



ASIAN INFRASTRUCTURE  
INVESTMENT BANK

# REVIEW OF THE ENVIRONMENTAL AND SOCIAL FRAMEWORK

Outcome of the Phase 1 and Phase 2  
Consultation Process

February 19, 2021

# Review of the Environmental and Social Framework (ESF): The Mandate

*“Review of the ESF.* Based on the experience gained from the application of the ESP and ESSs to individual Projects during the first three years of the Bank’s operation, the Bank will, at the end of this period, conduct a review of the overall Environmental and Social Framework. As warranted, updates would be introduced to the framework, and further improvements to the ESP and ESSs would be recommended to the Board of Directors for approval. Emphasis will be placed on dynamic learning from both design and implementation of Projects in the diverse countries served by the Bank.”

Environmental and Social Framework, Introduction, Paragraph 4.

# Principles for Revision of the ESF

- Support AIIB's aspiration to be a 21<sup>st</sup> Century bank.
- Promote achievement of the Vision Statement.
- Maintain the environmental and social integrity of AIIB.
- Address opportunities for innovation.
- Reflect recent trends in development policies and practices.
- Improve the clarity of the document.
- Enhance operational effectiveness and outcomes.
- Support alignment with development partners.
- Undertake focused update, given limited ESF implementation experience to date.
- Avoid disruption of performance as a result of the revised ESF.



*Continue to have an ESF that can be successfully implemented  
by AIIB and its clients*

# Phase 1 (January – March 2020) and Phase 2 (September – November 2020) Consultations

## Inputs from a Range of Stakeholders:

- **Meetings and Discussions with Board of Directors, Advisors.**
- **Written Inputs.** Extensive written comments, which are comprehensive in scope, were provided by external stakeholders globally, especially from Asia, Europe and North America, in both Phase 1 and Phase 2 Consultations. AIIB received 125 pages of inputs during Phase 1; and 265 pages during Phase 2. Many of the contributors participated in the 2015 consultation process that resulted in the current ESF (2016, revised 2019).
- **Video Conferences (VC).** VCs with Board Constituencies and CSOs, including a CSO Dialogue with Management, chaired by AIIB's President during Phase 2, that covered the ESF Review as well as other matters of interest, and a VC with European CSOs, hosted by Germany during Phase 1 that provided a forum for CSOs to express their views to AIIB.
- **Internal Meetings.** Meetings were held with Management and staff, including Complaints-resolution, Evaluation and Integrity Unit (CEIU).

# SUMMARY OF KEY ESF COVERAGE ISSUES

# Phases 1 and 2 Consultations: Key ESF Coverage Issues (1)

## Recommendations/suggestions:

- **Vision.** Be more forward looking and ambitious in the Vision – move beyond the ambition of other MDBs to address environmental, social and climate change issues in development finance.
- **Harmonization and Alignment.** Avoid imposition of competing and overlapping requirements on clients.
- **Disclosure.** Adopt fixed disclosure period; various views about length of the disclosure period.
- **Climate Change.** Increase coverage of climate change to reflect developments since late 2015/early 2016. Reflect the commitments on climate made by AIIB in its Corporate Strategy.
- **Gender.** Various views as to whether there is a need for a separate Strategy/Policy on Gender. Broaden coverage of gender in the ESF, including gender-based violence (GBV).
- **Capital Markets/Use of ESG Approach.** Cover capital markets (CM) investments and use of the Environmental, Social and Governance (ESG) approach under the ESF.

*Proposals to expand coverage of some of these topics are covered in more detail in subsequent slides*

# Phases 1 and 2 Consultations: Key ESF Coverage Issues (2)

## Recommendations/suggestions:

- **Financial Intermediaries.** Broaden coverage of Financial Intermediary (FI) operations, strengthen AIIB oversight of these operations and clarify requirements for public consultation and disclosure for subprojects.
- **Use of Country and Corporate Systems.** Make use of client environmental and social management systems to more effectively internalize ESF principles in projects. Concern that AIIB commit to strengthen client systems and apply them only if they are at least as strong as ESF.
- **New Instruments.** Add provisions for new instruments, including Program for Results (PforR) and Results-based Lending (RBL).
- **Labor.** A variety of views on how to reflect general consensus on importance of sound Labor Management Relations.
- **Indigenous Peoples.** A variety of views about shifting from Free, Prior and Informed Consultation (FPICon) to Free, Prior and Informed Consent (FPIC) in the ESF.

*Proposals to expand coverage of some of these topics are covered in more detail in subsequent slides*

# Phases 1 and 2 Consultations: Key ESF Coverage Issues (3)

## Recommendations/suggestions:

- **Dam Safety.** Use more criteria than dam height alone in assessing risk.
- **Fossil Fuels.** A range of opinions on whether/how to limit/exclude financing of fossil fuels, especially coal.
- **Technical Assistance and Training.** Offer more technical assistance and training to clients for both Project preparation and implementation and for capacity building.
- **MDB Benchmarking.** Benchmark key elements of the ESP against the standards of other MDBs, especially the World Bank Group and ADB.
- **Digital Privacy.** A range of views on whether to reflect digital privacy provisions in the ESF.

*Proposals to expand coverage of some of these topics are covered in more detail in subsequent slides*



# Phases 1 and 2 Consultations: Key ESF Coverage Issues (4)

## Recommendations/suggestions:

- **Successful Implementation.** Continue to have an ESF that can be successfully implemented by AIIB and clients and avoids disruption of performance as a result of the revised ESF.
- **Target Date for Future Comprehensive Review.** Differences of views as to whether a target date should be set for a future comprehensive review of the ESF and associated policies such as the Policy on Public Information (PPI) and Project-affected People's Mechanism (PPM).

*Proposals to expand coverage of some of these topics are covered in more detail in subsequent slides*

# DETAILED COMMENTS ON KEY ISSUES

# Phases 1 and 2 Consultations: Disclosure and Stakeholder Engagement – Key Issues

- **Fixed Disclosure Periods.** Recommendations were made to set a fixed time period for the disclosure of environmental and social documents; questions were raised about the time period for disclosure, for example, 45 or 60 for Category A projects.
- **Disclosure in Local Languages.** Some parties recommended more comprehensive disclosure of Project-level environmental and social documents in local languages.
- **Stakeholder Engagement.** Some parties recommended enhancing provisions on stakeholder engagement, so that it is inclusive and undertaken throughout the Project cycle.
- **Grievance Redress Mechanisms (GRMs).** Some parties recommended strengthening provisions on GRMs so that they are publicized, accessible and culturally appropriate; verbal reporting, fully documented by the client, may complement written reporting.
- **Project-affected People's Mechanism (PPM).** Some parties recommended strengthening provisions that provide for dissemination of information regarding access to the PPM.

# Phases 1 and 2 Consultations: Financial Intermediaries – Key Issues (1)

- **FI Strategy.** A range of views was expressed on the need for an FI Strategy, given that FI operations now represent about 20 percent of AIIB portfolio.
- **Information Disclosure.** Some recommendations were made on the need for more transparency and guidance regarding disclosure of environmental and social information at subproject level. Concerns were raised that disclosure 12 months after subproject approval may be too late for Project-affected people to engage; it should be done prior to subproject approval.
- **AIIB Due Diligence (DD) and Oversight.** Some concerns were expressed about the capacity of AIIB and/or the FI to undertake DD and oversee FI Projects:
  - Need more guidance on how AIIB does its DD on FI operations. Clarify how AIIB determines equivalency of the FI's Environmental and Social Management System (ESMS) with the ESP. Measures to avoid the risk of mis-categorization of subprojects are needed.
  - Need “referral list” for subprojects that require higher scrutiny by AIIB and ringfencing of FI subprojects to support specific lower-risk, high-development-impact subprojects.
  - Need to enhance AIIB oversight of FI subprojects, especially high-risk ones.
  - Concern about robustness of FI's environmental and social DD and oversight.

# Phases 1 and 2 Consultations: Financial Intermediaries – Key Issues (2)

- **Full application of ESP to all FI subprojects, including Category B ones.** A diversity of views was expressed regarding application of the ESP to Category B subprojects.
- **Division of Responsibilities.** Some concerns were raised regarding the need for clearer division of responsibilities among AIIB, FI, and subborrowers on all environmental and social aspects of FI operations (DD, disclosure, oversight, and accountability).

# Phases 1 and 2 Consultation: Key Climate Change Issues – Strategy Aspects

- **Climate Change Strategy/Action Plan.** Recommendations were made that AIIB needs a Climate Change Strategy or Climate Change Action Plan, pending which, include climate indicators in Corporate Strategy (and ESF).
- **Climate Finance Targets.** Recommendations were made that AIIB should develop a positive list for Climate Finance with targets for the percentage of the portfolio to be dedicated to climate finance/renewables.
- **Corporate GHG Reporting.** Recommendations were made that by 2025, AIIB should report on GHG emission reductions for all Projects, including FI Projects.
- **Reduce Fossil-Fuel Financing.** Recommendations were made to reassess, by 2025, AIIB's Project pipeline and work to reduce fossil-fuel financing; determine target dates for Paris Agreement compliant peaking emissions; and develop parameters for fossil-fuel financing.
- **Update Energy Strategy.** Recommendations were made for AIIB to update its Energy Sector Strategy to define its approach to eliminating or reducing fossil-fuel financing.

# Phases 1 and 2 Consultations: Key Climate Change Issues – Policy Aspects

- **Climate Change Resilience, Benchmarks, Pollutants, Indicators and Gender and Climate Change.** Recommendations were made on the following matters:
  - Require all Projects to be climate change resilient.
  - Develop GHG emission benchmarks for electricity production and best available technology.
  - Increase assessment and reporting on short-lived climate pollutant emissions.
  - Reflect climate indicators in the ESF as environmental risks.
  - Address gender in relation to climate change risks and measures for mitigation or adaptation.
- **GHG Reporting.** Recommendations were made to quantify and disclose GHG emissions:
  - Provide baseline for GHG against which Projects can be assessed and mitigated.
  - Require all clients to account for and publish their direct and indirect emissions from Project-related facilities.
  - AIIB to catalog and monitor its own GHG footprint across its lending portfolio.
  - Set an institution-wide cap on all GHG and carbon emissions financed by AIIB.
  - Disclose data regarding direct and indirect emissions financed across AIIB's portfolio.

# Phases 1 and 2 Consultations: Key Biodiversity Issues

- **Precautionary Principle.** Some suggestions were made to highlight use of the precautionary principle in the ESF, build in stronger warrants of do-no-harm and take an inclusive and holistic approach to protecting and conserving biodiversity and maintaining core ecological functions and services, as they are fundamental to life.
- **Cumulative Impacts on Biodiversity.** Some recommendations were made to pay greater attention to cumulative environmental impacts beyond the Project area:
  - Consider indirect and cumulative impacts of infrastructure development outside natural habitats and protected areas.
  - Measure together and cap cumulative mixed (scale-) impact of all indirect impacts on biodiversity beyond the Project area (regionally, nationally, internationally).
- **Critical Habitats and Protected Areas.** Some recommendations were made not to finance Projects involving critical habitats or protected areas, even if biodiversity offsets are proposed:
  - Allow offsets in a critical habitat only if the parameters for which the area is classified as critical are not involved.
  - Require protected buffer zones nearby critical habitats and protected areas to minimize regional and local spillover impacts of nearby economic activity.
  - Explicitly require conservation of primary forests, well-developed secondary forests and sites of major environmental, social or cultural significance. Such areas should not be replaced by tree plantations or other land uses.



# Phases 1 and 2 Consultations: Key Social Issues (1)

- **Gender.** Some recommendations were made to consider adoption of a Gender Policy/Strategy; broaden coverage of ESF, including measures to support gender equality and to address GBV, including Sexual Harassment (SH) and Sexual Exploitation and Abuse (SEA); and mandate collection of gender-disaggregated data.
- **Disability.** Some suggestions were made to include in the ESF a dedicated section that clearly articulates AIIB's intentions and commitments regarding disability inclusion and collection of data disaggregated with respect to disability.
- **Children and Youth.** A proposal was made to enhance coverage in the ESF of concerns of children and youth, including youth organizations.
- **Labor.** Some recommendations were made to enhance the Vision Statement on labor; clarify coverage of conditions of employment and occupational health and safety, workers' GRM, and labor under public sector Projects, while recognizing special status of civil servants; reorganize text on community safety and worker safety; expand non-discrimination criteria; add specific references to ILO Conventions; extend coverage of ESS 1 to supply chain workers; and enhance coverage of workers' organizations.

## Phases 1 and 2 Consultations: Key Social Issues (2)

- **Labor Influx.** Recommendations were made to address risks to communities from labor influx and include measures for management of such labor.
- **Protection against Retaliation.** Recommendations were made to adopt guidance to address protection of rights defenders and prevention of retaliation, publish data on retaliation, and appoint a point person for this issue. Other recommendations included adopting separate ESSs on retaliation and detailed guidance.
- **Security Forces.** Recommendations were made to strengthen guidance on use of security forces.
- **Involuntary Resettlement and Land Acquisition.** Recommendations were made to maintain existing standards. Recommendations were made to upgrade to include “no forced resettlement,” require that resettlement plans and their budgets be available before Board presentation, and in some cases to address legacy issues going back longer than 3 years.
- **Eligibility Cut-off Dates.** Recommendations were made to appropriately publicize information on the cut-off date for settlers without legal rights to receive resettlement assistance and compensation and warnings that persons settling in the project area thereafter will be subject to eviction.
- **Land Aggregators.** Recommendations were made to strengthen text to require third-party land aggregators to abide by the ESF through legal agreements with the third party.

## Phases 1 and 2 Consultations: Key Social Issues (3)

- **Indigenous Peoples.** Recommendations were made to consider adopting use of Free, Prior and Informed Consent (FPIC); or to consider retaining Free, Prior and Informed Consultation (FPICon).
- **Resource-Dependent Communities.** Recommendations were made to strengthen protections for groups who depend on biodiversity and natural resources, including Indigenous Peoples and forest peoples.
- **Human Rights (HR).** Recommendations were made to adopt a policy commitment to HR and require clients to respect human rights; and conduct HR due diligence in line with UN Guiding Principles on Business and HR (UNGPs).
- **Contingent Liability Funding.** A suggestion was made to require contingent liability funding to remedy harms in all higher-risk Projects, complemented by AIIB contributions to the extent of its involvement in any adverse impacts; and consider HR impacts on Project-affected People prior to exercising contractual remedies.

# Phases 1 and 2 Consultations: ESEL Issues

## Environmental and Social Exclusion List (ESEL)

- **Fossil Fuels – Coal.** Recommendations were made to consider addition of coal to the ESEL, like many other MDBs. Other suggestions were made to address fossil fuels in Energy Strategy update rather than the ESEL at this time.
- **Fossil Fuels – General.** Recommendations were made to consider adoption of a gradual (or immediate) phasing out of all fossil-fuel investments, like some other MDBs. Other recommendations were made to address this matter in Energy Strategy update.
- **Asbestos.** Recommendations were made to consider banning asbestos, given its well-documented health risks, or revising language to further restrict its use.

# Phases 1 and 2 Consultations: Key Project Level Preparation/Implementation Issues

Recommendations were made to strengthen Project Preparation and Implementation including the following:

- **Improve Quality of Consultations.** Take measures to improve the quality of consultations so that they are meaningful and have a greater influence on Project design and implementation.
- **Enhance Dissemination of Information.** Make Project-level information more easily accessible online and in hard copy in the Project area. Post materials for all Projects AIIB supports in English and translations on the website.
- **Improve Project-Level Grievance Redress Mechanisms.** Take measures to carefully monitor the performance and effectiveness of Project-level GRMs. Actively monitor the types of grievances and their timely resolution by the client.

# Phases 1 and 2 Consultations: Special Fund – Proposed Use for Technical Assistance and Capacity Building

Some proposals were made to use Special Fund (SF) resources for Technical Assistance and Capacity Building as follows:

- **Use of SF Resources.** Use SF resources to build clients' environmental and social capacity during Project preparation and implementation, and to support preparation of environmental and social studies and instruments, and client monitoring of their implementation.
- **Revise SF Rules and Regulations.** Expand SF Rules and Regulations (RR), which currently limit the use of the resources of the Fund to “technical assistance” (TA) for “preparatory activities required during preparation and early implementation of a project” (Section 3.01(a)).

## Phases 1 and 2 Consultations: Additional Measures

- **Guidance to Staff and Clients.** Comments and observations were made relating to additional guidance for staff and clients to facilitate their implementation of the revised ESF.
- **Training.** Observations were made that the effective implementation of the revised ESF will require training of staff, clients and consultants on the updated elements of the ESF.
- **Dissemination.** Recommendations were made to disseminate the revised ESF to Development Partners, clients, consultants and the public.

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