SUSTAINABLE DEVELOPMENT BOND FRAMEWORK

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SUSTAINABLE DEVELOPMENT BOND FRAMEWORK
The global climate challenge is a huge threat to our world and urgent multilateral action is needed to address this crisis and help our members meet their commitments to the Paris Agreement.

Jin Liqun  
President and Chair of the Board of Directors, AIIB
AIIB IN BRIEF

AIIB’s Commitment to Sustainability
  Scaling Up Investments for Low-Carbon and Climate-Resilient Infrastructure
  Promoting Sustainable Development Through Infrastructure Investments

SUSTAINABLE DEVELOPMENT BOND FRAMEWORK

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The Asian Infrastructure Investment Bank (AIIB or the Bank) is a multilateral development bank (MDB) whose mandate is to (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.

AIIB commenced operations on Jan. 16, 2016 to help its members meet a substantial financing gap between the demand for infrastructure in Asia and available financial resources. The Bank aims to work with public and private sector partners to channel its own public resources, together with private and institutional funds, into sustainable infrastructure investment. As of Feb. 22, 2021, the Bank had 103 approved members, having grown from 57 founding members.

Building on accomplishments and lessons learned from its first five years of operations, AIIB has developed a Corporate Strategy: Financing Infrastructure for Tomorrow, which was adopted in September 2020 and sets out the Bank’s vision, mission and strategic directions for its growth phase through 2030.

Based on the Corporate Strategy, AIIB’s mission is Financing Infrastructure for Tomorrow. The Bank will continue to scale up its operations to meet clients’ needs and has identified the following thematic priorities:

- Green Infrastructure.
- Connectivity and Regional Cooperation.
- Technology-Enabled Infrastructure.
- Private Capital Mobilization.

Every AIIB financing is aligned with one or more of these thematic priorities, which are described in more detail hereunder.

AIIB upholds the use of high international standards and principles, which serve to maximize the financial, economic, environmental and social sustainability of all projects it supports. Prior to extending financing for a project, thorough analyses of the project’s financial and economic viability, as well as the debt sustainability of its borrowers are conducted. Projects financed by AIIB are governed by the Bank’s Environmental and Social Framework (ESF), including the Environmental and Social Policy, Standards and Exclusion List, reflecting good international practice and in line with standards and principles of peer multilateral development banks (MDBs). AIIB may, in a limited number of cases, allow for the application of an operation-specific environmental and social framework to be developed, against which the operation’s environmental and social risks are to be assessed and managed in a manner consistent with the vision and spirit of the ESF.

AIIB is rated by three ESG rating agencies: ISS ESG, Sustainalytics, and Vigeo Eiris. These ratings are solicited by investors and are based on industry-specific environmental, social and governance (ESG) criteria.
AIIB’S COMMITMENT TO SUSTAINABILITY

AIIB is built upon the common understanding that infrastructure investment is critical for sustainable economic growth and development. As a 21st century MDB investing in infrastructure and other productive sectors in Asia, AIIB is well-positioned to finance the transition toward a low-carbon and climate-resilient economy in the context of sustainable development. AIIB’s investments contribute to members’ efforts in achieving their nationally determined contributions (NDCs) to implement the Paris Agreement and support its members in achieving their targets under the UN Sustainable Development Goals (SDGs).

Scaling Up Investments for Low-Carbon and Climate-Resilient Infrastructure

Reflecting AIIB’s commitment to support its members achieve their commitments under the Paris Agreement, AIIB will aim at reaching or surpassing a 50 percent share of climate finance in its actual financing approvals by 2025.

AIIB tracks climate finance in its financing approvals using the Common Principles for Climate Change Mitigation Finance Tracking and the Common Principles for Climate Change Adaptation Finance Tracking, both of which are methodologies jointly adopted by MDBs and the International Development Finance Club. Since 2018, the Bank has been sharing its climate finance data with the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee and with the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance. Since 2020, AIIB has participated in the annually published joint report on MDBs’ climate finance.

Furthermore, AIIB is a signatory to the MDBs’ Alignment Approach to the Objectives of the Paris Agreement and actively participates in the joint MDB working groups on climate change and alignment with the Paris Agreement (Paris Alignment WGs). AIIB will also continue to contribute to the development of the joint MDB framework on Paris Alignment and actively explore aligning its relevant policies, strategies and operations with the framework once it is fully developed and agreed upon.

“Let me be very clear: I am not going to finance any coal-fired power plants; further, AIIB will not finance any projects that are functionally related to coal.”

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

Promoting Sustainable Development Through Infrastructure Investments

As AIIB was established after the adoption of the SDGs, it subscribes to the principles of sustainable development in the identification, preparation and implementation of projects and contributes to its members’ efforts to achieve the 17 SDGs. Thus, AIIB’s financing contributes to higher-level development outcomes and goals pursued by its members.

Sustainable infrastructure is integral to the SDGs and is critical to achieving development outcomes. The Addis Ababa Action Agenda on Financing for Development sets out an explicit role for MDBs in steering finance toward sustainable infrastructure. AIIB’s existing investments in energy, transport, sustainable cities, digital infrastructure and water sectors directly support four SDGs:

- SDG 6: Clean water and sanitation.
- SDG 7: Affordable and clean energy.
- SDG 11: Sustainable cities and communities.
AIIB's investments either directly or indirectly contribute to other SDGs. For example,

- AIIB’s support for its clients in the COVID-19 pandemic and future investment in social infrastructure over the Corporate Strategy period would contribute to SDG 3: Good health and well-being and SDG 4: Quality education.
- AIIB’s commitment to climate finance can be mapped against SDG 13: Climate action.
- AIIB’s commitment to increase its connectivity and regional cooperation operations is expected to be reflected in SDG 8: Decent work and economic growth, and SDG 17: Partnerships for the goals.
- AIIB’s efforts to increasingly incorporating gender considerations into projects can contribute to SDG 5: Gender equality.

Figure 1 provides a current interpretation of AIIB’s investments in the four infrastructure SDGs and their benefits to other SDGs.

Finally, AIIB also intends to actively create and broaden opportunities to engage through partnerships a diverse group of stakeholders from the public and private sector as well as academia and civil society organizations to promote sustainable development.

AIIB’s Sustainable Development Bond Framework (the Framework) presents a summary of the policies, strategies, processes, and mechanisms that govern AIIB’s commitment to sustainable financing activities within its purpose—including supporting members’ efforts in meeting their commitments under the Paris Agreement on climate change and to achieve their targets under the SDGs. In addition, the Framework also outlines the reporting that the Bank will provide on its website concerning the environmental and/or social impacts of the Bank’s financing.

The Framework applies to all debt issued by AIIB (AIIB Sustainable Development Bonds).

A key component of this Framework is the Bank’s application of the principles embedded in the Bank’s ESF to projects financed by the Bank since its inception.

The Framework has the following four core components which are described in detail hereunder: (i) Use of Proceeds, (ii) Process for Project Evaluation and Selection, (iii) Management of Proceeds and (iv) Reporting.

I. USE OF PROCEEDS

The net proceeds from the sale of the AIIB Sustainable Development Bonds will be included in the ordinary resources of the Bank. AIIB’s mandate is to (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions. AIIB’s Articles of Agreement require that each of the Bank’s operations comply with the Bank’s operational and financial policies, which include policies addressing environmental and social impacts. The Bank’s financings—which may include loans, guarantees or equity or other forms of investments—undergo an approval, implementation and monitoring process designed to ensure they align with the Bank’s mandate as well as adhere to applicable environmental and social safeguards. Pending their use, the net proceeds from the sale of the AIIB Sustainable Development Bonds will be invested as part of AIIB’s liquid assets portfolio.

AIIB’s Corporate Strategy: Financing Infrastructure for Tomorrow

AIIB’s Corporate Strategy outlines its Vision, Mission and strategic choices as follows:

- AIIB’s VISION is a prosperous Asia based on sustainable economic development and regional cooperation.
- AIIB’s MISSION is Financing Infrastructure for Tomorrow. By investing in sustainable infrastructure, AIIB unlocks new capital, new technologies and new ways in which to address climate change and to connect Asia, and the world.
• AIIB will achieve this working in partnership. By being agile and adaptable, the Bank will meet client needs and operate in accordance with good international practice.

Under AIIB’s commitment to sustainability and its mission of Financing Infrastructure for Tomorrow, the Corporate Strategy committed that all AIIB investments be financially, economically, environmentally and socially sustainable as well as inclusive.

Furthermore, the Corporate Strategy defines cross-cutting themes, or “thematic priorities” to shape and guide AIIB’s investment portfolio and business activities (Figure 2). It sets a clear focus for the Bank by requiring that all AIIB investments across infrastructure and other productive sectors should ordinarily add value through one or more of four thematic priorities as follows:

(1) **Green Infrastructure.** AIIB will prioritize green infrastructure and support its members in meeting their environmental and related development goals by financing projects that deliver local environmental improvements and investments dedicated to climate action. This will cover a range of investments and sectors, including renewable energy and low-carbon public transportation as well as better water management and sanitation, pollution control and enhancing ecosystem services.

(2) **Connectivity and Regional Cooperation.** AIIB will prioritize projects that facilitate better domestic and cross-border infrastructure connectivity within Asia and between Asia and the rest of the world. It will also support projects that complement cross-border infrastructure connectivity by generating direct measurable benefits in enhancing regional trade, investment, digital and financial integration across Asian economies and beyond.

(3) **Technology-Enabled Infrastructure.** AIIB will support projects where the application of technology delivers better value, quality, productivity, efficiency, resilience, sustainability, inclusion, transparency or better governance along the full project life cycle.

(4) **Private Capital Mobilization.** AIIB will support projects that directly or indirectly mobilize private financing into sectors within its mandate.

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**Figure 2. A Framework for AIIB’s Investments for Sustainable Development**

**What is AIIB’s institutional MANDATE?**
1. Foster sustainable economic development, create wealth, and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and
2. Promote regional cooperation and partnership in addressing development challenges by working in close cooperation with other multilateral and bilateral development institutions.

**What are AIIB’s SUSTAINABILITY PRINCIPLES for Financing Infrastructure for Tomorrow?**
1. Financially and economically sustainable
2. Socially sustainable and inclusive
3. Environmentally sustainable

**What are AIIB’s corporate FINANCING TARGETS?**
1. 50% climate financing by 2025
2. 25%-30% cross-border connectivity by 2030
3. 50% private sector projects by 2030

**What are the THEMATIC PRIORITIES guiding AIIB’s pipeline?**
1. Green infrastructure
2. Connectivity and regional cooperation
3. Technology-enabled infrastructure
4. Private capital mobilization

To support its mission, AIIB has committed to three financing targets in the Corporate Strategy. It aims at:

• Reaching or surpassing by 2025 a 50 percent share of climate finance.
• Reaching by 2030 a 25 percent to 30 percent share for cross-border connectivity projects.
• Reaching by 2030 a 50 percent share of private sector financing in its actual financing approvals.

AIIB has also adopted other strategies to guide its financing operations, including in key infrastructure sectors. These include:

• Energy Sector Strategy: Sustainable Energy for Asia, which outlines the Bank’s vision to invest in energy projects that will increase access to clean, affordable and reliable energy for Asia. See details of AIIB’s investment strategy in sustainable energy in Box 1.
• Transport Sector Strategy: Sustainable and Integrated Transport for Trade and Economic Growth in Asia, which outlines the Bank’s vision to support the development of sustainable and integrated transport systems that promote trade and economic growth.

Asian Infrastructure Investment Bank’s sector strategies provide strategic direction in selecting projects for its financing. AIIB’s Energy Sector Strategy: Sustainable Energy for Asia outlines six sustainability principles that guide the build-up of the Bank’s energy portfolio during its early years of operation.

• Principle 1: Promote energy access and security.
• Principle 2: Realize energy efficiency potential.
• Principle 3: Reduce the carbon intensity of energy supply.
• Principle 4: Manage local and regional pollution.
• Principle 5: Catalyze private capital.
• Principle 6: Promote regional cooperation and connectivity.

The following illustrate the Bank’s areas of focus in financing energy projects:

1. Renewable Energy
By financing renewable energy projects, AIIB aims to support the development of intermittent renewable energy—including but not limited to hydropower, wind, solar and biomass—to reduce fossil fuel consumption and increase access to modern energy through decentralized generation, and mini- and micro-grids.

2. Energy Efficiency
By financing energy efficiency projects, AIIB aims to support generators and utilities to improve the efficiency of existing power generation facilities, develop and implement loss reduction programs through demand-side management, improve building energy efficiency and enhance the efficiency of district heating networks in light of growing energy demand.

3. Lower-Carbon Energy Transition
By financing investments that are demonstrably compatible with a country’s transition toward sustainable, low-carbon energy and internationally agreed targets, AIIB aims to support and accelerate its members’ respective transitions toward a low-carbon energy mix, including lower-carbon emissions from fossil fuels.
II. PROCESS FOR PROJECT EVALUATION AND SELECTION

AIIB applies a five-step process for selecting sustainable projects for its financing:

**Project Screening**
AIIB screens project ideas and proposals from sovereign and nonsovereign clients, partners and other stakeholders, for their strategic fit with AIIB’s mandate and priorities, and to achieve an appropriate balance among clients, sectors, sovereign and nonsovereign projects.

As part of the project identification phase, the prospective client submits documentation pertaining to the proposed project. This documentation may include a project summary and/or a feasibility report.

Projects that meet the preliminary screening criteria are included in the rolling investment pipeline after approval by the Bank’s Project Screening Committee. Eligibility as per the Bank’s Environmental and Social Exclusion List as included in AIIB’s Environmental and Social Policy is reviewed at this stage.

**Project Preparation and Due Diligence**
Once a project enters AIIB’s investment pipeline, the Bank conducts a due diligence assessment, involving interactions with the prospective client and review of the client’s own assessment as well as public information pertaining to the proposed project.

Based on the initial due diligence assessment, the Bank works with the prospective client to prepare a project concept document for internal deliberations and management review.

AIIB’s detailed due diligence includes an integrated risk assessment conducted by Bank specialists that covers technical, economic, financial, legal, social, environmental and governance factors, among others.

This due diligence normally also involves site visits to further assess needs and the project’s risks and potential impacts. Appropriate dissemination of environmental and social information and client consultations with stakeholders are also an important part of the Bank’s due diligence assessment.

During this stage, AIIB staff work with the prospective client to identify any gaps and additional measures to close the gaps, as well as potential areas for improvement, as needed to meet the Bank’s financing conditions and policy requirements.

The Bank prepares a project document that includes the project objective/impact, rationale, estimated cost, financing plan, project risks and mitigation measures.

**Project Approval**
Financing for the project is approved either by the Board of Directors, or, if approval authority has been delegated by the Board, by the President.

After approval, the client’s representative and the Bank execute the financing agreements (which are negotiated prior to approval in the case of sovereign-backed financing, and normally following approval in the case of nonsovereign-backed financing).

**Project Implementation and Monitoring**
To successfully implement the project, clients are required to comply with the applicable provisions of the Bank’s ESF and to conduct project procurement in accordance with AIIB’s Procurement Policy. The aim of the Procurement Policy is to support clients to achieve successful implementation of Bank-financed projects through efficient, fair, ethical and transparent procurement processes that optimize both value-for-money and social and environmental sustainability.

AIIB actively monitors the client’s project implementation progress, including through periodic site visits. Clients are required to prepare periodic progress reports, including financial, environmental and social management reports to be submitted to the Bank.

AIIB also provides implementation support to clients, helping them identify and address project implementation issues and helping them achieve project objectives. Clients can call on the Bank’s expertise and sector knowledge for guidance on technical, market or environmental and social matters. AIIB also offers its advisory services through video and teleconferences as and when required to review project implementation progress and resolve any issues in a timely manner.
Project Completion and Evaluation
The AIIB project team prepares a project completion note normally within six months after project completion (or loan repayment/equity divestiture in the case of nonsovereign-backed financing) on the project’s results, the performance of the project participants and the Bank and major lessons learned.

Additionally, AIIB’s evaluation unit conducts a Project Learning Review (PLR) on selected projects after completion of those projects. The PLR aims to independently evaluate project impacts and performance of the project participants and the Bank, as well as lessons learned.

AIIB’s Environmental and Social Framework (ESF): A Cornerstone for Sustainable Project Evaluation and Selection

With respect to environmental and social aspects, the Bank conducts the following due diligence process for projects proposed for AIIB financing:

(1) Eligibility Determination Against the Environmental and Social Exclusion List
AIIB confirms that the Project does not involve activities or items included in the Environmental and Social Exclusion List. If activities or items proposed for financing by AIIB have not been identified at the time of Bank approval, the client is required to exclude from AIIB financing any such activities or items upon identification.

(2) Screening and Categorization
AIIB screens and categorizes each proposed project to determine the nature and level of the required environmental and social review, type of information disclosure and stakeholder engagement for the project. The categorization takes into consideration the nature, location, sensitivity and scale of the project, and is proportional to the significance of its potential environmental and social risks and impacts. As part of this process, AIIB also screens the project to determine which of the environmental and social standards (ESSs) are likely to apply. In cases where environmental and social assessment work may already have been carried out for the project, AIIB reviews the work, and in consultation with the client, determines whether any additional environmental or social work is required.

(3) Environmental and Social Due Diligence
AIIB conducts environmental and social due diligence as an integral element of its due diligence assessment of the project, and in a manner that is: (a) appropriate to the nature and scale of the project; and (b) proportional to the level of the project’s potential environmental and social risks and impacts.

(4) Environmental and Social Assessment
AIIB screens each project to determine whether it involves environmental and social risks and impacts. If so, it requires the Client to conduct assessments as described in further detail in three Environmental and Social Standards (ESSs).

ESS 1: Environmental and Social Assessment and Management
If AIIB determines that the project has potentially adverse environmental or social risks and impacts, it requires the Client to conduct an environmental and social assessment or review relating to these risks and impacts, which is proportional to the nature and scope of the risks and potential impacts involved, and to design appropriate measures to avoid, minimize, mitigate, offset or compensate for them.

ESS 2: Involuntary Resettlement
AIIB screens each project to determine whether it involves Involuntary Resettlement (which covers both physical and economic displacement, as defined in ESS 2). Where it is not feasible to avoid Involuntary Resettlement, the client is required to conceive and execute the resettlement activities as sustainable development programs, providing sufficient resources to enable the persons displaced by the project to share in project benefits. In such case, the Bank requires the Client to prepare a resettlement plan or planning framework that is proportional to the extent and degree of the impacts.

ESS 3: Indigenous Peoples
AIIB screens each project to determine whether it would have impacts on Indigenous Peoples (as defined in ESS 3). In conducting this screening, AIIB seeks the technical judgment of qualified social scientists with expertise on the social and cultural
groups in the project area. AIIB also consults the Indigenous Peoples concerned and the client. If the project would have impacts on Indigenous Peoples, AIIB requires the client to prepare an Indigenous Peoples plan or planning framework that is proportional to the extent and degree of the impacts.

III. MANAGEMENT OF PROCEEDS

AIIB tracks the outstanding amount of approved financing in accordance with its Corporate Scorecard as defined in its Corporate Strategy. Pending the use of bond proceeds in support of AIIB’s approved financing, the proceeds are invested in accordance with the Bank’s Asset Liability Management Policy and other relevant internal policies as part of AIIB’s liquid assets portfolio.

If a client fails to comply with its environmental and social obligations under its legal agreements governing the project, AIIB will consult with the client on corrective measures to restore compliance, failing which, and within a time frame AIIB deems appropriate, it may exercise its available rights or remedies.

IV. REPORTING

AIIB will provide annual reporting under the Framework, including reporting on the Bank’s overall portfolio and project level results reflecting environmental and social benefits generated by AIIB’s financing. This report will be made available on the AIIB official website under a dedicated section.

Portfolio-Level Reporting

As defined in its Corporate Strategy, the Corporate Scorecard tracks the impact of AIIB financing and can be conceptually expressed as a combination of three essential elements for achieving impact:

(1) Portfolio Volume. Being aware of the critical role, but the limited amount of its financing, AIIB provides the necessary financing with the right tenor and quantity in line with the needs of each project and proactively aspires to catalyze other financing sources into infrastructure investments. AIIB values mobilized financing as much as its own financing. The Bank’s Corporate Scorecard contains dedicated indicators that track the total capital mobilized by AIIB through its own financing approvals and from private and public sources. AIIB also reports on the share of its private sector financing through a dedicated target indicator.

(2) Portfolio Alignment. AIIB contributes to direct impact in the priority areas where it seeks to add value and establish its market position. AIIB ensures that every project it finances is ordinarily aligned with at least one of its four thematic priorities and does not dilute itself in other areas that may fit better with the mandates of other institutions. AIIB reports on its climate financing and cross-border connectivity financing through dedicated target indicators in its Corporate Scorecard and will regularly report in detail the alignment of its operations with the Bank’s four thematic priorities.

(3) Portfolio Performance. AIIB’s impact will be fully realized through the successful implementation of the projects it finances and the fulfillment of project objectives in line with AIIB’s policies and strategies. AIIB tracks performance from various angles for each project that is under implementation, including project results, technical, environmental and social, disbursement, fiduciary control, integrity and credit risks. Based on individual project performance monitoring, the Bank is also tracking portfolio performance through two dedicated indicators (implementation readiness and portfolio implementation performance) in its Corporate Scorecard.

Accordingly, the set of indicators in the Corporate Scorecard are related to impact as defined by: (i) total resources mobilized, (ii) alignment with thematic priorities and (iii) portfolio performance. The Corporate Scorecard is accessible online under AIIB’s Corporate Strategy.
Project-Level Reporting

The expected impact and contribution of AIIB's financings to development outcomes are captured by the project-level results frameworks reflecting project objectives that are aligned with AIIB's mission, thematic priorities and strategic direction. AIIB updates its list of approved projects (the AIIB Approved Project List) on its website on a regular basis. Information regarding projects includes, as applicable, project description, project objectives and results framework, financing amounts, financing approval date, and environmental and/or social documentation. Based on the project level results framework, AIIB will provide information on the environmental and/or social benefits brought by AIIB's financing on a selective basis, while reserving the right to choose the most appropriate results indicators according to each project type and for each project.

The case study-based project level reporting by AIIB will continue until the AIIB’s portfolio matures to the extent that certain indicators may be aggregated over time across sectors and themes.

The following environmental and social indicators are illustrative of how AIIB achieves impact through its financing:

<table>
<thead>
<tr>
<th>Environmental Impact</th>
<th>Social Impact</th>
</tr>
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<tbody>
<tr>
<td>Greenhouse gas emission reduced, tons of CO₂ equivalent per year.</td>
<td>Number of households with increased access to electricity.</td>
</tr>
<tr>
<td>Local air pollutants reduced, tons of NOx and SO₂ per year/micrograms of particulate matter per cubic meter.</td>
<td>Number of households with new or improved access to safely managed drinking water supply services and/or sanitation services.</td>
</tr>
<tr>
<td>Renewable generation capacity installed, MW.</td>
<td>Number of people benefitting from disaster and/or climate resilient projects.</td>
</tr>
<tr>
<td>Land protected through flood control infrastructure, hectares.</td>
<td>Number of people with affordable access to internet and digital services.</td>
</tr>
</tbody>
</table>

Table: Environmental and Social Impact Indicators
AIIB aims to continuously enhance its approach and respond to changes in industry best practice and market expectations. This Framework will be reviewed over time to reflect the evolution of the green, social and sustainable bond markets as well as changes in AIIB’s strategies, policies and processes.

AIIB welcomes feedback from investors, stakeholders and market participants. Please email your comments to: funding@aiib.org
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