



AIIB: A Progress Report

June 2016

Against the dramatic events unfolding following Brexit on the other side of the world, on 25-26 June 2016, the AIIB held its first annual meeting of the Board of Governors in Beijing. Jin Liqun, President of AIIB reported on the AIIB's progress during its first six months of operation since 16 January 2016 and advised that "considerable progress has been made on the strategic institutional and operational priorities, with several of the mid-term performance milestones met, and others are well underway".

During the annual meeting, President Jin also reported that the Board of Directors of AIIB approved the establishment of the AIIB Project Preparation Special Fund on 24 June 2016, which is expected to commence operation in the fall of 2016, and that the Government of China has made the first commitment to such fund with a contribution of US\$50 million. The fund is expected to provide loans to the AIIB's low and middle income member countries for preparation activities, including environmental, social, legal, procurement and technical assessments and analysis, and advisory services.

The AIIB was founded at the end of last year and officially commenced business on 16 January 2016, with 57 member countries and US\$100 billion in authorised capital. It is still expecting new members to join. The closing date for applications for membership is 30 September 2016. 24 representatives of potential applicants attended the AIIB annual meeting.

As part of the AIIB's annual meeting programme, two seminars were held on 26 June 2016. Governors, their delegations and guests from the business community, media and civil society attended the seminar. The seminar on "the Infrastructure and Global Economic Growth" discussed opportunities for Multilateral Development Institutions (MDIs) and development partners in the public and private sectors to cooperate to better understand and to help meet the massive infrastructure financing gap. The seminar on "Financing Green Infrastructure: the Role of MDBs" discussed how

MDIs can work with clients and development partners to ensure that new infrastructure investments support the outcome of COP21 (please see our recent article on [COP21](#)).

The next annual meeting of the AIIB is expected to be held in Jeju, Republic of Korea during 16-18 June 2017.

In this article we look back at the last six months of the AIIB's operation and consider the AIIB's role going forward.

Lean, Clean and Green

AIIB's modus operandi is "lean, clean and green: lean, with a small efficient management team and highly skilled staff; clean, an ethical organisation with zero tolerance for corruption; and green, an institution built on respect for the environment."
(AIIB's website)

The AIIB's initial priorities have been the establishment of an operational team and the setting of operational policies and processes.

(a) Establishment of a "lean" operational team

The Articles of Agreement of the AIIB provide for the establishment of a Board of Governors and Board of Directors, the election of a President and appointment of one or more Vice Presidents. Although all powers in the AIIB are vested in the Board of Governors, they are able to delegate their powers (save for certain powers such as the election of the President and amendment of the Articles of Agreement) to the Board of Directors. The Board of Directors is therefore responsible for setting the direction of the AIIB's general operations.

The day-to-day management of the AIIB is left with a senior management team comprising of a President, five Vice Presidents, a General Counsel and a Chief Financial Officer. With the exception of the President, who was elected by the Governors on 16 January 2016, all other

positions were filled during the last six months. The current multinational team has experience in working in both developed and emerging economies, and other MDIs. The first Vice Presidents include three experienced senior public servants from important emerging Asian economies and two experienced Europeans, one with extensive working experience in the World Bank and the other with close ties to the UK Treasury.

During the AIIB's first year of operation, and as part of the AIIB's "lean" commitment, the senior management team will be supported by a workforce of only 100 to 150.

Diagram 1: The AIIB's Governance Structure

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|---|
| <p>Board of Governors (Each member country may appoint one Governor and one Alternate Governor)</p> |
| <p>Board of Directors (The Governors elect 9 regional directors and 3 non-regional directors)</p> |
| <p>Director General of CEI Unit (Reports directly to the Board of Directors) (Appointed: Mr. Hamid Sharif)</p> |
| <p>President (Elected: Mr Jin Liqun)</p> |
| <p>Vice Presidents (Appointed: Sir Danny Alexander; Dr. Kytack Hong; Dr. D.J. Pandian; Dr. Joachim von Amsberg; and Dr. Luky Eko Wuryanto)</p> |
| <p>General Counsel (Appointed: Mr. Gerard Sanders)</p> |
| <p>Chief Financial Officer (Appointed: Mr. Thierry de Longuemar)</p> |

(b) Setting of "clean and green" policies and processes

With support from MDIs, bilateral agencies and international experts and extensive discussion with member countries, the AIIB has in the last six months finalised all key operational policies. These include a code of conduct, a procurement policy and, as part of the AIIB's "green commitment and an Environmental and Social Framework (ESF). The ESF is broadly similar in nature to those of the World Bank and other established MDIs.

The AIIB has also, as part of its "clean" commitment, established a Compliance, Effectiveness and Integrity (CEI) Unit that will exercise oversight over the management and report directly to the Board of Directors.

President Jin recognises that a "clean" organisation is not just about having a set of rules and procedures; implementation is key. From his perspective, it is important to develop a good corporate culture, which

holds its staff to high standards. This he says is "far more important than just making loans."

Cooperation with Multilateral and Bilateral Development Institutions

"The purpose of the bank shall be to ... (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions." (Article 1(1) of the AIIB Articles)

In the last six months, the AIIB has entered into co-financing framework agreements and several memoranda of understanding with MDIs (see Table 1: Agreements entered into by the AIIB). In these agreements, parties have agreed to strengthen cooperation and promote economic development and investment in countries where both are active.

These agreements also pave the way for parties to jointly fund projects, more commonly referred to as co-financing. A number of projects have already been earmarked for co-financing (see Table 2: Approved AIIB Projects) and the AIIB is working with MDIs to identify other co-financing opportunities.

Table 1: Agreements entered into by the AIIB

| Date of Agreement | Agreements entered into by the AIIB |
|-------------------|--|
| 13 April 2016 | Co-financing Framework Agreement with the World Bank |
| 2 May 2016 | Memorandum of Understanding with the Asian Development Bank (ADB) |
| 11 May 2016 | Memorandum of Understanding with the European Bank for Reconstruction and Development (EBRD) |
| 30 May 2016 | Framework Agreement with European Investment Bank (EIB) |

Investing in Infrastructure and other Productive Sectors

"The purpose of the bank shall be to (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors..." (Article 1(1) of the AIIB Articles)

On 24 June 2016, four loans with a total amount of US\$509 million have been approved by the Board of Directors of the AIIB to finance the projects listed in the table below. Three of the four projects are to be co-financed with MDIs.

The AIIB intends to provide US\$1.2 billion in financing by the end of this year and US\$10 billion to US\$15 billion each year thereafter for the next five or six years. As advised by President Jin at the AIIB annual meeting, the AIIB is poised to meet the US\$1.2 billion financing objective for 2016 and may exceed this target. Further projects are expected to be announced later this year. These projects are expected to focus on energy, power, transportation, rural infrastructure, environmental protection and logistics.

Table 2: Approved AIIB Projects

| Project | Objective | AIIB Funding (US\$) |
|---|--|---------------------|
| Indonesia: National Slum Upgrading Project (Co-financed with the World Bank) | This project aims to improve access to urban infrastructure and services (including clean water, electricity and basic sanitation) in Indonesia's urban slums. Direct and indirect beneficiaries of this project is expected to include 9.7 million slum dwellers in 154 cities. | 216.5m |
| Bangladesh: Power Distribution System Upgrade and Expansion Project | This project is designed to (i) expand electricity coverage by providing 2.5 million new service connections in rural areas; and (ii) upgrade transmission and distribution networks. | 165.0m |
| Pakistan: National Motorway M-4 (Shorkot-Khanewal Section) Project (Co-financed with the ADB and UK's Department for International Development) | This 64km road, four-lane project is intended to provide a faster, safer and more cost-effective connection between northern and southern parts of Punjab. | 100.0m |
| Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project (Co-financed with the EBRD) | This 5km road upgrade from Dushanbe to the border of Uzbekistan is intended to increase connectivity along the Tajikistan section of the Central Asia Regional Economic Cooperation Corridor 3. | 27.5m |

Outlook

Asia's infrastructure needs have grown exponentially over the last decade. The requirement for greater levels of infrastructure investment in Asia's rapidly developing economies is reaching critical point – a 2012 ADB report noted that in Asia, 1.8 billion people are not connected to basic sanitation services, 800 million lack electricity, and 600 million do not have access to potable water. It has been estimated that US\$8 trillion is needed in investment to plug the infrastructure gap.

There are vast opportunities for a new development bank, such as the AIIB, with a focus on financing large-scale infrastructure to work alongside existing MDIs to plug this infrastructure gap.

Although, the AIIB, as an institution, may not have the same track record and experience as other more established MDIs, its leadership team has. The AIIB has also worked with many of the established MDIs to formulate their own policies.

The AIIB's goal is to be "an agile and innovative institution that learns from the past and recognises the promise and opportunities of the future". We expect that its geographical focus and sectoral mandate will help it develop niche skills and focused expertise in the area of infrastructure investment in Asia; benefiting countries in the Asia region.

With over 20 members waiting to join the AIIB, it is difficult to fault the AIIB's performance over the last six months. Now that most of the building blocks are in place for AIIB's operation, we look forward to the AIIB's contribution to building greater connectivity within the Asia region.

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