 and considers whether the FI client is committed to put in place a credible plan to develop or improve its climate risk management process.

[17] AIIB Energy Sector Strategy 2022 https://www.aiib.org/en/policies-strategies/strategies/sustainable-energy-asia/.content/index/_download/AIIB-Energy-Sector-Strategy-Update_Final_Nov-2022.pdf

Figure 6. Key Steps and Assessment Questions for BB2 Assessment under the Transaction-based Approach



Source: AIIB.

Automatically aligned activities for BB2

Where the AIIB financed activity is defined, project teams will check whether it is included in a list of activities that are automatically aligned, given their typically low level of exposure to physical climate risks. Such activities include:

a. Trade finance;
b. Supply chain finance;
c. Diversified SME financing;
d. Geographically dispersed assets (such as mortgages, network type of infrastructure), etc.;
e. Mobile assets with limited climate risk exposure;
f. Investments that are widely dispersed across a wide range of sectors and countries;
g. Other investments with low climate risk exposure (e.g., research and development, climate technologies, education services).

Materiality of physical climate risks

If the project activities do not fall into an automatically aligned category, the BB2 transaction-based approach requires assessment of the materiality of the physical climate risks of the proposed activities. This entails assessment of sector exposure and, if the project is in sector(s) highly exposed to climate change, location exposure (geographical location of the investment/pipeline).

a. Sector and Location Exposure Assessment.

   Most economic activities are sensitive to climate change in one way or another, but levels of sensitivity vary. For example, investments in water, energy and transportation are considered to be particularly sensitive to the impacts of climate change. For the operation to be considered PA aligned, clients need to substantiate that the proportion of the project materially exposed to physical climate risk is not significant.

b. Addressing the material physical climate risks.

   For the investment as a whole, if sub-projects that have been shown to be at material physical climate risks, the client will need to:

   - Either exclude high-risk sub-projects; or
   - Commit to screening them through detailed project climate vulnerability assessments, and addressing/managing those risks before the end of the investment tenor; or
   - Commit to better management of material physical climate risks and development of a Paris Alignment Action Plan (PAAP).

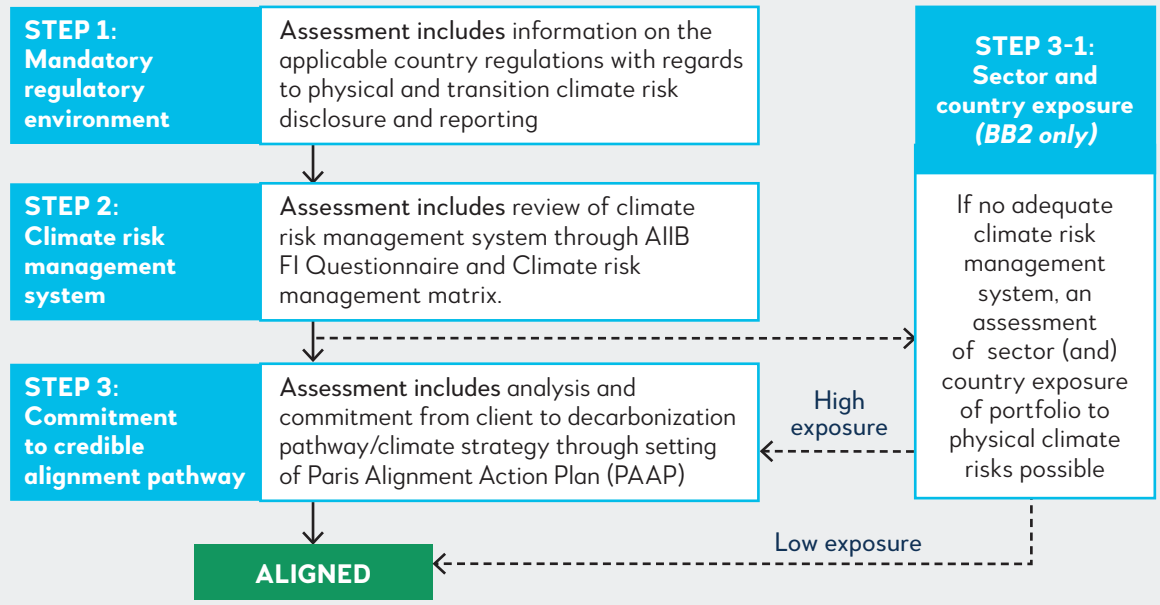
COUNTERPARTY-BASED APPROACH

The Overall Process and Considerations

For intermediated investment operations (e.g., equity investment) for which information on the ultimate use of proceeds and other details are limited at the appraisal stage, an assessment based on the use of proceeds may not be feasible. In such cases, the PAA assessment is conducted using the counterparty-based approach.[18] Figure 7 provides an overview of the assessment process.

[18] "Counterparty" refers to either the legal entity that is signing the finance agreement with AIIB, or, alternatively, another party having control over the activity, such as a subsidiary or a partner, as applicable, e.g., a fund manager.

Figure 7. An Overview of the Counterparty-based Approach to PAA Assessment



Source: AIIB.

The counterparty-based approach focuses on assessment of organizational processes and procedures with regards to management of both physical and transition risks and, if it is established that those are not adequate, a commitment is made to a credible PA alignment pathway. Therefore, after the due diligence process on the FI client is completed, conditions may be included in the investment agreement in the form of a PAAP. Such conditions would define the scope of use of AIIB finance (i.e., to avoid non-aligned activities). They would also ensure that the FI client moves towards PAA, and both transition and physical climate risk considerations are meaningfully integrated into its business operations. Details on the assessment steps and the tools used are discussed below.

The counterparty-based approach recognizes that:

a. Economic activities of most FI clients are often exposed to either the physical or transition climate risks, and to circumstances of at-risk countries in which they operate;
b. At the time of the AIIB investment decision, there may be uncertainty or limited information on the attributes of the assets or activities to be financed by AIIB;
c. Based on the context of each FI client, AIIB will determine the information to be used for the assessment of PAA; this may include but not be limited to existing portfolios, investment pipelines, or ex-ante projections; and
d. FI clients are at varying levels of readiness and capabilities, and are subject to regulations that may affect their approach to PAA.

Assessment Steps

STEP 1. Checking for mandatory transition and physical climate risk disclosure and reporting

Mandatory regulations may include mandatory reporting in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, as is now the case in some jurisdictions, or mandatory reporting aligned with sustainable finance taxonomies (e.g., the EU sustainable finance taxonomy), where disclosure of transition and physical climate risk management processes is required. Such requirements may also come from the supervising authority of the FI or part of its disclosure obligations being listed under the relevant stock exchange.

Mandatory regulation of assessing and reporting transition and/or physical climate risks is not currently common practice in AIIB's countries of operation. Nevertheless, the regulatory environment is expected to strengthen over time. These disclosures should aim to give market participants more information so that they can:

a. Understand climate-related risks, and
b. Identify opportunities to support the transition to net zero and climate resilience of the reporting entity.

If the applicable regulatory environment adequately covers the management of material physical and transition climate risks (i.e., BB1 and BB2),[19] AIIB investment through the FI client is considered aligned.

STEP 2. Assessment of climate risk management system

The assessment at this step determines whether the FI client has an adequate net-zero target and/or transition and physical climate risk management system in place and translated into its operational process. The assessment involves engagement with the FI client to understand existing climate risk management processes and procedures and strategic objectives – either standalone or under its existing environmental and social frameworks. This is necessary to ensure that AIIB funds are not used to fund non-aligned activities and that the FI client has processes established for screening projects that have high climate risk exposure.

Determining Determining adequacy of the FI client's climate risk management includes reviewing its portfolio of operations; experience in financing climate mitigation and adaptation projects; current and expected commitments and targets with regards to decarbonization; adherence to international good practices and standards, such as TCFD, Climate Assessment for Financial Institutions (CAFI), United Nations Principles for Responsible Investment (UN PRI); and its systems and processes used for managing climate risks, reporting and metrics, etc.

It is possible for a FI client to have different levels of system adequacy for BB1 or BB2, respectively. For BB2 assessment, if there is no adequate climate risk management system, a sector and country exposure assessment can be undertaken to determine exposure materiality before committing to incorporating physical climate risk management processes at the institutional level. This assessment option is illustrated in Figure 7.

STEP 3. Commitment to Credible Paris Alignment Pathway

If the assessment determines that the FI client is highly exposed to physical and/or transition climate risks and does not have an adequate climate risk management system, the operation can still be considered PAA, provided the FI client commits to developing a credible and verifiable PAAP. This means establishing or improving FIs current practices for transition and physical climate risk management, and disclosure, where applicable. A review of the client's portfolio against specific and sectoral transition risk is normally necessary, along with agreement on clearly defined milestones to improve transition risk management.

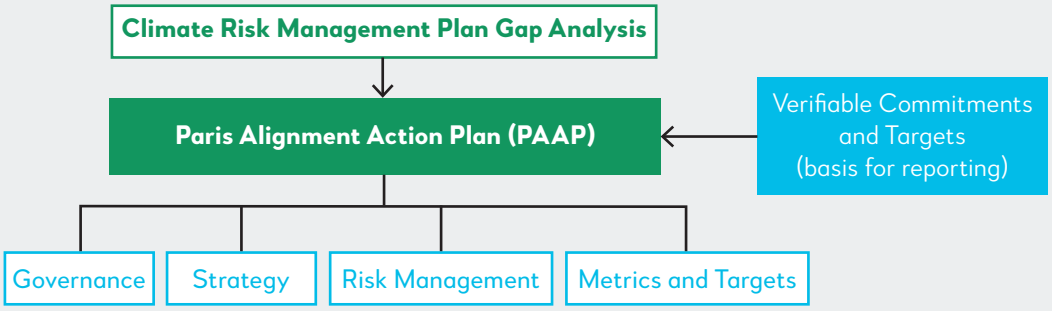
The commitment to concrete actions is reflected in the PAAP, prepared by the FI and reviewed by AIIB. The PAAP commitment and scope is defined with milestones that demonstrate improvement to physical and transition risk management and is reflected in the relevant legal documents related to project approval. The FI client must periodically report to AIIB on progress in meeting the milestones set out in the PAAP.

[19] Where applicable regulations and/or supervisory guidelines provide a relevant context and/or guidance for managing climate risks, AIIB takes those into consideration and, where appropriate, builds on them when assessing PA.

Scope of the Paris Alignment Action Plan (PAAP)

Different organizations are at different stages of maturity with regard to climate risk management and disclosure, and as such PAAPs should reflect client capacity and outline practical steps toward improving climate risk management processes and regular disclosure. Annex 4 contains a suggested PAAP outline and Figure 8 below provides an illustrative example of the necessary steps towards the development of a PAAP.

Figure 8. Illustrative Steps towards the Development of a Paris Alignment Action Plan



Source: AIIB.

Recommendations for setting a foundation to cover both transition and physical climate risks are:

a. A climate risk management gap analysis to take stock of the current status in climate risk management within the organization;
b. A climate risk management and disclosure capacity assessment to understand the organization's capabilities;
c. A portfolio assessment to understand the organization's exposure to climate-related risks in its current portfolio; and
d. An analysis of the jurisdictional objectives related to net zero (e.g., in the NDC) and climate resilience that apply to the client.

The gap analysis can also be used to identify both current practice and existing staff capacity (e.g., risk or environmental/social teams may have existing expertise on climate risks), any relevant existing policies, targets, or strategies, and whether the organization currently has access to any tools that would support climate risk assessment and disclosure. Responses to the Paris Alignment AIIB Questionnaire and any gaps identified therein could provide a useful starting point.

Critically, the FI client should commit to verifiable improvements as part of the PAAP, on which it will report to AIIB periodically. Indicative key elements of a PAAP may include:

a. Adopting a commitment to achieve disclosure according to an international framework (e.g., TCFD), under which reporting is delivered – this can form the basis for reporting to AIIB;
b. Committing to reducing portfolio emissions in line with jurisdictional commitments;
c. Committing to further developing/scaling up climate-related financial products;
d. Incorporating climate risks into internal risk management processes such as Environmental and Social Management Systems, or Risk Registers; and
e. Building internal capacity on climate risk management, monitoring and disclosure, either through training existing staff, or hiring additional staff with the requisite expertise.

ANNEXES

ANNEX 1: JOINT MDB UNIVERSALLY ALIGNED OR NOT ALIGNED LISTS

This Annex presents the lists of activities that are currently considered by the joint MDBs to always be consistent or inconsistent with low-GHG development pathways. The lists will be periodically updated by the MDBs, moving farther away from higher-emitting activities over time to meet the goals of the PA. Updates will also reflect the latest evolution in technologies, policies, practices, and consumer behavior. Consideration on criteria that could be used to revise the lists will be discussed among the MDBs. The lists can also be revised by MDBs based on the insights and experience they gain in testing and applying the framework.

Activities Considered Universally Aligned

Operation types on this draft list must undergo an SC assessment if they are:

a. Operations whose economic feasibility depends on external fossil fuel exploitation, processing, and transport activities.

b. Operations whose economic feasibility depends on existing fossil fuel subsidies.

c. Operations that rely significantly on the direct utilization of fossil fuels.

Table 1. Activities considered universally aligned with the PA's mitigation goals

SECTOR	ELIGIBLE OPERATION TYPE	CONDITIONS AND CONSIDERATION
Energy	Generation of renewable energy (e.g., from wind, solar, wave power, etc.) with negligible lifecycle GHG emissions.	Includes generation of heat or cooling.
	Rehabilitation and desilting of existing hydropower plants, including maintenance of the catchment area (for example, a forest management plan).	Rehabilitation and desilting of existing hydropower plants, including maintenance of the catchment area (for example, a forest management plan).
	District heating or cooling systems with negligible lifecycle GHG emissions.	Using significant renewable energy or waste heat or cogenerated heat OR Including: a. Modification to lower temperature delta b. Advanced pilot systems (control and energy management, etc.).
	Electricity transmission and distribution, including energy access, energy storage, and demand-side management.	
	Cleaner cooking technologies.	Cleaner cooking technologies to replace the use of traditional solid biomass fuels in open fires; they include sustainable biomass or electric cook stoves.

SECTOR	ELIGIBLE OPERATION TYPE	CONDITIONS AND CONSIDERATION
Manufacturing	Non-energy-intensive industry (excludes chemicals, iron and steel, cement, pulp and paper, and aluminium).	Consider the nature of the product produced (carbon content, lifetime, ability to be reused/recycled).
	Manufacture of electric vehicles; non-motorized vehicles, electric locomotives; non-motorized rolling stock.	
	Manufacture of components for renewable energy or energy efficiency.	
Waste	Separate waste collection (in preparation for reuse and recycling), composting and anaerobic digestion of biowaste, material recovery, and landfill gas recovery from closed landfills.	
Water supply and wastewater	Water supply systems (e.g., expansion, rehabilitation); water quality improvement; water efficiency (e.g., non-revenue water reduction, efficient process in industries); drought management; water management at watershed level.	Desalination plants need to go through specific assessment
	Gravity-based or renewable energy-powered irrigation systems.	
	Wastewater treatment (domestic or industrial), including treatment and collection of sewage, sludge treatment (e.g., digestion, dewatering, drying, storage), wastewater reuse technology, resource recovery technologies (e.g., biogas into biofuel, phosphorus recovery, sludge as agriculture input, sludge as co-combustion material)	
Transport	Electric and non-motorized urban mobility.	
	Roads with low traffic volumes providing access to communities which currently do not have all-weather access (for example, connecting farmers to markets or providing access to a rural school, hospital, or better social benefits).	Except if there is any risk of contributing to deforestation
	Electric passenger or freight transport.	
	Short sea shipping of passengers and freight ships.	
	Inland waterways passenger and freight transport vessels.	
	Port infrastructure (maritime and inland waterways).	
	Rail infrastructure.	
	Road upgrading, rehabilitation, reconstruction, and maintenance without capacity expansion.	

SECTOR	ELIGIBLE OPERATION TYPE	CONDITIONS AND CONSIDERATION
Buildings and public Installations	Buildings (education, healthcare, housing, offices, retail, etc.).	Needs to meet green building certification criteria as established by each individual MDB.*
	LED street lighting.	
	Parks and open public spaces.	Excluding energy-consuming installations.**
Information and communication technology (ICT) and digital technologies	Information and communication, excluding data centers.	
Research, development, and innovation	Professional, scientific, research and development (R&D), and technical activities.	
Services	Public administration and compulsory social security.	
	Education (excluding infrastructure/buildings).	
	Human health and social work activities (excluding infrastructure/buildings).	
	Social protection, cash transfer schemes.	
Cross-sectoral activities	Conversion to electricity of applications that currently use fossil fuels.	

* MDBs are working on an approach to assess the PA of buildings and the role of certification schemes. This approach may also take into account the impact of materials on the alignment of buildings with the low-carbon pathways envisioned by the PA.

** Energy-consuming installations are those beyond lighting and routine maintenance such as watering. Examples are major built-up area (i.e., buildings) or energy-intensive installations (e.g., fountains or playground and recreational equipment that need a non-renewable power source).

Activities Considered Universally Not Aligned

At this time, the MDBs consider four activity types to be universally not aligned with the PA:

a. Mining of thermal coal;
b. Electricity generation from coal;
c. Extraction of peat; and
d. Electricity generation from peat.

Note that the fact that being omitted from this list does not mean that an operation type is endorsed by or will be financed by the MDBs.

ANNEX 2: SECTOR-SPECIFIC APPROACH FOR ASSESSMENT (BB1)

This annex provides additional approaches for specific sectors/sub-sectors to facilitate their BB1 assessment. The approaches on additional sectors/sub-sectors will be added as the Bank expands its business.

2.1 ENERGY

AIIB updated its Energy Sector Strategy[1] in late 2022, which serves as a guidepost for prioritizing areas within the energy sector where the Bank's resources are most needed. The update features a heightened integration of climate-related considerations, including the incorporation of AIIB's PA alignment commitments.

Assessment approach are herewith provided for several energy sub-sectors that are not considered universally Paris-aligned by MDBs.

Hydropower

AIIB supports technically, economically, and financially feasible hydropower projects that also meet environmental and social standards, as outlined in its Environmental and Social Framework (ESF). These projects should also be informed by the best practices and lessons learned from other MDBs operating in Asia and beyond. Developing hydropower at varying scales in an environmentally and socially responsible manner can play a significant role in advancing sustainable energy supply. AIIB may support multi-purpose, storage reservoir-based, run-of-the-river, and pumped storage hydropower investments.

Large hydropower[2] may emit significant GHG emissions due to the creation of large reservoirs resulting in anaerobic decomposition of organic matter in the inundated area. Therefore, large hydropower will be automatically PA aligned only if corresponding GHG emissions are confirmed to be negligible, following the criteria developed by the Climate Bond Initiative (CBI).[3] The same criteria also apply to other types of projects involving large-volume water storage such as pumped storage hydropower.

a. Hydropower plants in operation pre-2020: less than 100 gCO_2 equivalent per kWh power generation or the plant's power density[4] is above 5 W/m^2.
b. Hydropower plants in operation since 2020: lifecycle GHG emissions of lower than 50 gCO_2 equivalent per kWh power generation, or the plant's power density is above 10 W/m^2.

1 https://www.aiib.org/en/policies-strategies/strategies/sustainable-energy-asia/.content/index/_download/AIIB-Energy-Sector-Strategy-Update_Final_Nov-2022.pdf

2 As defined by the International Commission on Large Dams – Definition of Large Dams: a hydropower plant with a dam height of 15 meters or greater from lowest foundation to crest or a dam between 5 meters and 15 meters impounding more than 3 million cubic meters of water.

3 CBI, 2021. Hydropower Criteria – Development of Eligibility Criteria for the Climate Bonds Standard & Certification Scheme. Background Paper. March 2021 – Version 1.0. The paper also provides options and a description of tools to determine the GHG emissions from a reservoir, as well as their allocations in case of multi-purpose uses of the reservoir.

4 Power density is the installed capacity of hydropower plant (watts, W), divided by the surface area of the reservoir (squared meter, m^2).

Fossil fuels

While the detailed conditions and explanation of AIIB's position towards fossil fuels related project activities should be based on the Energy Sector Strategy, the following key points can be highlighted:

a. AIIB will not finance thermal coal mining, coal-fired power and heating plants, or projects that are functionally related to coal.
b. AIIB will only support oil sector investments under exceptional circumstances to allow for improvements to basic energy access (e.g., on an island or in the context of temporary disaster response), when it can be demonstrated that a fully renewable option is not feasible.
c. AIIB will not support natural gas upstream exploration and production.

Natural gas-fired power generation

AIIB takes a selective approach and prioritizes gas power investments that meet crucial development needs while also facilitating the transition to low-carbon energy and aligning with its Members' energy and climate goals.

The specific gas power project's role in contributing to the low-carbon transition is the premise for determining the project's alignment with the PA. This must be underpinned by an in-depth, forward-looking analysis of the national and sectoral context, which considers the energy and climate policy, deployment of low-carbon alternatives, technical features of the power plant, and the robustness of the local power system (e.g., auxiliary service needed for high share of intermittent power).

A detailed and robust analysis of the project's essential role at the system level and asset level must be conducted during the project appraisal.

SC1 and SC2 Is the gas-fired power generation plant aligned with the country's NDC and LTS?

Both NDCs and LTSs are instruments of the PA designed for Parties to outline and communicate their post-2020 climate action. The horizon of a Party's NDC is short-/mid-term, to be updated every five years, whereas an LTS outlines a Party's mid-century long-term low GHG emissions development strategy, with a decarbonization target year, typically between 2050 and 2070. When there is a clear distinction between conditional and unconditional measures in an NDC, PA alignment assessment should be based on the unconditional targets and actions.

If a country's NDC and/or LTS have explicitly ruled out expanding gas supply or gas-fired power, or they set a time limit for expanding the use of fossil fuels that is incompatible with the investment being screened, the investment is not considered to be aligned with the PA. The same would be the case if a country's NDC/LTS sets up an ambitious renewable energy target that would make gas-fired power unnecessary. However, a country's NDC and LTS may not be explicit about the role of gas or gas-fired power or may not mention it at all. If PA alignment cannot be established, or the conclusion is unclear, the assessment may move to the subsequent SC3.

SC3 Is the project compatible with a relevant low-carbon pathway (LCP) consistent with the goals of the PA?

A country-specific LCP is preferred as a reference, if available. If there is no national LCP, a regional or global low-carbon pathway analysis carried out by reputable institutions may be considered as a reference if it is deemed representative and applicable to the relevant country. The evaluation should consider, among other issues, whether the country's technical capacity, institutional framework and current policies demonstrate the country has the prerequisites necessary to enter the low-carbon pathway outlined by the regional and global pathways.

If a credible reference plan or study suitable for the PA alignment assessment of the project can be identified, it should be able to answer the following:

a. Does the projected deployment of renewable energy rule out the build-up of gas capacity?
b. Is there any discrepancy between natural gas, LNG, or power demand growth projections of the plan versus the project design?
c. Is the project's time horizon (technical and commercial life of the project) compliant with the plan?
d. Are the project's technology and primary energy choices consistent with the plan?
e. If the project is expected to take the place of to-be-closed coal- and oil-fired power plants, does the plan verify the link of the planned retirements to the project?

When the project is assessed in the context of the least-cost generation plan for the country's power sector with the GHG emissions constraint consistent with the Paris goals, and the project aligns and will be operated consistently with the plan, SC4 can be skipped.

If the assessment of compliance with an appropriate LCP remains inconclusive, it is important to analyze whether the gas-fired power project will lead to a reduction of power system emission intensity immediately or over time. The project emissions should be compared against selected benchmarks/baselines detailed in one of the following options, depending on available data, in order of preference:

a. Option 1: the project's emissions are compared against the power grid emission factor, published by the IFI (International Financing Institutions) Technical Working Group on GHG accounting.[5]
b. Option 2: The project's emission level is compared against a specific power plant, or a mix of power plants that provide the same level of service (meets the same energy and capacity requirements). The data for the feasibility studies (e.g., the expected contribution of the comparand to meeting demand, capacity, firm energy, etc.) can be used to determine an alternative plant or mix of plants that provide a similar load-fulfilling profile.

A gas-fired power plant can have value for the country's energy transition by enabling a higher penetration of variable renewable electricity. Indeed, the gas power plant can smooth out the variable output of solar and wind power by flexibly ramping up and down. This role can be considered in the PA alignment assessment, and the project's higher emission level can be offset by its transitional value, if the gas power plant's design and contractual arrangement are conducive to exercising such a function. Additional costs may accrue due to higher partial load heat rates, increased wear of equipment, and the need for additional equipment enabling frequency control (minute-level) and/or load-following (hour-level).

The gas power plant project must deploy state-of-the art technology and represent sector best practices in limiting methane emissions.

SC4 Is there a lower-carbon alternative—not constrained by cost or other reasons—for the project, and does the project prevent it?

The question requires that possible lower-carbon alternatives for the project be identified, and their feasibility analyzed. Alternatives may, for example, include the following:

a. Renewables only (e.g., hydropower, geothermal, solar + storage, wind + storage)
b. Abatement solutions (e.g., gas + CCS, gas + hydrogen)
c. Mix of above, including energy efficiency and load management.

[5] https://unfccc.int/climate-action/sectoral-engagement/ifis-harmonization-of-standards-for-ghg-accounting/ifi-twg-list-of-methodologies, *Harmonized IFI Default Grid Factors*.

In analyzing the alternative solution, it should be compared under conditions where it would provide system-level service to consumers that is equivalent to what the project would provide. However, the same electrical or thermal capacity may not always be required. The alternative can consist of a mix of solutions including energy efficiency measures and energy storage.

Feasibility of lower-carbon alternatives should be analyzed based on the specific project context. Examples of constraints that may prevent the alternatives include high cost, technical barriers, inadequate institutional support, regulatory and financing frameworks to mobilize alternative resources, and weaknesses in the power grid that prevent the accommodation of significant variable renewable energy capacity. If the analysis demonstrates a credible and feasible alternative, the project cannot be deemed to be aligned with the PA.

The estimated operational lifetime of the project should be checked, i.e., the project's technical constellation and contractual terms could lead to using the assets beyond the target year for decarbonization. A license to operate the gas infrastructure beyond the target decarbonization year likely create carbon lock-in risks that need to be mitigated. Specifically,

a. The contractual lifetime and relevant arrangements in the Power Purchase Agreements (PPA) or Gas Supply Agreements (GSA) need to be examined. A contract with a rigid off-take (or in-take for gas) obligation not allowing flexibility can potentially present a considerable risk of carbon lock-in.

b. Readiness for potential measures for the project repurposing or retrofitting to mitigate the long-term carbon lock-in should be considered taking into account the project context, e.g.,

   - Fuel switch to a low-carbon fuel (e.g., biomethane, green ammonia or hydrogen).
   - Plant retrofitting for carbon capture and storage (CCS) technology.
   - A plan for the plant to be mainly reserved for ancillary and peak services.

SC5 Is the project economically viable?

Economic analysis for the project shall be conducted with the consideration of carbon pricing. To this end, the shadow carbon price recommended by the High-Level Commission on Carbon Prices[6] will be applied in the analysis.

CCS and CCUS

The Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) recognize that most modelled global pathways that limit global warming include a role for carbon capture and storage (CCS)/ carbon capture, use and storage (CCUS) applications, such as for CCS with fossil fuels, CCS with bioenergy (BECCS), and direct air carbon capture and storage (DACCS). The United Nations Framework Convention on Climate Change (UNFCCC) states that CCUS can play a significant role in mitigating carbon emissions in the future and is a key technology for the decarbonization of the energy sector in the long term. CCS and related technologies are therefore deemed aligned with the PA provided they do not extend the lifetime or enable an increase in production of related upstream oil or gas production (e.g., through enhanced oil recovery), and lead to a substantial decrease in net GHG emissions.

[6] In 2017, the High-Level Commission on Carbon Prices, led by Joseph Stiglitz and Nicholas Stern, conducted an extensive review on carbon prices consistent with achieving the core objective of the Paris Agreement. https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices

Methane leakage and routine flaring

Many methane leakage and flaring reduction measures are technically and financially feasible but are not implemented as their feasibility does not exceed the threshold level for the oil and gas companies. AIIB is committed to supporting efforts to bridge the viability gap. It will support projects aiming to rapidly reduce existing emissions which are not locked-in and for which there is no immediate low-carbon option, but which will be reduced over time through other measures. Provided methane collected will not extend the lifetime or enable an increase in production of related upstream oil or gas production (e.g., through enhanced oil recovery), and lead to a substantial decrease in net GHG emissions, reduction of methane leakage and routine flaring are considered aligned with the PA.

2.2 TRANSPORT

Infrastructure and mobile assets. In the transport sector, AIIB investments are fundamentally infrastructure investments that support transport sector services provided through mobile assets and operating companies. Infrastructure investments will always provide support for mobile assets and operational systems and set-ups. As opposed to other sectors, in transport, it is the operation of mobile assets that contributes predominantly to the generation of GHG emissions. This is essentially different from other sectors.

As a result, GHG emissions of mobile assets will be considered for understanding the sectoral decarbonization options and trends when financing transport infrastructure.

AIIB may also be solicited to finance mobile assets not linked to a particular infrastructure, or that can be deployed in a number of different places. In these cases, the mobile assets' Paris alignment will be evaluated separately.

A. Road Infrastructure Projects

Roads contribute significantly to connectivity, trade and development in general. Direct GHG emissions from road construction are normally limited; the key concerns are associated with GHG emissions during its operation from the fossil fuel-driven vehicles. Therefore, road sector decarbonization is largely dependent on the scale and speed of the decarbonization of vehicle fleets.

The following section provides the assessment approach for road infrastructure projects that are not universally aligned with the Paris Agreement.

SC1 and SC2 NDCs and LTS

The project should not be inconsistent with the NDC and LTS. This is a desk review of the country's NDCs and LTS. The relevant NDCs and LTS have to be identified and reviewed for relevant country policies and plans for the transport sector and the sub-sector in question, to ensure that the project is not inconsistent with them. If there is no consideration specific to the transport sector in the NDC/LTS and/or if LTS is unavailable, other relevant national policies and plans can be considered, such as the national transport policy and climate change action plan.

SC3 Low Carbon Pathway (LCP) Test

The project should not be inconsistent with the road transport fleet decarbonization pathway of the country. The proposed project should not hinder progress towards the LCP. The LCP illustrates a reduction pathway of national CO2 emissions in the road sector. Ideally, it should be developed reflecting the country's commitment to the Paris Agreement, as well as the country's own context. The official country-specific LCP is currently still quite limited. However, it is expected to become

increasingly available as countries are increasing and implementing their climate ambitions. In the absence of an official transport-sector LCP, the analysis should be followed primarily based on a qualitative assessment of the policies and strategies for decarbonization in the road sector, which may be supplemented by a quantitative analysis of the historical trends of CO_2 emissions in the transport sector.

The qualitative assessment includes a review of the key transport-related policies, targets and fiscal incentives to support road transport sector decarbonization in the country, based on best available information at the time of assessment. Key decarbonization policies can pertain to: vehicle technical standards, vehicle efficiency standards (including on CO_2 emissions and fuel use), vehicle purchase prices, vehicle use taxation, zero emissions/electric/hybrid vehicles, and charging and refueling infrastructure policies. The country may also have phase-out targets for fossil-fuel vehicles and/or targets for electrification of new vehicles; fossil-fuel quality standards; and fiscal incentives related to subsidies, bonuses, rebates or tax exemptions[7] to boost the uptake of more efficient vehicles in the country.

SC4 Alternatives and Carbon Lock-in Tests

The project should not prevent opportunities to transition to Paris-aligned activities. SC4 assessment may be informed by relevant low-GHG development pathways and by studies carried out under BB4 or other country strategy support provided by the MDBs. The focus of SC4 assessment is two-fold:

SC4a Alternatives Test

A more efficient transport infrastructure cannot serve the current and forecasted passenger and/or freight demand, with a similar level of service (LOS).

This part of the assessment considers whether the project demand can or cannot be served by a less carbon intensive transport infrastructure with a similar LOS. If there is no comparable alternative to the proposed investment, then the SC4a test is passed.

The following steps should be followed:

Step 1: Identify what potential lower-carbon transport alternatives exist that provide access to the main origins and destinations (ODs) within the proposed road's influence area (RIA).

- First, the RIA should be defined, which refers to the spatial range of notable changes in traffic flow patterns following the construction or enhancement of a road facility.[8] This may include partial or entire administrative areas, such as municipalities, districts, or provinces.
- Once the RIA has been defined, the main ODs should be identified. ODs refer to the starting (origin) and ending (destination) points of a traveler's directional journey conducted within the RIA. The main ODs are those that generate and/or attract the majority of trips.
- Subsequently, the existing lower-carbon alternative transport infrastructure connecting the main ODs, within the RIA, should be identified and listed.
- Finally, the list of these identified alternatives should be screened to further identify those that can provide access to most of the main ODs within the RIA.

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[7] Such incentives are intended to address the demand impact of higher costs of more efficient vehicles (e.g., EVs) until such time that cost parity is achieved.

[8] Journal of the Eastern Asia Society for Transportation Studies (Vol. 8); "Establishment of Influence Area using Select Link Analysis for Highway Investment Projects"; link; 2010.

Step 2: Assess whether the alternatives identified in the previous step are comparable to the proposed project by comparing them to the project in terms of LOS (e.g., capacity, cost, time, reliability).

Step 3: Analyze and document whether the project demand can or cannot be served by the lower-carbon alternative(s) identified with a similar LOS.

SC4b Lock-in Test

The project should not prevent the future deployment of more efficient vehicle fleets, as well as other Paris-Aligned activities.

As a common carrier agnostic to types of motorized vehicles, a road is typically not subject to technological lock-in of a particular type of fleet. In most cases, roads can be considered as future-proofed, as they will be able to accommodate the infrastructure required to enable the deployment of future lower-carbon fleets, once available. In addition, GHG emissions associated with road operation itself (e.g., during maintenance) are normally quite limited.

Notwithstanding, the project will also explore additional measures to support or facilitate Paris-aligned activities in the future, where applicable. However, their feasibility depends on the actual project context. For example, the project may include possible adjustments in the RIA to enable the deployment of a more efficient fleet in future (e.g., deployment of charging infrastructure for electric vehicles), or the adoption of active mobility (i.e., cycling and walking), especially in urban areas.

SC5 Economic Evaluation

Economic analysis for the project shall be conducted with the consideration of carbon pricing. To this end, the shadow carbon price recommended by the High-Level Commission on Carbon Prices[9] will be applied in the analysis.

B. Airport Infrastructure Projects

While its emissions represent 2.5 percent of total global CO_2 emissions[10] aviation is a growing and hard-to-abate industry. The majority of aviation GHG emissions arise from the consumption of fuel by aircrafts; airport infrastructure operation-related CO_2 emissions account for only about 5 percent of aviation emissions.

According to the International Air Transport Association (IATA), new technologies (e.g., electric flight), operational and infrastructure efficiency improvements (including airports), use of sustainable aviation fuels (SAF) and offsetting/carbon capture are the main measures to achieve net zero by 2050. Specifically, SAF is expected to contribute a reduction of 65 percent CO_2, in contrast to less than 20 percent for efficiency improvements. As of today, the industry is still heavily reliant on immature SAF and yet unproven hydrogen/electric short haul aircraft to decarbonize. As such, it is expected this will be a sector in which CO_2 emissions will still be positive around mid-century, and carbon offsetting will play an important role for reaching net zero (i.e., about 20 percent, estimated by IATA).

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9 In 2017, the High-Level Commission on Carbon Prices, led by Joseph Stiglitz and Nicholas Stern, conducted an extensive review on carbon prices consistent with achieving the core objective of the Paris Agreement. https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices

10 International Transport Forum; *"Decarbonising Air Transport. Acting Now for the Future"*; 2021; https://www.itf-oecd.org/sites/default/files/docs/decarbonising-air-transport-future.pdf

The aviation subsector is regulated globally and the underlying technology options depend on industrywide breakthroughs. Though airports provide the necessary infrastructure, airport constructors, airport operators and service providers (e.g., independent ground handlers, catering companies, air traffic control, and others working on the airport site) normally have no influence on the operating structure or commercial strategies of airlines that are responsible for 95% of the emissions of the subsector. Thus, decarbonization of the aviation subsector largely depends on industrial development, government regulations and airline commercial strategies on fleet decarbonization.

On the other hand, various low-carbon measures may be implemented in the airport infrastructure, buildings and services operating within the perimeter of the airport, to reduce the GHG emissions of airport operations. Depending on the specific project context and the capacity of the client, some airport infrastructure projects may contribute to wider GHG reductions from activities out of its direct control through forming partnerships and shareholder engagement. However, the feasibility and practicality need to be considered on a case-by-case basis.

If the airport infrastructure project does not lead to capacity expansion, it can be considered as PA-aligned. Otherwise, a detailed assessment needs to be conducted as follows:

SC1-SC2 NDC and LTS Alignment

The project should not be inconsistent with the NDC and LTS. This is a desk review of the country's NDCs and LTS. The relevant NDC and LTS should be identified and reviewed for relevant country policies and plans for the transport sector, and the aviation subsector in particular, to ensure that the project is not inconsistent with them. For international aviation, the project should also not be inconsistent with the long-term aspirational goal (LTAG) of net-zero emissions for international aviation by 2050 from the International Civil Aviation Organization (ICAO), and the associated country's state action plan,[11] if available.

SC3 Low Carbon Pathway (LCP) Test

The project should not be inconsistent with the air transport sector decarbonization pathway. Due to the nature of this sub-sector the decarbonization pathway is global and subject to global trends, industrial policies and air navigation companies' commercial strategies. This is a desk review that should identify and review the international aviation trends regarding, but not limited to: (i) aircraft energy efficiency improvements and alternative propulsion systems, (ii) low-carbon fuels, (iii) system efficiencies, etc. The idea is to confirm the ongoing decarbonization trend of the industry.

SC4 Alternatives and Carbon Lock-in Tests

The project should not prevent opportunities to transition to Paris-aligned activities. It may be informed by relevant low-GHG development pathways and by studies carried out under BB4 or other country strategy support provided by the MDBs. The focus for SC4 assessment is two-fold:

SC4a Alternatives Test

A more efficient transport infrastructure cannot serve the current and forecasted passenger and/or freight demand, with a similar LOS.

This part of the assessment considers whether the project demand can or cannot be served by a less carbon intensive transport infrastructure with a similar LOS. Overall, if there is no comparable alternative to the proposed investment, then the SC4a test is passed.

[11] https://www.icao.int/environmental-protection/pages/climatechange_actionplan.aspx

The following steps should be followed:

Step 1: Identify what potential lower-carbon transport alternatives exist connecting the main ODs served (or planned to be served) by the airport.

- First, the short-haul routes served (or planned to be served) by the airport should be listed and analyzed to identify their ODs. A short-haul route is defined as a route that can be traversed by a lower-carbon alternate mode in 3.5 hours or less.[12]
- Subsequently, for each short-haul air route, existing lower-carbon alternative transport infrastructure[13] that could connect the same pair of ODs should be identified.
- For the air routes, where an alternative lower-carbon mode is not able to traverse the same OD in 3.5 hours or less, no transport alternatives with a similar LOS will be considered to be available, and hence, Step 2 (as described below) should be skipped.

Step 2: Assess whether the alternatives identified in the previous step are comparable to the proposed project by comparing them to the project in terms of LOS (e.g., capacity, time, cost, reliability).

Step 3: Analyze and document whether most of the project's demand can or cannot be served by the lower-carbon alternative(s) identified with a similar LOS.

SC4b Lock-in Test

The project should not prevent the future deployment of a more efficient air navigation fleet, as well as other Paris-aligned activities.

As a common carrier, largely agnostic to the type of airplane being utilized, an airport is not likely subject to technological lock-in of a particular type of industry-standard fleet. In most cases, airports can be considered as future-proofed, i.e., in principle, they will be able to accommodate the infrastructure enhancements required to enable the deployment of a future lower-carbon fleet, once available. In particular, the project should not prevent the future deployment of SAF as the key measure to decarbonize at scale.[14]

On the other hand, GHG emissions related to airport operations will continue if left unattended. The GHG sources related to airport operations shall be identified, particularly for those activities within the direct control of airport operators or their close partners.[15] Appropriate measures to help reduce those GHG emissions shall be proposed, taking into account the project context (e.g., technical characteristics, level of development of local industry and client capacity, the nature of the Bank's investment). As applicable, some of the examples may be:

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[12] While there is no consensus on what constitutes a short-haul air route, some recent references include: (i) the 2.5 hours established by the Government of France as the threshold to ban air travel when a high-speed train alternative is available (which was approved by the European Union in December 2022), source: Official Journal of the European Union; *"Commission Implementing Decision (EU) 2022/2358 on the French Measure Establishing a Limitation on the Exercise of Traffic Rights due to Serious Environmental Problems"*; December 1, 2022, (link); or (ii) the 4.5 hours of total journey time recently proposed by the European Bank for Reconstruction and Development (EBRD), source: EBRD, *"Methodology to Determine the Paris Agreement Alignment of EBRD Investments"*; December 2022, (link).

[13] To establish the lower-carbon nature of the transport alternatives, the GHG intensity per passenger for each transport mode should be taken into consideration (e.g., the figures presented in the following source: International Energy Agency, "GHG Intensity of Passenger Transport Modes," October 26, 2022, link)

[14] SAF, while it may be produced using different technological pathways, is a drop-in fuel that airport fuel infrastructure today may already be able to accommodate or only with limited modification.

[15] To facilitate this, the relevant airport GHG emission sources, as described by the Airport Carbon Accreditation can be referred to, i.e., Figures 3 and 4 at https://www.airportcarbonaccreditation.org/component/attachments/?task=download&id=171

a. Support the client to obtain the relevant certificate promoting a lower-carbon airport (e.g. the Airport Carbon Accreditation (ACA), or other certificates with similar substance/focuses);
b. Adoption of GHG emission reduction measures within the direct control/influence of the airport by proposing specific measures (e.g., on-site renewable energy generation, energy/material efficiency improvement of buildings and operations, vehicle fleet or equipment electrification);
c. Indirect emissions (scope 3) reduction through wider stakeholder engagement (e.g., supplying ground power and preconditioned air to aircraft at gate, encouraging the use of single-engine taxi, minimizing the use of Auxiliary Power Units (APU) in the landing and taking off (LTO) cycle);
d. Airport operator GHG management capacity enhancement and/or readiness for gradual decarbonization (e.g., facilitate ongoing dialogue on/sharing of low-carbon best practices, help client build its GHG inventory, develop its decarbonization pathway and/or strategy).

SC5 Economic Evaluation

Economic analysis for the project shall be conducted with the consideration of carbon pricing. To this end, the shadow carbon price recommended by the High-Level Commission on Carbon Prices[16] will be applied in the analysis.

C. Others

Mobile assets (Public transport vehicles) - includes vehicles using fossil fuel traction that will not be operated in segregated busways. Analysis should be conducted by assessing the manufacturer's standards for the existing technological options, to ensure an efficient option (in terms of fuel consumption and GHG emissions) has been chosen, taking into account the country and sector context. These vehicles must replace less efficient existing vehicles, leading to GHG savings;[17] or, if they are additions to existing fleets, they must be among the most efficient, commercially feasible options of the same type in the respective market.

Warehouse/logistic infrastructure projects are considered Paris-aligned by the Bank reflecting its experience gained in this subsector, provided that the projects will meet national energy performance requirements and will not be dedicated to mining and use of coal.

2.3 DESALINATION PROJECTS

Desalination is an energy-intensive process. While the process itself causes limited direct GHG emissions, significant GHG emissions can result from the energy supply for plant operation.

Desalination plants supplied with thermal power are no longer considered state-of-the-art technology. Such a project design presents a high risk of carbon lock-in, and will not be supported by the Bank.

SC1-SC3 Policy-level analysis

The project should check its alignment with the country's national NDC, LTS and sectoral policies relevant for water management (e.g., water management masterplan or roadmap). Particularly, it should look for relevant content in the respective policies with respect to improvements in providing drinking water access (e.g., in coastal areas), adaptation measures to cope with decreasing water resources, and general efficiency improvements in water use.

[16] In 2017, the High-Level Commission on Carbon Prices, led by Joseph Stiglitz and Nicholas Stern, conducted an extensive review on carbon prices consistent with achieving the core objective of the Paris Agreement. https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices

[17] Justification should be provided if multiple viable options are identified and the most efficient one is not chosen.

Where applicable, national climate action plans, national climate change programs or equivalent documents can serve as supporting documents for assessing policy-level alignment.

SC4 Asset-level analysis for carbon lock-in risk

The project should analyze the water supply and demand of the region, including the extent of water stress as a result of demand. It should demonstrate that seawater desalination represents the best option at the site to deliver the necessary amount of drinking/utility or service water. As relevant, the analysis may include:

a. The availability and feasibility of land-based water sources that are regularly refilled by natural processes (precipitation, surface or sub-surface convection by rivers or sub-surface aquifer systems), taking into account quantities actually available, policies and regulations that prohibit tapping specific water sources, etc.
b. Availability of an alternative supply based on effluent from treatment of wastewater and/or downcycling[18] of water (e.g., irrigation water from grey water).
c. Avoidance of large-scale water transportation/distribution (for drinking/utility or service water) e.g., by pipeline or other means of transport.[19]

Project design should use state-of-the-art technology to optimize energy efficiency in the desalination process. The Operation & Maintenance strategy of the plant operator should also be considered in minimizing GHG emissions (e.g., with respect to recycling/landfilling of reverse osmosis membranes and/or chemicals to be used within the process and disposed of as waste/liquid).

Plant design should also explore the possibility to source and maximize renewable energy uses (for example, installing on-site renewable facilities, and purchasing renewable/green power from the grid or a third party).

SC5 Economic analysis

Economic analysis for the project shall be conducted with the consideration of carbon pricing. To this end, the shadow carbon price recommended by the High-Level Commission on Carbon Prices[20] will be applied in this analysis.

2.4 WASTE-TO-ENERGY PROJECTS

AIIB's Energy Sector Strategy (ESS) states that a Waste-to-Energy (WtE) investment should be considered in the context of an integrated waste management approach to promote sustainable cities development, which aims at resource-efficient and environmentally sound waste management and leads to improved environment and health. Such an approach should follow the waste management hierarchy, which makes avoidance and reduction of waste the highest priority, followed by opportunities for reuse, recycling and conversion of waste into usable products or feedstock, such as for heat and electricity.

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18 Downcycling means, for example, the treatment of gray water, i.e., water that is only slightly contaminated and free of feces.

19 If possible, large distribution systems from water sources to customers should be avoided because of high GHG emissions (e.g., pumping and transport). There may be situations, however, where due to geographical conditions the demand area is far from the supply area, which requires such large systems (e.g., desalinated water needs to be pumped from sea level to much higher altitudes).

20 In 2017, the High-Level Commission on Carbon Prices, led by Joseph Stiglitz and Nicholas Stern, conducted an extensive review on carbon prices consistent with achieving the core objective of the Paris Agreement. https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices

AIIB supports energy recovery from waste combustion, which is regarded as an alternative to waste disposal in landfills or unmanaged open dumping that endangers terrestrial and aquatic biodiversity, emits methane and CO_2, and creates health risks and environmental hazards that disproportionately impact the lives of marginalized groups.

The Bank's Environmental and Social Framework provides for the application of pollution prevention and control measures consistent with international good practice as reflected in internationally recognized standards. It also provides for minimizing and managing waste generation.

SC1-SC3 Policy-level analysis

The status of the waste management sector, including policy formulation and timeline, varies across countries. Waste collection in some countries is incomplete and landfills are unorganized, while others have an established waste management system that follows the waste hierarchy. Therefore, the assessment of policy and institutional environments for each country must be conducted on a case-by-case basis.

NDC and LTS may not provide all relevant information on the waste sector. Therefore, it is important to examine and discuss the national waste management strategy, if any, and relevant circular economy policies applicable to the project region. If applicable, regional waste management practices and/or waste sector-specific decarbonization pathways (may be found in sector decarbonization roadmaps) should also be analyzed. It should be confirmed that the WtE project does not contradict the respective waste management policies and targets.

Where applicable, national climate action plans, national climate change programs or equivalent documents can also serve as supporting documents for assessing policy-level alignment.

SC4 Asset-level analysis for carbon lock-in risk

The design of WtE plant must show that it has been thoughtfully planned with regard to current sectoral waste management conditions and trends, including long-term waste management and circular economy policies, targets and timeline. As such, the project must provide a justification for the required WtE capacity for the duration of its operation, with a robust waste quantity projection.

The waste quantity projection must consider a sustainable approach to implementing the waste hierarchy and achieving a circular economy aiming at resource-efficient waste management. The designed WtE capacity should be based on the country's relevant policies, including timely implementation of upstream waste management policies and measures, as well as population growth. If applicable, international benchmarks for implementation of the waste management hierarchy can be considered.

Based on the above considerations, the WtE plant's capacity must be carefully projected to prevent carbon lock-in, which occurs when the high CAPEX of this type of facility prohibits stepping up the waste hierarchy.

The WtE project should also deploy high-efficiency technology and promote international good practices taking into account the project context. For example,

a. The project's energy efficiency should be within international benchmarks. The feasibility of heat utilization at the site should be explored to achieve the highest possible total energy efficiency (i.e., a combined heat and power mode). Solely waste incineration without energy use (neither power nor heat) is considered not PA aligned.

b. Incinerator bottom ash treated to produce recyclable material, e.g., for construction purposes.
c. Metals from the incinerator bottom ash may be separated for recycling.
d. The suitability or necessity of applying CO_2 reduction or capture measures either technically (Carbon Capture and Storage, CCS) or via policy instruments (such as CO_2 emission trading) should be considered in the WtE design business case.

SC5 Economic analysis

Economic analysis for the project shall be conducted with the consideration of carbon pricing. To this end, the shadow carbon price recommended by the High-Level Commission on Carbon Prices[21] will be applied in the analysis.

2.5 DATA CENTER PROJECTS

The project is considered PA aligned if there is a national standard and/or certification scheme, specifically for Green Datacenters (e.g., BCA-IMDA Green Mark in Singapore), and the project demonstrates compliance with such a standard or is successfully certified in the respective scheme. Otherwise, the project must follow the steps described below.

SC1-SC3 Policy-level analysis

The project should check its alignment with the country's national NDC, LTS and sectoral policies relevant for datacenters, i.e., relevant parts related to information technologies if available. In addition, as the datacenter's carbon footprint is directly dependent on the carbon intensity of the power source, the analysis should also review the ambitions and actions for power sector decarbonization.

SC4 Asset-level analysis for carbon lock-in risk

The project should promote state-of-the-art technology, taking into account the sectoral circumstances of the targeted market. To allow for a comparison, information on the Power Usage Effectiveness (PUE) of the targeted market/country should be obtained from one of the data sources below in the following order of preference:

a. The minimum PUE requirement and/or industry recommendations by the host country to promote energy efficiency (or green data centers), if available. Typically, such a minimum PUE represents a much higher level of energy performance than the prevailing sector practices when set with a particular aim to promote green data centers.
b. The average PUE from relevant industry reports or market surveys conducted by reputable national/international industry associations or institutions for the target market;
c. The average PUE for the applicable regional market in case the country-specific PUE as specified above is not available.

[21] In 2017, the High-Level Commission on Carbon Prices, led by Joseph Stiglitz and Nicholas Stern, conducted an extensive review on carbon prices consistent with achieving the core objective of the Paris Agreement. https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices

The project should meet the following conditions in order to be PA aligned:

a. The PUE of new (Greenfield) and/or acquired data centers (brownfield) must be:
   - lower than that identified in paragraph 3.a) above, if it is available. Or,
   - Substantially lower than the market benchmark identified above in paragraph 3.b) or 3.c), if 3.a) above is not available.[22] Otherwise, strong justification must be provided.

b. Where relevant, data center technical design should explore elements and features to keep GHG emission levels at the lowest possible levels. For example,
   - Acceptable Data center hall temperature optimization to save energy;
   - Waste heat re-use (of IT equipment dissipated heat);
   - No phased-out (phasing out) refrigerant is used in cooling systems;
   - Innovative technology and solutions for cooling system contributing to the total cooling requirement, e.g., passive cooling, geothermal, waste-heat operated absorption chillers, etc., other than conventional cooling system.

The project design should explore the possibilities to source and maximize renewable power uses (e.g., through on-site renewable energy or procurement of off-site green power via grid).

[22] It is also acknowledged that energy performance depends on the speed of technology development, which may make this magnitude of efficiency improvement extremely challenging or even impossible.

ANNEX 3: SECTOR-SPECIFIC CONSIDERATIONS FOR DIRECT INVESTMENT OPERATIONS (BB2)

To assess a direct investment operation for the PAA, there are important sector-specific considerations. They are summarized below for AIIB's four core sectors: energy, water supply and sanitation, transport and urban development.

Energy

Energy projects are diverse and often form part of a country's critical infrastructure. Generation, transmission and distribution can be highly sensitive to climate risks. Transmission and distribution networks extend over large areas and impacts to just one element can affect the whole network. The assessment method must account for this. Energy sources may themselves be climate variables (e.g., wind or solar power), that require a detailed assessment of availability. Key considerations for CRVAs in the energy sector include:

a. Network assessment: Transmission and distribution networks are key to many energy projects and the CRVA will need to consider not only impacts on specific sites, but also the network as a whole. Networks are exposed to a wide range of potential risks that can disrupt supply, such as landslides, floods and storms. The assessment should consider where redundancy can be built into the network in order to increase its resilience. If a sufficient redundancy exist, or the network is geographically diversified and without any single critical points exposed to climate hazards of higher probability, the network could be considered BB2 aligned.

b. Assessment of resource availability: Projects involving hydroelectricity, solar power, wind power, tidal generation, and nuclear power require an assessment not only of the impact of climate change on the infrastructure financed through the project, but also how climate change will affect the underlying resources on which the project depends for energy generation (e.g., solar potential, or availability of water resources). The assessment should involve detailed modelling using tools or models that have been specifically designed for the energy sector, for example assessing change in solar potential and how this may impact the efficiency of planned solar investments. The CRVA should also include stress tests to assess the impact of extremely dry or extremely wet years on the viability of the project.

c. Potential to create risk: Some energy projects can potentially exacerbate risks if not designed to be resilient; the assessment should ensure that measures are in place to reduce these risks. Projects involving high-voltage power lines, for example, can trigger damaging wildfires, while nuclear plants need to ensure a sufficient supply of cooling water in areas where severe drought can reduce water availability.

d. Cascading risks: Energy supply is essential for the functioning of key economic sectors. The CRVA should carry out a general mapping of other services (water supply, food production, waste treatment, telecommunications) that could be affected in the event of prolonged downtime of the assets being financed.

Water Supply and Sanitation

Water and sanitation projects face a large number of climate risks, and in general require detailed assessments to ensure their resilience. Their dependence on water resources both as inputs for the project and also as discharge points means that they are particularly vulnerable to both drought and flood. Water supply and sewer networks are also vulnerable to subsidence and landslides, which can disrupt supply, as well as erosion and flood impacts at points where they cross, or are adjacent to river.

Specific considerations include:[1]

a. Water resource assessments: Water supply projects require a detailed assessment of the sustainability of the water resources used, and should include stress tests for the impact of severe drought on the viability of the water supply. Where projects include the exploitation of groundwater resources, a hydrogeological study to assess sustainable groundwater yield under different climate scenarios should be undertaken. This is particularly important for coastal aquifers, where overexploitation combined with sea-level rise can lead to salinization of groundwater resources. The CRVA should also assess the impact of higher flood peaks on water intake structures, as well as the impact of low flows on water treatment and distribution.

b. Network analysis: Sewer and water supply networks are complex, and require assessment of climate risks and potential points of failure across the network. The potential impact of subsidence and mass earth movement, as well as the potential for erosion and damage where networks cross, or are adjacent to rivers, are particularly important to assess.

c. Flood risk: The ubiquity of water resource and sanitation infrastructure means it is often subject to flood risks. The CRVA should review flood protection measures, both existing and planned, against anticipated changes in flood frequency and intensity. In many countries, design standards, codes and guidelines do provide allowance for flood risks. PAA assessment will need to consider whether the project design, when applying the relevant design standards, has used updated flood data with projections of precipitation for the appropriate time horizon.

Transport

Transport projects are by nature interconnected, and impacts on the transport system can quickly have knock-on effects in other sectors. Transport infrastructure also functions as a network; thus, even if the specific investment is a site (railway station, or port, for example), consideration should be given to key risks and impacts across the network, and their effect on the project. Transport assets are often at risk of a wide range of climate hazards, including flood, landslides, wildfire, high winds, storm surge and sea level rise. Key considerations for CRVAs in the transport sector include:

a. Drainage: The CRVA assessment should consider whether existing and planned drainage systems are adequate given increases in rainfall intensity in many areas. This is particularly important if a project is upgrading or renovating an existing route, where the initial drainage design may have been based solely on historic data. The CRVA should also consider the potential to integrate nature-based solutions into the project as a way to reduce the amount of water that reaches the infrastructure in question.

b. Design standards: Design standards used in transport projects vary across countries, with some incorporating robust measures to account for climate change impacts, while others may not have done so yet. The CRVA should consider whether the application of relevant design standards and codes has factored in projected changes in design hydrometeorological parameters based on best available science and good practices for uncertainty management. In particular, design for maximum temperatures (in particular for road surfaces, and railway tracks) should account for climate-driven extremes, design for drainage and flood protection assets should factor in increased rainfall under a changing climate. Therefore, it should be first understood if the application of relevant design standards and/or associated technical notes (for design professionals) have taken into consideration the forecasted design-relevant climate parameters. If not, it needs to be checked and confirmed that the proposed application of climate parameters would be sufficient to provide the protection or maintain performance/service level under projected changes in design parameters, based on authoritative (e.g., IPCC reports, national assessment reports, or other published literature etc.) sources of information.

[1] Issues highlighted here as "specific considerations" related to regulatory framework (e.g., design standards) or project design considerations (e.g., siting of intersections to water supply network away from rivers to minimize flood risk) are expected to be taken care of by project owners. AIIB's role is to assess whether such issues are considered in order to manage expected material physical climate risks.

c. Slope failure and mass movement: Many transport investments, including both road and rail, are prone to disruption from slope failure, landslides or rockfalls. Increases in heavy precipitation raise the risk of such events. The CRVA should assess the potential for mass earth movement and slope failure to block routes and damage infrastructure. Some areas have detailed maps of landslide susceptibility which can inform assessments, but understanding the changes that increasingly heavy rainfall means for the interplay between soils, geology, and water is particularly. Design standards for embankments and retaining walls are also likely to be an important consideration.

Urban Development

Urban development projects are multi-sectoral, and will vary significantly in their exact composition. A major challenge for urban projects is determining how risks from outside the boundary of the specific project may still have significant impacts, and how these can be addressed (for example flooding of access roads maintained by a local municipality could stop workers from getting to the industrial park being developed). Urban services are highly linked and interdependent; project dependence on supporting systems should be assessed and risks identified and addressed.

Key considerations include:

a. Interdependencies: At a minimum, the CRVA should carry out a high-level mapping of urban systems on which the project depends (for example, transport, water supply, energy networks, etc.), and identify whether there are critical points of failure that would have a significant impact on the project. It may be that such an assessment determines, for example, that the local utility has a clear contingency plan to maintain power in the event of an extreme event, or the assessment may highlight the need for additional back-up capacity to ensure the project is fully resilient.

b. Urban Heat Modelling: Extreme heat is a key climate risk for cities, but the pattern and structure of development within a city means that different cities in similar climatic zones can experience heat differently, and within a city there can be large differences in temperatures experienced even over short distances. Detailed modelling, and mapping, of temperatures across the cities in question is needed to identify hotspots with particularly high temperatures, and to inform the deployment of adaptation measures, including blue-green infrastructure, and cooling measures.

c. Surface Water Flooding: Climate change is increasing the frequency and severity of extreme rainfall, and many cities around the world are experiencing damaging surface water floods driven by these events. Urban CRVAs must consider surface water flooding, and identify areas at particular risk. This may include modelling the effect of various rain events on the drainage network, and identifying areas that may need to resize, or have other, nature-based measures put in place.

d. Mitigation linkages: Cities are drivers of greenhouse gas emissions, and the built environment offers large opportunities for mitigation. Urban development projects need to address both adaptation and mitigation, and the CRVA can identify relevant adaptation measures, such as mechanical ventilation and cooling for buildings.

ANNEX 4: SUGGESTED OUTLINE FOR PARIS ALIGNMENT ACTION PLAN (PAAP)

This template provides a suggested structure for a Paris Alignment Action Plan for Financial Intermediaries and is designed to support FI clients in demonstrating that a credible plan is in place to improve the management of physical and transition climate risks.

The goal of the PAAP is to put in place a verifiable set of measures to improve the organization's internal processes and set measurable milestones to enable management of climate risk. This, together with the commitments undertaken as part of the operation, will allow AIIB to have confidence that concrete steps are being undertaken by the client and therefore the operation can be considered as PAA under the counterparty approach.

The PAAP should include timelines of priority actions over the short and medium term, resources (technical, financial, and staff) required to reach the objectives, and a process to regularly monitor and update progress against objectives.

The following structure for a PAAP is suggested and can be adjusted to reflect specific project context.

Introduction

This section sets out the context for the PAAP and a high-level summary of relevant existing climate risk management measures. If a gap analysis has been carried out, its findings will help to inform this section. The following could be pertinent to contextualizing the PAAP:

a. Description of organization, vision or mission statement, key sectors, and locations of operations;
b. The drivers for creating a PAAP;
c. Any pre-existing climate change or environmental sustainability strategies that provide context for the PAAP; and
d. Any existing climate targets (adaptation and mitigation).

Policy and Regulation

This section briefly outlines any applicable environmental or climate regulation. If a PAAP is being prepared and climate risk management is not covered by mandatory regulation, this section should provide any relevant climate, environmental or carbon regulations, as there may be important links to make.

Targets

It is essential that the PAAP include a set of time-bound targets for establishing climate risk management that can be monitored and reported on. Targets may be technical (e.g., number of projects screened for climate risks, guidelines to prevent lending to GHG-intensive clients or operations), financial (e.g., lending committed to climate resilience or renewable energy), or process-oriented (e.g., operationalization of an end-to-end climate risk management system). The targets should include any targets set as a condition for the approval of the operation. This section should also include:

a. Organizational needs for creating actionable targets, whereby auditable progress can be shown, to ensure meaningful progress is being made against any target(s). Targets may include a combination of risk and opportunity commitments, including commitments driven by the regulatory environment in which the financial intermediary operates, specific and measurable low-carbon targets, and/or other voluntary commitments;

b. A timescale and resource plan for achieving the identified actions and targets, over the short (now-2025) and medium (2025-2030) terms;
c. A clear definition of accountability, roles and responsibilities, and action owners who become responsible for the effective delivery of PAAP outcomes; and
d. Any intentions to improve climate risk disclosure (e.g., signing up the Task Force on Climate-related Financial Disclosures (TCFD), United Nations Environment Programme Finance Initiative (UNEP FI)) and a roadmap for doing so.

Building on the targets outlined here, the following sections of the PAAP should expand on specific targets, and actions to reach these, in the following areas:

Risk management processes

This part of the PAAP will outline the steps the organization will put in place to ensure that it is effectively identifying and managing climate risks to its investments. Commitments should be commensurate with the organization's existing capacity on climate risk but may include:

a. Ensuring the organization has screened climate hazards and transition risks through the use of a technically robust screening tool (e.g., offered commercially or with published documentation);
b. Creating entry points for climate risk management within the project management cycle;
c. Outlining how the organization will integrate measures to manage any risks identified during climate screening;
d. Committing to establishing a physical and transition climate risk management system, either as a standalone system or linked to existing organizational risk management systems;
e. Outlining how climate hazards and transition and climate risk management decisions are being taken going forwards, and how they will be revised as the climate and energy markets continue to change; and
f. Developing a clear and consistent set of metrics and targets for tracking climate resilience actions in projects and the overall climate impact of the organization's portfolio.

Governance

This section will:

a. Outline the governance mechanisms which already exist for climate risk management within the organization;
b. Outline commitments to strengthen governance of climate risks, including responsibility for the delivery of the actions outlined in the PAAP; and
c. Set out the process for reviewing and updating the PAAP and climate risk management commitments.

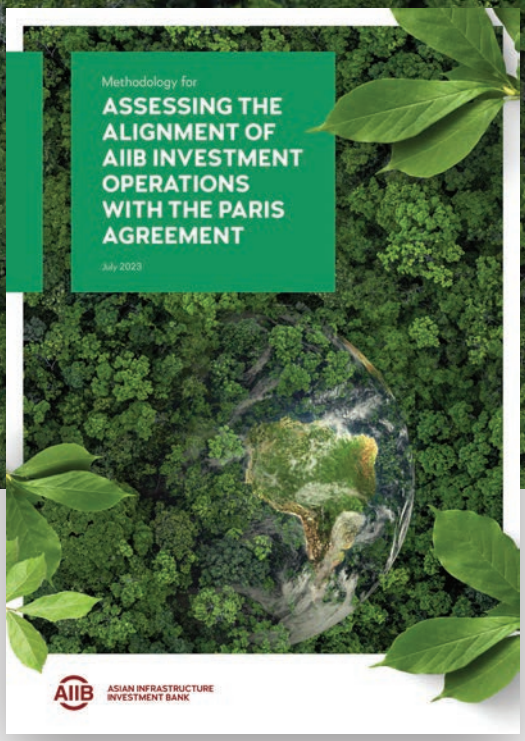
Capacity needs

This section will discuss what internal capacity is needed and has been planned to reach the plan's objectives, and what internal capacity-building is needed and planned. This may include training, knowledge resources, and procuring external learning resources to increase skills in particular teams.

Timeline and resources

This part of the PAAP outlines the timeline for meeting different targets, and when different actions will occur. Interim milestones should be included to provide a clear framework to report progress.

Additional financial and staff resources needed to implement the PAAP should also be included here, if relevant.



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About the investment operations of AIIB to meet the Paris Alignment.

The Asian Infrastructure Investment Bank (AIIB) prepared this methodology in line with the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations, which informed AIIB's own detailed implementation of its Paris alignment commitment. This publication provides further technical details on how AIIB investment operations will be assessed for their alignment with the mitigation and adaptation goals of the Paris Agreement. It reflects the Bank's positioning on Paris Agreement, which goes beyond safeguards or compliance, to identify opportunities where the Bank can provide additional value.

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