

Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond



FACTSHEET 2 – The Asian Infrastructure Investment Bank

China announced plans to establish the Asian Infrastructure Investment Bank (AIIB) in October 2013. One year later 21 Asian countries signed a memorandum of understanding agreeing to join. By April 2015, 57 countries had signed on as founding members. The AIIB's initial authorized capital is US\$100 billion. The largest stake in the bank is held by China, which has by far the largest share of the voting rights within the institution.

Headquartered in Beijing, the bank focuses on financing infrastructure and “other productive sectors” in Asia. These include energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics, among others.¹ The bank's first projects were announced in April-May 2016, and included energy, transport and urban development projects in Pakistan, Tajikistan, Bangladesh and Indonesia. The bank expects to announce more projects later in 2016.²

Key Milestones in the Development of the AIIB

DATE	EVENT
October 2013	Xi Jinping announces plans to establish the AIIB.
October 2014	21 Asian countries sign MOU on establishing the AIIB.
April 2015	AIIB approves 57 countries' membership applications.
June 2015	Signing Ceremony of the AIIB's Articles of Agreement.
Sept – Oct 2015	AIIB draft Environmental and Social Framework published and civil society consultations conducted.
January 2016	AIIB opening ceremony held, bank announced as open for business.
January 2016	Public Information Interim Policy adopted.
February 2016	Environmental and Social Framework adopted.
April – May 2016	AIIB announces first batch of projects.
June 2016	First annual meeting held in Beijing.

AIIB Membership

Fifty-seven nations signed up as founding members of the AIIB. According to its president, as of June 2016, a further 30 countries were on the waiting list to join.³ The table below shows the regional grouping of the founding members.

AIIB Founding Members

East Asia	Southeast Asia	Central Asia	South Asia	West Asia
China Mongolia South Korea	Brunei Cambodia Indonesia Laos Malaysia Myanmar Philippines Singapore Thailand Vietnam	Kazakhstan Kyrgyzstan Tajikistan Uzbekistan	Bangladesh India Iran Maldives Nepal Pakistan Sri Lanka	Azerbaijan Georgia Israel Jordan Kuwait* Oman Qatar Russia Saudi Arabia Turkey U.A.E.
Oceania				
Australia New Zealand				
Americas	North Europe	South Europe	East Europe	West Europe
Brazil	Denmark Finland Iceland Norway Sweden United Kingdom	Italy Malta Portugal Spain	Poland	Austria France Germany Luxembourg Netherlands Switzerland
Africa				
Egypt South Africa				

■ Regional members

■ Non-regional members

China holds roughly 30% of the bank's shares and over 26% of the voting share. India and Russia are the second and third largest shareholders, respectively.

Top 10 Shareholders in the AIIB

Member	Capital Subscription (US\$ billion)	Voting Share
China	29.78	26.06%
India	8.37	7.51%
Russia	6.54	5.93%
Germany	4.48	4.15%
South Korea	3.74	3.50%
Australia	3.69	3.46%
France	3.38	3.19%
Indonesia	3.36	3.17%
Brazil	3.18	3.02%
United Kingdom	3.05	2.91%

Source: AIIB (2015), China Daily (2015)

As can be seen above, China's voting share at the AIIB is much larger than any other member, and bigger than the combined share of India, Russia, Germany, South Korea and Australia, the next five biggest shareholders.

Sectoral Focus and Approach of the AIIB

The stated purpose of the AIIB is to:

1. Foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and
2. Promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.⁴

The AIIB president has stated that the bank will take a broad view of the term “infrastructure.” In addition to supporting projects such as transport, energy and telecommunications, the bank may also invest in social infrastructure such as the health sector and environmental protection.⁵ The bank can use various mechanisms to disperse its funds, including loans, investing in equity (buying shares), guaranteeing loans, and providing technical assistance. The AIIB will actively promote engagement with the private sector.⁶

As of July 2016, the Bank has announced six projects for financing, including four co-financed with other multilateral development banks.⁷

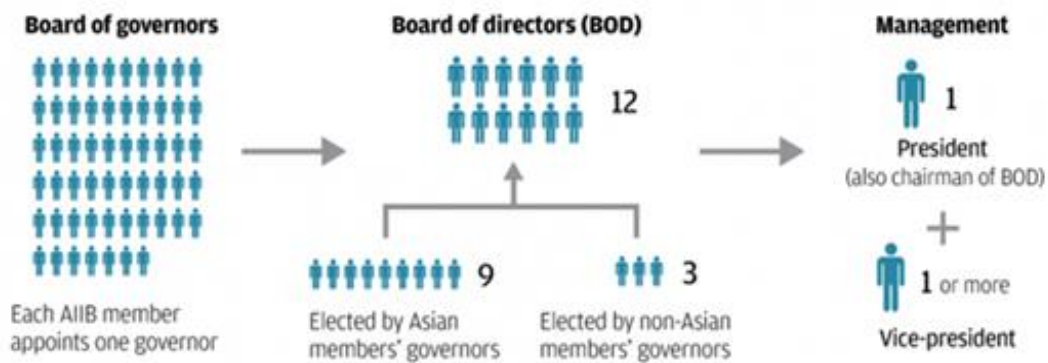
AIIB Projects Announced up to July 2016

Country	Project Type	Value	Notes
Pakistan	Highway construction	\$273m	Co-financed with Asian Development Bank and the UK Department for International Development (DfID).
Tajikistan	Road rehabilitation	\$106m	Co-financed with European Bank for Reconstruction and Development.
Bangladesh	Power transmission	\$262m	Implemented by Bangladesh Rural Electrification Board and Dhaka Electric Supply Company.
Indonesia	National Slum Upgrading Project	\$216.5m	Co-financed with World Bank.
India	Transmission System Strengthening Project*	\$150m	Standalone project, implemented by Indian state-owned Power Grid Corp.
Pakistan	Tarbela 5 Hydropower Extension Project*	\$300m	Co-financed with World Bank.

** Indicates project still awaiting board approval at time of writing.*

Structure and Management of the AIIB

The AIIB has a three-tiered management structure: Board of Governors, Board of Directors and a President.⁸ Unlike the World Bank and Asian Development Bank, the AIIB does not have a resident board. Instead, the AIIB board meets periodically by video conference. At present the board approves all projects, but in the future the AIIB plans to delegate more decision making power to bank management.⁹ In contrast, at the World Bank and the Asian Development Bank, all new projects require approval from the board. This provides an important check and balance and plays a crucial role in the system of accountability at these institutions. The infographic below shows the bank’s structure and shareholding.



Source: South China Morning Post (2015)

AIIB Commitments to Transparency and Anti-Corruption

The AIIB president has stressed the AIIB's commitment to being "clean" and has committed to developing a strong institutional culture based on ethical standards. He has also stated on many occasions that the bank will have a "zero-tolerance attitude" towards corruption.¹⁰

An interim public information policy was adopted in January 2016. The policy commits the bank to releasing both institutional and operational information unless there is a "compelling reason for confidentiality."¹¹ Importantly, the policy states the bank will publish key environmental and social assessment documents.¹² Disclosure of these documents is crucial, but the policy lacks clarity on the timing of this disclosure, in particular whether or not information will be published on projects that are under consideration or only after they are approved.

The bank is also required to establish a mechanism to oversee the management and operation of the bank.¹³ This oversight role will be implemented by the Department of Compliance, Effectiveness and Integrity, which has been established but is still under development at the time of writing.

Environmental and Social Safeguards

In February 2016, the AIIB adopted its Environmental and Social Framework (ESF), which sets out the standards and policies that should be implemented in AIIB financed projects. After three years, the framework will be reviewed and updated.¹⁴ The ESF sets out mandatory requirements for each project, and includes three environmental and social standards on project assessment and management, involuntary resettlement, and indigenous peoples.

The ESF contains some promising language, stating that the AIIB subscribes to the principles of sustainable development, inclusion, empowerment of local people, and engagement with the public. However, despite its progressive vision, the ESF also contains a number of shortcomings and gaps. A draft version was made available in September 2015, and civil society groups were given a brief opportunity to comment. The ESF, as adopted, contains a number of important improvements upon the first draft, addressing some of the concerns raised by civil society, but key weaknesses remain.

With regards to resettlement, the AIIB states that it will not knowingly finance projects that involve or result in forced evictions – a commendable commitment. Under the Framework, evictions can only be carried out in "a manner consistent with basic principles of due process". However, the definition of forced evictions under the

Framework excludes evictions carried out in the exercise of eminent domain or compulsory acquisition under domestic laws. This is despite the fact that the laws of many countries that are AIIB members do not have strong provisions for ensuring that projects causing displacement genuinely promote the general welfare or that the displacement and associated risks are reasonable and proportionate to the public good that will result.

The standard intended to safeguard the rights and interests of indigenous peoples establishes a benchmark lower than the standards of other international financial institutions. Of most concern, the final version of the standards has removed any reference to a need to secure Free, Prior and Informed Consent (FPIC), which existed in previous drafts, and replaced it instead with the ill-defined concept of Free, Prior and Informed *Consultation* (FPICon). This is a less rigorous standard and provides indigenous communities a lesser entitlement than the standard of FPIC.

The ESF refers to an oversight mechanism that people can submit complaints to if they believe they have been, or are likely to be, adversely affected by a failure of the bank to implement the framework.¹⁵ At the time of writing, the AIIB has appointed the head of this department, but its operational policies are yet to be adopted and it is not yet fully staffed. Like the complaints mechanisms of other international financial institutions, a strong oversight mechanism is crucial to holding the bank accountable. Such mechanisms can safeguard against harms for project-affected people or facilitate redress in cases where harm occurs.

Interaction Between AIIB and Other Financial Institutions

China has been eager to emphasize that the AIIB will complement the work of the existing multilateral financial institutions rather than act as a competitor. Because the bank is a new institution and still needs to recruit a full staff to run and manage operations, the AIIB has been eager to identify opportunities to co-finance projects with already established institutions. In the first half of 2016, the World Bank, Asian Development Bank, European Investment Bank and European Bank for Reconstruction and Development signed agreements with the AIIB to explore opportunities for co-financing. The leaders of the International Monetary Fund, African Development Bank, Islamic Development Bank and the New Development Bank have also expressed interest in cooperating. At the time of writing, three of the bank's four approved projects involve co-financing.

The implications of these co-financing arrangements are potentially significant. On one hand the addition of the AIIB will increase the pool of available finance, which could help to fill existing shortfalls. The injection of capital from the AIIB will allow the banks to combine resources, which may facilitate taking on larger projects and sharing financial risks. Importantly, in cases where the AIIB co-finances projects with other international financial institutions, the social and environmental standards or safeguard policies of those institutions are likely to apply, and project affected people will have access to their complaints mechanisms.

Conclusion

The AIIB is the first Chinese-initiated multilateral financial institution, and is promoting itself as a new model, with a management and governance structure that is more streamlined, more efficient and well suited to Asia's needs. Asia faces a significant shortfall in funding for infrastructure. Governments across the region are clearly eager to attract investment in large-scale infrastructure projects, especially in transport, energy and other projects that facilitate interconnectivity. The AIIB will contribute to addressing this need. Undoubtedly this

increased access to financing is welcomed by many nations, as evidenced by the rapid pace at which membership in the bank grew. As a new institution, the AIIB still has much work to do in developing its institutional capacities and operational policies. As the bank develops, observers will be watching closely to see how the bank's initial batch of projects are implemented, and how the AIIB performs on the implementation of social and environmental standards.

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¹ AIIB, *Articles of Agreement*, article 4.

² Jin, L. (2016, 25 June), *President's Report to the Board of Governors: 2016 Annual Meeting of the Board of Governors Asian Infrastructure Investment Bank*. http://euweb.aiib.org/html/2016/NEWS_0625/122.html (accessed June 2016).

³ Li, X. (2016, 31 May), *AIIB will have 100 countries as members by year-end: Jin Liqun*, China Daily. http://europe.chinadaily.com.cn/business/2016-05/31/content_25555463.htm (accessed May 2016).

⁴ AIIB (2015), *Articles of Agreement*, article 1.

⁵ Hou, L. (2015, 20 September), *AIIB Vows to Engage Private Sector in Asia's Infrastructure Investment*, CRI English. <http://english.cri.cn/12394/2015/09/20/2202s896811.htm> (accessed May 2016).

⁶ Xinhua (2015, 21 September), *AIIB vows to engage private sector across world in Asia's infrastructure investment*, China Daily. http://www.chinadaily.com.cn/business/2015-09/21/content_21937599.htm (accessed May 2016).

⁷ AIIB (2015), *Projects*. <http://www.aiib.org/html/PROJECTS/> (accessed May 2016).

⁸ AIIB (2015), *Articles of Agreement*, article 21.

⁹ AIIB (2016), *Operational Policy on Financing*, article 3.5.1.

¹⁰ Xinhua (2015, 23 March), *AIIB to have zero-tolerance for corruption: official*, Xinhuanet. http://news.xinhuanet.com/english/2015-03/22/c_134087672.htm (accessed May 2015).

¹¹ AIIB (2016), *Public Information Interim Policy*, article 4.

¹² AIIB (2016), *Public Information Interim Policy*, article 7.

¹³ AIIB (2015), *Articles of Agreement*, article 26.

¹⁴ AIIB (2016), *Environmental and Social Framework*, para 4.

¹⁵ AIIB (2016), *Environmental and Social Framework*, para 64.