

## Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond



### FACTSHEET 4 – Chinese Investment Funds Active in ASEAN

An important source of financing for China’s overseas investment comes from state-backed investment funds. Various funds are active across the world, including in Africa, Latin America, Russia and Asia, usually with investment from the China Development Bank, China Eximbank and/or other state-backed entities. Two such investment funds that operate within the ASEAN region are the China-ASEAN Infrastructure Investment Fund (CAF) and the Silk Road Fund, both of which have plans to expand operations in the coming years.

#### The Silk Road Fund

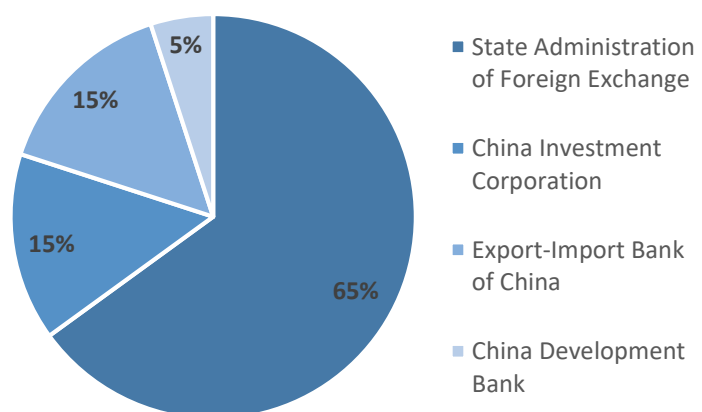
The US\$40 billion Silk Road Fund was established in December 2014 with the objective of promoting the “common development and prosperity of China and other countries and regions involved in the Belt and Road Initiative.”<sup>1</sup> (See Factsheet 3 - One Belt One Road.) The Silk Road Fund focuses on four broad areas:

- Infrastructure;
- Resources and energy development;
- Industrial capacity cooperation; and
- Financial cooperation.<sup>2</sup>

The fund works with Chinese and international enterprises and financial institutions, mostly through equity investments, but may also provide loans and establish new funds in partnership with other Chinese and international institutions.<sup>3</sup> The Silk Road Fund focuses on “major infrastructure development projects and projects that improve connectivity in the region.”<sup>4</sup> Senior Chinese officials have stated that the fund will operate in a similar way to a private equity fund, although it will invest for longer periods.

The fund has a target of US\$40 billion and was established with an initial capital instalment of US\$10 billion, the majority of which came from China’s foreign currency reserves.<sup>5</sup> The Silk Road Fund is currently backed by institutions controlled by or linked to the Chinese state. However, the fund emphasizes that it works according to market principles and aims to ensure “reasonable returns” on its investments.<sup>6</sup> The fund has in place a board of directors and board of supervisors, which are both dominated by senior officials from Chinese ministries and state institutions, as well as the People’s Bank of China, China Development Bank, China Eximbank and China Investment Corporation.<sup>7</sup>

**Initial Capital Contribution to Silk Road Fund (total US\$10 billion)**



The fund’s first project was the Karot hydropower dam in Pakistan. The fund has now signed MOUs with state-owned banks and funds in various countries, acquired equity in several

companies, and supported Chinese state-owned firms to list on the Hong Kong Stock Exchange.<sup>8</sup>

### **Silk Road Fund's Environmental and Social Standards**

The Silk Road Fund's stated philosophy is of "openness, inclusiveness and mutual benefit."<sup>9</sup> In its investment principles, the fund claims that it strives to promote environmentally friendly and sustainable development,<sup>10</sup> and "respects international standards and norms, and follows the laws and regulations of China and the host countries."<sup>11</sup> However, it is unclear what, if any, systems are in place regarding social and environmental assessments and mitigation. The fund has a committee that conducts financial risk management activities both prior to and after investments are finalized,<sup>12</sup> but the extent to which this committee considers environmental and social risks when assessing potential investments is unclear. There is no mechanism through which complaints can be filed by people who feel they have been negatively impacted by a Silk Road Fund-associated project.

The Silk Road Fund launched a Chinese and English website in November 2015. The information it provides is relatively basic, and although the news section provides updates on the fund's activities, there is no detailed list of investments. Although project details are limited, the site is more comprehensive than that of any other Chinese state-backed investment fund. However, the fund does not appear to have an information disclosure policy, and there is no formal mechanism through which the public can request project information.

### **The China-ASEAN Investment Cooperation Fund**

The China-ASEAN Investment Cooperation Fund (CAF) received state approval in 2013 and operates under the direction of China's State Council.<sup>13</sup> The fund's mission is to maximize returns for investors and strengthen cooperation between ASEAN and China in order to enable mutual development.<sup>14</sup> Its target areas are:

- Infrastructure (including roads, railways, telecoms and oil and gas pipelines);
- Energy (including conventional and renewable energy), and;
- Natural resources (including industrial metals, precious metals and agro-industry).<sup>15</sup>

The CAF was established with an initial US\$1 billion, with a target of US\$10 billion. The China Eximbank led the formation of the fund and was the main sponsor, contributing US\$300 million of its starting capital. The World Bank's International Finance Corporation (IFC) holds equity in the fund and contributed US\$100 million (or 10%) of the phase one funding.<sup>16</sup> Several other institutions, including the China Investment Corporation and Bank of China, have a stake in the fund and its management.<sup>17</sup> The fund's typical investment size is US\$50-100 million, mostly through equity purchases.<sup>18</sup> During its first phase, the fund invested in 11 projects.<sup>19</sup> This included:

- Telecommunications in Cambodia;
- Port investment in Thailand;
- Potash mining in Laos;
- Iron ore mining in Malaysia;
- Transport in Philippines;
- Smelting in Indonesia; and
- Cement export from China.

The second phase of funding will be in place within the next two years, and China is seeking to raise an additional US\$3 billion.<sup>20</sup> Within ASEAN, the fund will focus its future investments on mainland Southeast Asia and Indonesia.<sup>21</sup>

## CAF's Environmental and Social Standards

Like many other investment funds, CAF claims to have a set of “core values” that guide its investments. These stated values include social responsibility and sustainable development.<sup>22</sup> The fund states that it “specializes in sustainable investments that not only bring financial growth to the investee company but also significant values to the community.”<sup>23</sup> However, the fund is targeting a number of very high-risk areas, including mining, energy and agro-industry. Due to the high-risk nature of these investments, appropriate social and environmental policies are crucial.

In order to secure the International Finance Corporation's investment, the fund was required to put in place an environmental and social management system and commit to ensuring that the IFC's Performance Standards are applied to its investments.<sup>24</sup> One of the stated objectives of the IFC's involvement was to influence the fund to implement the Equator Principles (which mirror the Performance Standards).<sup>25</sup>

CAF claims that its environmental and social management system is an integral process of the investment team's evaluation and selection of investment opportunities.<sup>26</sup> In July 2014, the fund issued the *Social Responsibility and Environmental Protection Guidelines for Investments in the ASEAN Region*. All companies and projects that receive investment from the fund are required to “accept and execute” the guidelines.<sup>27</sup>

The fund's social and environmental guidelines are contained in a relatively brief 15-page document, which includes basic details on its investment principles and procedure, performance standards, evaluation and performance monitoring, and post-investment management. Although the overall content of the guidelines is basic, the document includes an annex that states: “[the fund] adopts the Performance Standards on Environmental and Social Sustainability issued by International Financial Corporation (IFC) of the World Bank Group to manage and assist target companies to achieve best performance.”<sup>28</sup>

The adoption and publication of the fund's guidelines represent a step forward in social and environmental governance that no other Chinese-led funds have taken to date. However, there is still very little information available regarding specific projects, and no documents have been published regarding assessments or evaluation of specific fund investments. Thus, the effectiveness of the environmental and social management system remains an open question, as does the extent to which the fund is diligently ensuring that Performance Standards are met in each of its projects and investments.

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- <sup>2</sup> *Ibid.*
- <sup>3</sup> *Ibid.*
- <sup>4</sup> Silk Road Fund (no date), *Articles of Agreement*. <http://www.silkroadfund.com.cn/enweb/23786/23796/index.html> (accessed May 2016).
- <sup>5</sup> Silk Road Fund (no date), *About Us*. <http://www.silkroadfund.com.cn/enweb/23775/23767/index.html> (accessed May 2016).
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- <sup>14</sup> China-ASEAN Investment Cooperation Fund (no date), *About CAF: Mission & Vision*. <http://www.china-asean-fund.com/about-caf.php?slider1=1> (accessed May 2016).
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- <sup>19</sup> China-ASEAN Investment Cooperation Fund (no date), *News & Press Release*. <http://www.china-asean-fund.com/news.php?slider1=1> (accessed November 2015).
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- <sup>23</sup> *Ibid.*
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