

GUIDANCE NOTES FOR SUSTAINABLE URBAN INFRASTRUCTURE INVESTMENTS. HOW AIIB CAN ADVANCE THE URBAN TRANSFORMATION

Online launch & discussion of the study

Feb 14th, 2022



CLIMATE & DEVELOPMENT ADVICE



A common civil society perspective from Bangladesh, China, India, Indonesia and Germany: Results of a study on sustainable urban infrastructure investments and the AIIB

REPORT

Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement and the SDGs: Challenges and Opportunities

A Civil Society Perspective from:
Bangladesh, China, India, Russia & Germany



Climate & Development Advice • Germanwatch • Greenovation Hub • Russian-German Office for Environmental Information • LAYA • Indian Network for Ethics and Climate Change • Center for Participatory Research and Development

A CIVIL SOCIETY PERSPECTIVE FROM:
BANGLADESH, CHINA, GERMANY & INDIA

Climate Resilience and Pro-Poor Principles for Infrastructure Investments:

Aligning the Asian Infrastructure Investment Bank (AIIB) with the Paris Agreement



for Participatory Research and Development / Climate & Development Advice
Germanwatch / Greenovation Hub / Indian Network for Ethics and Climate Change / Laya

REPORT

A CIVIL SOCIETY PERSPECTIVE FROM:
BANGLADESH, CHINA, GERMANY & INDIA

Guidance Notes for Sustainable Urban Infrastructure Investments

How Asian Infrastructure Investment Bank (AIIB) can advance the urban transformation



Centre for Participatory Research and Development / Climate & Development Advice
Germanwatch / Greenovation Hub / Indian Network for Ethics and Climate Change / Laya

AIIB at a glance

- 1st multilateral development bank led by China
- Slogan “Green, Lean, Clean”
- 2014 MoU to establish AIIB signed
- 2015 Initial capital subscriptions
- 2016 Inaugural session, first projects approved
- Initial capital stock USD 100bn, 77% from Asia-Pacific
- China biggest shareholder (31%), followed by India (8.7%) and Russia (6.2%)
- 105 member countries, 167 approved projects, USD 33bn approved financing

Guiding questions tackled by our study

- What are the key environmental, social and economic risks to sustainability that cities face?
- How can cities take transformative pathways towards sustainability?
- Who are the pioneers for change that provide good practices?
- What are key sustainability principles and criteria that can guide urban infrastructure investments?
- How sustainable are AIIB's urban investments?
- How can AIIB effectively address remaining sustainability gaps?

Five key urban challenges and risks to sustainability

- **Urban greenhouse gas emissions** and ongoing urbanisation are key drivers of climate change
- **Urbanisation is a key driver of land-use change** that destroys biodiversity and ecosystems
- Cities are social and poverty hotspots. **Social inequality is particularly high in cities**
- Urban production and consumption are not sustainable: **Cities are hotspots of air pollution, water contamination and waste problems**
- Nowhere is permanent **traffic collapse** more pronounced than in cities.

Transformation imperatives & good practice examples to address risks to sustainability in urban environments

Seven transformative imperatives for making cities sustainable:

1. Decarbonisation to achieve net greenhouse gas neutrality
2. Efficient land-use
3. Biodiversity and ecosystem conservation and restoration
4. Social inclusion and resilience
5. Poverty eradication
6. Circular economy and zero waste
7. Post-fossil mobility

30 good practices from Bangladesh, China, India, Indonesia, Philippines, Vietnam, Ukraine & Netherlands – Thanks to all contributors!

Topics covered: climate-smart infrastructure planning and capacity enhancement; zero-carbon urban housing; urban flood protection; risk insurance; reducing urban heat stress; green urban infrastructure; social inclusion and resilience; circular economy; digitalisation; zero waste; mobility.

Our seven principles and 31 criteria for sustainable urban infrastructure investments

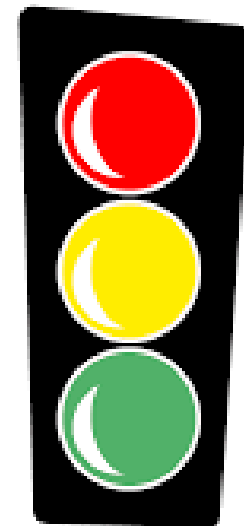
- **Urban Net-Zero Principle:** new settlements planned as net-zero; carbon-free building materials; low-cost low-carbon retrofitting; green electricity, post-fossil mobility; restoration of carbon sinks
- **Urban Climate Resilience Principle:** Do no harm to people's resilience; build infrastructure climate resilient; systemic resilience enhanced; behavioral adaptation enhanced; technical adaptation advanced
- **Urban Efficient Land-Use Principle:** High density & mixed use, urban gardening, green city
- **Nature-Positive Principle:** biodiversity protection; environmental pollution limited; green building codes and quality seals
- **Circular Economy & Zero-Waste Principle:** recycling and zero-waste approach; durable infrastructure; support circular economy transition
- **Socially Inclusive & Resilient City Principle:** people-centered infrastructure; supportive to human rights; specialized financing channel for vulnerable groups available
- **Urban Pro-Poor Principle:** value for the poor; transformative to achieve SDGs; enabling policy frameworks supported; accessibility; affordability; participation; transparency.

Our “sustainability traffic light system” to indicate compliance with the sustainability principles and criteria

The traffic light assesses the **impact of infrastructure investments on sustainability**, based on a checklist with the 7 principles and 31 criteria

- Red: very negative
- Orange: negative
- Green: positive
- Yellow flashing light: Not assessable
- Traffic light off: neutral

Purpose: Assessment tool, can be used by the investor, investee, public etc.

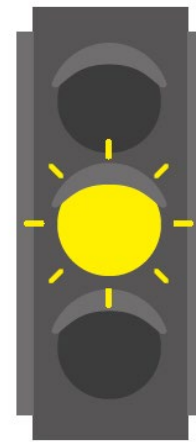










Applying the traffic light to AIIB's urban sector strategy

For the **AIIB sector strategy "Sustainable Cities"**, the traffic light is on **yellow flashing**: The strategy is formulated too imprecisely in most areas to make a robust assessment.

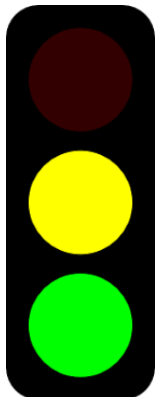
Positive: There are no formulations that would require a negative assessment (orange, red).

Regarding **climate resilience**, the traffic light is switched to **light green**



Assessment category		Very Negative	Negative	Positive	Unknown
	Urban Net-Zero Principle				✓
	New settlements planned as net-zero				●
	Carbon-free building materials				●
	Low-cost low-carbon retrofitting			●	
	Green electricity			●	
	Post-fossil mobility			●	
	Restoration of carbon sinks				●
	Urban Climate Resilience Principle			✓	
	Do no harm to people's resilience			●	
	Built infrastructure climate resilient				●
	Systemic resilience enhanced			●	
	Behavioural adaptation enhanced				●
	Nature-based solutions prioritised			●	
	Technical adaptation advanced			●	
	Urban Efficient Land Use Principle				✓
	High-density city with mixed uses				●
	Green-city approach followed			●	
	Urban gardening advanced				●
	Nature-Positive City Principle				✓
	Biodiversity protection				●
	Environmental pollution limited			●	
	Green building codes & quality seals				●
	Circular Economy & Zero-Waste Principle				✓
	Recycling and zero-waste approach			●	
	Durable infrastructure				●
	Support circular economy transition				●
	Socially Inclusive & Resilient City Principle				✓
	People-centred infrastructure			●	
	Supportive to human rights				●
	Specialised financing channel for vulnerable groups available		●		
	Urban Pro-Poor Principle				✓
	Value for the poor			●	
	Transformative to achieve SDGs			●	
	Enabling policy frameworks supported			●	
	Accessibility			●	
	Affordability				●
	Participation				●
	Transparency				●
COMBINED TRAFFIC LIGHT COLOUR					

Applying the traffic light to AIIB's urban project portfolio

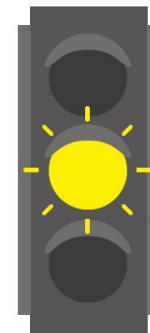
- Red: **No** urban project rated as red
 - Orange: **No** urban project rated as orange
 - Green: **6** urban projects rated as **green**
 - Yellow flash light: **7** urban projects
- 
- AIIB has approved eleven urban projects (7 percent of the total project portfolio) and has three more in the project pipeline.
 - Loan volume of the approved projects amounted to USD 1.664,9m, and that of the proposed projects to a further USD 450 million.
 - Indonesia (3); India (3); Turkey (2); Nepal (2); Maldives, Pakistan, Sri Lanka & Uzbekistan (1 each).
 - Sectors: water and sanitation, waste management, affordable public housing & health, slum upgrading, parks, mobility, air & water pollution, flood control, emergency preparedness

Year of approval	Country	Project title and thematic focus	Financing amount
2021	India	Chennai City Partnership: Sustainable Urban Services Programme strengthening water resource management, water supply and sewerage, waste management, public health and urban mobility, and enhancing climate resilience and environmental sustainability (Category B, Environmental and Social Systems Assessment has been conducted by World Bank)	\$ 150m
2021	Turkey	Istanbul Waste to Energy Generation Project: Building Europe's largest waste-to-energy plant to reduce landfills and to produce energy (Category A, IFC's Environmental and Social Safeguards applied)	\$ 100m
2021	Uzbekistan	Medium-Size Cities Integrated Urban Development Project: Improving functionality and livability in Tier 2 cities, inter alia by improving water and sanitation, public spaces and urban mobility, including for pedestrians, combined with institutional strengthening and capacity building (Category B, Environmental and Social Safeguard Policies of the World Bank applied)	\$ 100m
2021	India	Punjab Municipal Services Improvement Project: Improving water supply, COVID-19 crisis response and urban service delivery quality (including its gender sensitivity and workplace diversity) in Amritsar and Ludhiana (Category A, World Bank's Environmental and Social Safeguard Policies will be applied)	\$ 105m
2021	India	Kerala Solid Waste Management Project: Improving solid waste management in 93 urban local bodies across 14 districts in Kerala, i.e. development of regional solid waste management facilities, improvement of solid waste management infrastructure in participating cities, and capacity enhancement (Category A, World Bank's Environmental and Social Safeguard Policies have been applied) ¹⁸³	\$ 105m
2020	Maldives	Greater Malé Waste-to-Energy Project: Establishing a disaster- and climate-resilient regional waste management facility including a modern waste-to-energy plant, combined with capacity building, environmental monitoring and public awareness raising (Category A, ADBs Safeguard Policy Statement to be applied)	\$ 40m








Year of approval	Country	Project title and thematic focus	Financing amount
2019	Sri Lanka	Support to Colombo Urban Regeneration Project: Improving housing conditions of low-income communities and improving land-use efficiency through affordable housing (5,500 units) and land-use re-development (Category A, AIIB's ESP applied)	\$ 200m
2019	Turkey	Istanbul Seismic Risk Mitigation and Emergency Preparedness Project: Improving resilience to potential earthquakes by enhancing institutional disaster risk management capacity and preparedness and by strengthening 100 public buildings (Category B, AIIB's ESF applied)	\$ 300m
2018	Indonesia	Mandalika Urban and Tourism Infrastructure: Providing new core infrastructure to a new tourist destination and improving infrastructure of neighbouring communities in Mandalika, Lombok (Category A, AIIB's ESP applied)	\$ 248.4m
2017	Indonesia	Regional Infrastructure Development Fund: Supporting the Regional Infrastructure Development Fund as a financial intermediary which lends to local governments to finance urban transport, water supply and sanitation, drainage, flood and hazard risk reduction, waste management, affordable housing and slum upgrading (Category FI, Environmental and Social Safeguard Policies of the World Bank will be applied)	\$ 100m
2016	Indonesia	National Slum Upgrading Project: Improving access to core infrastructure services in slums, institutional and policy development, capacity building for local governments and communities, and disaster response (Category B, Environmental and Social Safeguard Policies of the World Bank will be applied)	\$ 216.5m
-	Pakistan	Khyber Pakhtunkhwa Cities Improvement Project: Build/rehabilitate water supply, sewerage, waste management and green urban space in a climate resilient, gender responsive and participatory way in the cities of Peshawar, Abbottabad, Kohat, Mardan and Mingora (Category C, ADB's Safeguard Policy Statement has been applied)	\$ 200m
-	Nepal	Nepal Governance and Infrastructure Project for Urban Local Governments: Improvements in urban roads, stormwater drainage, drinking water, wastewater, waste management; institutional capacity building (Category B, Environmental and Social Safeguard Policies of the World Bank will be applied)	\$ 150m
-	Nepal	Urban Infrastructure Investment Project: Improving urban transport, waste management, waste water and drainage in municipalities in the Terai region (Category B, AIIB ESF will be applied)	\$ 100m
Total portfolio value:			\$ 2,114.9m

Applying the traffic light to AIIB's corporate strategy and business plan 2021

- For the **Corporate Strategy 2021-2030** and the **Business Plan 2021** (incl. budget), the traffic light is **flashing yellow**: the strategy is formulated too imprecisely in most areas to make a robust assessment
- For the **sub-area 'climate resilience'** in the Corporate Strategy and the Business Plan 2021, the traffic light is put on light green.

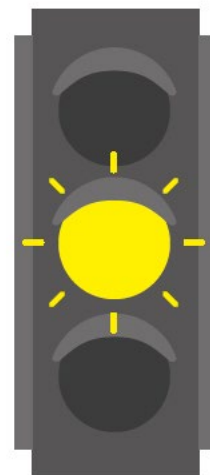


**PRELIMINARY SUSTAINABILITY TRAFFIC LIGHT
FOR AIIB'S CORPORATE STRATEGY 2021-2030 & BUSINESS PLAN 2021**








Assessment category		Very Negative	Negative	Positive	Irrelevant / not applicable	unknown
	Urban Net-Zero Principle					✓
	<i>New settlements planned as net-zero</i>					●
	<i>Carbon-free building materials</i>				Not applied at that level	
	<i>Low-cost low-carbon retrofitting</i>				Not applied at that level	
	<i>Green electricity</i>			●		
	<i>Post-fossil mobility</i>			●		
	<i>Restoration of carbon sinks</i>				Not applied at that level	
	Urban Climate Resilience Principle			✓		
	<i>Do no harm to people's resilience</i>				Not applied at that level	
	<i>Built infrastructure climate resilient</i>			●		
	<i>Systemic resilience enhanced</i>			●		
	<i>Behavioural adaptation enhanced</i>				Not applied at that level	
	<i>Nature-based solutions prioritised</i>				Not applied at that level	
	<i>Technical adaptation advanced</i>				Not applied at that level	
	Urban Efficient Land Use Principle					✓
	<i>High-density city with mixed uses</i>					●
	<i>Green-city approach followed</i>			●		
	<i>Urban gardening advanced</i>				Not applied at that level	
	Nature-Positive City Principle					✓
	<i>Biodiversity protection</i>					●
	<i>Environmental pollution limited</i>			●		
	<i>Green building codes & quality seals</i>				Not applied at that level	
	Circular Economy & Zero-Waste Principle					✓
	<i>Recycling and zero-waste approach</i>			●		
	<i>Durable infrastructure</i>				Not applied at that level	
	<i>Support circular economy transition</i>					●
	Socially Inclusive & Resilient City Principle					✓
	<i>People-centred infrastructure</i>			●		
	<i>Supportive to human rights</i>					●
	<i>Specialised financing channel for vulnerable groups available</i>				Not applied at that level	
	Urban Pro-Poor Principle			✓		
	<i>Value for the poor</i>				Not applied at that level	
	<i>Transformative to achieve SDGs</i>			●		
	<i>Enabling policy frameworks supported</i>			●		
	<i>Accessibility</i>				Not applied at that level	
	<i>Affordability</i>				Not applied at that level	
	<i>Participation</i>				Not applied at that level	
	<i>Transparency</i>				Not applied at that level	
COMBINED TRAFFIC LIGHT COLOUR						✓

Applying the traffic light to AIIB's financial risk assessment

For financial risk management (with the Key Risk Indicators), the traffic light is flashing: The **Key Risk Indicators do not reflect sustainability risks**.



PRELIMINARY SUSTAINABILITY TRAFFIC LIGHT FOR AIIB'S FINANCIAL RISK MANAGEMENT

Assessment category		Very Negative	Negative	Positive	Irrelevant / not applicable	unknown
	Urban Net-Zero Principle					✓
	<i>New settlements planned as net-zero</i>					●
	Carbon-free building materials				Not applied at that level	
	Low-cost low-carbon retrofitting				Not applied at that level	
	Green electricity				Not applied at that level	
	<i>Post-fossil mobility</i>					●
	Restoration of carbon sinks				Not applied at that level	
	Urban Climate Resilience Principle					✓
	Do no harm to people's resilience				Not applied at that level	
	<i>Built infrastructure climate resilient</i>					●
	Systemic resilience enhanced				Not applied at that level	
	Behavioural adaptation enhanced				Not applied at that level	
	Nature-based solutions prioritised				Not applied at that level	
	Technical adaptation advanced				Not applied at that level	
	Urban Efficient Land Use Principle					✓
	<i>High-density city with mixed uses</i>					●
	Green-city approach followed				Not applied at that level	
	Urban gardening advanced				Not applied at that level	
	Nature-Positive City Principle					✓
	<i>Biodiversity protection</i>					●
	<i>Environmental pollution limited</i>					●
	Green building codes & quality seals				Not applied at that level	
	Circular Economy & Zero-Waste Principle					✓
	<i>Recycling and zero-waste approach</i>			●		●
	Durable infrastructure				Not applied at that level	
	<i>Support circular economy transition</i>					●
	Socially Inclusive & Resilient City Principle					✓
	<i>People-centred infrastructure</i>			●		●
	<i>Supportive to human rights</i>					●
	Specialised financing channel for vulnerable groups available				Not applied at that level	
	Urban Pro-Poor Principle					✓
	Value for the poor				Not applied at that level	
	<i>Transformative to achieve SDGs</i>					●
	Enabling policy frameworks supported				Not applied at that level	
	Accessibility				Not applied at that level	
	Affordability				Not applied at that level	
	Participation				Not applied at that level	
	Transparency				Not applied at that level	
COMBINED TRAFFIC LIGHT COLOUR						✓

Recommendations to AIIB (I): Transforming the Bank to a sustainability and climate bank

1. The **sector strategy** remains too general. For transformative investment decisions and for the identification of innovative projects in line with AIIB's own goals and principles, much clearer strategic guidelines are needed. The AIIB should make it a priority to develop these urgently. The criteria offered by our approach can be very helpful.
2. The **corporate strategy** should make it explicit that climate & sustainability principles are consistently implemented and that no project, even one that serves other thematic priorities such as regional cooperation, violates any of the sustainability principles.
3. In the **corporate strategy**, AIIB should sharpen its target achievement indicators and increases the targets for infrastructure investments in the 2022 to 2025 Business Plans each year. This would be in line with the Glasgow Climate Pact and it would be an important contribution to help AIIB members implement the Pact's request to Parties to revisit and strengthen the 2030 targets in their NDCs.

Recommendations to AIIB (I): Transforming the Bank to a sustainability and climate bank

4. In the **business plan and budget 2022**, a climate – post-pandemic economic recovery nexus should be included.
5. AIIB should close the blind spots in its **financial risk management**: The Key Risk Indicators should be amended, using metrics to quantifying physical climate risks, as well as the stranded asset risk of carbon-intensive infrastructure. We recommend that AIIB includes all our seven sustainability principles into its financial risk management by translating them into Key Risk Indicators: One Key Risk Indicator should be defined for each sustainability principle.

Thank you very much for your attention!

For further questions on the presentation:

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