

Session 1: Introduction to Climate Finance Options to Support Low Carbon Transport



Photo source: Aleksejs Bergmanis/Pexels

AIIB climate finance mechanisms for low carbon transport

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16 May 2024



I. Introduction to AIIB



Introduction to the Asian Infrastructure Investment Bank (AIIB)

Driven by the mission of investing in **Infrastructure for Tomorrow (i4t)**, AIIB is firmly committed to sustainability in all its dimensions — **economic, financial, social and environmental.**

1

WHO WE ARE

A **Multilateral Development Bank (MDB)** established by international treaty in 2016, headquartered in Beijing.

AIIB brings countries together to address **infrastructure funding gap.**

Core principles: financial sustainability and sound banking, strong multilateral governance and oversight, high project standards.

109 approved country members

2

VISION & MISSION

Vision: a prosperous Asia based on sustainable economic development and regional cooperation.

Mission: Financing Infrastructure for Tomorrow. By investing in sustainable infrastructure, AIIB unlocks new capital, new technologies and new ways to address climate change, and to connect Asia and the world.

3

CREDIT STRENGTH

Strong support from a diversified global shareholder base. **USD 100 billion capital stock.** Conservative risk management and financial policies. Experienced management team.

AAA/Aaa/AAA credit rating with a stable outlook.

0% risk weight and HQLA1.



Financing i4t – AIB's Thematic Priorities



GREEN INFRASTRUCTURE

Promoting green infrastructure and supporting members to meet their local and national environmental and development goals, especially their commitments under the Paris Agreement and the United Nations' Sustainable Development Goals.



CONNECTIVITY & REGIONAL COOPERATION

Facilitating better transport, digital, energy and water connectivity within Asia, as well as between Asia and the rest of the world. AIB also supports projects that facilitate trade, cross-border investment, tourism, financial and digital integration across Asian economies and beyond.



TECHNOLOGY-ENABLED INFRASTRUCTURE

Based on the enhanced recognition of the important role technology plays, AIB will support projects where the application of technology delivers better value, quality, productivity, efficiency, resilience, sustainability inclusion, transparency and better governance along the project cycle.



PRIVATE CAPITAL MOBILIZATION

AIB supports projects that directly or indirectly mobilize private financing into sectors within AIB's mandate. This includes developing infrastructure as an asset class in Asia.

High Project Standards

AIB adopts high standards such as environmental and social, financial management, debt sustainability, and procurement frameworks in pursuit of quality projects.



PROCUREMENT

- Transparent and preferred international open competitive processes, and quality assurance, compliance checks, audits, inspections; and
- Credible recourse and impartial and equitable dispute resolution; integrity throughout the procurement process.



ENV & SOCIAL

- Environmental and Social Framework – benchmarked against equivalent policies and standards of other MDBs; and
- Gender and disability inclusiveness, climate change, biodiversity are part of E&S assessment process, includes measures to address retaliation



FINANCIAL MGMT

- Harmonized with the FM approach and requirements of AIB's major development partners; and
- Sound and robust control system to safeguard project assets and combat fraud/corruptions; Consistent with international standards on accounting and auditing.



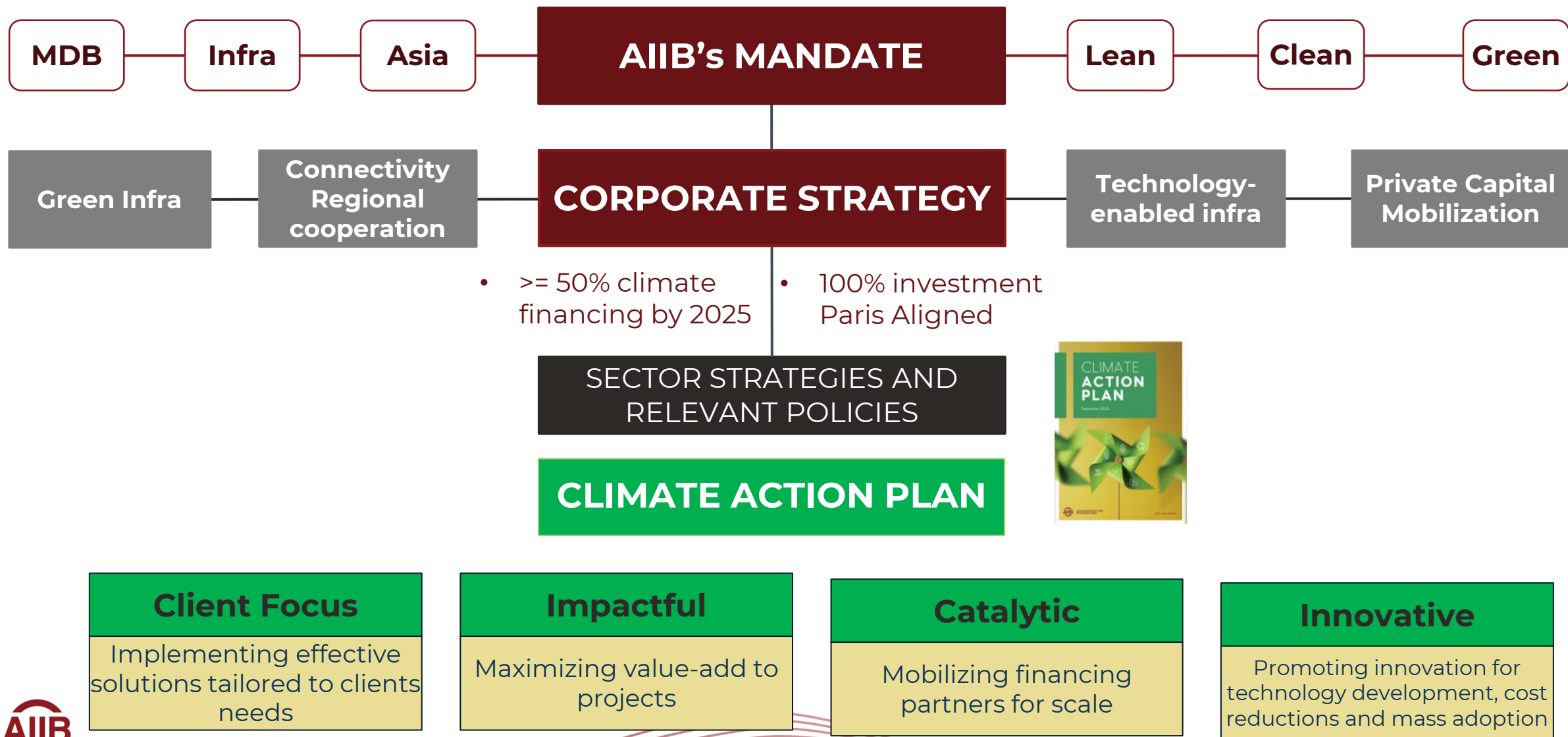
DEBT SUSTAINABILITY

- Sovereign operations: rigorous cost benefit analysis; compliance with IMF Public Debt Limits Policy and Debt Sustainability Framework
- Non-sovereign operations: Know Your Client assessments comprising:
 - Client verification;
 - Understanding nature of business-client relationship
 - Beneficial ownership verification; and
 - On-going monitoring for suspicious activities.

II. AIIB Climate Commitments

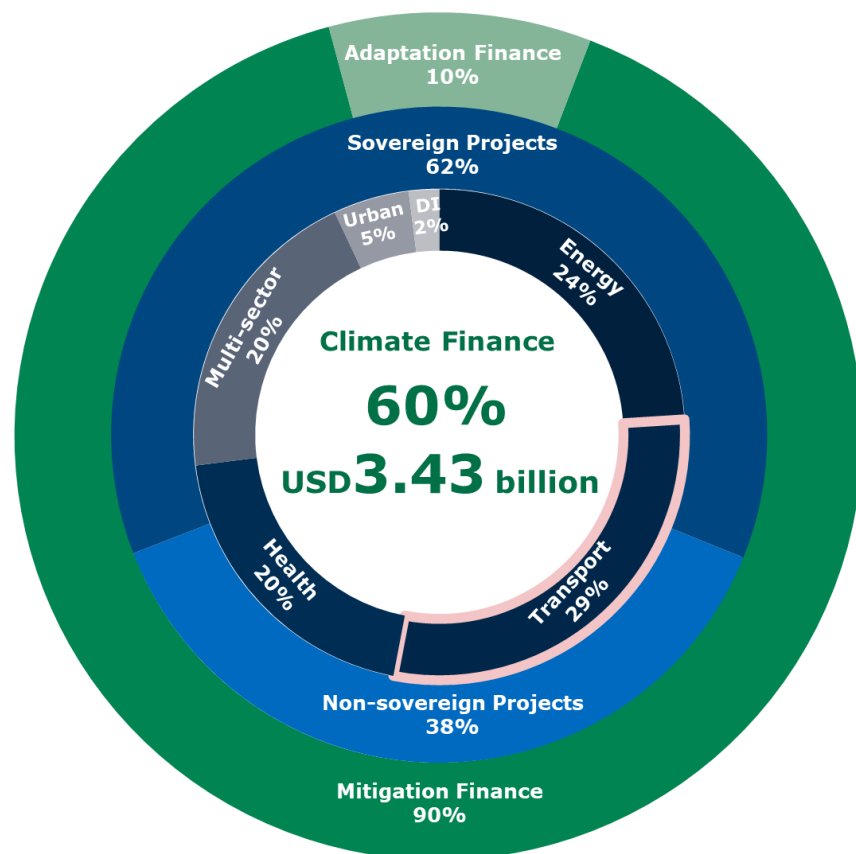


AIIB Climate Commitments and Climate Action Plan



AIB Climate Finance and Eligible Mitigation Finance

Climate Finance Amount in 2023



Eligible mitigation project/technology types that are most relevant to AIB's transport investment operations

- Public transport enabling modal shift from high to low carbon transport mode
 - MRT, BRT, rail and metro
 - Freight or passenger transport
- Road upgrading, rehabilitation, reconstruction and maintenance without capacity expansion
- Efficient airport system operations or on-site renewable energy generation
- Electric vehicles (e.g., cars, buses)
 - Charging infrastructure
 - Battery swap program
- Port infrastructure (maritime and inland waterways)
- Electric passenger or freight transport

For transport projects, climate finance amounted to about USD1 billion. Of which **78% was mitigation finance (USD778 million)** and 22% was adaptation finance (USD223.23 million)

III. AIIB Climate Financing



Sustainable Development Bonds | Climate Financing

AIIB's Sustainable Development Bond Framework applies to all debt issued by AIIB.

Under the Framework, AIIB issued 41 bond transactions in 2022, amounting to **USD7.25 billion**. During that year, AIIB issued three USD benchmarks, its second Panda bond, one AUD benchmark, and one GBP benchmark. In total, 12 currencies supported the financing of the AIIB Sustainable Development Bonds.

The bond transactions cover **green investments that contribute to climate change mitigation and adaptation** and biodiversity conservation as well as social and sustainable infrastructure investments in education, digital technologies, and related areas. The bonds help narrow the gap between capital markets and sustainable infrastructure development.

In May 2023, AIIB issued their first **Climate Adaptation Bond**, of proceeds will be allocated to projects with climate adaptation portion of 20% or more of the total project financing. The net proceeds from the sale of the AIIB Sustainable Development Bonds are included in the ordinary resources of the Bank.

FEATURED PROJECTS

CHINA

Liaoning Green Smart Public Transport Demonstration Project

TARGET RESULTS



20,960 tons
of CO₂ emissions reduced
per year



1,285
electric buses procured
and put in operation



286
electric chargers installed



200 tons
NO_x emissions reduced
per year



2022 IMPACT REPORT

NO. OF TRANSACTIONS

41

AMOUNT ISSUANCE

USD7.25 billion

CURRENCY ISSUANCE

12



Sovereign and non-sovereign instruments | Climate Financing

All of AIIB's new financing aligns with the principles of the Paris Agreement.

As of 1 July 2023, AIIB requires that **all new financing aligns with the overall mitigation and adaptation goals of the Paris Agreement.**

This requirement is in addition to the existing principles in AIIB's Articles of Agreement that mandate all operations to comply with the Bank's operational and financial policies, including addressing environmental and social aspects.

As part of its regular instruments, **AIIB offers sovereign and nonsovereign-backed financing** to national governments in the former and to private enterprises or a subsovereign entity in the latter. AIIB also makes direct equity investments in private or public sector companies to mobilize private capital.

At the project concept stage, a thorough due diligence assessment on Paris Agreement alignment including GHG calculations and climate risks assessment is carried out. These activities provide **documentation for Paris Agreement alignment and climate finance attribution** prior to project approval. If applicable, covenants and conditions related to Paris Agreement alignment and climate finance are included in the necessary legal documentation.



Haryana Orbital Rail Corridor. Photo source: AIIB 2022 Impact Report

Sustainability-Linked Loans | Climate Financing

Regional Transport Connectivity Project in Singapore

The Project involves providing a **senior, secured, sustainability-linked loan** to Moulmein Shipping PTE. LTD., Tomlinson Shipping PTE. LTD., and Camphor Shipping PTE. LTD., wholly owned subsidiaries X-Press Feeders (XPF) Limited for the purchase of three 7,000 twenty-foot equivalent units (TEUs) new-build container ships to be primarily deployed on the China-India shipping route.

Pricing incentives are tied to the commitment to reduce the **Annual Efficiency Ratio of the fleet** by 40% between 2019 and 2027.

The target will then be reviewed in 2027 to support XPF's global emission reduction target of halving absolute emissions by 2040 and achieving net-zero emissions by 2050. The financing instrument incentivizes the Transition Plan.

Plus, it not solely targeted for GHG, but also the plastic wastes reduction (i.e., wider SDGs)

APPROVED FUNDING

CLIMATE MITIGATION

CO-FINANCIER

USD70 million

100%



approved May 29, 2023



Climate Policy-Based Loans | Climate Financing

AIIB recognizes the need for effective policy frameworks to advance climate goals.

AIIB is developing a **new policy-based financing instrument** to support members in strengthening their policy and regulatory environments, particularly to facilitate adaptation financing and private sector investments.

The proposal has received feedback from internal stakeholders including AIIB's Policy and Strategy Committee and the Board of Directors as well as clients and external stakeholders including the World Bank and the Asian Development Bank.

This instrument is expected to be approved in Q2 2024, and subsequently included as part of AIIB's suite of regular financing instruments.

The climate policy-based loans will incentivize governments to develop policies that will **support the decarbonization pathway** and **enhance climate resilience** in high GHG-emitting and key vulnerable sectors including transport.



Photo source: Senuscape/Pexels

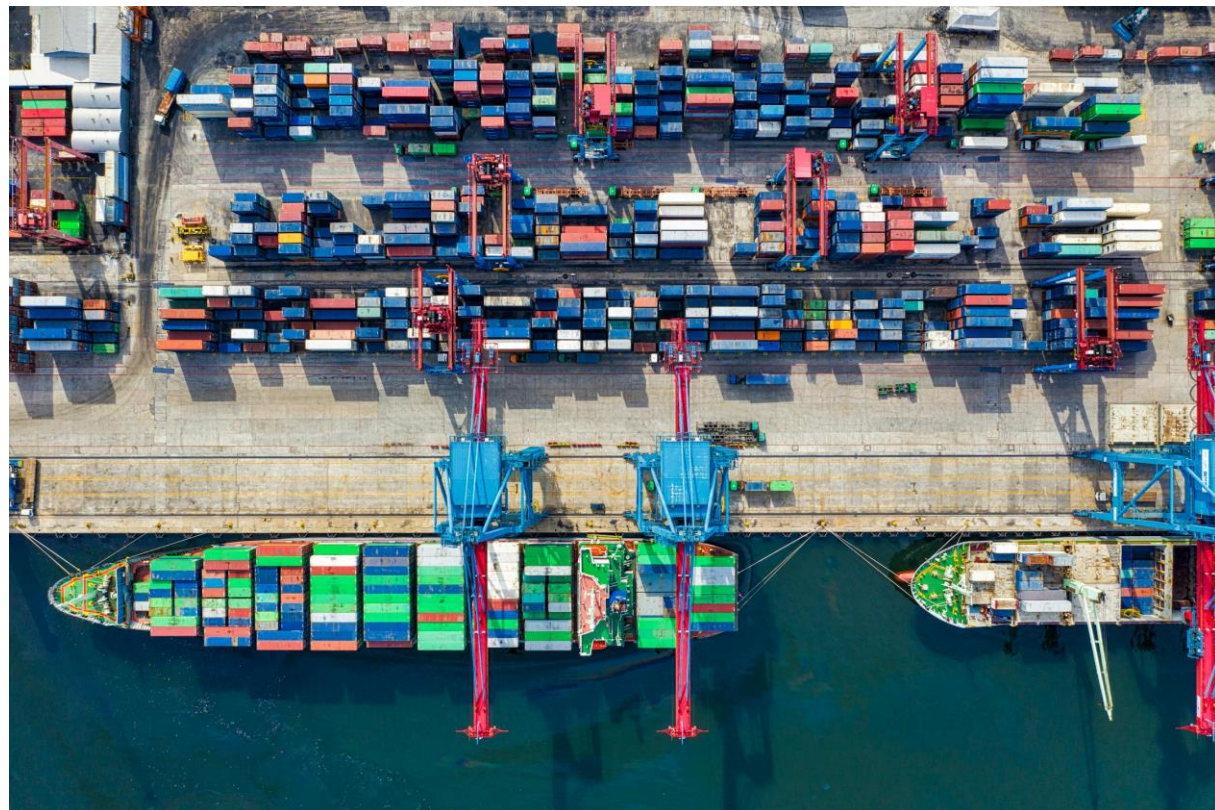


Thank you!

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North Jakarta, Jakarta, Indonesia. Photo source: Tom Fisk/Pexels

