

Directive on the Environmental and Social Framework

October 17, 2023

A. Overriding Objective

1. The overriding objective of this Directive (**Directive**) on the Environmental and Social Framework (**ESF**) of the Asian Infrastructure Investment Bank (**AiIB** or **Bank**) is to facilitate the application by the Bank's personnel of the ESF.
2. The key elements of the ESF are an aspirational Vision Statement (**Vision**) and a Policy (**ESP**), accompanied by Environmental and Social Standards (**ESSs**) and an Environmental and Social Exclusion List (**ESEL**). The ESP, ESSs and ESEL are collectively referred to as the **Policy**.
3. The Policy derives directly from the requirement in the Bank's Articles of Agreement that "[t]he Bank shall ensure that each of its operations complies with the Bank's operational and financial policies, including without limitation, policies addressing environmental and social impacts." The Policy constitutes one of AiIB's major policies, and is central to the design and implementation of projects supported by the Bank's financing.
4. The interpretation and implementation of this Directive, which requires being read in conjunction with the ESF, shall seek to give effect to the above overriding objective.

B. Definitions

5. The capitalized terms used in this Directive have the meanings set forth or referred to in the ESP, *Section II, Definitions*, or in the Operational Policy on Financing (**OPF**) or as set forth below:
 - (a) **Environmental and Social Advisor (ES Advisor)** means a member of the Bank's personnel assigned by the Director General, Strategy, Policy and Budget (**DG SPB**) to support the Policy and Strategy Vice Presidency (**PSVP**) in the performance of the functions described below in *Section 8, Responsibilities of the Policy and Strategy Vice Presidency (PSVP)*.
 - (b) **Environmental and Social Specialists (ES Specialists)** means members of the Bank's personnel assigned by the Director General, Operational Services Department (**DG OSD**), to perform the tasks described below in *Section 9, Responsibilities of the Investment Operations Vice Presidencies (IOVPs)*.
 - (c) **Financing** means the financing extended by AiIB for a Project, which may be a Sovereign-backed Financing or Non-sovereign-backed Financing, as defined in the OPF.
 - (d) **Project Change** means a change to the Project or Financing, as described in the ESP, *Section X, Project Implementation, Monitoring and Reporting*.
 - (e) **Project Documentation** means, as the context may require, the Project Document, Project Summary Information, Project Summary Document, a

memorandum submitted to Management in connection with a Project, and/or Memorandum of the President.

- (f) **Project Team Leader (PTL)** means a member of the Bank's personnel assigned to lead the preparation of the Financing and/or monitoring of Project implementation in accordance with the OPF and its associated Directive (as applicable). The term includes, as applicable, the portfolio management officer assigned by the Director General, Implementation Monitoring Department (**DG IMD**) to lead the monitoring of the Project's implementation.

C. Bank Responsibilities

- 6. The respective responsibilities of the Bank and the Client in implementing the Policy are set out in the ESP, *Section IV, Roles and Responsibilities* (or, in the case of Results-based Projects (**RBP**s), in the ESP, *Section 15, Environmental and Social Assessment of Results-based Projects*). The following elaborates on the responsibilities of the various Departments within the Bank for implementing the Policy.
- 7. **Shared Responsibilities.** For purposes of this Directive, the Vice President, Policy and Strategy (**VP PS**) and each Vice President, Investment Operations (**VP IO**), share responsibility for implementing the Policy, with the support of the Legal Department (**LEG**).
 - (a) The PSVP is responsible for environmental and social (**ES**) policy development, advisory support and policy assurance functions under the Policy (see below, *Section 8, Responsibilities of the Policy and Strategy Vice Presidency (PSVP)*).
 - (b) Each Investment Operations Vice Presidency (**IOVP**) has primary responsibility for preparing and delivering Financings and monitoring Project implementation under the particular IOVP's responsibility in accordance with the Policy (see below, *Section 9, Responsibilities of the Investment Operations Vice Presidencies (IOVPs)*). The relevant IOVP assigns a PTL to each Project.
 - (c) The DG OSD assigns ES Specialists to each Project to support the PTL on all ES matters under the Project, including during AIIB's Project due diligence assessment and Project implementation monitoring.
 - (d) The PSVP and the IOVPs coordinate and cooperate in carrying out their respective responsibilities, seeking advice from LEG on interpretation of the Policy when needed.
- 8. **Responsibilities of the Policy and Strategy Vice Presidency (PSVP).**
 - (a) **Policy Development.** This function covers all aspects of policy development including:
 - (i) Interpreting the Policy and Directive, in consultation with LEG.

- (ii) Assessing the application of the Policy and Directive across AIIB's Financing portfolio.
 - (iii) Formulating and recommending revisions to the Policy and Directive, in consultation with OSD and other concerned Departments.
 - (iv) Preparing, issuing and revising, as needed, Administrative Guidance designed to support the efficient and proper application of the Policy and this Directive by the Bank's personnel.
- (b) **Policy Assurance.** The VP PS confirms that each Financing complies with the Policy. To support the VP PS in making this determination, the ES Advisor performs the following tasks in relation to each Project for which a Financing is extended:
- (i) In the case of a Project other than an RBP:
 - (1) Approves the ES categorization (including re-categorization).
 - (2) Confirms the appropriateness of the scope of the Project's ES assessment, including any additional assessments that may be required as a result of Project Changes.
 - (3) Approves the proposed use of country or corporate ES systems under the Project and of ES documentation required for the use of such systems.
 - (4) Approves the proposed application of a co-financier's ES policies to the Project.
 - (5) Approves the proposed application of another development partner's ES policies to the Project in accordance with the ESP, *Section 11, Adoption by the Client of a Development Partner's Environmental and Social Policy*.
 - (6) Approves measures to address ES compliance issues that may be brought to the attention of the ES Advisor during Project implementation.
 - (ii) In the case of an RBP:
 - (1) Approves the ES categorization (including re-categorization).
 - (2) Confirms the ES systems assessment conducted by the ES Specialists, including (A) any related measures to enhance these systems, for inclusion in the RBP Action Plan, and (B) proposed exclusion from the RBP of activities with significant ES impacts, and any changes to this assessment.
 - (3) Approves measures to address ES compliance issues that may be brought to the attention of the ES Advisor during Project implementation.

- (c) **Advisory Support.** This function includes:
- (i) Providing guidance and advice on ES matters to Bank personnel, especially in the context of complex and high-risk Projects.
 - (ii) Providing inputs, in consultation with LEG, to the Communications Department on external outreach relating to ES matters.
 - (iii) Undertaking internal and external training on ES matters, including lessons learned, in coordination with OSD, as appropriate, and preparing guidance and templates to facilitate implementation of the Policy.
 - (iv) Representing AIIB both internally and externally on ES matters (including approaches to ES policies and standards).
 - (v) Coordinating with LEG in providing advisory support.

9. **Responsibilities of the Investment Operations Vice Presidencies (IOVPs).**

- (a) Each IOVP is responsible for preparing and delivering Financings and monitoring Project implementation under the particular IOVP's responsibility, in accordance with the Policy. More specifically, this responsibility includes:
- (i) Screening and proposing the ES category for the Project.
 - (ii) Conducting AIIB's due diligence assessment on the ES aspects of the Project, including assessing the ES feasibility of the Financing.
 - (iii) In the case of an RBP:
 - (1) Conducting the assessment of the ES systems proposed to be applied to the RBP, including the RBP's ES risk and the Client's ES capacity;
 - (2) Identifying all activities that would have significant ES impacts and consequently require exclusion from the RBP and its financing by the Bank in accordance with the Policy; these include: (i) all Category A activities; and (ii) all Category B activities that are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or Project-affected people; and
 - (3) Developing, as appropriate, the measures under the RBP Action Plan to enhance the ES systems.
 - (iv) Disclosing ES information on the Project in accordance with the Policy, as well as material updates to the ES information as needed.
 - (v) Properly reflecting the Project's ES aspects in the Project Documentation.

- (vi) Monitoring and reporting on the implementation of the ES aspects of the Project and addressing any issues that arise during Project implementation (including, in the case of an RBP, implementation of the ES measures under the RBP Action Plan and review of RBP monitoring reports), including any Project Changes that may be required to achieve the Project's objectives.
- (b) The IOVP's tasks listed above are carried out by the PTL in coordination with the ES Specialists assigned to the Project.
- (c) At all stages, from the due diligence assessment of the Project through the Project's implementation monitoring, the PTL and ES Specialists work together cooperatively in order to identify, monitor and address the ES issues arising under the Project. They keep each other informed of their respective work in this regard.

D. Disclosure of Environmental and Social Information

10. **Policy Requirements Applicable to the Client and the Bank.** ES documentation is disclosed as early as feasible during the Project cycle. To this end, the Policy sets out the ES documentation requirements and related disclosure deadlines: (a) applicable to the Client in the ESSs; and (b) applicable to the Bank in the ESP. The following elaborates on the responsibilities of the Bank's Departments in implementing these disclosure requirements and also summarizes key disclosure deadlines applicable to Clients relating to activities they finance under Financial Intermediary (FI) Projects.
11. **Bank Disclosure of ES Information.** The PTL is responsible for disclosing, through the Project Summary Information, all ES information on the Project required to be disclosed by the Bank pursuant to the ESP, as early as feasible during the Bank's due diligence assessment of the Project,¹ subject to any deferral of disclosure permitted under the Policy.
12. **Deadlines for Bank Disclosure of Draft ES Documentation.** Deadlines for disclosure by the PTL of the Client's draft ES documentation (and if applicable, any Bank review of the Client's system) are set out in the ESP, *Section 66, Environmental and Social Information Disclosure by the Bank* and *Section 15, Environmental and Social Assessment of Results-based Projects*. These deadlines vary depending on the Project's categorization and whether the Project is an RBP or not. In summary:
 - (a) For Projects other than RBPs:
 - (i) For Category A Projects, the deadline for disclosure is sixty (60) calendar days prior to consideration of the Bank's financing for approval.

¹ This early disclosure applies equally to Sovereign-backed and Non-sovereign-backed Financings.

- (ii) For Category B Projects, the deadline for disclosure is thirty (30) calendar days prior to consideration of the Bank's financing for approval.
 - (iii) In exceptional circumstances, due to the specific nature and scope of the ES risks and impacts of the Project, the VP PS, following consultation with the responsible VP IO, may decide that a longer or a shorter disclosure period is appropriate. In such cases, the PTL reports the disclosure period so decided to the Bank's Board of Directors through the Project Documentation.
 - (b) For RBPs, the deadline for disclosure of the Bank's draft ES systems assessment is prior to appraisal of the RBP.
13. **Bank Disclosure of Other ES Documentation in a Timely Manner.** The PTL discloses the other ES documentation for the Project that is required to be disclosed pursuant to the Policy, in a timely manner following disclosure by the Client.
14. **Bank Disclosure of Material Changes to ES Documentation.** The PTL discloses any material change or addition to the disclosed ES documentation for the Project as soon as such information becomes available, and in any event prior to the approval of such change. (See ESP, *Section 84, Project Changes*, and *Section 85, Changes Requiring Adaptive Management*.)
15. **FI Client Disclosure of ES Information.** The disclosure responsibilities of an FI Client, including certain disclosure deadlines, are set out in ESS 1, *Environmental and Social Assessment and Management*. The PTL is responsible for advising the FI Client of these requirements and, with the support of LEG, for obtaining corresponding appropriate undertakings from the FI Client. In summary, these deadlines are as follows:
- (a) **Private Equity Funds.** If the FI Project involves a private equity fund, the Client is required to disclose the name, location, and sector of the Client's portfolio companies supported by the Bank's Financing within twelve (12) months following financial closure of the investment.
 - (b) **Higher Risk Activity ES Documentation.** Deadlines for Client disclosure of ES documentation for Higher Risk Activities financed by the Financing are as follows:
 - (i) For Category A activities, the deadline for disclosure of the draft ES documentation is sixty (60) calendar days prior to final approval of the activity for inclusion in the Project. The VP PS, following consultation with the responsible VP IO, may decide, based on the specific nature and scope of the FI Project and the ES risks and impacts of the activity, that a longer or a shorter disclosure period is appropriate.
 - (ii) For all other Higher Risk Activities, the FI Client discloses annual ES documentation of such activities financed by the Bank during the preceding 12 months, unless such disclosure is subject to regulatory

constraints, market sensitivities or consent of the sponsor, in which case, the FI Client discloses the reasons for nondisclosure.

16. Deferral of Disclosure.

- (a) The Investment Committee (**IC**) may defer the timing of disclosure of the ES information referred to above (other than the timing of disclosure of the ES information for RBPs) because of:
 - (i) Legal or other regulatory requirements, such as timing requirements relating to securities offerings, equity investments in publicly listed companies; or purchases of shares in a private placement; or
 - (ii) The commercially sensitive nature of the transaction involving, for example, an acquisition or a financial restructuring, where premature disclosure would compromise the financial worth or competitiveness of a corporate entity or its assets.
- (b) The PTL reports any decision by the IC to defer disclosure of the ES information to the Bank's Board of Directors through the Project Documentation.

E. Dissemination of Information on the Project's Grievance Redress Mechanisms and Independent Accountability Mechanism

17. The Bank requires all Clients to inform Project-affected people about the availability of the Project's Grievance Redress Mechanisms (**GRMs**) for the Project and of the Project-affected People's Mechanism (**PPM**) or other applicable Independent Accountability Mechanism (**IAM**), as provided for in the Policy.² Information on the availability of the GRMs and on the PPM or other applicable IAM is provided in an accessible and understandable manner in locally appropriate language(s), including on the Client's (or beneficiary's) Project-related website. In addition, information on the GRMs and on the PPM or other applicable IAM is provided in the Bank's Project Documentation, including the Project Summary Information and Project Document.

F. Authority

18. The President shall make all final decisions regarding the application of this Directive.

² The one exception to this requirement relates to Projects covered by the ESP, *Section 12, Environmental, Social and Governance Approaches to Capital Market Operations*.

G. Replacement of Past Directive

19. This Directive replaces the AIIB Directive on Environmental and Social Policy, dated April 24, 2020.