

# CLIMATE ACTION PLAN

September 2023



ASIAN INFRASTRUCTURE  
INVESTMENT BANK

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## FOREWORD



Our planet and way of life are at a crossroads. Global climate change crises and disasters, now more frequent and conspicuous than ever, present a formidable challenge that transcends borders and thus requires collective action of unprecedented scale. The decisions and actions taken today will impact generations of people, one way or the other. The Asian Infrastructure Investment Bank, this relatively young institution, was up and running right after the Paris Agreement was entered into by its signatory members. This is not mere coincidence. It is the global focus on the overriding concern of the international community over this burning issue that has brought us together. From the very outset, AIIB has zeroed in on environmental protection and climate change in promoting sustainable infrastructure for tomorrow. AIIB's first Climate Action Plan (CAP) signifies our determination to harness our resources, expertise, and partnerships to assist our Members to mitigate and adapt to the climate change crisis.

As an Asia-focused infrastructure financier, AIIB is acutely aware that Asia is disproportionately impacted by climate change but at the same time has potentially abundant resources at its disposal to accelerate its transition toward a low and zero carbon development pathway. But still, there is a gap between the need and the availability of resources. At this stage, the scale of financing needed to realize the national climate ambitions of our Members does not seem to measure up to the daunting task we have to tackle. We must ramp up our efforts to mobilize adequate resources to finance sustainable infrastructure as a key solution to both mitigation and adaptation. AIIB's geographic and infrastructure focus places us in a unique position to play a key role including in mobilizing the private sector to play a larger role.

The CAP consolidates our commitments as set out in AIIB's key strategies and policies, clarifies the principles of our climate financing, and identifies our key actions to guide our Bank's investments in support of our Members. More than a testament to AIIB's engagement, our CAP demonstrates our steadfast dedication to collaborating with our Members in pooling our resources and expertise for the common objective and shared benefit. We aim to support our partners, assisting them in making informed decisions on projects and initiatives that will help reduce greenhouse gas emissions, bolster resilience against climate impacts, safeguard our natural capital, and enhance the well-being of our communities. Through our focus on investing in future-oriented infrastructure, AIIB is dedicated to fostering a sustainable, inclusive, and equitable future for all, through preserving and safeguarding our environment.

Our CAP is designed to chart AIIB's climate actions to 2030. It is a living framework that can and will need to be finetuned and adapted, given the intensifying and multiplying impacts of climate change and the necessity of keeping our actions relevant and consequential. This document marks one of the many important steps we must collectively take in our pursuit of a sustainable world, freed from climate havoc and other natural disasters to the greatest extent possible. We are moving forward on the right course, driven by the understanding that our actions today will shape the destiny of generations to come.

**Jin Liqun**

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

**ABBREVIATIONS**

AIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
AUD	Australian Dollar
AUM	Asset Under Management
CAP	Climate Action Plan
CO <sub>2</sub>	Carbon dioxide
COP27	2022 United Nations Climate Change Conference
ESF	Environmental and Social Framework
ESG	Environmental, Social and Governance
G20	Group of Twenty
GDP	Gross Domestic Product
GHG	Greenhouse gases
GW	Gigawatt
I4T	Infrastructure for Tomorrow
IDFC	International Development Finance Club
IPCC	Intergovernmental Panel on Climate Change
J-ETP	Just Energy Transition Partnership
LCOE	Levelized cost of energy
LTS	Long-Term Strategies
MDB	Multilateral Development Bank
MMFMP	Metro Manila Flood Management Project
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
SWF	Sovereign Wealth Fund
TWh	Terawatt hour
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar
VC	Venture Capital

## I. INTRODUCTION

*AIIB's ambition to be Asia's climate partner means it will bring capital, capacity and convening power to support its Members in their efforts to combat climate change. It will scale up investments and capital mobilization for holistic local solutions that encompass climate mitigation, adaptation, nature and biodiversity. To increase the impact of climate solutions, AIIB will promote innovation, with a strong focus on technology, and seek to partner with parties that add value to these solutions.*

Established at the same time as the Paris Agreement, the Asian Infrastructure Investment Bank's (AIIB or the Bank) strategies, policies and operations recognize the importance of addressing the climate change challenge. AIIB is in a unique position to play a key role. Its geographic focus, Asia, directs its financing to a region that has seen exponential increases in the production of greenhouse gases (GHG) – now accounting for over half of global emissions<sup>1</sup> – but which also suffers, and will suffer, disproportionately from the impacts of climate change. Recognizing climate change is a global public good, the Bank is also able to extend its climate financing to non-regional Members. AIIB's sectoral focus is on infrastructure, a sector that produces 79 percent of GHG emissions and accounts for 88 percent of adaptation costs,<sup>2</sup> but which also provides key solutions for both climate mitigation and adaptation.

Sustainability is a founding principle of the Bank, which was created to foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia, by investing in infrastructure and other productive sectors. AIIB is further mandated to promote regional cooperation and partnership in addressing development challenges, by working in close collaboration with other multilateral and bilateral development institutions.

As the newest member of the multilateral development bank (MDB) community, AIIB has heard the call for MDBs to do more and to do better in supporting the global climate challenge response. The global community urgently needs to increase its ambition to keep below the global warming threshold of 1.5°C. MDBs have a unique role to play in supporting and driving that ambition, by financing climate solutions, utilizing their risk absorption capacity, mobilizing the private sector, directing funding to less developed countries and spurring global efforts to develop new and innovative solutions. AIIB intends to continue playing its part in these efforts and to lead by example.

Guided by its Corporate Strategy,<sup>3</sup> AIIB is responding to the needs of its Members. It has developed an ambitious climate finance target of at least 50 percent of all financing approvals by 2025 and is aligning all its financing operations with the Paris Agreement.<sup>4</sup> AIIB also ensures that all its thematic priorities – green infrastructure, technology-enabled infrastructure, private capital mobilization, and connectivity and regional cooperation – are applied to maximize climate finance opportunities.

AIIB's first Climate Action Plan (CAP), for the period to 2030, is AIIB's direct response to the global call for action. It articulates how, as a client-demand-driven financier, AIIB translates its climate ambition into key actions for a more effective partnership to meet the needs of its Members. The CAP

<sup>1</sup> Statista. 2022. Global energy-related CO<sub>2</sub> emissions by region 2022.

<sup>2</sup> UNOPS. 2021. Infrastructure for Climate Action.

<sup>3</sup> AIIB. 2020. Corporate Strategy – Financing Infrastructure for Tomorrow.

<sup>4</sup> AIIB. 2021. Investing in Climate Action.

consolidates AIIB's commitments as set out in its key strategies and policies, clarifies the principles of AIIB's climate financing, and identifies key actions to guide AIIB's investments in support of its Members. The CAP builds on AIIB's operational experience, increased understanding of climate change globally and in Asia particularly, evolving Member needs and lessons learned, while keeping a strong focus on aligning climate actions with the implementation of the Bank's Corporate Strategy.

The four guiding principles of the CAP have been developed based on the Bank's understanding of evolving Member needs together with an assessment of where and how it can add the most value. The principles, together form the approach that guides AIIB's solutions and climate financing to be fit for purpose in addressing the climate crisis with urgency and scale. The four principles are:

1. **CLIENT FOCUS** – Effective solutions in a diverse region can only be developed through close, long-term local engagements. The Bank will support differentiated and tailored solutions adapted to the needs and circumstances of all Members in a balanced and equal manner.
2. **IMPACTFUL: ADDING VALUE TO PROJECTS** – The complexity of the climate challenge requires holistic, sustainable solutions benefiting all. AIIB will prioritize financing, at a greater scale, to mitigate climate change, complement adaptation efforts and maximize co-benefits for nature and biodiversity conservation.
3. **CATALYTIC: MOBILIZING FINANCING PARTNERS** – To contribute to narrowing the financing gap, AIIB will scale up its own climate financing by leveraging its fresh balance sheet and ability to deploy an increasing share to climate as it grows; and, perhaps more importantly, to increase climate finance by mobilizing the private sector through diversified products and broadened partnerships.
4. **INNOVATIVE** – The climate challenge can only be addressed with increased technological innovation. As one of its thematic priorities, AIIB will work to accelerate the pace of innovation and deployment of effective solutions and technologies to support its Members to meet net-zero and resilience objectives.

As part of the effort to better respond to both client needs and the evolving nature of the climate challenge, the CAP presents a number of initiatives and potential new products to complement AIIB's existing financing actions. Many of these are new to AIIB and will need to be carefully assessed in terms of value addition for clients and the Bank's ability to implement them effectively; and, where necessary, to obtain Board approval.

## II. CONTEXT

### A. URGENT AND AMBITIOUS ACTION NEEDED TO RESPOND TO THE GROWING CLIMATE CRISIS

The impacts of climate change are already widespread and rapidly intensifying, while the window of opportunity to prevent the worst impacts of global warming is fast closing. The earth's atmosphere, ocean, cryosphere and biosphere are undergoing significant and accelerated transformations, resulting in major impacts on human activity and quality of life through more frequent and severe weather events, such as heatwaves, droughts, floods and hurricanes. These changes affect nature's ability to provide essential ecosystem services critical to life, such as clean air, water and fertile soil.

Climate change has a disproportionate effect on the most vulnerable. Sudden loss of livelihoods through damage from climate-induced disasters or long-term loss through drought, erosion, or rising temperatures, together with impacts on human health and increased food, water and energy insecurity, all require solutions that are inclusive, sustainable and address the needs of the most vulnerable.

Despite the growing body of scientific evidence and international recognition, which support the need for systemic change and action, solutions are not being implemented at sufficient scale, speed or with attention to a holistic approach. Globally, emission reduction efforts and pledges to Nationally Determined Contributions (NDCs), Long-Term Strategies (LTSs), net-zero/carbon neutrality and National Adaptation Plans (NAPs) lag well behind what is required to achieve the objectives of the Paris Agreement.

To achieve net zero by 2050 or earlier, global emissions need to peak before 2025 and quickly reduce thereafter.<sup>5</sup> In the absence of concerted action at scale, the Intergovernmental Panel on Climate Change (IPCC) scenarios show that global warming will pass the 1.5°C threshold, making it increasingly challenging to then avoid exceeding 2°C.<sup>6</sup> Immediate, focused and ambitious change is therefore essential to scale up climate action.

#### **Evolution of the international response**

Some progress has been made by the global community in advancing the climate change agenda. A confluence of pressures from consecutive IPCC reports, focus on just energy transitions, negotiations under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC), and increasing public awareness have helped to drive some policy change at the global, regional, national and local levels. The seminal UN Climate Change Conference (COP21) in 2015 resulted in the Paris Agreement,<sup>7</sup> through which participants agreed to hold the global average temperature increase to well below 2°C and to pursue efforts to limit it to 1.5°C above pre-industrial levels, while recognizing differentiated responsibilities and capabilities.

Global agreements have been translated into national pledges, with over 90 percent of global GDP now covered by net-zero targets.<sup>8</sup> However, despite progress made, the current cumulative country climate pledges, expressed through NDCs, still put the world on track for well beyond 2°C of warming by the end of the century.<sup>9</sup> Additionally, less than half of the national signatories to the Paris Agreement have submitted LTSs to guide implementation of their NDCs.<sup>10</sup> As a result, the global response remains far

<sup>5</sup> IPCC. 2023. AR6 WGIII - Climate Change 2022: Mitigation of Climate Change.

<sup>6</sup> IPCC. 2023. AR6 Synthesis Report – Summary for Policymakers.

<sup>7</sup> Paris Agreement. 2015.

<sup>8</sup> Net Zero Tracker.

<sup>9</sup> UNFCCC. 2022. Climate Plans Remain Insufficient: More Ambitious Action Needed Now.

<sup>10</sup> UNFCCC Long-term strategies.

from aligned with the goals of the Paris Agreement and, critically, renders much of the world increasingly vulnerable to the impacts of climate change. For the global response to be effective, net zero must be adopted as a fundamental planning assumption by governments, businesses and investors, for an optimal allocation of resources.

Successive COPs have reinforced the need to pursue the 1.5°C limit while ensuring that mitigation, adaptation, scaling climate finance and implementation capacity receive equal attention. Recent focus has been on addressing the significant financing gap and the need for a minimum USD4.3 trillion annually by 2030<sup>11</sup> to keep to the objective of 1.5°C.

Global climate financing reached only an average of USD653 billion in 2019-2020, evenly split between public and private sources. Underinvestment in climate mitigation and adaptation measures – while high emission options continue to be financed – lessens the chances of meeting the objectives of the Paris Agreement. Lack of adequate financing also leaves many developing countries without the resources to transition to a low-carbon economy and adapt to the impacts of climate change.<sup>12</sup> While the private sector has expanded its commitments to decarbonizing and to climate financing, its contributions remain lower than necessary to meet the challenge and are disproportionately small relative to the scale of its financial resources.

Scaling up the global response to the climate challenge is not constrained by a lack of options. Existing renewable energy technologies such as solar and onshore wind<sup>13</sup> are already cost competitive in the majority of AIIB Members, on a levelized cost-of-energy (LCOE) basis, and have significant potential for further scaling, supplemented with new options, such as offshore wind, clean hydrogen and energy storage. Addressing energy efficiency and intensity, particularly in manufacturing, transportation and buildings, still constitutes one of the largest opportunities to reduce emissions, while improving integrated water management is a key solution for mitigation and adaptation. These examples have recently been supplemented by more concerted action to incorporate nature and biodiversity into holistic climate change solutions. However, while opportunities exist and public pressure mounts to increase financial allocations to climate, the growth rate of climate financing remains insufficient. Continued crises and difficult macroeconomic conditions can also adversely affect sustained climate financing, particularly in less developed economies. While the long-term benefits of increased climate finance are well established, the economic opportunities presented by transitioning to low-carbon development, along the entire value chain, need to be clearly presented in order to diversify and increase climate finance.

### **Call for MDBs to do more, better and together**

MDBs like AIIB have a crucial role to play in addressing climate change. MDBs have a unique ability to leverage resources, mitigate risks and mobilize expertise. COP27 called for MDBs to be significantly more ambitious in using this ability, including through using the breadth of their financial instruments for greater results, particularly for private capital mobilization, generating higher financial efficiency, and maximizing the use of existing concessional risk capital structures to drive innovation and accelerate impact.

This call is further supported by the G20 Capital Adequacy Framework Review of MDBs<sup>14</sup> and the MDB vision statement<sup>15</sup> released during the New Global Financing Pact Summit in June 2023. While MDBs are responding with heightened focus on capital mobilization, tailored solutions and increased climate finance ambitions, they also realize the value of more effective cooperation as witnessed by recent regional, country and sector initiatives, including proposals from AIIB to deepen cooperation among MDBs.

<sup>11</sup> Climate Policy Initiative. 2022. Global Landscape of Climate Finance.

<sup>12</sup> LSE. 2022. Finance for climate action: Scaling up investment for climate and development .

<sup>13</sup> IRENA. 2023. The cost of financing for renewable power.

<sup>14</sup> G20. 2023. Capital Adequacy Framework.

<sup>15</sup> New Global Financing Pact Summit. 2023. MDB Vision Statement.

## B. THE ASIAN CLIMATE CHANGE CHALLENGE

The growing importance of the Asian region in the global climate challenge needs to be acknowledged. By addressing climate change in Asia, significant cuts in global emissions can be achieved and socioeconomic losses affecting the global economy avoided. Asia has more than half the world's population, many of the world's fastest growing economies, contributing approximately 70 percent of global Gross Domestic Product (GDP) growth in 2023,<sup>16</sup> and is on track to contribute over 50 percent of total global GDP by 2030.<sup>17</sup> Yet the region also has 4 of the top 10 largest total GHG emitters and now contributes over 50 percent of the world's total GHG emissions.<sup>18</sup> Asia is disproportionately vulnerable to and affected by climate change, with six of the ten countries most impacted by extreme weather events from 2000 to 2019 located there.<sup>19</sup>

As a region, Asia is not homogeneous. Significant differences exist in income levels, development pathways and capacities to address climate change. Any response to climate change and its consequences must include a strong focus on developing differentiated solutions targeting the needs and capacities of individual AIIB Members.

### **Asia now emits more than half of global GHG emissions**

Asia's GHG emissions have increased at an exponential rate since the 1980s. From a third of global carbon dioxide (CO<sub>2</sub>) emissions in 2000, it now accounts for over half of global emissions annually.<sup>20</sup> Driven by rapid industrialization, urbanization and economic growth, the region is experiencing emission trajectories similar to or exceeding those previously experienced by developed economies.

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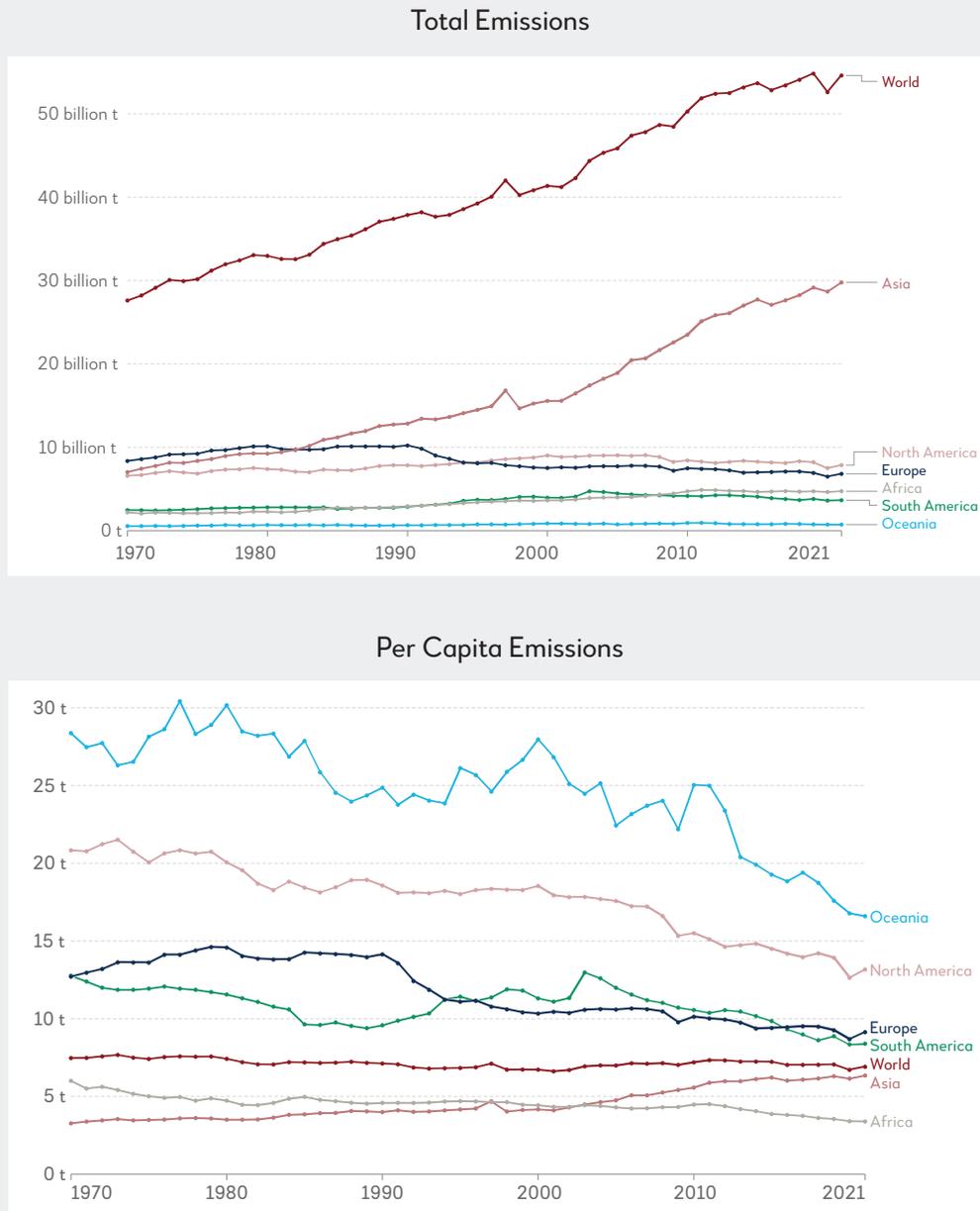
<sup>16</sup> IMF. 2023. World Economic Outlook.

<sup>17</sup> World Economics. 2023. The Future is Asian.

<sup>18</sup> WRI. 2023. Global Top 10 GHG Emitters.

<sup>19</sup> Germanwatch. 2021. Global Climate Risk Index 2021.

<sup>20</sup> Hannah Ritchie, Max Roser and Pablo Rosado. 2020. CO<sub>2</sub> and Greenhouse Gas Emissions.

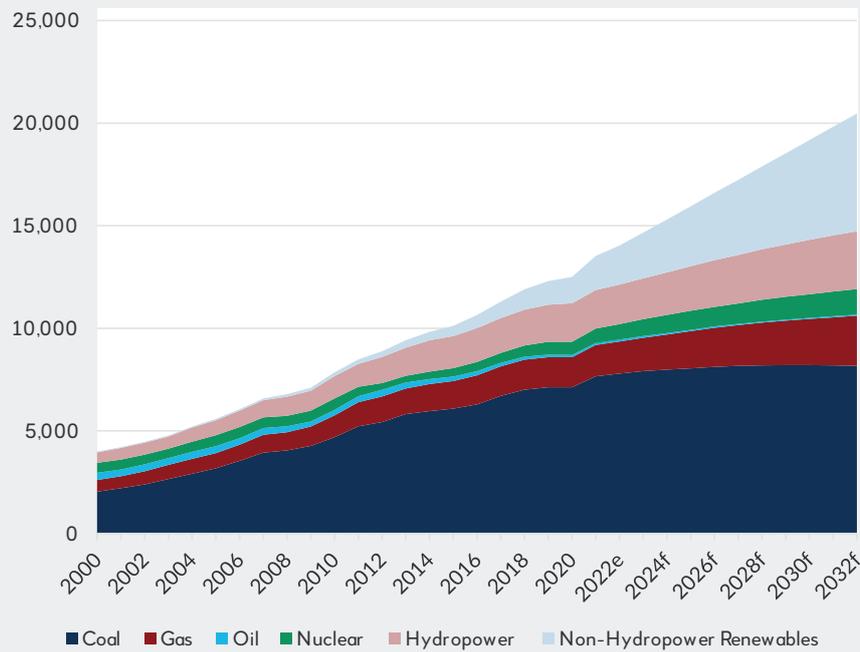
**Figure 1. Annual Greenhouse Gas Emissions by Region (1970-2021)**

Source: Our World in Data based on emissions data from Jones et al. (2023).

Similarly, sectoral emission contributions reflect rapid economic development and industrialization, with the energy and industrial sectors representing over 60 percent of emissions. Noteworthy is the continued contribution of fossil fuels, in particular coal, to the energy mix and the expectation that it will continue to play a significant role beyond 2030.<sup>21</sup>

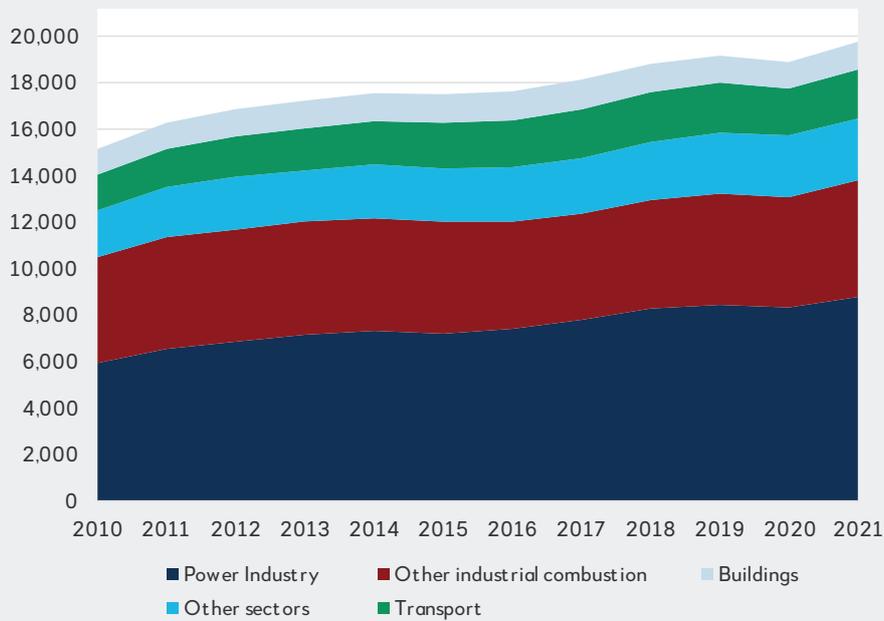
<sup>21</sup> BMI of Fitch Solutions Analysis, AIB.

**Figure 2. Asia's Total Electricity Generation by Power Type, TWh (2000-2032f)**



e/f = BMI of Fitch Solutions estimate/forecast.  
 Source: EIA, IRENA, Local sources, BMI of Fitch Solutions

**Figure 3. Asia's Total Carbon Emissions by Sector, MtCO<sub>2</sub>e**



Source: European Commission, Emissions Database for Global Atmospheric Research Macrobond, Local sources, BMI of Fitch Solutions

The scale and growth of emission trajectories varies widely within Asia, reinforcing the considerable regional divergence. While focus should naturally be on reducing the contribution of top emitters, the opportunity to arrest the emission growth of smaller contributors through rapid transition to clean/low-carbon options should not be overlooked. In order to have an effect on emission trajectories in Asia in a just manner, the continued investment into coal-dependent power generation needs to be addressed together with the phase out of coal power assets specifically and the eventual phase out of fossil fuel use more generally.

### **Asia is disproportionately vulnerable to climate change**

Asia as a region is disproportionately exposed to physical climate risk. It accounts for more than 80 percent of people affected by natural disasters globally and for more than two-thirds of total annual global GDP at risk.<sup>22</sup> In 2021, weather-related hazards caused a total damage of USD35.6 billion, a figure exacerbated by the fact that over 35 percent of Asia's critical infrastructure and 42 percent of its roads are located in hotspots subject to multiple hazards. Compared to the past 20-year average, Asia's economic damage from drought has risen by 63 percent, while damage from floods has increased by 23 percent and from landslides by 147 percent.<sup>23</sup> If no action on climate change is taken, the global economy could lose more than 18 percent of its current GDP by 2048. At the same time, Asia's economy could shrink by 26.5 percent, and ASEAN economies by 37.4 percent.<sup>24</sup>

Asia's geography increases vulnerability with many low-lying coastal areas and coastal cities exposed to the increasing incidents of floods, typhoons and sea-level rise. The existence of small islands is increasingly threatened by rising sea levels, growing frequency of severe weather events and threats to livelihoods caused by higher temperatures. The High-Mountain Asia region, which includes the Himalayas and Tibetan Plateau that feed major regional river basins supporting approximately 1.5 billion people with water, irrigation and hydropower, has experienced a considerable loss of mass in its glaciers as a result of exceptionally warm and dry weather conditions. This phenomenon not only directly impacts the availability of water resources but also heightens the risk of floods, landslides and the ability to sustain livelihoods. By 2050, 75 percent of the USD1.6 trillion global annual damage to capital stock from riverine flooding alone will occur in Asia.

Asia's vulnerability is further exacerbated by its demographics and high population density. With more than half of the world's population, Asia is home to many of the world's biggest cities.<sup>25</sup> The rapid growth and concentration of people multiply the impacts of climate change by straining resources and increasing the cost of adapting to changing environmental conditions.

High levels of poverty, lack of social safety nets, informal labor markets, natural resource and climate-dependent livelihoods and low asset bases in parts of Asia intensify vulnerability and shape the ability to adapt to climate change. Such conditions intersect with and are compounded by different adaptive strategies used by men and women of different classes and social groups to secure their livelihoods, both in the short and medium terms. Women's heterogeneous experiences are underpinned by more-or-less restrictive gender norms and secondary socio-economic status. Specific areas of inequality in relation to climate adaptation include women's limited access to and control of land, high household work burdens that include the responsibility for water and fuelwood collection, high levels of responsibility for agricultural production and lack of access to formal education.<sup>26</sup> Gender disparities in wage and employment are other important facets of vulnerability.

<sup>22</sup> McKinsey. 2020. Climate risk and response in Asia.

<sup>23</sup> WMO. 2021. State of the Climate in Asia 2021.

<sup>24</sup> The most severe scenario analysis conducted by Swiss Re. 2021. The Economics of Climate Change: Impacts for Asia

<sup>25</sup> World City Populations. 2023.

<sup>26</sup> Rao et al. 2017, Gendered vulnerabilities to climate change: Insights from the semi-arid regions of Africa and Asia.

## Asia has unique opportunities to address its climate challenge

Asia has numerous opportunities to address climate change. Considering the response to climate change not only as a necessity but also as an economic opportunity will allow Asia to better match its resources to realize its potential to move towards a sustainable and resilient economic development pathway.

**Renewable energy.** Asia has vast renewable energy potential, much of which remains untapped. Asia is forecast to represent more than 45 percent of global annually installed solar and wind capacity by 2030, most of it concentrated in China and India.<sup>27,28</sup> Southeast Asia is assessed as having sufficient renewable energy potential to meet its growing energy demand and cut 75 percent of its energy-related CO<sub>2</sub> emissions by 2050.<sup>29</sup> Similarly, Central Asia has significant solar, wind, geothermal and hydro resources, of which only a fraction are currently being exploited. That said, these renewable resources are not evenly spread throughout the region, implying a continued need for development of energy connectivity and regional renewable energy markets, together with mainstreaming of new and tradable energy sources, such as clean hydrogen.

**Accelerated transitions.** While Asia's overall emissions are increasing, the majority of countries contribute relatively small amounts and are still at an early stage of their possible emission trajectories. By combining renewable energy potential with relatively modern industrial infrastructure and Asia's ability to rapidly adopt innovation and technology, investment today in clean energy and low-carbon development pathways can help smaller contributors avoid many of the fossil-fuel-related legacy issues and costs.

**Seizing the urbanization opportunity.** Given rapid urbanization, an opportunity exists now to ensure that long-life infrastructure assets and systems integrate climate resilience and low-carbon development pathways. For example, spatial and urban planning can consider locating settlements and infrastructure away from flood-prone areas, making new urban expansion compact and public transport oriented or investing in green building technology.

**Potential for nature-based solutions.** Asia is home to rich biodiversity. Redressing the loss of natural ecosystems and encouraging the use of nature-based solutions provides significant potential to implement cost-effective low-carbon climate mitigation and adaptation solutions with significant co-benefits for sustainable and resilient development. For example, promoting urban biodiversity and leveraging nature-based solutions not only make cities more resilient but also regulate the micro-climate and cool spaces, providing added mitigation benefits.

**Adoption of adaptation and resilience technology.** Increases in extreme weather events resulting in infrastructure failure show the pressing need for climate-resilient infrastructure in Asia. Growth in the availability of suitable climate resilience technologies presents an opportunity to foster their adoption at scale and further development of innovative solutions. New technologies can bolster infrastructure's climate resilience by enabling data-driven adaptive management, comprehensive system approaches and informed decision-making. Such technologies, though promising, face financing hurdles in emerging markets and developing nations; nevertheless, the growing scale of financial losses from climate events means that the benefits of investing in technology applications can no longer be ignored.

**Creating economic opportunities.** Addressing climate change presents economic development opportunities across the value chain of many sunrise industries. Asia, with its significant capacity for innovation and manufacturing, its growing markets and its skilled workforce, is well placed to capitalize on the increasing demand for climate-related products.

<sup>27</sup> BloombergNEF. 2022. 2H 2022 Global Wind Market Outlook:US Policy Drives Growth (Subscription required).

<sup>28</sup> BloombergNEF. 2023. 1Q 2023 Global PV Market Outlook (Subscription required).

<sup>29</sup> IRENA. 2022. Renewable Energy Outlook for ASEAN towards a Regional Energy Transition.

### **Asia faces multiple challenges that hinder its ability to tackle climate change effectively**

Asia's vast resources and opportunities provide a strong foundation for the region to effectively address climate change. Nonetheless, a number of challenges must be overcome in order to leverage these opportunities.

**Need for a new model of climate-friendly economic development.** With its high economic growth potential, growing markets and low-cost production, Asia accounts for approximately half of the world's output<sup>30</sup> and the majority of GDP growth. Yet hundreds of millions of people live in poverty or low-income countries and rightly aspire to improve their living standards and economic opportunities. Sustaining the momentum for growth and economic development requires maintaining Asia's cost competitiveness, which can disincentivize investments in low-carbon transition for energy production, manufacturing and transportation. It is imperative to prioritize investment in green technologies and implement supportive policies to achieve economic development goals and sustainable objectives simultaneously.

**Lack of financing.** Significant financial resources and investments are needed to reduce emissions and accelerate adaptation. The recent report of the Climate Policy Initiative (2022) suggests that USD4.3 trillion in annual finance flows by 2030 (equivalent annual compound growth rate of 21 percent) are needed in order to minimize the global climate impacts. In 2021 alone, weather-related events in Asia resulted in economic damages totaling USD35.6 billion, and such events are increasing. While Asia has received a growing share of global climate financing, the majority has been directed to the larger more established markets. More effort is needed to establish the viability of investing in Asia, particularly by addressing financing risks and creating market opportunities at scale.

**Need for effective policy frameworks.** Policy frameworks for climate change and their implementation vary widely in Asia. For national strategies to be effective, the necessary policy, regulatory, financial and institutional structures need to be in place and implemented consistently. Climate also must be fully integrated into decision-making and resource allocation, particularly for development planning.<sup>31</sup> Finally, it is important for policy to consider mitigation and adaptation at macro and micro levels, with gender norms shaping the possibilities and opportunities open to men and women within households and communities.

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<sup>30</sup> UNCTAD. 2016. Trade and Development Report.

<sup>31</sup> AIIB's flagship Asian Infrastructure Finance Report 2022 offers some key policy recommendations for emerging and developing market economies to address the net-zero transition, <https://www.aiib.org/en/news-events/asian-infrastructure-finance/2022/introduction/index.html>

### III. AIIB'S CLIMATE COMMITMENT

AIIB's Articles of Agreement and Corporate Strategy have sustainability and addressing climate change embedded as core principles. A fresh balance sheet, infrastructure focus, client-demand approach to financing and lack of legacy issues make the Bank ideally placed to assist its Members to address their climate change challenges and achieve their global commitments.

The Bank's strategies and policies incorporate best practices and lessons learned from established peer MDBs. They also commit AIIB to being an active member of the global response to climate change and addressing, in particular, the concerns and priorities of the Asian region. The Bank represents the needs of its Members in the MDB community, not only leveraging from but also contributing to the efforts of the Bank's peers, at the same time seeking innovative and adapted responses for Asia.

AIIB's climate commitments and ambitions are clearly set out in its core strategies and policies. The Bank's first Corporate Strategy, approved in 2020, charts its development to 2030. It describes AIIB's mission as financing Infrastructure for Tomorrow (I4T), which incorporates sustainability and the need to seek new ways to address climate change. It further recognizes that climate change and other disasters are increasingly affecting Asia and commits the Bank to support projects that deliver local environmental improvements and investments dedicated to climate action. It sets a corporate target reflecting the Bank's commitment to support the Paris Agreement that aims to reach or surpass a 50 percent share of climate finance in AIIB's actual financing approvals by 2025. Recognizing the urgency of the climate crisis, this is the only corporate target set for the mid-term, rather than the end date of the Corporate Strategy. This target represents a floor, not a ceiling, to AIIB's climate finance ambitions. AIIB continues to play an active role in the development and refinement of the joint MDB efforts on alignment with the Paris Agreement and, in 2021, committed to align its relevant policies, strategies and operations by July 1, 2023. AIIB has delivered on this commitment on time. It intends to further increase the quality of clients' infrastructure development through operationalization and refinement of its Paris alignment methodologies.<sup>32</sup>

The Bank's commitment to sustainability and climate change is further reflected in its Environmental and Social Framework (ESF).<sup>33</sup> This recognizes that infrastructure needs to be green, low carbon and climate resilient in order to strengthen the global response to the threat of climate change. It reaffirms the Bank's support to Members transitioning towards low-carbon, climate-resilient development pathways and to financing investments that are demonstrably compatible with Members' national climate and development strategies and internationally agreed targets. The ESF further recognizes that protecting and conserving biodiversity, sustainably managing terrestrial and aquatic natural resources, and maintaining core ecological functions and services are fundamental to sustainable development.

Importantly, the ESF sets out the due diligence requirements for all Bank operations, including the identification of key potential environmental and social risks, such as those relating to climate change, and the development of effective measures to avoid, mitigate, offset or compensate for adverse impacts. Specifically, projects must be assessed with respect to their impact on climate change, i.e., GHG emissions, and designed and implemented to minimize emissions. Where feasible, projects should identify opportunities to adopt low-carbon technologies, reduce emissions and promote energy efficiency and renewable energy. Additionally, the risks induced by climate change on the project are assessed to design and implement adaptation and resilience measures.

<sup>32</sup> AIIB. 2023. Assessing the Alignment of AIIB Investment Operations with the Paris Agreement.

<sup>33</sup> AIIB. 2022. Environmental and Social Framework.

### Focus Box 1: Updating AIIB's Energy Sector Strategy to Enhance Climate Focus

AIIB has developed sector strategies for energy, transport, water, urban (sustainable cities) and digital infrastructure.

**In 2022, AIIB undertook an update of its Energy Sector Strategy** to reflect heightened focus on climate change, energy transition, Member needs and the Bank's own climate commitments.

The updated strategy prioritizes renewable energy, energy efficiency and related infrastructure and technology development. These clean energy solutions are designed to support Members in achieving their goals for energy accessibility, security and affordability.

To align with the Paris Agreement, the updated strategy imposes strict limits on the financing of fossil fuels, notably:

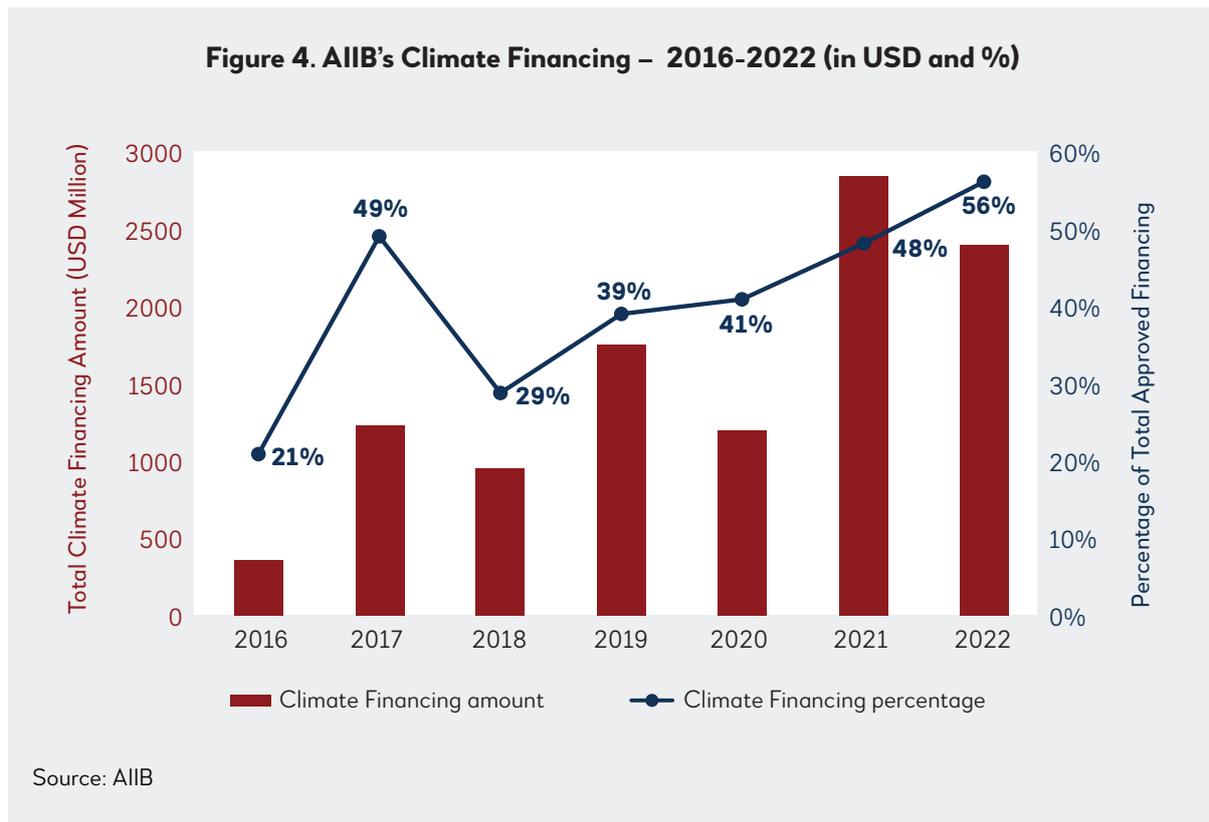
- AIIB will not finance coal or projects functionally related to coal.
- The update excludes oil sector investments, with very limited exceptions to ensure basic energy access in remote island communities and hard-to-reach areas and to reduce methane emissions.
- AIIB will only selectively finance natural gas projects that are transitional in nature based on a stringent set of criteria which takes into account the evolving global climate pathways as well as Members' Nationally Determined Contributions (NDCs) and Long-term Low Greenhouse Gas Emissions Development Strategies.

The update also emphasizes adaptation and climate resilience considerations for energy sector infrastructure and a greater emphasis on gender.

### Climate Financing to Date

By Q2 of 2023, AIIB had approved a total of USD11.75 billion in climate finance, out of total regular financing approvals of USD27.13 billion.<sup>34</sup> Of this, USD8.29 billion was dedicated to mitigation financing and USD3.46 billion to adaptation. Importantly, the Bank has steadily increased its share of climate financing in order to meet its 2025 corporate target, from 39 percent in 2019 to 56 percent in 2022. The number of projects contributing to climate finance has also steadily risen, reaching a total of 107 projects across all sectors by Q2 of 2023, or 50 percent of the Bank's total number of projects.

<sup>34</sup> Regular finance is defined as not including the financing under the Bank's COVID-19 Crisis Recovery Facility (CRF), which represented further approvals of USD13.557 billion by end 2022. Climate finance is defined and tracked by following the joint MDB climate finance tracking methodology.



AIIB has developed and implemented a range of financing instruments and approaches particularly designed to mobilize private capital. This includes investments into funds, credit lines through local financial intermediaries, and de-risking of private sector investments. AIIB continues to believe that global capital markets are an important source of climate finance and, for example, supports clients in issuing green bonds. In 2023, as part of its own treasury operations, AIIB issued its first adaptation bond while also working to ensure investors benefit from clear investment standards and taxonomies by, for example, supporting the AIIB-Amundi Climate Change Investment Framework.<sup>35</sup>

AIIB has engaged with a wide range of entities to develop strategic partnerships for financing and knowledge sharing. These are designed to complement AIIB's operations and better serve client needs. Notably, AIIB joined the IRENA-sponsored Energy Transition Accelerator Financing Platform (ETAF) and the Global Energy Alliance for People and Planet (GEAPP), both facilities that are designed to mobilize concessional financing for energy transition projects. Additionally, AIIB plays an active role not only in joint MDB initiatives but increasingly in relevant global fora such as the Glasgow Financial Alliance for Net Zero (GFANZ), COP and G20.

### Lessons Learned

In developing its first CAP, AIIB acknowledges the call for MDBs collectively to do more. The process has also afforded AIIB a significant opportunity to reflect on and learn from client feedback and experience to date. This feedback has been instrumental in shaping the overall approach, principles and recommended actions. Key lessons include the following:

- Differentiated needs and diverse market conditions must be recognized, such as those of less developed and middle-income Members. At the same time, there is significant untapped need and

<sup>35</sup> Further details are available here: <https://www.aiib.org/en/policies-strategies/framework-agreements/climate-change-investment-framework/index.html>

potential for AIIB to provide financing to a wider range of sectors and Members. Despite its fresh balance sheet, AIIB should make the best use of its resources by carefully adapting its financing approaches to client and market needs and scale up its climate finance in a meaningful manner.

- Concessional financing is an important enabler for scaling climate finance, attracting private capital and supporting less developed Members. Although limited in its own concessional resources, AIIB has been active in accessing global partnership facilities and third-party concessional sources. AIIB must further develop its ability to partner with and source from the spectrum of existing concessional finance providers, making better use of existing resources and developing structures focused on large-scale capital mobilization.
- Growing investor interest in climate-related capital market products, underpinned by the high credit rating of MDBs, presents a viable opportunity to mobilize large-scale financing, in particular in Asia. This is hampered, however, by continued high risk perception of investing in Asia, a lack of scalable product, concerns about use of proceeds and dilution of available funds through a lack of dedicated climate products. AIIB has successfully launched and supported several capital market solutions and will continue to do so. However, focus needs to be placed on replication and creating scale together with further efforts to create reliable taxonomies and proof of impact.
- Collaboration with other MDBs and partners is crucial for effectively designing and scaling climate solutions. AIIB should enhance its cooperation effectiveness by working with stakeholders and partners through coordinated approaches, country or sectoral platforms, and co-financing initiatives.
- Focus on maximizing co-benefits of mitigation, adaptation, nature and biodiversity creates significant impact. Financing holistic solutions presents distinct opportunities to enhance the effectiveness of climate initiatives and foster innovation and long-term sustainability. Optimizing co-benefits and synergies not only decreases long-term expenditures but also has wide-ranging benefits for sustainable economic development.
- Climate financing is too often considered in isolation from the economic development and business opportunities that addressing climate change can also generate. Given its technology focus and ability to finance along the entire value chain, AIIB should play a greater role in promoting the development of sunrise industries in its Members.

## IV. DELIVERING AIIB'S CLIMATE AMBITION – ADDRESSING CLIENT NEEDS

The growing climate challenge faced by AIIB's Members requires ambitious and innovative solutions delivered within the context of the Bank's mandate and Corporate Strategy. This section outlines the four principles guiding AIIB's CAP and the key actions it will undertake to help Members meet their needs.

### A. CLIENT FOCUS – *Effective solutions require local engagement and context*

Asia is not a homogeneous region; climate change does not impact countries uniformly; nor are there standard climate solutions. As a client-demand-driven organization operating in a diverse region, understanding the local context is critical to developing and implementing effective solutions that are consistent with and contribute to national strategies to realize low-carbon transitions, increase resilience and promote sustainable development.

Three key actions will address AIIB's client-focus principle.

#### **1. Supporting differentiated and tailored solutions adapted to client needs and circumstances**

Asia, as a region, is richly endowed with renewable energy potential. This potential is, however, unevenly distributed and unevenly accessible, given differing means or capabilities of countries to exploit them. Furthermore, climate change affects countries differently, with negative impacts disproportionately affecting less developed countries. Addressing differentiated needs and capabilities of each Member with context-specific solutions is a key tenet of the Paris Agreement and is fully aligned with AIIB's client-driven strategy.

AIIB Members have made significant progress in identifying and developing their decarbonization pathways, net-zero targets and adaptation plans through NDCs, LTSs and NAPs. But gaps remain, and much work remains to be done to mainstream climate considerations into national policies and budgeting while also translating these plans into scalable financing opportunities. Where possible, AIIB will draw on national plans to guide its financing. Where such plans remain incomplete, AIIB is supportive of efforts to accelerate the development and adoption of climate-positive policies to underpin the implementation of effective climate actions. AIIB will consider developing new policy-based financing instruments to support Members in strengthening their policy and regulatory environments particularly to facilitate adaptation financing and private sector investments, working in partnership with, and learning from, other MDBs.

Recognizing that MDB resources are limited, AIIB seeks to closely match its financing to market needs and local public and private sector capacities. This includes the optimal use of sovereign- and non-sovereign-backed financing. For example, while AIIB is committed to financing GHG emission reductions for large emitters, the fact that many such emitters benefit from growing private sector interest implies that more impact may be achieved by prioritizing the enabling and mobilization of private investments. Conversely, less developed Members whose emissions may be comparatively small but whose emission trajectories have the potential to increase exponentially, may suffer from a lack of conducive market conditions for private sector involvement, low credit ratings or high-risk perceptions, making sovereign-backed financing more effective.

Developing and adapting its range of financing structures to the local context will remain an important priority for AIIB. The Bank has already expanded its product range both within but also beyond

project finance of infrastructure assets including, for example, guarantees, equity investing, local currency lending, intermediary financing and results-based financing. Continued innovation is required to address the variety and complexity of client needs, including risk perception related barriers to obtaining greater private sector financing or market distortions, for example, the continued low cost of fossil-fuel energy options, which in turn affects the financing of sustainable low-carbon transitions.

The affordability of climate change solutions is an issue of growing concern for many Members, particularly those facing public budget constraints or low credit ratings. To address affordability, AIIB will focus on the mismatch between USD-based lending and local currency revenue streams. While the Bank already provides some local currency options, expanding the range of instruments is regarded as an effective means to address affordability. This could include (i) local currency funding using matching local currency issuances, as was done for a project in Georgia under the Bank's Crisis Recovery Facility,<sup>36</sup> (ii) foreign exchange risk mitigation through execution of hedging instruments, or (iii) supporting local currency public and private issuances. Options to further enhance affordability may include greater use of concessional and blended finance, exploiting economies of scale through larger financing facilities, closer cooperation with specialized risk financiers or the use of credit guarantees to cover foreign exchange risk.

## **2. Supporting a just transition**

Successive COPs have stressed that climate solutions must account for the rights and needs of less developed countries to focus on socioeconomic development, including the provision of basic services such as access to secure and affordable energy.

AIIB recognizes the importance of supporting all Members in a balanced and equal manner, including emphasizing the need for supporting just transitions to low-carbon pathways. In the energy sector, for example, while continuing to promote renewable energy and low-carbon solutions, AIIB also focuses on associated efforts to mitigate the adverse socioeconomic impacts of energy transition, particularly in Members where fossil-fuel sectors constitute a significant share of economic activities. As highlighted in its recently updated [Energy Sector Strategy](#), this includes infrastructure investments to remediate, repurpose and revitalize land and physical assets, improve the general business environment and reskill the workforce. In this context, AIIB may also support conventional energy companies as they seek to diversify and reorient their businesses into clean energy.

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<sup>36</sup> TBC Bank Covid-19 Credit Line Projects, Georgia 2021.

## Focus Box 2: Investing in Value Chains

### **Project Spark - Advancing Climate Action through Value Chain Investment in Disruptive Solar Technology**

**Project Spark** represents AIIB's commitment to climate action by investing in the manufacturing of disruptive solar technology and impacting value chains. In partnership with the CITIC Capital Pan Eurasia Fund, AIIB invested in Sunman Energy Co., Ltd. (Sunman), a visionary company at the forefront of developing and marketing lightweight, flexible solar modules. This project is promoting solar power adoption and aims to foster technological innovation across the value chain to facilitate the widespread application of solar panels in diverse markets, including low-load-bearing rooftops, carports, vehicles, train tops and building facades.

AIIB's equity investment is strategically allocated to fund critical development of lightweight rooftop applications. This innovation becomes instrumental in overcoming the limitations posed by heavy glass-based solar panels, thus unlocking new possibilities for solar energy utilization on previously untapped spaces.

Project Spark has an inclusive approach to distribution, with an emphasis on serving diverse markets that underscores AIIB's dedication to driving global sustainability and ensuring climate action across different regions. Upon the successful implementation of Project Spark, the projected total solar power generation capacity from Sunman's products is estimated to reach around 1.8 GW by 2026. This significant milestone demonstrates the project's impact and reinforces AIIB's commitment to catalyzing transformative change in the renewable energy sector. In summary, Project Spark demonstrates AIIB's climate action approach and exemplifies the power of value chain investment in driving climate action and a more resilient future for all.

The transition to net zero presents significant economic opportunities for AIIB Members. Through its capacity to finance along the value chain and focus on technology and infrastructure-related productive sectors, AIIB is able to help clients develop relevant local, regional or global business opportunities, for example, by exploiting the potential to export excess renewable energy resources through cross-border cooperation. In this way, AIIB will help clients to maximize the potential of new economic development opportunities while also acting to mitigate the short- to medium-term negative transition impacts.

Despite being small emitters, less developed countries are often the most vulnerable to climate change. Susceptibility to external shocks, debt burdens and limited fiscal capacity diminish their ability to adapt to and recover from climate-related disasters. Such facts were the key drivers for creating a loss and damage fund during COP27 and developing capacities to respond to emergency situations related to climate change. In June 2023, AIIB's Board of Directors approved the policy-based co-financing modality with peer MDBs for eligible crises. This will enable AIIB to join the efforts of peer MDBs to support its Members during climate induced crises. AIIB has also been working with peer MDBs in assessing the feasibility of a number of instruments, including climate-resilient debt clauses (CRDCs), catastrophe (CAT) bonds, and methods to lower insurance costs and extend coverage.

### **3. Growing AIIB's client engagement and scaling up capacity to respond to client needs**

Delivering on AIIB's climate ambition requires more proactive and long-term client engagement. As part of efforts to implement the Corporate Strategy, AIIB, in collaboration with its Members, has initiated a process of developing multi-year, sovereign financing pipelines. These will ensure that national priorities are effectively addressed, that AIIB prioritizes financing areas where its mandate and expertise can best match Member needs and that it is able to continuously update its understanding of its Members' objectives, needs and strategies through continuous engagement and ongoing dialogue.

To supplement its national level engagement, AIIB will continue to support and cooperate with national climate-related platforms such as Just Energy Transition Partnerships (J-ETPs) or country sector platforms, while also engaging in relevant regional fora.

As part of efforts to grow its operations, AIIB is engaging with a broader range of private sector entities. Targeted and longer-term financing partnerships at the project, corporate or sector level with selected developers, technology providers or investors will serve to deepen understanding of private sector needs and constraints and build relationships with strategic clients.

## **B. IMPACTFUL - ADDING VALUE TO PROJECTS – *The complexity of the climate challenge requires holistic, sustainable solutions benefiting all***

Responses to climate challenge is constantly evolving. AIIB aims to make investments that maximize benefit, by providing holistic solutions, ensuring sustainability and promoting inclusiveness of climate solutions. Key actions include:

### **1. Providing holistic solutions**

AIIB's mission to finance I4T recognizes that infrastructure is both a solution and a contributor to climate change that also needs to become more resilient. I4T also incorporates sustainability and the need for innovative solutions to infrastructure development. Nature-based infrastructure solutions are one such innovation seen as effective in achieving both climate change mitigation and adaptation objectives, given the inextricable links between nature, biodiversity and climate change. Incorporating such solutions requires a shift in approach to thinking holistically about transition and tackling causes and consequences of climate change together.

As an infrastructure-focused bank, AIIB will prioritize financing, at greater scale, infrastructure projects that mitigate climate change, complement adaptation efforts and maximize co-benefits for nature and biodiversity conservation.

**Mitigation – Net zero.** Infrastructure is key to the low-carbon transformation of production, consumption and services. Net-zero and climate mitigation actions increasingly have demonstrable financial and economic benefits, with revenue streams that attract private sector financing. Wherever possible and being mindful of Members' needs, AIIB aims to use its financing to enable greater private sector participation.

AIIB will focus on financing clean energy transition and GHG emission reduction across infrastructure and related hard-to-abate productive sectors. Between 2000 and 2019, Asia accounted for 60 percent of global energy consumption.<sup>37</sup> Therefore, energy transition is pivotal to Asia's success in decarbonization, given the present high-emissive energy mix and the growing demand for energy and electrification resulting from economic development. AIIB's financing will be provided in the context of Members' NDCs, LTSs, decarbonization and energy transition plans, promoting a transition to clean energy systems while giving due consideration to Members' priorities to improve energy security and access.

<sup>37</sup> IEA. 2019. Global Energy Review 2019.

AIIB recognizes the need to also address the phasing out of coal and eventually all fossil fuels in a just manner and to ensure infrastructure does not run the risk of being stranded. Moreover, the complexity of the transition process leads AIIB to support international efforts to coordinate and more effectively deploy international financing through country platforms, such as J-ETPs.

Specific initiatives will include:

- Within the context of Members' decarbonization and energy transition plans, AIIB will continue to support efforts to mainstream renewable energy and develop robust and modern grid systems to bolster renewable energy integration (e.g., through battery storage) and reduce energy loss.
- AIIB will support accelerated development of innovative renewable energy options, such as offshore wind and clean hydrogen, by financing large-scale adoption and by improving the efficiency and cost competitiveness of related value chains. This includes supporting the development of viable abatement technologies as and when Members are ready to adopt them.
- AIIB will support electrification and GHG emission reduction in relevant infrastructure sectors, in particular transport and buildings. Increasing electrification reduces the use of fossil fuels, for example, by substituting electric vehicles for combustion engines. To maximize the impact, AIIB will invest along the entire value chain of low-carbon solutions, i.e., batteries, charging stations and vehicles. AIIB will also promote investment in emission/pollution reduction measures in hard-to-abate sectors directly linked to infrastructure, such as cement and steel.
- Energy efficiency technologies are readily available but the barriers to mobilizing sufficient capital remain. AIIB seeks to partner with local financial institutions to implement energy efficiency credit lines for businesses related to infrastructure. Partnering with local institutions allows effective scaling of loans and private capital mobilization, while also making use of the institutions' local knowledge and client reach.
- AIIB will continue to develop thought leadership on climate financing and net-zero transitions in Asia. Building on the Bank's [Asian Infrastructure Finance Report 2022](#) and other country-specific studies on transition pathways, this will include encouraging green innovations and technology adoption in state-owned enterprises, leveraging state-owned financial institutions and harnessing private-public partnerships. AIIB will partner with academic and research institutions to contribute to global thought leadership.

**Climate adaptation and resilience.** Protecting lives and livelihoods means adapting infrastructure, cities and business models. Given Asia's exposure, assisting Members to adjust to and prepare for current and projected impacts of climate change must be a priority for AIIB, particularly as infrastructure is both affected by and provides adaptation solutions for climate events. Financing for adaptation and resilience continues to lag far behind actual needs, in part because it is regarded as a public cost, the benefit of which is not properly valued.

AIIB will play an active role in demonstrating that the longer-term benefits of increased adaptation spending outweigh the initial costs and will seek to use its infrastructure portfolio and capital mobilization to do so.

The following initiatives will support the mainstreaming and increased funding of adaptation:

- Through its investments, AIIB will demonstrate the long-term value of financing optimal adaptation measures. Actual adaptation measures tend to be constrained by budgets that do not incorporate long-term economic value and are not based on updated risk scenarios. AIIB will continue to systematically assess climate risk and recommend optimal adaptation measures in project designs in line with the Paris Agreement. As needed, AIIB seeks to mobilize funding sources, including concessional financing, to incorporate optimal adaptation measures. These will be monitored over time and the results/benefits disseminated, to contribute to the growing knowledge and evidence base for valuing climate resilience.

- AIIB will assess the feasibility of developing dedicated structures to address the characteristics of municipal and sub-sovereign financing in Asia. The urgency to protect lives and livelihoods in urban centers is evident given that Asia is the world's most rapidly urbanizing region. Assisting national, regional and municipal authorities to dedicate sufficient funding to urban adaptation and resilience measures will be a key focus and a cross sectoral issue for AIIB. Wherever possible, AIIB will seek to facilitate private sector participation, especially where revenue streams are evident, as for example in the application of resilience technologies within smart city concepts.
- AIIB will focus on growing funding in the water sector, particularly to promote a holistic approach to integrated water resource management, which recognizes the interdependency of and synergies between sectors. Better water management is a key component of climate adaptation. Climate change is exacerbating water insecurity in Asia, which already has less freshwater per capita than any other continent, because of both increasing water stress due to severe depletion and increased frequency of drought and other water-related disasters. Since formulating its [Water Sector Strategy](#) in 2020, AIIB has gradually increased its financing, especially to promote effective water resource management. It will also finance the use of nature-based solutions and the development and application of technologies to better manage water and improve resilience to water-related disasters.

### Focus Box 3: Urban Resilience – Replicable Models for Asia

#### **Metro Manila Flood Management Project**

The Philippines is one of the countries most vulnerable to climate change in the world. Every year, the Philippines is hit by an average of 20 typhoons, exposing the country to flooding and severe losses. A report by the World Bank indicates that if nothing is done, climate change will impose substantial economic and human costs, reducing GDP by as much as 13.6 percent by 2040.\*

Climate change is expected to multiply the occurrence of severe typhoons like Ondoy, which devastated Metro Manila in 2009. As a result, the Government of the Philippines initiated the comprehensive Flood Management Master Plan for the Greater Manila Area, which resulted in the USD500-million [Metro Manila Flood Management Project \(MMFMP\)](#). The project, co-financed by AIIB and the World Bank with loans for USD207.6 million loan each, focuses on the modernization of pumping stations and related flood management systems to mitigate extreme weather impacts. The project is designed to benefit one million people in Metro Manila.

MMFMP includes the rehabilitation of 34 existing pumping stations and the construction of 9 new pumping stations around Metro Manila. Combined with dredging of rivers and declogging of the drainage system, the project will help to efficiently drain rainfall runoff from flood-prone catchments.

The project also addresses the related urban issue of solid waste management. Previously, uncollected solid waste would clog creeks and impede the functioning of drainage pumping stations. The solid waste management component also includes community-based behavior change initiatives and investments in solid waste collection equipment.

MMFMP is only the first phase of the long-term masterplan of the Government of the Philippines to mitigate climate change impacts.

\*<https://openknowledge.worldbank.org/entities/publication/3f76eedd-4ab6-5250-ab4e-75f39593f1b3>

**Nature and biodiversity.** Natural infrastructure can provide alternative solutions to a range of climate change events, such as flooding, drought, or urban overheating. At the same time, it can generate significant co-benefits, such as preserving biodiversity and improving quality of life. Integrating nature-based solutions into infrastructure design and operations is a key objective of AIIB, together with support for stand-alone, nature-based solutions, where feasible, to enhance climate resilience.

Viewing nature as infrastructure, especially in Asia, presents significant opportunities to engage in the development of effective approaches and proof of concept for nature-based solutions. It also allows AIIB to actively support its Members to meet their commitments under the Global Biodiversity Framework.

Key initiatives to promote nature-based solutions will include:

- *Increasing the financing of nature-based projects and integrating nature-based solutions into traditional infrastructure design and operations.* AIIB will promote the adoption of nature based components in infrastructure projects and seek to mobilize capital for developing natural infrastructure, building on implementation of the ESF, best practices and project experience. Where necessary, the Bank will also seek to mobilize concessional finance to cover the cost of incorporating such measures. AIIB will ensure that results are widely disseminated to help develop the body of evidence to support financing of nature-based solutions.
- *Reversing forest loss to meet global climate mitigation, biodiversity and sustainable development goals.* Forest protection and conservation offer one of the most substantive opportunities to address climate change, given the crucial ecosystem services this natural infrastructure provides, such as carbon sequestration, vital wildlife migration corridors, climate regulation, water capture and quality improvements, and flood control, among many others. With this in mind, the Bank should play its part in preserving, maintaining and restoring this critical natural infrastructure. AIIB will also explore the feasibility of leveraging market-based instruments like carbon markets to mobilize the private sector and incubate innovation, as well as financing high integrity forest protection initiatives linked to carbon markets.
- *Demonstrating the benefits of nature-based solutions and using its ability to mobilize finance by assessing and supporting scalable mobilization structures, seeking also to establish nature and biodiversity as an impactful asset class.* Such structures may include private and public nature bonds, debt-for-nature swaps, or nature linked incentive mechanisms.
- *Developing thought leadership on nature and biodiversity in infrastructure development.* Building on AIIB's Asian Infrastructure Finance Report 2023, this will include how to make traditional grey infrastructure more nature-positive, piloting Natural Capital Valuation models in Cost Benefit Analysis processes, and further developing the concept of "Nature as Infrastructure."

### Focus Box 4: Financing Nature-Based Solutions

#### **Inner Mongolia Ulanhot Green and Climate Resilient Urban Development Project – China. Status: Proposed in 2023.**

The city of Ulanhot, in Inner Mongolia, is faced with multiple challenges including deteriorating and disconnected urban infrastructure as well as degrading natural resources, particularly river wetlands, river courses and grasslands.

The project aims to improve key public infrastructure such as (i) road networks and accompanying pedestrian and non-motorized transport pathways; (ii) underground drainage systems, water supply and sanitation; and (iii) heating pipelines in selected low-income communities.

To improve livability in urban areas, the following nature-based solutions are planned:

- Ecological enhancement of riparian and wetland areas along the Tao'er River to support ecological and biodiversity conservation, as well as increasing the natural water storage capacity of the basin to reduce flood and waterlogging risks, which could be exacerbated by climate change.
- Engineering designs with integrated nature-based infrastructure solutions will be the main design feature of urban improvements. The measures considered are: rainwater harvesting and storage systems, aiming to store and utilize 80 percent of rainwater and recharge groundwater aquifers, and the greening and resilience of community public space such as plazas/squares, parks and children's parks.

The project's environmental and social impact assessment will identify and propose safeguard actions for the ecosystems and biodiversity systems to be potentially affected by the project, such as the wetland and river course ecosystems.

For further information: <https://www.aiib.org/en/projects/details/2023/proposed/China-Inner-Mongolia-Ulanhot-Green-and-Climate-Resilient-Urban-Development-Project.html>

[https://www.aiib.org/en/projects/details/2023/\\_download/china/AIIB-PSI-P000669-China-Inner-Mongolia-Ulanhot-Green-and-Climate-Resilient-Urban-Development-Project-09MAR23.pdf](https://www.aiib.org/en/projects/details/2023/_download/china/AIIB-PSI-P000669-China-Inner-Mongolia-Ulanhot-Green-and-Climate-Resilient-Urban-Development-Project-09MAR23.pdf)

## **2. Ensuring sustainability of all financing**

AIIB adds value to its investments by ensuring they meet its sustainability objectives, based on environmental, social, financial and economic criteria. The aim is to ensure AIIB operations create no negative impacts and promote positive environmental and socioeconomic development benefits.

To achieve these objectives, AIIB places significant emphasis on financing infrastructure projects that prioritize environmental sustainability across their entire lifecycle and are resilient to the impacts of climate change. This approach involves considering all stages of infrastructure development, from planning and construction to operation and decommissioning, in order to mitigate environmental effects, biodiversity degradation and resource depletion. To achieve these sustainability objectives, AIIB places strong emphasis on optimizing resource utilization, by adopting sustainable building materials, promoting water conservation measures and embracing circular economy principles.

The Bank holds climate change solutions to the same rigorous standards as all other investments, recognizing that certain climate projects may have unique impacts that call for adapted analysis and mitigation approaches. This includes ensuring that sound long-term financing plans avoid any adverse effects on public finances while seeking positive economic and, where possible, positive financial outcomes.

In this regard, AIIB collaborates with knowledge partners to develop effective assessment and mitigation approaches. AIIB also actively works with its Members to establish appropriate policies and capacities that support long-term sustainability and foster positive environmental and social outcomes.

### Focus Box 5: Biodiversity Risk Assessment Tools for Renewable Energy Projects

Climate change solutions and biodiversity loss are inextricably linked. For example, generating renewable energy can require as much as 3 to 12 times the land area compared to coal-powered energy generation.\* The location of renewable energy infrastructure therefore requires careful consideration to ensure the solutions to climate change do not result in adverse impacts on the environment. Examples of such impacts include biodiversity loss through wildlife displacement and mortality caused by collision and habitat degradation.

Tools are now available that can identify areas where socio-ecological conflicts are less likely to emerge due to changing land use, thereby helping to reduce project delays and cost overruns. AIIB encourages the use of such tools as a first step in conducting environmental and social impact assessments. Two examples are worth noting:

#### 1. SiteRight by The Nature Conservancy (TNC) India

This open-source screening tool applies a spatial land management approach to assess optimal locations for solar and wind development projects based on technical, geographical, environmental and social aspects. SiteRight uses the best available information to support early screening and inform siting decisions and is currently available in India. Source: [SiteRight | The Nature Conservancy India \(tncindia.in\)](#)

#### 2. Avian Sensitivity Mapping Tool for Energy Planning (AVISTEP) by Birdlife International

This web-based tool supports project developers, financiers and managers to identify where renewable energy projects could impact birdlife. Using spatial data and other data sources, it builds sensitivity maps according to (i) the project's location, (ii) the type of renewable energy infrastructure, and (iii) the variables that assess the sensitivity to bird species (protected areas, endangered status and land cover). The resulting grid map combines data into 5km x 5km cells and yields four categories of sensitivity (very high, high, moderate and low) through a heatmap. It is accessible free of charge. Source: <https://avistep.birdlife.org/>

Note: These tools are not intended to replace the need for an in-depth site-level assessment of impacts or consultation with relevant agencies before making siting decisions.

\* Sustainability 2020, 12(1), 281; <https://doi.org/10.3390/su12010281>

### 3. Maximizing inclusivity and gender impacts

Climate change is not gender neutral with the effects of climate change on socioeconomic outcomes felt differently by women and men. Women, especially those in developing countries, bear a disproportionate burden of climate change's adverse impacts. In Asia, women's heterogeneous experiences are underpinned by more-or-less restrictive gender norms and secondary socioeconomic status. These factors intersect with women's limited rights over key assets, poorer education, less mobility, reduced political representation and less overall freedom. Women's relative poverty to men further limits the resources they can draw on.

In the midst of these challenges, women can also be powerful agents of adaptation and response to climate change, and the Bank recognizes the importance of gender equality and inclusion for effective mitigation and adaptation. Investment in climate resilient infrastructure with a specific gender focus can not only reduce the adverse impacts of climate change on women but also dramatically improve women's livelihoods and unlock multiple economic benefits, including increasing financial stability and returns, driving productivity and innovation and improving food security.

In response, AIIB assists its clients through its Environmental and Social Policy (ESP) to identify and address risks of sexual exploitation, abuse, harassment and gender-based violence in the projects it finances. The Bank's projects also undertake deliberative dialogue and consultation during due diligence and implementation, which consciously gives space and voice to diverse groups and individuals to articulate their specific vulnerabilities and priorities. The Bank also works pro-actively with clients to develop inclusive and gender-responsive project designs to promote equal opportunities and women's socioeconomic empowerment. While not suggesting one solution across contexts, the Bank's routine application of a gendered lens to infrastructure will strengthen climate change adaptation and mitigation across the region.

## C. CATALYTIC – MOBILIZING FINANCING PARTNERS – *MDBs have a key role in increasing climate finance by mobilizing the private sector*

Current funding levels fall far short of needs and are not increasing sufficiently to meet the estimated annual amounts needed to keep 1.5°C within reach. Public resources, including those of MDBs, are insufficient and face exceptional challenges due to recent global macroeconomic conditions.

Sufficient capital does exist. Considering that the private sector has assets of more than USD210 trillion under management,<sup>38</sup> it is able to contribute significantly more than the average of USD300 billion it did in 2019 and 2020. While allocations to climate have been increasing, by approximately 7 percent, they remain insufficient and largely directed at developed markets, with Asian allocations predominantly going to China and India. This underlines the fact that climate financing in Asia, and emerging markets particularly, continues to be perceived as high risk. This is partially due to insufficient volume of viable opportunities, continued focus on fossil fuels, lack of effective carbon pricing and insufficiently developed supporting policy and regulatory environments.

MDBs have a key role to play in developing the right conditions for greater private climate financing, including increasing the supply of financeable opportunities, promoting carbon pricing, developing supporting policies and regulatory environments, deploying their risk absorption capacity and developing innovative financing instruments.

<sup>38</sup> GCF. Private sector financing.

While MDBs lead by example and continue to increase climate allocations, limits do exist, including constraints to further capital increases. This means that consideration must be given to how to use these relatively limited resources most effectively. In this regard, facilitating the mobilization of private finance may, in some circumstances, be a more effective use of MDB resources than financing climate actions in their own right.

Recognizing that Asia, as a region, has attracted less investor interest while increasingly contributing to global climate change, AIIB will seek to address known barriers to private sector participation and maximize private capital mobilization, including through developing effective partnerships.

Four key actions will support this principle:

### **1. Scaling up AIIB's own climate financing**

AIIB benefits from a fresh balance sheet and ability to deploy an increasing share to climate as it grows its financing operations. A 50-percent share of climate finance implies at least USD7 billion in annual climate finance approvals by 2030, a roughly threefold increase from 2022 levels. Conscious of the call for MDBs to do more and do better, the mid-term review of the Corporate Strategy, to be agreed by the Board of Directors in 2025, will be an opportunity to assess the continued appropriateness of its climate finance ambitions relative to Member needs and priorities.

### **2. Enabling and mobilizing greater direct private sector financing of mitigation, adaptation and nature solutions**

While climate mitigation solutions increasingly have viable revenue streams, private financing of climate change solutions in Asia is constrained by a number of well-known and earlier noted barriers. While AIIB will support addressing such institutional barriers through its financing and strategic partnerships, its primary focus will be on providing solutions to de-risk private financing.

Wherever feasible, AIIB will crowd in the private sector through greater use of its longer-tenor lending, first loss and guarantee products, corporate lending or local currency funding. A particular focus will be on middle-income Members with developing climate finance markets. Here, AIIB can play a role in accelerating the pace and scale of private sector mitigation and adaptation financing and consequently further strengthening viable local markets. Such an approach will allow AIIB to channel more resources to direct financing in less developed Members with higher barriers to private sector participation.

### **3. Mobilizing large-scale private capital by promoting and developing viable climate markets**

Mobilizing private finance at scale for Asia requires structures that meet investor needs and objectives. As guided by its Corporate Strategy and Strategy on Mobilizing Private Capital for Infrastructure (2018), AIIB will focus both on catalyzing private capital and developing emerging market infrastructure as an asset class. Doing so will involve four initiatives:

- *Mobilizing and pooling private capital.* Creating and replicating financial structures such as climate focused funds, on-lending facilities through local financial intermediaries, or asset monetization and recycling facilities, such as renewable asset trusts or renewable asset securitization programs. Such structures can be enhanced with incentive and de-risking products, such as performance incentive schemes (e.g., through carbon markets) or sustainability-linked lending. These structures already exist but often need to be better adapted to the climate challenge and to the Asian region, require consistent anchoring, and need to be replicated in order to create demand and sustainable volume.

### Focus Box 6: Local Financial Intermediary Climate Financing

#### **BTG Green On-lending Facility for Climate Change Mitigation in Brazil**

A USD200 million loan has been extended to Banco BTG Pactual S.A. to establish a specialized Green On-lending Facility, dedicated to investing in renewable energy projects, with a primary focus on wind and solar energy. By directing these funds towards renewable energy capacity expansion, the project aims to make a substantial impact on climate change mitigation in Brazil.

The facility will play a vital role in helping Brazil meet its climate commitments and its target of reducing GHG emissions by 37 percent in 2025 and by 43 percent in 2030 (both compared to 2005 levels).

Upon successful completion of the project, it is estimated that 2.5 GW of renewable energy capacity will be installed in Brazil, leading to the avoidance of approximately 565,089 tonnes of CO<sub>2</sub> emissions.

Overall, the [BTG Green On-lending Facility](#) demonstrates an effective financial intermediary approach, enabling strategic investment in renewable energy projects. By combining the financial strength of AIIB and the expertise of Banco BTG Pactual S.A., this initiative serves as a model for leveraging private sector resources to accelerate climate action.

- *Accessing global capital markets.* While total global assets under management (AUM) for climate-labeled investment funds grew more than tenfold to USD133 billion between 2010 and 2020, it remains a small fraction of the total global AUM. Additionally, the majority of placements continue to be focused on developed markets. While this is indicative of institutional investor risk appetite, several structures have already been successfully applied for climate finance in Asia.

AIIB has supported asset-backed securitization and bonds for green, sustainability and adaptation themes. AIIB will continue to explore opportunities to innovate and adapt existing capital market structures for climate financing, including greater use of public and private climate bonds, debt swaps, or climate-focused asset-backed securitization. These will be supported by the Bank through investing in junior tranches, application of guarantees, credit enhancements and, where feasible, mobilizing public and concessional financing.

AIIB will seek to leverage its own balance sheet to raise climate-specific funding through its [Sustainable Development Bond Framework](#), as it did with its successful initial climate adaptation bond in 2023. This not only provided institutional investors with a highly rated climate investment option but is also directly linked to funding AIIB's climate investments.

- *Development of clear taxonomies.* Demand for Environmental, Social and Governance (ESG) and sustainability-linked investment options is growing rapidly. While this is a positive development, it remains unclear how much it directly benefits Asia in general and climate finance specifically. Climate, as an investment class, is not yet established and suffers from the general confusion of terms surrounding sustainability and ESG investing. AIIB supports the development of clear taxonomies – such as the one developed by ASEAN – and investment objectives that provide investors with clarity on use of proceeds and financing impact. This is key to facilitating development of climate financing in specific capital market products that can overcome the current dilution through association with broader sustainability and ESG topics.

### Focus Box 7: Capital Market and Climate Finance

#### **AIIB's Pioneering Climate Adaptation Bond**

AIIB issued Asia's first-ever Climate Adaptation Bond in 2023, marking a significant milestone in adaptation financing. This five-year bond, issued under AIIB's Sustainable Development Bond Framework, successfully raised AUD500 million, with the proceeds directed towards investments with a strong focus on building adaptation and long-term resilience.

The primary objective of the Climate Adaptation Bond is twofold: firstly, to mobilize additional private sector financing for climate adaptation, and secondly, to raise awareness of the need to enhance the resilience of our valuable built environment. This aligns with AIIB's overarching mission of mobilizing private capital and promoting investment in resilient infrastructure through the capital markets.

AIIB keeps to high standards in defining climate adaptation, adhering to harmonized principles from the MDBs' Joint Methodology for Tracking Adaptation Finance and the Common Principles for Climate Change Adaptation Finance Tracking of the International Development Finance Club (IDFC). The methodology ensures that only those project activities directly linked to reducing climate change vulnerability are considered eligible. This rigorous selection process guarantees investors that the projects funded through the Climate Adaptation Bond are genuinely impactful in reducing climate vulnerabilities.

Measuring the impact of the allocated proceeds is of utmost importance to AIIB. To ensure transparency and accountability, appropriate reporting metrics are set for individual projects which are tailored to each project's unique objectives and expected results. By doing so, AIIB guarantees that the outcomes of these climate adaptation initiatives are continually evaluated and communicated effectively to stakeholders.

The Climate Adaptation Bond represents AIIB's commitment to pioneering sustainable solutions and leading the charge in climate-conscious finance. With this landmark initiative, the Bank empowers investors to contribute significantly to climate adaptation and resilience.

#### **4. Creating partnerships with financiers and institutions to scale climate finance**

Addressing the global climate challenge requires a coordinated approach to maximize the impact of their individual strengths. Better and more coordinated action by MDBs is a key tenet of the MDB reform agenda, which AIIB fully supports. Partnering with stakeholders to better serve client needs is central to AIIB's mandate and operational model. Partnerships for climate will prioritize three areas:

- *Working better together.* Particularly at a country and sector level, MDB financing is more effective when coordinated. Co-financing agreements, country climate platforms and J-ETPs are examples of initiatives that AIIB will continue to closely support. It will also seek to leverage the experience and expertise of peer MDBs to ensure its own financing plays an effective role.

To support its capital mobilization efforts, AIIB will seek to broaden its partnerships with international financing partners, including institutional investors, sovereign wealth funds and private equity funds, to develop joint financing structures that allow greater private sector allocations to climate financing.

- *Maximizing the use of concessional finance.* Concessional financing is highly effective in addressing barriers to greater private capital mobilization particularly in developing markets. Climate change concessional finance facilities are growing, currently numbering over 100. Traditional bilateral sources from governments, international agencies and funds are being supplemented by private foundations and philanthropies. However, a mismatch continues to exist between providers and the private sector. AIIB believes it has a critical role to play in bridging this divide to ensure a more effective deployment of concessional finance. In particular, AIIB will access concessional funding to help create a greater supply of viable projects through better planning, design and project preparation, and by enhancing viability where necessary. Conversely, concessional funding will also be applied to enhance investor demand through the creation of large-scale investment vehicles, especially targeted at attracting sovereign and institutional capital.

### Focus Box 8: Mobilizing Institutional Investors at Scale

#### The Asia Green Partnership Fund

AIIB is teaming with Bloomberg Philanthropies to develop an innovative financing initiative aimed at accelerating climate change mitigation efforts in Asia. This much-needed initiative comes in response to the urgent requirement for increased climate financing to combat the climate crisis, especially in lower-rated Asian countries where private institutional capital has historically been hesitant to invest in green infrastructure due to perceived credit risks.

The collaborative endeavor will structure an investment fund, named the “Asia Green Partnership Fund.” Leveraging the financial strength of MDBs and philanthropic resources, this fund will offer a blended finance structure to attract investments in climate change mitigation projects that were previously deemed too risky for institutional investors, including Sovereign Wealth Funds (SWFs), to consider. This comes at the same time as a growing interest among SWFs to allocate capital towards climate and energy-transition-related investments, as well as a desire to expand operations in emerging markets and developing countries in Asia.

By leading the way with this pioneering project, AIIB seeks to inspire other institutions to replicate similar impactful initiatives, ultimately fostering greater momentum in the global fight against climate change.

- *Knowledge and representation.* Recognizing that its investments cannot be undertaken in isolation from broader policy, institutional and regulatory issues, AIIB will seek to increase its knowledge of and capacity to integrate these into project design through working partnerships with thought leaders and specialized institutions. Additionally, AIIB will continue to play an active role in selected international and regional fora to ensure it is able to represent the needs of its Members. The Bank will also participate actively in joint MDB working groups and initiatives to ensure MDBs work in unison.

## **D. INNOVATIVE – *The climate challenge can only be addressed with increased technological innovation***

While focusing on increasing the scale of climate financing, equal effort must be made to accelerate the pace of innovation and deployment of effective solutions and technologies to meet net-zero and resilience objectives. Through its thematic priority of technology-enabled infrastructure and growing investments in technology, AIIB has seen the important role MDB financing plays in stimulating research and development and in accelerating cost reduction, thereby ensuring viable solutions are rapidly adopted and deployed at scale. To this end, AIIB will prioritize two key actions to promote innovation.

### **1. Promoting the development and commercialization of innovative and cost-effective technologies**

The International Energy Agency estimates that most CO<sub>2</sub> emission reductions by 2030 will be covered by existing technology. However, by 2050, almost 50 percent of reductions will come from technologies that are currently only prototypes, are in demonstration or not yet invented.<sup>39</sup> New solutions need to be found to supplement current commercially viable technologies, such as solar and onshore wind, but the challenge remains to create effective pathways to spur greater research and development and rapid commercialization.

#### **Focus Box 9: AIIB Venture Capital (VC) Investment Program**

Disruptive technologies in emerging markets have the potential to generate larger impacts in addressing climate change. While VC is spurring innovative climate solutions, the majority of funding continues to target developed markets. Developing a regional VC ecosystem focused on viable climate change-related solutions is the primary focus of AIIB's VC Investment Program.

Launched in December 2022, the VC Program invests in innovative and transformative technologies and new business models that would contribute to climate mitigation efforts and lead to improving traditional infrastructure's resilience and adaptation to climate change. The Program aims to develop innovation and greater VC investment in AIIB Members by primarily investing in early-stage (Pre-Series A and Series A–B) technologies and new business models through small-scale VC funds that focus on Energy Access, ClimateTech, CleanTech, Carbon accounting-related tech, Resource Efficiency and Sustainable Cities.

AIIB's participation is designed to foster innovation and focus on traditional infrastructure sectors which do not always attract technology investors. AIIB will also seek to connect different VC investors in the climate tech space and offer them the opportunity to learn from each other. By creating an enabling VC ecosystem, AIIB would unlock new potential opportunities to balance demand and supply for funding and accelerate adoption of new climate-related technologies.

Investment in new climate technologies is far below what is needed and remains largely focused on developed markets. This is understandable given the perceived poor risk/return profile of many climate solutions, lack of established revenue models (especially for adaptation and resilience) or the continued under-valuation of benefits. To unleash technology's potential, a virtuous cycle needs to be created, combining development of new technologies, commercialization and cost reduction, and incorporating willingness to pay for the climate benefits generated.

<sup>39</sup> IEA. 2021. Net-Zero by 2050.

Demonstrating the applicability and value of climate technologies for mitigation, adaptation and resilience purposes is a key objective of AIIB. To this end, AIIB's InfraTech Platform aims to reduce the mismatch between technology supply and demand by overcoming the lack of information on needs and opportunities in climate technologies. In addition to its regular financing, AIIB, where feasible, will deploy its ability to invest in VC and early-stage equity and debt to support technology developers, sector investors and funds. The Bank will also seek to form partnerships with key players in the growing Asian VC and technology incubator ecosystem to better disseminate knowledge and opportunities and to showcase the benefits of innovative technologies by using its own infrastructure portfolio.

## **2. Financing the adoption at scale of proven technologies**

For new technologies to be effective, they require accelerating their adoption at scale and rapidly reducing their cost. This requires increasing economies of scale and ensuring that supply chains are competitive and efficiency improvements continue to be made. It also requires consistent dissemination of value propositions to ensure market understanding of the technology. AIIB has provided opportunities to finance the adoption at scale of clean hydrogen, transport electrification, offshore wind, energy storage options and climate resilience solutions in water sectors, and will continue to promote new technologies as they prove themselves.

AIIB will continue to deploy financing to reduce adoption risk, particularly through the use of its patient, long-term debt financing and, where needed, equity investments both at the asset level and along the value chain.

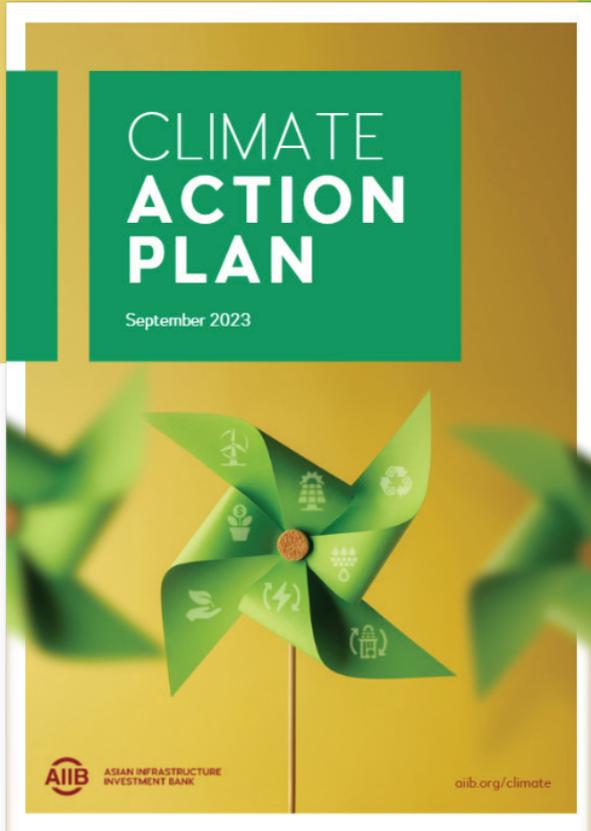
## V. STRENGTHENING CORPORATE PRACTICES TO SUPPORT AIIB'S CLIMATE ACTION PLAN

To be an effective partner for its Members, AIIB must lead by example. The Bank's mandate, Corporate Strategy, thematic priorities, climate target and policies together already form a solid commitment. However, neither climate change nor Member needs are static, and AIIB must continuously learn, improve, adapt and innovate.

AIIB will focus on improving its capacities, corporate practices and culture with regard to its own internal operations and its engagement with stakeholders and clients. AIIB will:

- Continue to improve its operational practices to integrate and mainstream climate consideration in the Bank's investment operations based on its own operational experience as well as learning from peer financiers.
- Ensure AIIB's core values and financing principles are translated into its climate financing, with particular focus on inclusivity, promoting gender equality and good governance.
- Continue strengthening the Bank's capacity and capability to understand and respond to evolving Member needs, market conditions and climate solutions. This includes ensuring staff are equipped with knowledge and resources to be effective counterparties to clients.
- Work closely with and learn from peer MDBs on the development and implementation of Paris Agreement alignment methodologies, tracking of climate finance and good practices for climate-smart and nature-positive investments.
- Implement commitments made by AIIB including through various international fora such as the Global Biodiversity Convention and the associated Joint MDB Statement on Nature, People and Planet.
- Adopt, report on, and disseminate evolving standards with climate implications, including on impact metric requirements from the International Sustainability Standards Board (ISSB) and relevant recommendations.
- Explore and implement good practices for the Bank's internal operations (e.g., building management, staff commuting and travel, pension management) to minimize its carbon footprint as envisaged in Building Block Six of the Joint MDB Paris Alignment Framework.<sup>40</sup> On the internal activities related to facility management and staff travel, AIIB will measure and monitor carbon footprint and achieve carbon neutrality prior to 2025.

<sup>40</sup> Joint MDB Paris Alignment Framework. 2018.



## LEARN MORE

about investment operations of AIIB in climate financing.



This Climate Action Plan (CAP) consolidates the Asian Infrastructure Investment Bank's (AIIB) climate commitments as set out in its key strategies and policies, clarifies its climate financing principles, and is designed to chart AIIB's climate actions to 2030 to guide its investments in support of its Members. It is a living framework that can and will need to be adopted, recognizing the intensifying and multiplying impacts of climate change and the necessity of keeping our actions relevant and consequential. Through its focus on investing in future-oriented infrastructure, AIIB is dedicated to fostering a sustainable, inclusive, and equitable future for all, while preserving and safeguarding the environment.



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