



ASIAN INFRASTRUCTURE  
INVESTMENT BANK

# Developing Sustainable Economic Zones in Central Asia Economic Co- operation Region [CAREC]



- I. **OVERVIEW OF AIIB**
- II. SPECIAL ECONOMIC ZONES – ENVIRONMENTAL SUSTAINABILITY, SAFETY AND HEALTH

# ABOUT AIIB

## Asian Infrastructure Investment Bank

### Who we are

**Multilateral Development Bank** (MDB) established by international treaty and headquartered in Beijing, founded to bring countries together to address **Asia's infrastructure funding gap**. Our core principles are financial sustainability and sound banking, strong multilateral governance and oversight, and high project standards.

### Our Vision and Mission

Our **Vision** is a prosperous Asia based on sustainable economic development and regional cooperation.

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

We will achieve this via a **partnership** model. By being agile and adaptable, the Bank will meet client needs and operate to the highest standards.

### Credit strength

Strong support from a diversified global shareholder base. **USD100 billion capitalization** Conservative risk management and financial policies. Experienced management team.

**AAA credit rating** with a stable outlook.

AIIB's foundation is built on the lessons and experience of other MDBs and the private sector. Its core values are:

**Lean**, with a small efficient management team and highly skilled staff.

**Clean**, an ethical organization with zero tolerance for corruption.

**Green**, an institution built on respect for the environment.

# AIIB Financial Instruments

## Sovereign-Backed Financing

- Sovereign-backed loans will have an average maturity of up to 20 years and a max. maturity limit of up to 35 years.
- AIIB continues to **co-finance** projects with other lenders in addition to expanding its **standalone** portfolio.
- Public sector loans. The Bank conducts a full assessment of the project's benefits, risks and borrower implementation capacity.

## Non-sovereign-Backed Financing

- Borrowers could range from **sub sovereign public entities** to **private enterprises**.
- The terms and conditions will be set on a **commercial basis** and reflect the expected risk to the Bank and **market conditions**.
- AIIB's exposure can be up to **35 percent** of the long-term capital of the obligor, or for a new project, up to 35 percent of the project's value.

## Equity investments

- **Equity investments**
  - Clear potential exit strategy
  - Acceptable internal rate of return.
- AIIB would be a **minority investor** and shall not seek a controlling interest in the target entity or enterprise.

## Guarantees

- Partial Debt Guarantee are available to clients.
  - Private sector operations
  - Incorporates partial debt guarantees and unfunded risk participations.
- Projects involving guarantees will be appraised, processed, and monitored the same way as loans.
- For capital headroom and exposure management purposes, guarantees will be treated as if they were on the balance sheet (i.e. treated the same way as loans).



# AIIB's Corporate Targets

## Climate finance

50% of actual financing approvals by 2025

## Private sector financing

50% of actual financing approvals by 2030.

## Cross-border connectivity

25% - 30% of actual financing approvals by 2030

## Paris Agreement

100% of our operations to be aligned by July 2023



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SUSTAINABILITY, SAFETY AND HEALTH**

# Special Economic Zones and Climate Challenges – Mitigation and Adaptation

The global industrial / manufacturing sector, largely driven by industrial areas / special economic zones, require **USD 50 tril** of incremental investments, says Oliver Wyman<sup>4</sup> while **USD 1.4 tril** is solely for steel and cement alone, says McKinsey.

## MITIGATION

- **Industry** is a key contributor to global emissions, accounting for **30% of CO<sub>2</sub> emissions, 33% of methane emissions, and 8% of N<sub>2</sub>O emissions.**

### Projected Annual Spend for Net-Zero Transition (US\$ trillions)<sup>1</sup>



- An estimated total of **US\$275 trillion** in cumulative investments is required over 30 years to facilitate the net-zero shift; **US\$ 50 trillion** for industries.
- Of this, approximately **US\$1.4 trillion** is dedicated to steel & cement production.
- Mitigation projects can be structured to be profit-making, giving way to **mobilising private capital.**

- **Industrial transition** to net-zero will create opportunities for countries, sectors and businesses to tap into growing markets, including:

Decarbonizing processes & products

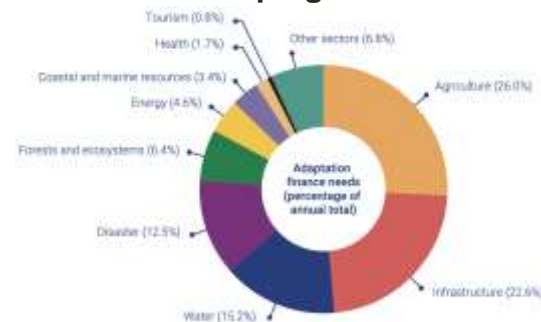
Replacement of high-carbon products/processes.

New offerings to support production.

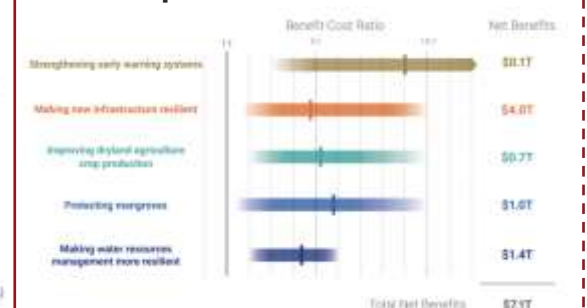
## ADAPTATION

- Mitigation efforts must go hand-in-hand with adaptation strategies. Investments in climate adaptation are estimated to generate returns between **US\$2 and US\$10**, for every US\$1 invested<sup>2</sup>.
- There are significant gaps in climate adaptation finance. Adaptation costs in developing countries alone are estimated to be 5-10 times more than current finance flows.

### Adaptation finance needs, based on 26 developing countries<sup>3</sup>



### Benefit-Cost ratio of core adaptation finance areas



- In industrial areas, there are significant investment gaps in **energy efficiency, industrial waste management and water and waste-water recycling and reuse.**



<sup>1</sup> Source: McKinsey the Net-Zero Transition Report 2022

<sup>2</sup> Source: World Resources Institute Adaptation Finance and Investment

<sup>3</sup> Source: UNEP Adaptation Gap Report 2020

<sup>4</sup> Source: Oliver Wyman 2021 Financing the Transition to a Net Zero Future



# Special Economic Zones and the Circular Economy

The circular economy is an effective decarbonization approach for industrial areas that can prevent waste and reduce total GHG emissions, while improving the security of raw material supply and economic growth.

## UNDERSTANDING THE CIRCULAR ECONOMY

- A **production and consumption model** that aims to reduce waste to a minimum, through 3 core principles:

Eliminating waste and pollution

Circulating products and materials

Regenerating nature

- A departure from the **'Linear Model': Take -> Make -> Consume -> Throw**

Consumers: 3R's



Industries: Circular Economy<sup>1</sup>



## EXISTING CASES

### European Commission Circular Action Plan 2020<sup>2</sup>

An action plan designed to promote sustainable design, empower consumers, and reduce waste for a fully circular economy by 2050. Key initiatives include:

- Restrictions on single-use materials and bans on destroying durable goods.
- 'Right of Repair' for consumers.
- Focus on resource-intensive sectors (e.g. ICT, plastic, construction).

### 'Closing the Loop', The Netherlands<sup>3</sup>



CTL collects electric waste (e.g. broken phones) from countries where they cannot be properly recycled, turning them into reusable metals for manufacturing.

### Coca-Cola's Universal Bottle<sup>4</sup>



Coca-Cola produces PET bottles, which can be reused up to 25 times. Empty bottles are returned to Coca-Cola, which are then cleaned, refilled and rebranded.

### 'Teemill', England<sup>5</sup>



Teemill is a tech-based business that produces fashion items as they are ordered in real-time, to minimize waste and energy consumption.



## Special Economic Zones – International “Green” Building Standards

Buildings, more so industrial, have direct and indirect impacts on the environment. The Bank is in principle, supportive of projects that adopt such standards.

Rating / Certification System	Managing Organization	Type of Standard / Certification	Areas of Focus
<b>EDGE</b>	International Finance Corporation (IFC)	Residential and commercial structure certification system.	Energy, Water, Materials
<b>BREEAM</b>	BRE Global	Green building rating and certification system.	Energy, Health & Well-being, Transport, Water, Materials, Waste, Land Use & Ecology Management, Pollution
<b>LEEDS</b>	U.S. Green Building Council	Green building rating and certification system.	Sustainable Sites, Water Efficiency, Integrative Process, Location & Transportation, Energy & Atmosphere, Materials & Resources, Indoor Environmental Quality, Innovation, Regional Priority
<b>CASBEE</b>	Japan Sustainable Building Consortium (JSBC)	Building assessment tool.	Energy Efficiency, Resource Efficiency, Local Environment, Indoor Environment
<b>Eco Industrial Park [EIP]</b>	United Nations Industrial Development Organization (UNIDO)	Industrial parks and policymaker assessment tool.	Planning and Zoning, Management and Monitoring, Energy, Water, Climate Change and Natural Environment, Waste and Material Use, Social Management Systems, Social Infrastructure



# AIIB – MCDF capacity building support for Cambodia's SEZ

- A USD145,000 grant to provide technical assistance to the *Ministry of Economy and Finance of Cambodia* to *develop a comprehensive masterplan supporting a multi-purpose Special Economic Zone (SEZ) in Sihanoukville*. This sub-region has the only international deep-sea port in the country and is a driver of Cambodia's international investment and trade activities; it is also a critical link for connectivity within the Greater Mekong area and beyond. The MCDF grant focuses on investment cycle capacity building for integration of standards (with a focus on environmental and social standards), risk management and trade facilitation. This support aims to improve the future formulation of high-quality infrastructure and connectivity investment projects (project preparation) in connection with the SEZ.

Source: MCDF web site [www.themcdf.org](http://www.themcdf.org)





# Summary

- I. Industrial zones' transition to net-zero is a fast-growing market, circa USD 50 tril over the next 27 years.
- II. Huge space to enhance industrial co-operation and develop Central Asian supply chains as plausible alternatives to Asia – European routes
- III. The Bank has climate financing as a core mandate.
- IV. High standards, especially environmental and social, will guide our investments, particularly in driving industrial infrastructure to net zero transition.





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# Thank You

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