



## **Paper on AIIB's Climate-Focused Policy-Based Financing**

June 26, 2024

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## Abbreviations

|          |                                                           |
|----------|-----------------------------------------------------------|
| ADB      | Asian Development Bank                                    |
| AfDB     | African Development Bank                                  |
| AIF      | AIIB's Asian Infrastructure Finance Report                |
| AIIB     | Asian Infrastructure Investment Bank                      |
| BOD      | AIIB Board of Directors                                   |
| BPB      | AIIB Business Plan and Budget                             |
| CEIU     | AIIB Complaints-resolution, Evaluation and Integrity Unit |
| Clients  | Sovereign and Non-sovereign Borrowers                     |
| CPBF     | AIIB Climate-Focused Policy-Based Financing               |
| CPBP     | Climate-Focused Policy-Based Program                      |
| COP      | Conference of the Parties to the UNFCCC                   |
| COVID-19 | Coronavirus Disease 2019                                  |
| CS       | Corporate Strategy                                        |
| EDME     | Emerging Market and Developing Economies                  |
| ESF      | AIIB Environmental and Social Framework                   |
| ESG      | Environmental, Social and Governance                      |
| GHG      | Greenhouse Gas                                            |
| IADB     | Inter-American Development Bank                           |
| IDA      | International Development Association                     |
| IFI      | International Financial Institution                       |
| IMF      | International Monetary Fund                               |
| LLMIC    | Low- and lower-middle-income Countries                    |
| MDB      | Multilateral Development Bank                             |
| NAP      | National Adaptation Plan                                  |
| NBSAP    | National Biodiversity Strategy and Action Plan            |
| NDC      | Nationally Determined Contributions                       |
| NSBF     | Non-Sovereign Backed Financing                            |
| OPF      | AIIB Operational Policy on Financing                      |
| PBF      | Policy-Based Financing (WB)                               |
| PBL      | Policy-Based Lending (ADB)                                |
| PBCF     | AIIB Policy-Based Cofinancing                             |
| PCM      | Private Capital Mobilization                              |
| PP       | AIIB Procurement Policy                                   |
| PSC      | AIIB Policy and Strategy Committee                        |
| RBF      | AIIB Results Based Financing                              |
| SBF      | Sovereign Backed Financing                                |
| UNFCCC   | United Nations Framework Convention on Climate Change     |
| UNEP     | United Nations Environment Program                        |
| USD      | United States Dollar                                      |
| WB       | World Bank                                                |

## Summary

1. This paper presents the Asian Infrastructure Investment Bank's (AIIB's) approach for Climate-Focused Policy-Based Financing (CPBF). AIIB's CPBF aims to help Members implement their national climate objectives while advancing AIIB's unique infrastructure mandate. It does so by supporting Members' policy and institutional reform programs aimed at scaling up climate finance and accelerating their transition towards a low-carbon and climate-resilient future. The CPBF builds on AIIB's experience to date with regular climate financing as well as extraordinary Policy-Based Cofinancing (PBCF). CPBF will be a valuable and necessary addition to AIIB's regular financing toolkit, which will enable AIIB to meet its Members' needs and work with international partners toward shared climate objectives, while supporting the implementation of its Climate Action Plan and enhancing the achievement of its corporate objectives.

2. The design of CPBF has benefitted from the valuable guidance received from the AIIB Board of Directors (BOD) and has also incorporated feedback from AIIB clients, as well as inputs and ideas gathered from various internal and external stakeholders including the World Bank (WB) and Asian Development Bank (ADB). It factors in AIIB's lean business model to define how it plans to collaborate with partner institutions and build its internal capacity to cofinance CPBFs and progressively undertake standalone CPBF operations.

3. To meet the growing climate mitigation and adaptation needs of AIIB Members and strengthen the Bank's partnership with other multilateral development banks (MDBs), AIIB offer CPBF as part of the Bank's suite of regular financing instruments to support Members in advancing their national climate transition plans and achieving shared climate goals, particularly by creating conditions for additional climate related infrastructure investments.

### A. Context

4. **Global Climate Urgency.** The world is off-track to meet both the Sustainable Development Goals (SDGs) by 2030 and the climate targets set out in the Paris Agreement. The Paris Agreement sets long-term goals to guide nations in reducing global greenhouse gas emissions. It aims to limit the global average temperature increase in this century to 2°C while pursuing efforts to further limit the increase to 1.5°C over the pre-industrial average. Achieving this goal will require greenhouse gas emissions to fall to net zero by around 2050. Yet emissions keep rising, with the world on track to see a 10.6% increase by 2030, compared with 2010 levels. Climate change is occurring at a faster pace and its impacts are more severe than anticipated, with growing climate hazards from floods and forest fires to extreme heat, droughts and collapsing biodiversity and nature loss. Low and lower-middle-income countries (LLMICs) are hardest hit by the impact of the existential climate crisis even though they contribute less than 4% to global greenhouse emissions. While the Global North is responsible for most of the world's carbon dioxide (CO<sub>2</sub>) emissions to date, the Asia region has now emerged as the major source of new emissions. Furthermore, developing Asia is acutely vulnerable to climate change impacts from flooding and other severe events. Bending the curve to flatten the upward trajectory of greenhouse gases (GHG) emissions responsible for climate disruption is essential in order to protect billions of people from this global threat. AIIB's

First Climate Action Plan makes it clear that Asia's transition to sustainability has a global implication and focusing on Asia will have a pivotal role in the global effort to bend the curve. Therefore, climate mitigation, adaptation and resilience are critical for Asia and hence for AIIB.

5. **Need For Economic Transformation At Speed And Scale.** Responding to the challenges of the climate crisis—including the mounting costs resulting from losses and damages from climate-induced disasters—while continuing to pursue nature preservation and restoration and development goals, requires a fundamental reorganization of the global economy and a more tailored finance architecture to support a Just Transition that is green, equitable, resilient and inclusive.<sup>1</sup> This is especially important in light of slowing global growth exacerbated by overlapping crises, geopolitical tensions, high interest rates and high refinancing costs, which are pushing many developing countries into (or higher risk of) debt distress, stretching their economic capacity and eroding hard-earned development gains while forcing governments to make difficult choices between fighting poverty and inequality<sup>2</sup> or investing in a green future. Given that the vast majority of the investments required to reduce carbon emissions and to protect people against the consequences of climate change is for infrastructure investment, a critical part of the economic transformation is scaling up investments in the green infrastructure value chain and enhancing state leadership and capacity for climate action.<sup>3</sup>

6. **Challenging Financing Environment.** Amidst the urgency of a global climate transition, financing mitigation and adaptation projects has only become more difficult as many economies are likely to experience temporary liquidity pressures and/or face other short-term costs and priorities stemming from strained government budgets, increased debt-servicing costs and unmet human capital and development needs.<sup>4</sup> Ballooning debt service payments and limited access to global debt markets are pulling scarce resources away from development priorities and threatening investment in people and environment. Private lending to low-income countries has been severely reduced, often leaving MDBs as the only lenders for many countries—particularly the poorest.<sup>5</sup> For climate financing to not only continue but also grow, many Members need access to a wider range of financing sources and instruments as well as non-lending advisory services to help them more effectively allocate resources for longer-term climate action.

7. **Unlocking Private Financing Potential for Climate Investments.** Private capital is key for financing climate investment needs, in both developed economies and emerging market and developing economies (EMDEs). According to the International Monetary Fund (IMF), low- carbon investments need to increase from USD900 billion in 2020 to USD5 trillion annually by 2030 in order to achieve net-zero objectives by 2050.<sup>6</sup> This staggering volume is

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<sup>1</sup> A Just Transition refers to an equitable shift to a green and sustainable economy where the benefits are shared widely amongst stakeholders.

<sup>2</sup> The World Bank estimates that more than 100 million people are pushed into poverty and 50 million into extreme poverty for each percentage lost in global growth.

<sup>3</sup> Asian Infrastructure Investment Bank. 2022. Moonshots for the Emerging World: Building State Capacity and Mobilizing the Private Sector Toward Net Zero: Asian Infrastructure Finance 2022 Report 2022. AIIB, Beijing.

<sup>4</sup> Record debt levels and high interest rates have set many countries on a path to crisis. In its latest International Debt Report, December 2023, the World Bank shows that surging interest rates have intensified debt vulnerabilities in all developing countries, and the ensued increase in debt-servicing costs is shifting scarce resources away from critical needs such as health, education, infrastructure and the environment.

<sup>5</sup> Ibid.

<sup>6</sup> IMF. 2023. World needs more policy ambition, private funds and innovation to meet climate goals. IMF Blog. Nov. 27.

far beyond the financing capacity of the public sector (including MDBs), so the bulk of these investments will need to come from the private sector. Yet many economies—particularly LLMICs—face challenges in overcoming sub-investment grade credit ratings, which limit their potential investor base and ultimately result in higher financing costs. The IMF emphasizes that attracting more private capital into the climate space requires a sound, predictable and enabling environment conducive to lowering the cost of capital, mobilizing financial resources, improving credit ratings and returns to investments and capturing all benefits arising from private sector participation.<sup>7</sup> Through Member-led national climate plans (See *Paragraph 21a*),<sup>8</sup> governments must signal a strong commitment to climate transition, adaptation and resilience and have in place structural policies that support strong macroeconomic fundamentals and financing conditions to improve the risk-reward profile of climate investment opportunities and increase the supply of quality projects that directly support the Member’s climate objectives (See *Paragraph 23 on Selectivity*).

**8. International Coalition for a Coordinated Response.** Efficient and effective coordination among public institutions, multilateral organizations, non-government organizations, and the private sector is therefore crucial to mobilize affordable finance at scale to effect critical change, especially toward mitigating climate-induced socio-economic losses. Through various fora including the G20 and the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP), the international community has reached a consensus and specifically called on MDBs to increase their ambition and work together systematically and more effectively in using the breadth of their financing capacity and financial instruments to unlock more financing and help governments – particularly those in LLMICs – pursue interlinked development and climate goals.<sup>9</sup> In response to the call for MDB to reform, the World Bank Group unveiled its new vision ‘*to create a world free of poverty on a livable planet*’<sup>10</sup>, which recognizes the centrality of the impact of climate change on inclusion, resilience and sustainability, and it committed to expand its financial capacity, strengthen multilateral partnerships, deepen its engagement with the private sector, and enhance its operating models and the efficiency of its processes. AIIB has proactively joined the call by: committing to a corporate target on climate finance; mobilizing its financing support for exceptional crisis response (i.e., *AIIB’s COVID-19 Crisis Recovery Facility*); enhancing its capacity to respond to future crises (i.e., *AIIB’s Approach to Emergency Response*); and proactively contributing to both the MDB reform agenda (e.g., *AIIB-World Bank guarantee; and collaboration with G20, G20 Independent Expert Group and MDBs Heads*) and global knowledge through its Asian Infrastructure Finance (AIF) 2022 Report (“*Moonshots for the*

<sup>7</sup> IMF. 2023. Global Financial Stability Report: Financial and Climate Policies for a High-Interest-Rate Era. October. pp. 81-82.

<sup>8</sup> A Member’s national climate plan covers both the transition to low-carbon / decarbonization and adaptation / resilience and are informed by the Member’s national climate objectives, strategies, plans and commitments e.g. Nationally-Determined Contributions, Long-term Strategies and National Adaptation Plans.

<sup>9</sup> G20 Eminent Persons Group, October 2018; G20 Principles, July 2021; Bali Leaders’ Declaration Nov 2022; and G20 Capital Adequacy Framework Review, July 2022; Statement of the Heads of MDBs Group: Strengthening Our Collaboration for Greater Impact, October 2023; and COP28 Joint Statement on Climate, Nature and People, December 2023.

<sup>10</sup> The World Bank Group. 2023. 2023 Annual Meetings: A New Vision for Challenging Times. Marrakech, October 16, 2023.

*Emerging World: Building State Capacity and Mobilizing the Private Sector Toward Net Zero*”), AIF 2023 Report (“*Nature As Infrastructure*”) and AIIB’s own specific-country climate studies.<sup>11</sup>

9. **Benefits of Climate Policy-Based Financing.** Climate PBFs from MDBs are helping governments deliver policy and institutional reform programs that facilitate a sound, predictable and enabling investment environment to attract more climate financing – particularly from the vast private financing potential for more climate projects, help accelerate the climate transition and build resilience. By undertaking Climate PBFs, international financial institutions (IFIs) also strengthen policy coordination amongst one another for more consistent, effective and impactful policy dialogue with Members. A retrospective of climate PBFs by the World Bank and ADB confirms that, overall, these financings have been successful under certain conditions (*See Paragraph 16*) in achieving diverse and sizable results in helping governments improve climate adaptation and resilience, ultimately accelerating a Just Transition towards net zero.<sup>12</sup> As an agile, adaptive and responsive partner in global climate change efforts, AIIB should join its Members and international partners in offering Climate-Focused Policy-Based Financing (CPBF) as a part of the Bank’s suite of regular financing instruments to help scale up investments and create a conducive environment to attract private capital for shared climate objectives.

## B. AIIB’s Approach to Climate Finance

10. **AIIB’s Climate Action Plan (CAP).** Launched at the AIIB’s 2023 Annual Meeting, ahead of the 28<sup>th</sup> Conference of the Parties (COP 28) of the UNFCCC, AIIB’s first Climate Action Plan (CAP) for the period 2024 to 2030 consolidates the Bank’s overall approach to climate financing. The CAP identifies key actions guiding AIIB’s investments to support Members in line with the Bank’s corporate targets and outlines joint efforts with other MDBs to unlock public and private climate finance investments for local solutions encompassing climate mitigation, adaptation, nature and biodiversity.<sup>13</sup>

11. **Financing Infrastructure for Climate Action and Sustainable Development.** AIIB is focused on infrastructure as per its Articles of Agreement. On the one hand, infrastructure plays a significant role in the climate transition; on the other hand, it also affects biodiversity and the environment. In other words, infrastructure contributes to climate change, is severely impacted by climate change, and is also a major solution to adapting and mitigating some of its negative impacts. Therefore, AIIB’s approach to climate finance is to strengthen the positive climate impacts of infrastructure in meeting the climate needs and commitments of its Members by supporting the provision and operation of infrastructure systems in ways that are sustainable, resilient and compatible with a net-zero future and that minimize their impacts on nature. In practice, for AIIB, this means mainstreaming climate change into AIIB’s financing operations, adopting an ambitious corporate climate finance target of a minimum of 50% of

<sup>11</sup> AIIB-led specific country climate studies for China (*China: Net Zeroing Based on Carbon Markets and Incentives; Completed*), India (*India: Accelerating India’s Net Zero Transition; Ongoing*) and Brazil (*Brazil: Towards Net Zero; Planned*) provide opportunity for AIIB to review and inform its own thinking and engagement about various whole-of-government approaches to climate finance including country ownership, country platforms, capacity constraints, and building state capacity to allow countries to crowd in private sector finance.

<sup>12</sup> Asian Development Bank. 2022. *Strategic Management of Policy-Based Lending, 2022–2024*; and The World Bank. 2022. *2021 Development Policy Financing (DPF) Retrospective: Facing Crisis, Fostering Recovery*.

<sup>13</sup> In 2024, AIIB will develop its Approach to Nature and Biodiversity.

total approved financings by 2025, and committing to align all of its financing operations since July 2023 with the Paris Agreement. AIIB has already surpassed its climate finance target with climate financing accounting for 60% of its approved regular financings in 2023.

**12. Infrastructure for Adaptation.** There is a growing gap between rising adaptation needs and adaptation finance. According to the United Nations Environment Program (UNEP), adaptation needs in developing countries are 10 to 18 times greater than international public finance flows, and the global adaptation financing gap has now reached an estimated USD194 billion to USD 366 billion per year even as adaptation planning and implementation plateau.<sup>14</sup> Without greater investments in climate adaptation and resilience, many economies around the world—especially LLMICs and those Members which may not have the necessary capacity to adapt—will continue to face massive risks in loss and damage from increasingly severe and frequent physical effects of climate change and will be unable to compensate for economic and social consequences. To withstand a range of climate change events, including flooding, drought and urban overheating, AIIB can support Members in strengthening their climate adaptation and resilience by integrating nature-based solutions into the provision and operation of greener infrastructure.<sup>15</sup> Although globally current adaptation investments are small relative to mitigation investment needs, they may grow significantly if climate mitigation efforts fall short and climate hazards intensify. Within AIIB’s climate financing in 2023, only 10% is focused on adaptation while 90% is on mitigation, suggesting that a dedicated support to increase investments in the former is needed.

**13. Private Capital Mobilization.** Members’ financing needs for climate mitigation and adaptation remain large and are growing across all economic sectors. To date, only a small share of available private sector financing flows into climate mitigation investments; and public sector financing of climate adaptation and resilience investments remains grossly inadequate. AIIB recognizes that the combined lending from all MDBs in both adaptation and mitigation climate financing is, but a small fraction of the investments needed to achieve global climate objectives. Indeed, a World Bank review of Country Climate and Development Reports (CCDRs) in 42 economies shows that the private sector – both local and international – can play a major or even a dominant role in financing low-emission developments across a variety of countries and sectors.<sup>16</sup> The G20 has called on all MDBs to work together as a system to increase climate finance as well as help governments overcome investment barriers to attract more private capital. Private Capital Mobilization (PCM) is not only a thematic priority in AIIB’s Corporate Strategy, but also an integral part of AIIB’s CAP and climate financing portfolio and central to AIIB’s advancing on its infrastructure mandate. AIIB expects that a significant scale up of private capital in climate financing can be attracted and mobilized with the support of enabling policy and institutional reform actions (*See Paragraph 15*).

**14. Available Climate-Related Financing Instruments.** AIIB currently provides climate-related financing through:

<sup>14</sup> UNEP. 2023. As climate impacts accelerate, finance gap for adaptation efforts at least 50% bigger than thought. Nov 2.

<sup>15</sup> AIIB. 2023. Asian Infrastructure Finance 2023 Report: Nature as Infrastructure.

<sup>16</sup> World Bank Group. 2023. The Development, Climate and Nature Crisis: Solutions to End Poverty on a Livable Planet. The Country Climate and Development Reports (CCDRs) is a core diagnostic tool of the World Bank that aims to help countries prioritize the most impactful actions to boost resilience and adaptation and reduce GHG emissions, while delivering on broader development and sustainability objectives.



- a. **Regular Instruments** in the form of sovereign-backed financing (SBF) and nonsovereign-backed financing (NSBF) that support: (i) projects through loans, guarantees, equity investments, and capital market structures designed to help accelerate the transition towards net zero (e.g., investments into climate funds, credit lines, climate bond issuances, and de-risking of private sector investments); (ii) adaptation and resilience projects; and (iii) climate-focused actions using Results-Based Financing (RBF).
- b. **Emergency Policy Based Cofinancing (PBCF) for Eligible Crises**, which includes a principle of building Members' resilience to future climate crisis, and which also takes into account any existing or planned government or AIIB actions to strengthen prevention, preparedness and response in the affected Member.

15. **Missing Policy-Focused Instrument to Respond Client Demand.** In addition to regular instruments (See *Paragraph 14.a*), AIIB can help Member economies unlock further public and private capital for climate finance through a Climate-Focused Policy-based Financing (CPBF) instrument. CPBFs provide budgetary support to governments based upon their undertaking of appropriate climate-related prior actions necessary: (i) to improve climate resilience needed to withstand future shocks; and/or (ii) to improve the policy and institutional environment for public and private climate financiers for large scale and greener climate investments in both adaptation and mitigation. Additionally, upstream CPBF-support policy and institutional reforms will increase the supply of viable infrastructure investment projects for financing by AIIB and others. AIIB can effectively promote – and, where appropriate, finance downstream infrastructure investments through its upstream policy engagement and support, thereby increasing market confidence in, and sustainability of, the reforms in a generative cycle of climate financing. CPBF is therefore a key missing policy instrument for responding to Member needs in climate financing while helping to achieve AIIB's core infrastructure mandate. AIIB can also join other MDBs in offering coordinated CPBF that leverages each Bank's comparative advantages towards the achievement of shared climate objectives.<sup>17</sup>

16. **MDB Experience in Policy-Based Financing.** Relevant lessons from MDB experience and key factors contributing to positive results of PBF operations include: (a) strong government ownership and readiness, together with adequate capacity to implement reforms; (b) clearly articulated policy and institutional reform objective(s) together with a plan for achieving them; (c) a clear connection between policy and institutional reforms supported and the objectives (a theory of change); (d) good understanding (including through policy dialogue) of the country and sector context, the political economy barriers, the policy framework, and the policy and development constraints and conditions; (e) design of prior actions that reflects the government's commitment to the supported policy agenda, tailored to country's circumstances, are impactful, and are clearly linked to achieving the desired policy and institutional reform objective(s); (f) sound analytical work that underpins the program design; (g) a robust Results Monitoring Framework with relevant results that are aligned with the Members' needs, realities and capacity; (h) simple design of reform program in low-capacity countries; (i) upstream preparatory work; (j) timely provision of complementary technical assistance programs; and (k) good inter-donor collaboration.

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<sup>17</sup> The four MDBs that offer PBF are: the African Development Bank, Asian Development Bank, Inter-American Development Bank and World Bank.

17. **AIIB's Experience in Policy-Based Financing.** As described above, AIIB has been steadily building its expertise in climate financing, including the technical capacity to steer policy dialogues and shape policy actions in core infrastructure sectors. Across both its regular and extraordinary financing portfolios, AIIB-supported operations are increasingly mainstreaming climate change and resilience across sectors. While AIIB's experience with PBF to date has been limited to using this instrument as an exceptional crisis response financing under the COVID-19 Crisis Recovery Facility and on a cofinancing basis only, the Bank has been progressively learning, improving its capacity and deepening its collaboration with Members and international partners (notably the ADB, IMF and World Bank) in the context of cofinanced PBFs. Based on this experience, the BOD has also approved the cofinancing of PBF in response to future eligible crises as part of AIIB's approach to emergency response. In future CPBFs, AIIB intends to work even more closely with Members and IFIs in the development phase of climate reform programs by building on and sharing analytical insights across the parties, and in particular AIIB's own expertise in addressing infrastructure investment bottlenecks and providing related downstream financing opportunities. The Bank will help its Members implement and further develop climate policies to: promote green, resilient and inclusive growth; develop climate compatible infrastructure; and create a conducive environment for the private sector to invest more inflows of financing, technology and expertise into Members.

18. **AIIB's Value Addition.** Given the importance of infrastructure in all economies and the close link to the climate transitions and given that the Bank's membership includes some of the most vulnerable Members to climate change,<sup>18</sup> AIIB is committed to scaling up its work on climate together with infrastructure development. AIIB has a significant role to play in working with MDB partners in the development and implementation by Members of their climate policy reforms that not only facilitate greater investments in climate resilient infrastructure, but also advance global climate objectives in a coordinated approach. As an MDB that already works closely with governments and other IFIs to finance infrastructure projects and develop infrastructure-related capital markets, AIIB will be proactive, adaptive and responsive to meeting its clients' evolving and growing needs. It can provide valuable contributions to climate knowledge, advisory and reform proposals as policy-broker, development partner and investor.. AIIB's value addition with its above experiences have informed the design of AIIB's CPBF in *Section C*.

## **C. Key Features of Climate-Focused Policy-Based Financing**

### **C.1 Objective.**

19. The objective of a Climate-Focused Policy-Based Financing (CPBF) is to support a Member's policy and institutional reform program aimed at scaling up climate finance and accelerating its transition towards a low-carbon and climate-resilient future.

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<sup>18</sup> AIIB. 2023. Climate Action Plan.

## C.2 Key Principles.

20. AIIB's overall approach to CPBF should consider the following key principles:
- a. **Support AIIB's Articles of Agreement and Corporate Strategy.** All CPBFs will be aligned with the Bank's Articles of Agreement and support its Corporate Strategy. All CPBFs will be Paris Aligned and will contribute to the Bank's climate financing target.
  - b. **Country Ownership.** Climate policy and institutional reforms for CPBF support should have the buy-in of and be led by the requesting Member, underpinned by a national climate transition plan and backed with the necessary resources to drive and implement climate actions.
  - c. **Whole-of-Government Approach.** Because of the cross-sectoral aspect of climate change, climate policy and institutional reforms, CPBF support should involve the implementation of a whole-of-government approach that: (i) enhances coherence, coordination and efficient use of resources within and between relevant ministries and public agencies; (ii) fosters stronger synergies, integration and alignment in the development and implementation of national climate, nature and sustainable development strategies and plans; and (iii) drive climate action through economic, fiscal and financial policies.
  - d. **Flexibility on Eligibility and Design.** All Members face the global climate challenge, but each is impacted differently according to local factors such as geography, resources, level of development, macroeconomic situation, national policies and reform environment. Accordingly, AIIB's CPBF should be flexible and adaptive to meet diverse Member needs, circumstances and priorities, and supported by strong analytical work to help inform, prioritize and sequence climate-related actions.
  - e. **Broaden Public and Private Financing.** Though CPBF is by nature targeted to SBF, the design of policy and institutional reform programs for CPBF support should include climate-related actions that help Members mobilize additional public and private financing for climate investment. With a sound, predictable and enabling investment environment, CPBFs can help Members crowd in more infrastructure projects for AIIB's and other financiers' support.
  - f. **Coordination within AIIB and with International Partners.** AIIB will adopt a whole-of-bank approach internally to provide support to its Members. It will also coordinate the preparation of CPBF with relevant multilateral partners, with each partner contributing to shared development objectives according to their respective comparative advantage, financing and advisory capacity.
  - g. **Policies, Procedures and Documentation.** CPBFs will comply with AIIB policies as amended to apply to CPBFs (*See Paragraph 32 on Applications of Policies*) and will follow normal project processing procedures and documentation. The associated expected specific results of CPBFs along with measurable indicators

for monitoring and evaluating the results on completion will be developed and included in the Project Document.

- h. **Financial Sustainability.** CPBF will be consistent with AIIB's financial sustainability and sound banking principles, pricing and operational policies, and risk management framework as applicable to other SBF financing.

### C.3 Design of Climate-Focused Policy-Based Financing

21. **Eligibility.** AIIB's CPBF may be extended to any Member to support the design and implementation of policy and institutional reforms that promote investments in the climate transition. Priority may be given to CPBF with strong focus on climate adaptation and creating a conducive environment to attract and mobilize private capital. To be eligible for CPBF, the two following eligibility criteria must be met:

- a. **Alignment with the Member's Planned Transition to a Low Carbon and Climate Resilient Future.** The CPBF is supportive of, and consistent with, the Member's economic and sectoral policies and institutional reform actions aimed at implementing the Member's national climate transition plan that is either already adopted or in the process of adoption. The policy and institutional reforms proposed for financing under the CPBF will further: (i) support the implementation and further development of the Member's national climate transition plan; and (ii) increase the supply of infrastructure investments. AIIB will accept internationally-recognized climate action plans covered by the UNFCCC such as Nationally Determined Contributions (NDC) or Long-Term Strategy (LTS)<sup>19</sup>, National Adaptation Plan (NAP) and/or National Biodiversity Strategy and Action Plans (NBSAP). Where available, AIIB will additionally use assessments from other MDBs or relevant international and regional bodies, in particular the Country Climate and Development Reports prepared by the World Bank together with the domestic net-zero transition commitments and related plans developed by the Member. The climate action plans provide country-level umbrella policy frameworks, which should be supported by the development and implementation of specific policy and institutional reform actions and investment and financing plans, including resource mobilization from the private sector along with targets and timelines.
- b. **Adequate Macro-economic Policy Framework.** The Member has an adequate macro-economic policy framework, whereby the authorities pursue coherent, credible and sustainable fiscal and monetary policies that are consistent with sustainable medium- and long-term growth and macroeconomic stability (debt sustainability in particular), and where risks are anticipated and mitigated.

22. An adequate macroeconomic framework is a pre-requisite for all CPBF operations. For Members unable to meet the eligibility criteria for CPBF set out in paragraph 21 above because:

- a. **The Member does not have an internationally-recognized climate action plan:**  
In such cases, AIIB will, at the Member's request, endeavor to support the Member-

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<sup>19</sup> As encouraged by the Paris Agreement.

led effort to develop such a plan and use the presence of a Member-led country platform designed to facilitate coordination among development partners to align climate policy reforms, investments and capacity building; or

- b. ***The Member’s macroeconomic policy framework is assessed as adequate but with material weaknesses or shortcomings***: In such cases, AIIB will normally consider offering CPBF only on a cofinancing basis; and
- c. ***In either cases (Items 22.a and 22.b above)***, AIIB will seek to offer its full range of SBF instruments that can be tailored to meet their needs, especially of those most affected by climate change. (See Paragraph 14 on Available Climate-Related Financing Instruments).

23. **Selectivity.** Reflecting the limited financing envelope available for all CPBFs and AIIB’s lean business model, Management will undertake the preparation of any CPBF only if it has the capacity to do so. Besides the capacity requirements, Management will consider any combination of the following parameters when assessing and prioritizing CPBF proposals for entry into AIIB’s Rolling Investment Pipeline: (i) the Member’s financing needs, limited access to alternative resources, and/or limited capacity to address their most urgent climate needs; (ii) the Member’s heightened vulnerability to climate change; (iii) the policy and institutional reform programs proposed for CPBF support have a tangible link to enabling infrastructure investments; (iv) the IMF and other MDBs are present in climate policy dialogue and are supporting complementary reform programs; and (v) the Member has designated a central ministry or agency with authority to provide a whole-of-government approach to a coherent climate change policy, mainstream climate actions in the national development planning and budget, and help drive the implementation of proposed climate policy and institutional reform actions alongside other relevant line ministries, public agencies, local governments and sub-national (state/provincial) governments in federal countries.<sup>20</sup>

#### **C.4 Financing Modalities, Terms and Volume.**

24. **Financing Modalities for CPBF.** In keeping with its infrastructure mandate, AIIB will target CPBFs where the Bank’s financing would provide the additionality of supporting climate-related policies for green infrastructure. It will tailor CPBFs to meet the Member’s needs (See *Appendix: Examples of Financing Options Applicable to CPBF*). In both cofinanced and standalone CPBF, AIIB aims to be actively involved in upstream engagement with Members and partners. It will bring its infrastructure and climate expertise to support Members in the design of impactful reform programs and results monitoring frameworks so that the objective and key principles of AIIB’s CPBF set forth in Sections C.1 and C.2 are reflected in the CPBF operation and that AIIB staff continue to accumulate experience in policy dialogue and advisory support and in delivering CPBF operations and contributing to building Members’ capacity.

25. **Cofinanced CPBF.** For policy coordination between IFIs and more effective, impactful policy dialogue, AIIB will primarily offer cofinanced CPBF undertaken with MDB partners that

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<sup>20</sup> In its Final Report of June 2023 “*Strengthening the Role of Ministries of Finance in Driving Climate Action*”, the Coalition of Finance Ministers for Climate Action calls for the Ministries of Finance to have a central and active role in inter-agency and stakeholder coordination and ensuring a whole-of-government approach to climate change policy.

have established policy frameworks governing policy-based financing, namely the African Development Bank, Asian Development Bank, Inter-American Development Bank and World Bank. By cofinancing CPBFs with these partners, AIIB will augment its own capacity and leverage their significant resources (including analytics, technical assistance, financing, policy expertise and established local presence) needed for the assessment of the climate-related reform actions to be supported by CPBFs and for the design and implementation by Members of these actions. For cofinanced operations, AIIB may, in accordance with the provisions of its amended Environmental and Social Framework, apply the lead cofinancing MDB's environmental and social policy frameworks that govern policy-based financing, and will also seek to harmonize the program's prior actions and conditions. In such cofinanced operations, AIIB staff will actively participate in and contribute to the policy dialogue with the Member and the MDB partners and to enhancing country-driven climate reform programs. It will undertake due diligence appraisal of the operation using its own diagnostics complemented with assessments made by the Member and other partners. The joint value-addition from the cofinancing support provided by the lead cofinancing MDB and AIIB lies in the financing provided, the technical support for the preparation of policy and institutional reform actions, and (often most importantly) the ability for governments to use the external support to help build in-country alignment around challenging reform actions. As of May 2024, ongoing discussions with interested Members indicate that AIIB's potential pipeline only include cofinanced CPBF projects.

26. **Standalone CPBF.** While AIIB will primarily cofinance CPBF (See *Paragraph 25*), AIIB may also offer CPBF on a standalone basis. AIIB will consider the following criteria when deciding to offer standalone CPBF:<sup>21</sup>

- a. **Stage of the Proposed Policy and Institutional Reform Program:** The Member has a strong policy and institutional reform program that is being proposed for CPBF, has already undertaken the required reform assessments and is in an advanced stage of development and/or implementation.
- b. **Member Experience with PBF:** The Member has previously undertaken PBFs with another MDB and has committed to undertake PBF with climate-focused objectives with AIIB financing support.
- c. **AIIB Internal Capacity, PBF Experience and Value-addition:** AIIB has the necessary capacity, experience and value addition to undertake policy dialogue and underpinning analyses in the relevant Member and/or infrastructure area(s) to develop and oversee CPBF on its own and/or with the support of partners.

27. **Financing Envelope.** In order to preserve AIIB's focus on infrastructure consistent with the ambitious targets in its Corporate Strategy and ensure sufficient availability of financing for the Bank's infrastructure projects, Management will set an indicative financing

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<sup>21</sup> Members may meet one or more of the criteria in *Paragraph 26* to reflect MDBs' experience that CPBF may take different forms to meet client demand. *Appendix* lists various financing options offered by different MDBs that may be used as climate-based policy-based financing. One example AIIB might offer would be, in the case of a Supplementary PBF, where the emphasis would be on bridging an anticipated funding gap in an existing CPBF or reform program under implementation, and not on AIIB's internal capacity to carry out the underpinning analyses which would have already been completed by another MDB.

ceiling of up to USD3 billion for all CPBFs over the first 18 months of CPBF implementation, i.e., until December 31, 2025. This would be equivalent to approximately 20% of regular lending at the amounts currently expected under the business plan. An appropriate ceiling for all CPBFs in subsequent years will be set through the Bank's annual Business Plan and Budget (BPB) process.

28. **Loan Size of Individual CPBF Operation.** The size of individual CPBF will be related to a Member's financing needs and not to the depth of policy and institutional reform program required, and hence, larger operations do not necessarily leverage more reform. Therefore, the size will be determined individually, on the basis of the Member's overall projected financing requirements at the time of the operation; the financial costs and benefits; support provided by other development partners; the availability of and access to alternative financing; debt sustainability; creditworthiness; and AIIB exposure.

29. **Financing terms.** AIIB will follow the same pricing policies applicable to other SBF offered by AIIB under its regular sovereign-backed financing.

### C.5 Implementation

30. **Scope of CPBF.** To achieve the objective of the CPBF as stated in Paragraph 19, AIIB will support climate-related policy and institutional reform actions that help Members to adapt or mitigate the impacts of climate change and scale up private sector financing for climate transition infrastructure. Because climate challenges and policy issues around climate often cross sectoral boundaries and involve multiple public agencies and stakeholders, AIIB will support Members' efforts to enhance and coalesce national coordination around shared climate objectives.

31. **Use of Mutually Reinforcing Instruments.** Analytical work, technical assistance, other types of financing (including investment lending) and partner activities can reinforce one another to support Members develop, implement and sustain CPBF reforms and address capacity-building needs of Members. AIIB's CPBFs may be complemented by AIIB's investment project financing (including from Special Funds – *See Paragraph 36*): (i) RBF for projects designed to help strengthen institutions and sustain the CPBF-supported reforms over the RBF implementation period by linking climate-related actions, and hence, disbursements to achievement of results; (ii) technical assistance programs to ease institutional capacity constraints and enhance the preparation and implementation of reform programs; and (iii) downstream investment project financings and guarantees that are generated by the enabling environment created by CPBF-supported reforms.

32. **Applicable Policies.** AIIB's *Operational Policy on Financing (OPF)*, *Environmental and Social Policy (ESP)* and *Procurement Policy (PP)* will be amended to include CPBF as an SBF instrument that can be offered on either a cofinanced or standalone basis. For CPBF cofinanced with MDBs that have established PBF frameworks, AIIB may apply the environmental and social policy frameworks of the other MDBs that govern policy-based financing, in accordance with these amendments.

33. **Application in Non-Regional Members.** According to *Paragraph 19*, CPBF may be extended to any Member, within or outside the Asia region, subject to the ceilings set forth in

AIIB's *Strategy on Financing Operations in Non-Regional Members*. For the purpose of CPBF in non-regional Members, this means that the Bank may support policy and institutional reforms to enable investments in climate change related activities, including climate adaptation and mitigation financing.

34. **Assessment of Climate Policy-based Program.** AIIB's decision to extend a CPBF to support a Climate Policy-based Program (CPBP) is based on the Bank's assessment of the Member's macroeconomic policy framework, policy and institutional framework, institutional capacity, fiduciary governance, and environmental and social management frameworks relevant to the CPBP. The policy and institutional framework assessment focuses on the CPBP's strength and the Member's commitment to and ownership of the CPBP. In conducting its assessment, the Bank will use diagnostic works done by Members, MDB partners and/or third parties and will leverage the partners' local presence and proximity to the beneficiaries, governments and other stakeholders to facilitate understanding of the local context and inform the effective design and implementation support of Members' strategies and reform programs. While retaining responsibility for its own assessment and financing decision, the Bank will consult the IMF on the adequacy of the Member's macroeconomic policy framework.<sup>22</sup> Further details on the scope of CPBF assessment are in the amended OPF and ESF.

35. **Gender and Inclusion in Climate Policy-Based Financing.** Climate change disproportionately affects populations that heavily depend on natural resources for their livelihoods and/or have limited capacity to cope with natural disasters. However, such populations are also emerging as crucial drivers of climate action, leveraging their insights and agency to create positive change. Women, particularly those in poverty, often bear higher risks and burdens from the impacts of climate change, especially where they are responsible for securing food and water for their families. At the same time, gendered norms and practices about collecting water for irrigation and the seeding and planting of vegetation can mean women also possess unique ecological knowledge essential to effective adaptation. Lower-income communities and other populations of inequality, exclusion and vulnerability, including those living with disability, indigeneity and remotely – are particularly vulnerable to climate change impacts as they tend to face greater challenges in adapting to or mitigating climate change, and transitioning to alternative opportunities when existing livelihoods are compromised. But the practical experiences of these communities can also inform sustainable resource management and contribute to biodiversity conservation. Embedding inclusive policies in the design of CPBFs recognizes and addresses the diversity of risks and opportunities presented from different populations and communities. This will ultimately enhance their adaptive capacity and participation in mitigation solutions and disaster preparedness and response, enhance the acceptability, effectiveness, and sustainability of climate policies, and empower beneficiaries as agents of change and resilience. By leveraging global and local knowledge and expertise, building on experience from its investment portfolio, and applying a gender lens in its financing support, AIIB will work with partner MDBs in helping Members: (i) address the vulnerabilities that expose women at greater risk to the impacts of

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<sup>22</sup> AIIB will follow the G20 principles (Italy Conference held in July 2021), which reaffirmed the importance of strong MDB coordination when using budget support instruments to support country-led reform programs and which also state that the IMF should take the lead in providing an assessment of the Member's macroeconomic policy framework. At an early stage of preparation of a CPBF, AIIB will confirm the adequacy of the Member's macroeconomic policy framework, based on its own assessment and consultation with the IMF, among other sources, and based on an IMF Assessment Letter, or equivalent, which is an essential documentation for all MDBs delivering PBFs, including the AIIB in its Facility and Emergency financings.



climate change; (ii) shape country-led climate policies, programs and actions towards mutually reinforcing objectives of gender equality and climate resilience; and (iii) promote participation of women and other vulnerable groups in climate dialogue through voice, leadership and decision-making. CPBF creates opportunities for AIIB to support Members transition to greener and inclusive economies and advance the attainment of Nationally Determined Contributions and Paris Alignment commitments in a gender-responsive and socially inclusive manner.

36. **Concessional Resources.** While retaining its independence in determining the financing terms and conditions of its CPBFs (See *Paragraph 29 on Financing Terms*) and preserving debt sustainability of its Members, AIIB will boost its effort to mobilize concessional and blended financing at a higher pace to help its low- and middle-income members enhance the affordability, fiscal sustainability and development impact of CPBFs and meet higher financing costs required to address their interlinked development and climate challenges. Such concessional resources may be used as cofinancing of CPBF operations and/or for high value-added activities (e.g., technical assistance<sup>23</sup>) that help Members prepare and implement the policy and institutional reform programs supported by CPBFs. As a regular instrument, CPBF will make available to eligible Members the use of the AIIB Project Preparation Special Fund (PPSF) and the AIIB Project Specific Window.

37. **Coordination with the IMF and Other International Partners.** Effective coordination with the IMF, MDBs and other partners will be essential for: consistency in policy advice; orderly coordination; selection and sequencing of reforms, investment plans and financing instruments; and complementary and mutually reinforcing interventions of AIIB and partners. For example, to support CPBF operations, much analytical work is needed on public expenditure reviews (composition and scale), subsidy reforms, and domestic revenue mobilization, all of which are core to the climate transition. The IMF and other MDBs have extensive expertise and resources in these areas. AIIB will work closely with them in line with the G20 call and recommendation for international partners to take a systematic approach in designing and sequencing support for reforms and coordinating development financing, while retaining responsibility for its own assessment and financing decisions. In particular, the World Bank's Country Climate and Development Reports, where available, will provide a firm diagnostic foundation for such operations. As appropriate, AIIB in coordination with the Member will solicit the views of the concerned peer MDBs and other external donors on policy and institutional reform objectives and will seek to collectively establish a coordinated and coherent approach to the Climate Policy-Based Program. It will collaborate with the IMF and other MDB partners, including in the context of the IMF's Resilience and Sustainability Trust (RST)<sup>24</sup> financed arrangements and the country-driven platform for the use of policy-based lending in eligible Members, the development and/or implementation of CPBF operations and the complementary support of enabled investment project financings. Where relevant, AIIB will also engage specialized institutions with expertise on specific reforms pertaining to the climate transition and other areas relevant for AIIB's infrastructure mandate. AIIB is a party to the Joint MDB Working Group on exploring different Country Platforms via which MDBs can provide critical support for Members' climate strategies—through an integrated, Member-led

<sup>23</sup> Technical assistance could cover activities for technical advisory and analytical support, training, capacity building and institutional development, and implementation support to ensure compliance with the Legal Agreements of the operation.

<sup>24</sup> IMF. 2023. Resilience And Sustainability Facility—Operational Guidance Note.

approach to climate policy reforms and investments—and can enhance their coordination for higher impact. This work was highlighted at COP28 in the Joint Statement from the Heads of MDBs.

38. **Member Engagement Through Upstream Policy Dialogue.** Successful preparation and implementation of CPBFs requires strong development dialogue with the Member's authorities and partners and strong knowledge base. This will involve upstream policy dialogue, institutional capacity building, collaborative program design, and building on partners' activities in complementary reform areas relevant to AIIB's core infrastructure and on the existing wealth of knowledge that is already generated by Members and others. Deep understanding and analyses of country and sectoral contexts and cross-sectoral climate policies and institutional frameworks, along with climate policy dialogue with the recipient Member and concerned agencies are necessary to help design and sequence complicated and impactful reforms. Clear division of labor among financing partners in line with their relative financing capacity and areas of expertise is also essential. AIIB will build on the capacity and expertise of its staff to be an effective contributor to the policy dialogue, the joint assessment of macroeconomic and fiscal issues, and the design of CPBF operations for AIIB financing.

39. **Governance.** The Regulation on the Accountability Framework will apply to all CPBF projects. Given that CPBF is a new instrument, it is proposed that the President refers the first three CPBF projects (including cofinanced CPBFs) to the BOD, even in the circumstances where the Accountability Framework would otherwise have suggested that they be delegated to the President. The first CPBF (including cofinanced CPBF) featuring a new financing option (*See Appendix on Examples of Financing Options Applicable to CPBF*) shall also be referred to the BOD for approval in as much as they were not already discussed by the BOD as part of the first three CPBF projects.

40. **Building AIIB's Internal Capacity.** AIIB will continue to build its internal capacity to deploy CPBF as a regular instrument through learning-by-doing and by building its own knowledge through own analytical works to inform its policy dialogue and operations. AIIB's 2024 Staffing Plan includes additional capacity and resources for the Bank to mainstream this instrument appropriately and efficiently into AIIB's climate financing response while preserving its capacity to scale up its regular project-based financing. Management will: (i) build on its existing staff resources with capacity and experience to engage with Members and partners in climate policy dialogue as well as the preparation and implementation of CPBF; (ii) prioritize recruitment of additional staff that as part of their broader skillsets have relevant analytical and policy dialogue experience; and (iii) augment the Bank's internal capacity with non-staff resources (including consultants and technical partnerships with other organizations) to provide additional support to CPBF where needed. New and existing staff resources will be flexibly combined in multi-departmental and multi-disciplinary teams to support the preparation and implementation of each CPBF operation.

41. **Monitoring, Reporting and Review.** Management will provide the following reports to the BOD:

- a. **At the Individual CPBF-Project Level**, CPBF operations will be subject to standard monitoring, reporting and review applicable to SBFs including through Program Completion Notes by the Management and Learning and Evaluation

Activities by the Complaints-Resolution, Evaluation and Integrity Unit (CIEU) as per AIIB's Learning and Evaluation Policy. CPBF operations will be counted towards the Climate Finance corporate target.

- b. **At CPBF Financing Level:** Management will regularly report to the BOD on the implementation of CPBF financing and any mid-course adjustments as needed. It will provide regular update of the projected CPBF projects in AIIB's Rolling Investment Pipeline, AIIB's Annual Business Plan and Budget, and regular reporting of the impact of CPBF operations on capital utilization and liquidity metrics in AIIB's Quarterly Risk Report Dashboard.
- c. **Interim Review:** Management will also submit to the BOD an interim review of AIIB's experience with CPBFs after the first two years of the CPBF implementation. This interim review will include an assessment of the relevance and effectiveness of AIIB policy engagement and financing support; and lessons learned from implementation and partnership, based on information and early results from CPBFs approved during the review period. After the interim review, if a need for adjustment arises, Management will engage with the BOD in advance to agree on a specific timeline for a follow-on review. The BOD may invite the CIEU to provide its views on any such review.

42. **Learning and Capacity Building.** Climate challenges are complex, requiring differentiated policy, institutional and financing responses depending on both global and local knowledge, local circumstances and solutions, and a whole-of-government approach for implementation. Ongoing sharing of experience and expertise among Members, financing partners and other stakeholders will promote collaborative and adaptive learning, mutual encouragement and collective understanding of policies, designs and practices for climate action. As an MDB partner, AIIB aims to contribute to global knowledge on climate change and develop its analytics capacity and own diagnostics tools over time to help Members adapt and respond to the continuously evolving climate policy landscape, and evolve and improve their climate responses.<sup>25</sup> To effectively rollout CPBFs, AIIB will prioritize learning by doing and from its experienced Members and MDBs, early climate reform champions and rigorous ex-post assessment of outcomes and performance of CPBFs extended by MDBs (including AIIB). It will accelerate the recruitment of additional talents to complement existing skill sets and enhance staff training. AIIB will also work closely with its financing partners to provide training and capacity-building for Members with limited capacity and/or expertise.

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<sup>25</sup> In 2022 and 2023, AIIB published two Asian Infrastructure Finance Reports contributing to global expertise on climate change titled "Moonshots for the Emerging World: Building State Capacity and Mobilizing the Private Sector Toward Net Zero" and "Nature as Infrastructure".

**D. The Decision**

43. On June 26, 2024, the Board of Directors supported the introduction of Climate-Focused Policy-Based Financing (CPBF) as a new instrument of AIIB, and by a majority representing not less than three fourths of the total voting power of AIIB Members, approved the amendments to the AIIB's *Operational Policy on Financing (OPF)*, *Environmental and Social Policy (ESP)* and *Procurement Policy (PP)*, to allow AIIB to offer CPBF on either a cofinanced or standalone basis as part of AIIB's suite of SBF instruments to support Members in advancing their national climate transition objectives and achieving shared climate goals.

## Appendix

### Examples of Financing Options Applicable to Climate-Focused Policy-Based Financing

Climate-Focused Policy-Based Financing (CPBF) can be tailored to the Member's needs, the characteristics of the reform program and the anticipated duration of the policy engagement. The following are examples of financing options, all falling within the CPBF instrument and AIIB's current pricing policies applicable to other SBFs offered by AIIB:

1. **Single PBF.** A single PBF provides budget support and is packaged as a single or multi-tranche loan to support structural reforms over a short- to medium-term period (typically one to three years).
2. **Programmatic PBFs.** Programmatic PBFs comprises a series of single tranche PBFs (subprograms) to support structural reforms and where sustainability of the reform programs need to be ensured over a medium to longer term period (typically three to five years),
3. **Policy Based Guarantee (PBG).** A PBG covers debt obligations of commercial debt such as market loans, public bond issuances or privately placed securities. Through PBG, AIIB may provide risk mitigation to commercial lenders with respect to debt service payment defaults. PBG can play an important role in helping mobilize private financing because it transfers resources more efficiently than other types of support, addresses institutional dimensions of sustainable development and supports global public goods such as climate-related investments.
4. **Deferred Drawdown Option (DDO) for Climate Disasters.** In the event of a climate-induced disaster, AIIB may consider allowing eligible borrowers to postpone drawing down and/or defer disbursements on an AIIB loan for a defined period after the loan agreement has been declared effective.<sup>26</sup> Climate-induced disasters may include extreme weather events or floods that cause sudden and severe damage to infrastructure and communities. This financing modality helps augment Members' capacity for crisis preparedness and response by strengthening their disaster and climate-related risk management framework, emphasizing disaster preparedness, risk reduction and climate adaption in key sectors, and providing immediate liquidity (bridge financing) needs in the aftermath of pre-specified natural disasters.
5. **Supplemental PBF.** In exceptional cases, the Bank may provide a separate supplemental PBF additional to the original PBF—in support of the objectives of the program supported by the original PBF and under implementation. A supplemental DPF may be provided for a policy-based financing operation for which an unanticipated gap in financing jeopardizes a reform program that is otherwise proceeding on schedule and in accordance with the agreed policy agenda.

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<sup>26</sup> IBRD/IDA offers this option in the form of a Catastrophe Deferred Drawdown Option (CAT DDO) as part of its Policy Based Financing and ADB offers a similar Contingent Disaster Financing (CDF) as part of its Policy Based Lending.