

AIIB AND INFRASTRUCTURE INVESTMENT IN ASIA

Ke Fang

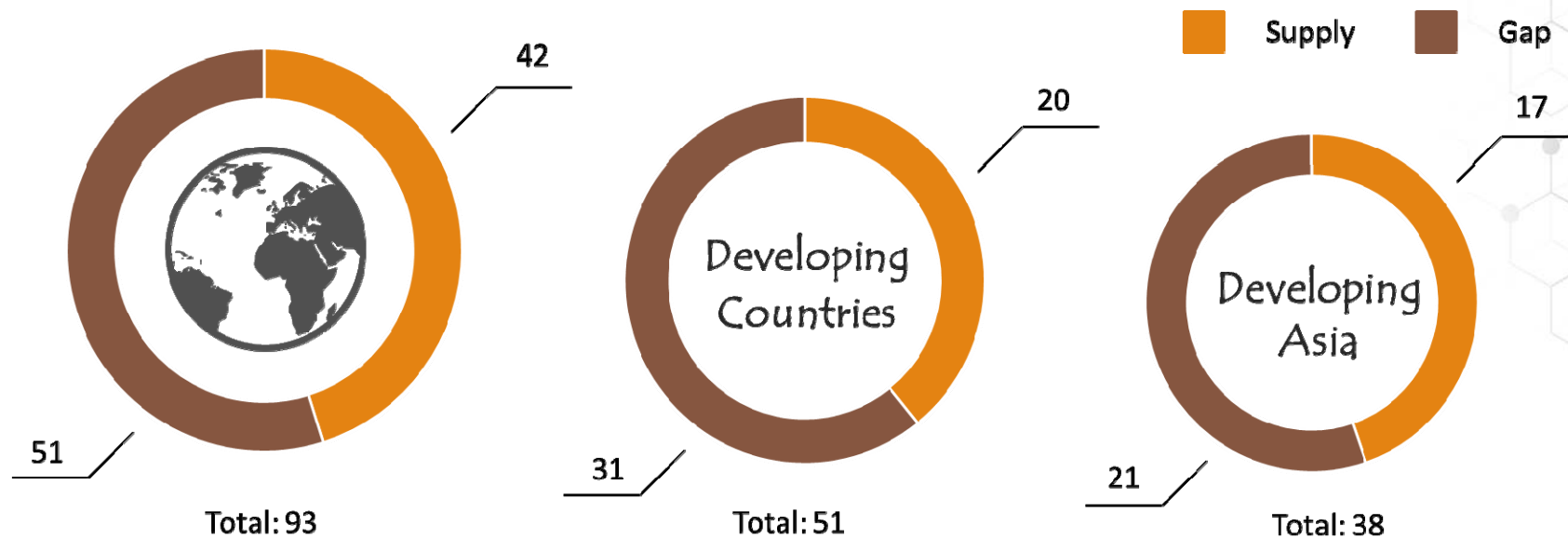
September 4, 2017



NEED TO INVEST IN INFRASTRUCTURE

Infrastructure Demand, Supply and Gaps by Regions

2015 – 2030, US\$ trillion, constant 2010 \$



Source: Financing change: How to mobilize private sector financing for sustainable infrastructure, McKinsey & Company, 2016

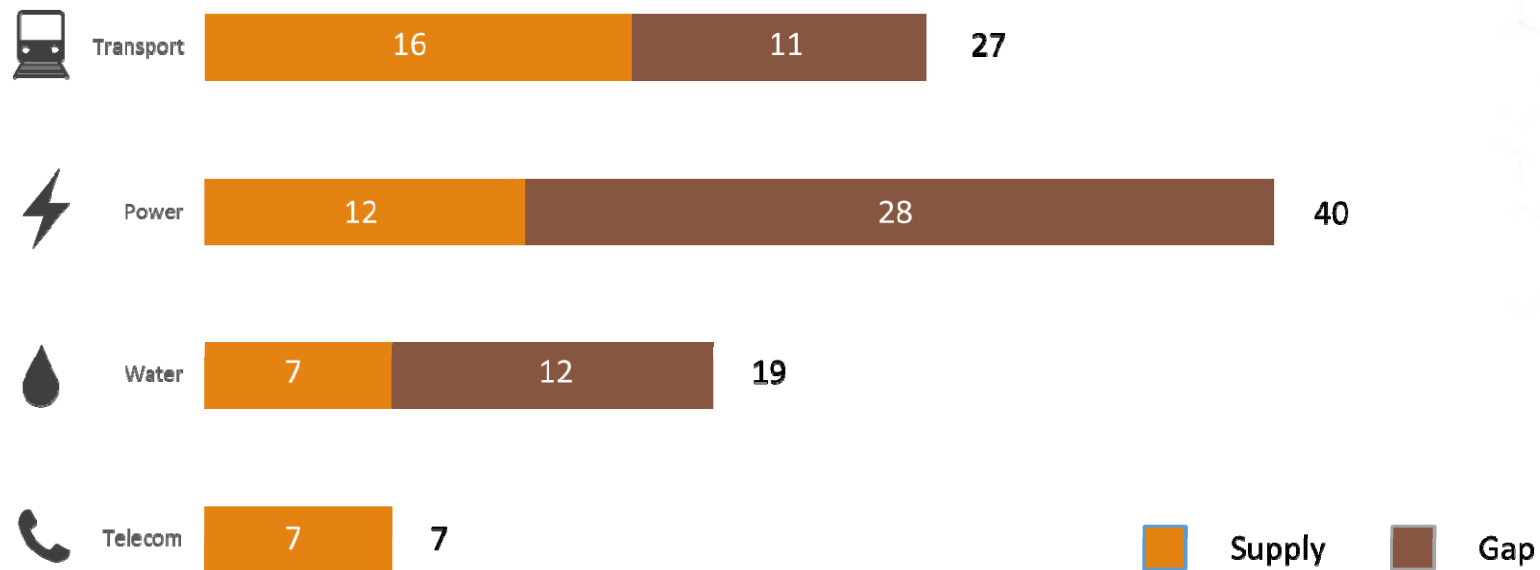


ASIAN INFRASTRUCTURE
INVESTMENT BANK

NEED TO INVEST IN INFRASTRUCTURE

Infrastructure Demand, Supply and Gaps by Sectors

Global, 2015 – 2030, US\$ trillion, constant 2010 \$

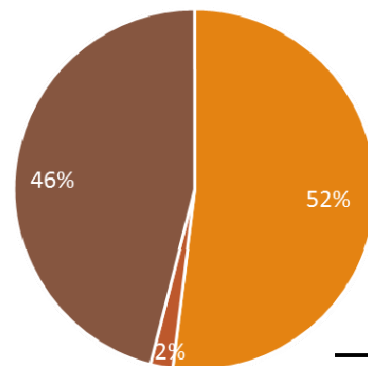


Source: Financing change: How to mobilize private sector financing for sustainable infrastructure, McKinsey & Company, 2016

NEED TO INVEST IN GREEN GROWTH

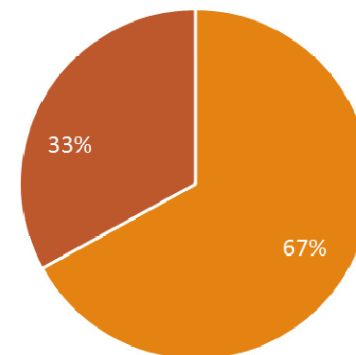
Green Infrastructure Demand for next 15 years by Sector and Country Type

Green Infrastructure Demand by
Country Type



■ Middle-income Countries ■ Low-income Countries
■ High-income Countries

Green Infrastructure Demand by
Sector



■ Energy and Transport ■ Others

Incremental
additional cost

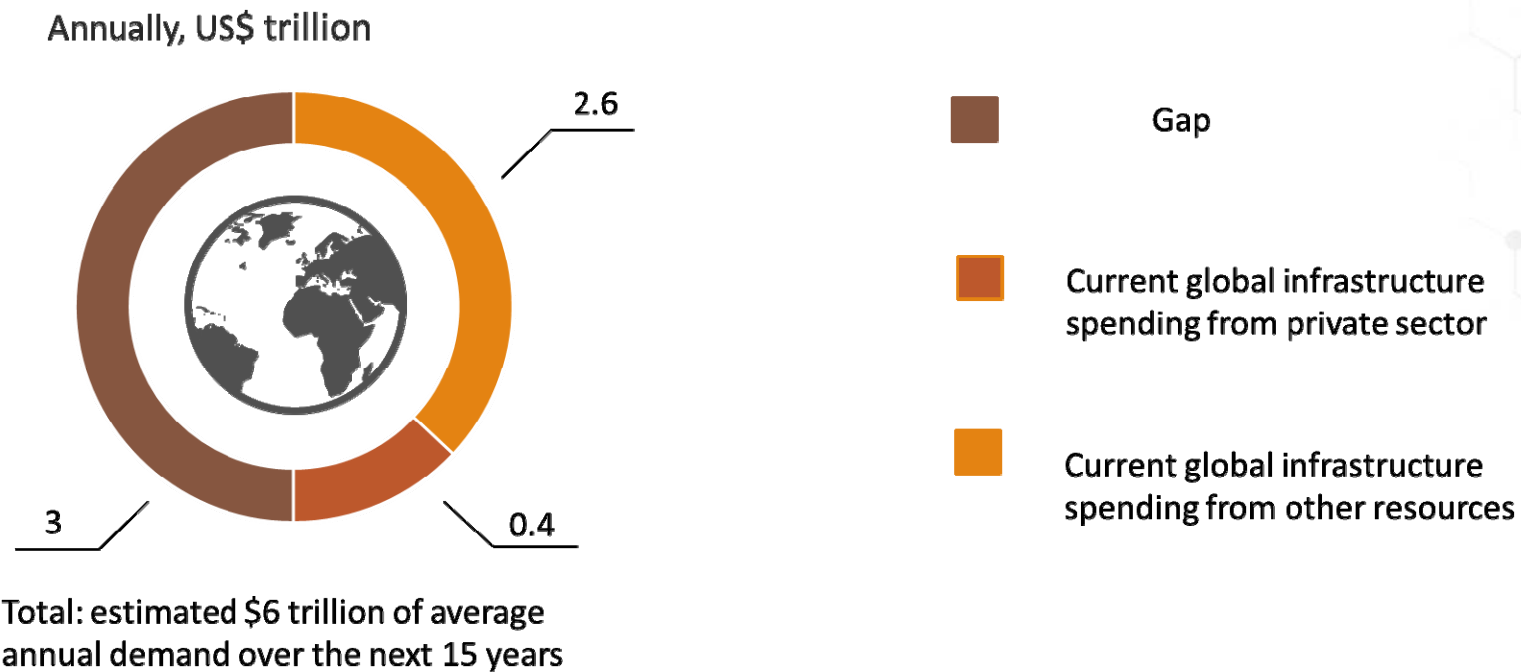
3-4

90

Source: Financing change: How to mobilize private sector financing for sustainable infrastructure, McKinsey & Company, 2016

NEED TO MOBILIZE PRIVATE CAPITAL

Private Capital is Supposed to be the Biggest Source to Fill the Gap



Source: Financing change: Driving sustainable development through better infrastructure: Key elements of a transformation program, Global Commission on the Economy and Climate, 2016

WHO IS AIIB?

- A new Multilateral Development Bank (MDB) conceived for the 21st century
- Envisaged to complement and cooperate with the existing MDBs to jointly address the daunting infrastructure needs in Asia
- With high standards on governance, accountability, financial, procurement, and environmental and social policies, while avoiding lengthy reviews and excessive conditions



WHAT DOES AIIB SUPPORT?

- Foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors



WHAT ARE AIIB'S FOCUS?

- Cross country connectivity
 - transport, energy, trade logistics, special economic zones
- Sustainable infrastructure
 - green energy, green transport, sustainable cities
- Private capital mobilization for infrastructure



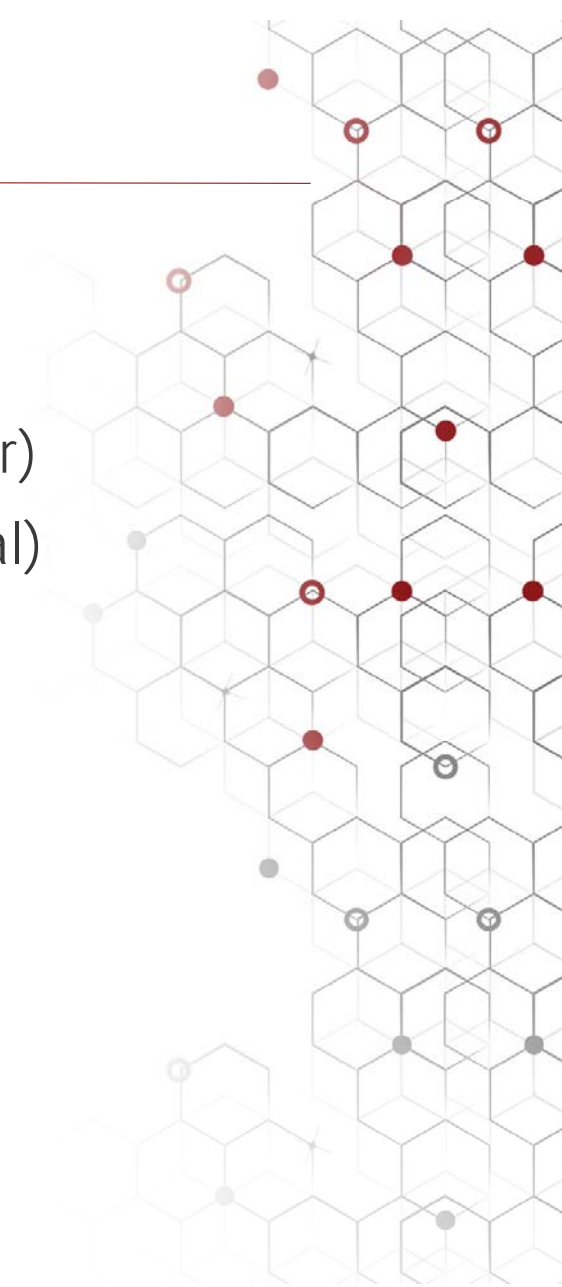
HOW DOES AIIB CARRY OUT ITS OPERATIONS?

- **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



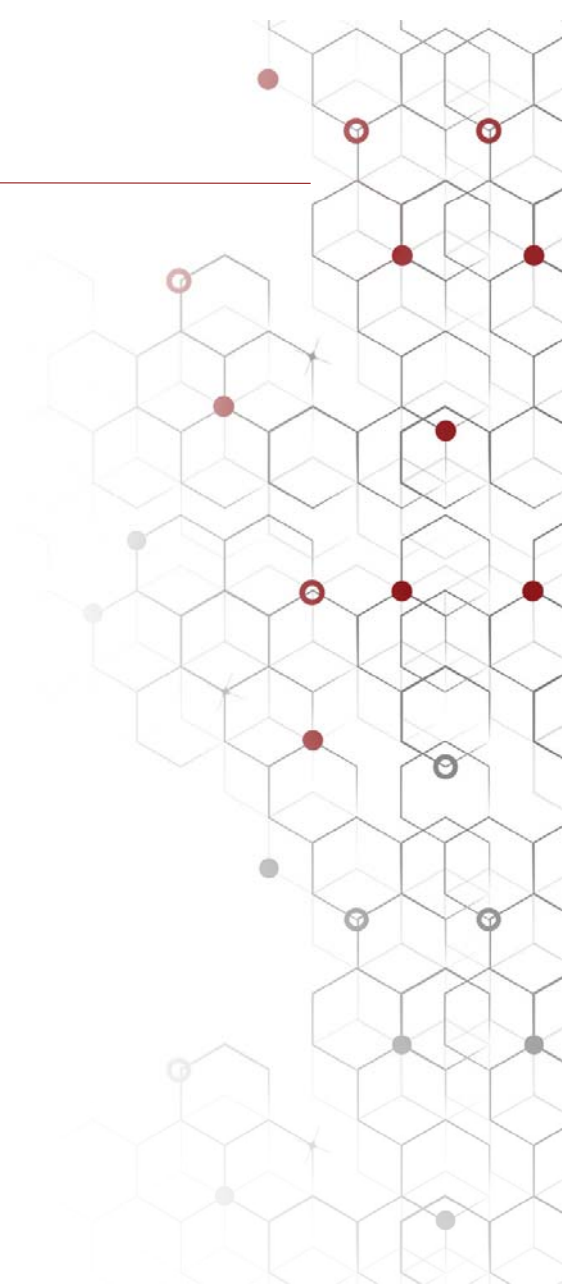
AIIB'S FINANCING POLICY

- Loans
 - Sovereign-backed (sovereign borrower or guarantor)
 - non-sovereign-backed (private, SOEs, or subnational)
- Equity Investments
- Guarantees and the underwriting of securities
- Other types of financing as determined by the Board of Governors



AIIB'S FINANCING POLICY

- No concessional window
- Special Funds and Trust Funds
 - The Bank has established a Special Fund for Project Preparation with US\$100 million (contributed by China and United Kingdoms)



SOVEREIGN-BACKED LOANS

- Currency:
 - U.S. Dollars; other currencies, only if the Bank is able to hedge non-dollar lending through swaps efficiently
- Pricing:
 - **Interest:** the interest rate consists of a market-based variable reference rate (LIBOR) and a fixed spread
 - **one-time front-end fee**, is charged on the committed Loan amount
 - **commitment fee**, is charged on the undisbursed amount of the Loan
- Maturities:
 - Maximum Final Maturity: 35 years
 - Maximum Weighted Average Maturity: 20 years

NON-SOVEREIGN-BACKED FINANCING

- Currency:
 - U.S. Dollars;
 - Other currencies, only if the Bank is able to hedge non-dollar lending through swaps efficiently
- Pricing: Market-based principles:
 - The Bank may charge fees at prevailing market rates
 - The Bank may offer a range of options and features (maturities, grace periods, interest payments)
- Maximum Final Maturity: 18 years

WHY DO PROJECT SPONSORS COME TO AIIB?

- Political Risk Management
- Long term involvement – longer tenure
- Project quality
- Diversification of financing source
- Attracting other financiers



WORKING WITH SPONSORS

- Fund your Infrastructure development
- Public sector financing
- PPP or private negotiated
- Privately initiated projects
- No crowding out : market rate



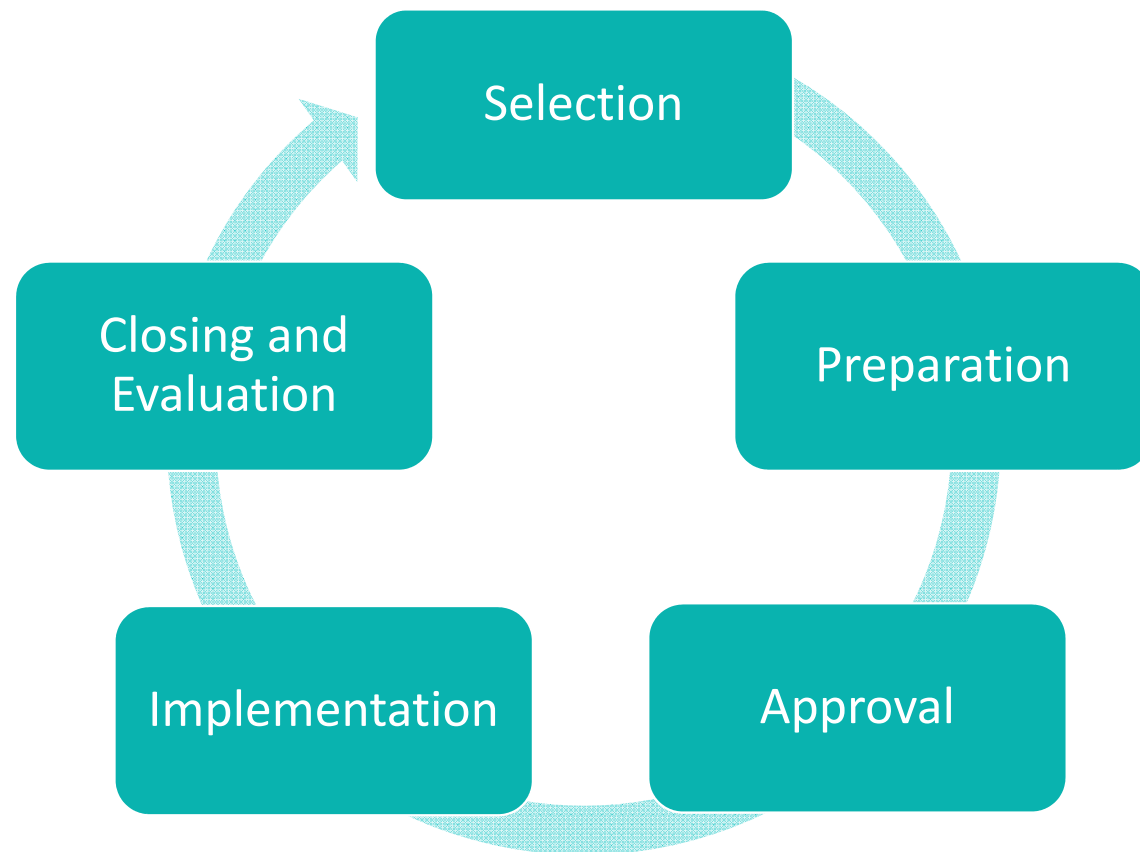
WORKING WITH DIFFERENT FINANCIAL INSTITUTIONS

- MDBs
- DFIs
- Commercial Banks
- Pension funds
- Insurance



ASIAN INFRASTRUCTURE
INVESTMENT BANK

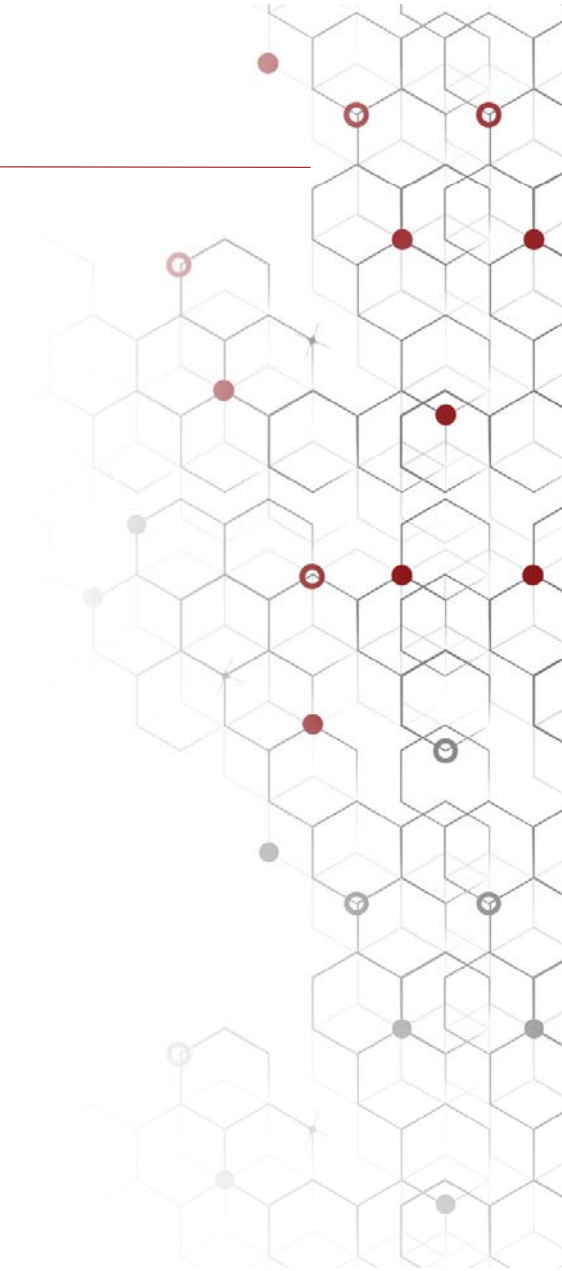
THE AIIB'S "PROJECT CYCLE"



ASIAN INFRASTRUCTURE
INVESTMENT BANK

KEY CRITERIA FOR PROJECT SELECTION

- Are we doing the 'right' thing?
 - Strategic Fit
 - AIIB's Value Added
 - AIIB's Capacity
- Are we doing the thing "right"?
 - Project Quality



STRATEGIC FIT

- What is the Strategic Fit of the Project?
 - Does the Project reflects the country's needs? Does it follow the government's strategic priorities?
 - Does the Project follow AIIBs strategic priority themes?
 - ✓ Cross-country connectivity (transport, energy, trade logistics, special economic zones)
 - ✓ Green infrastructure (green energy, green transport, sustainable cities)
 - ✓ Private capital mobilization for infrastructure

AIIB VALUE ADDED

- What is the value added of AIIB participation in the Project?
The Project should reflect some of the following dimensions of value added:

- Enhancing financial viability by filling financing gap and providing attractive financing terms
- Facilitating trust and agreements between stakeholders
- Enhancing development partner's efforts on policy development
- Reducing project risk
- Crowding-in private finance
- Enhancing project quality and adherence to international standards
- Supporting innovative projects and creating demonstration impact

AIIB'S CAPACITY

- Is the Project compatible with the Bank's current financial, risk-bearing, institutional, and technical capacity?
- What is the Project's impact for the Bank's future capacity?
 - What is the financial impact on the Bank?
 - Does the Project help the Bank acquire or develop needed skills, or position itself in important markets?

PROJECT QUALITY

- Will the Project achieve its intended results?
 - does the project design follow and optimize the expected strategic fit and value added?
 - Are proposed objective and results achievable and sustainable?
 - Is there a solid M&E system in place?
 - Is the Project technically, financially, economically sound?
 - Are environmental, social, and fiduciary issues adequately addressed? Is the project in compliance with Bank's ESPs?
 - Are project risks adequately managed?
 - What are the implementation agency's capacity and track records?

REQUIRED PROJECT ASSESSMENT

- The Bank is required to carry out an assessment for each proposed Project before approving the Project.
- The assessment comprises various elements.
 - The scope of the assessment is based on the specific Project considerations, including the recipient, the Project's development objectives and risks involved, as well as the type of Financing provided.
- The Bank ensures that all elements of the assessment are carried out in a coordinated manner.

KEY ELEMENTS OF PROJECT ASSESSMENT

- Technical Assessment
- Economic Assessment
- Financial Assessment
- Environmental and Social Assessment
- Integrity and Financial Management Assessment
- Legal Assessment
- Procurement Assessment
- Risk Assessment



PROCUREMENT POLICY

- Universal procurement
- Principle-based Approach
- Objective is to establish whether the proposed project procurement arrangements will achieve a successful implementation of the project through:
 - efficient, fair, ethical and transparent processes;
 - a fit for purpose approach that optimizes a value for money outcome, and, provides for social and environmental sustainability

ENVIRONMENT AND SOCIAL POLICY

- Seeks broad compatibility with other MDBs
- Uses established principles and practices
- Focuses on management of risks and impacts
- Integrates environmental and social aspects into the Project
- Includes measures for avoidance, minimization and mitigation
- Promotes effective implementation and monitoring
- Mandates public consultation and disclosure
- Includes project level Grievance Redress Mechanisms

AIIB'S ACCOMPLISHMENTS UP TO DATE

- Received Triple AAA ratings from "Big Three"



Open for Business

The Board of Governors officially opened AIIB on January 16th, 2016.

MILESTONES



Membership

56 Members, 24 Prospective Members.

MILESTONES



Projects Approved

Guided by AIIB's strategic goals and thematic priorities.

MILESTONES

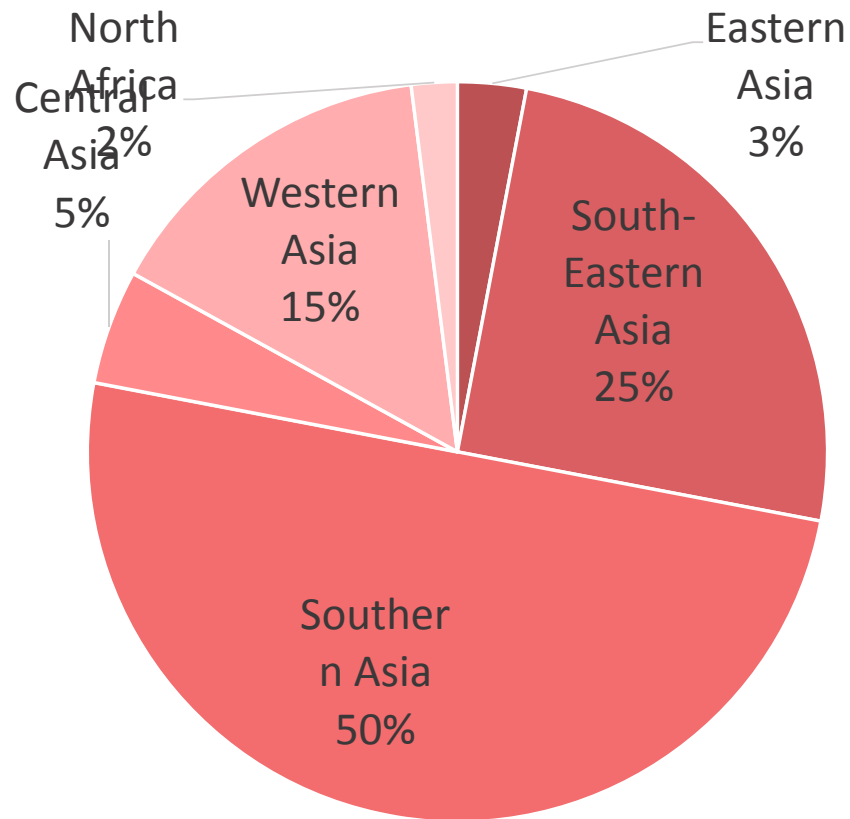


Total Loans

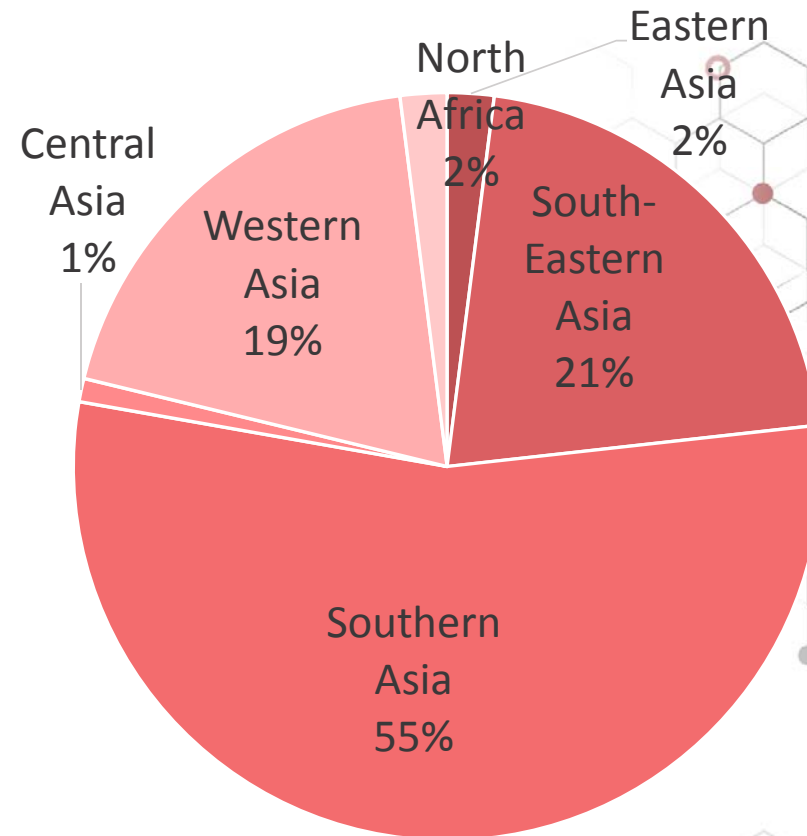
The Bank's business plan and budget is built around four institutional goals and three thematic priorities.

MILESTONES

INVESTMENT PROGRAM: REGIONAL SHARE



By Number of Projects

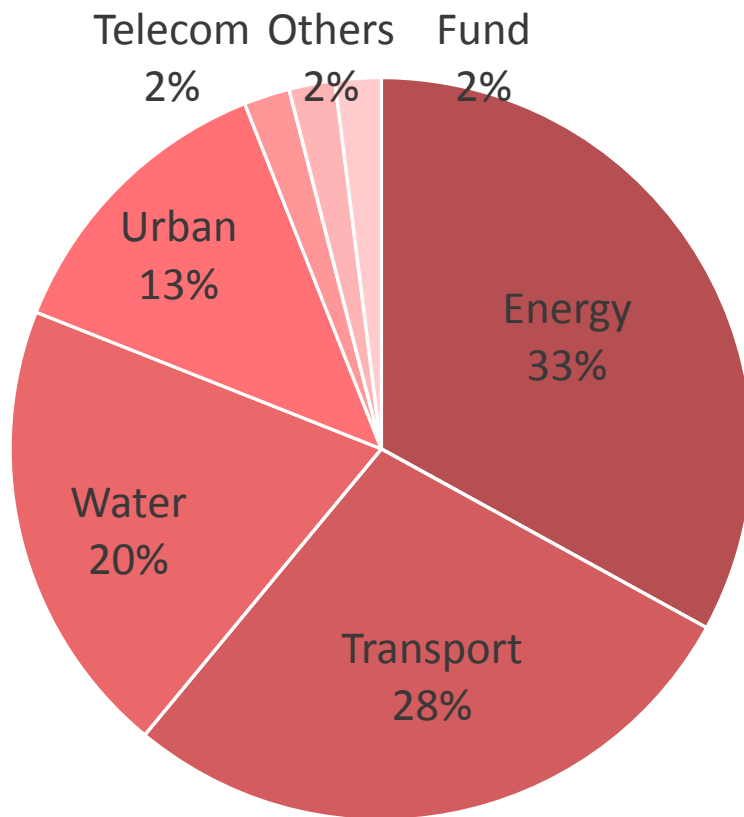


By Commitment Amount

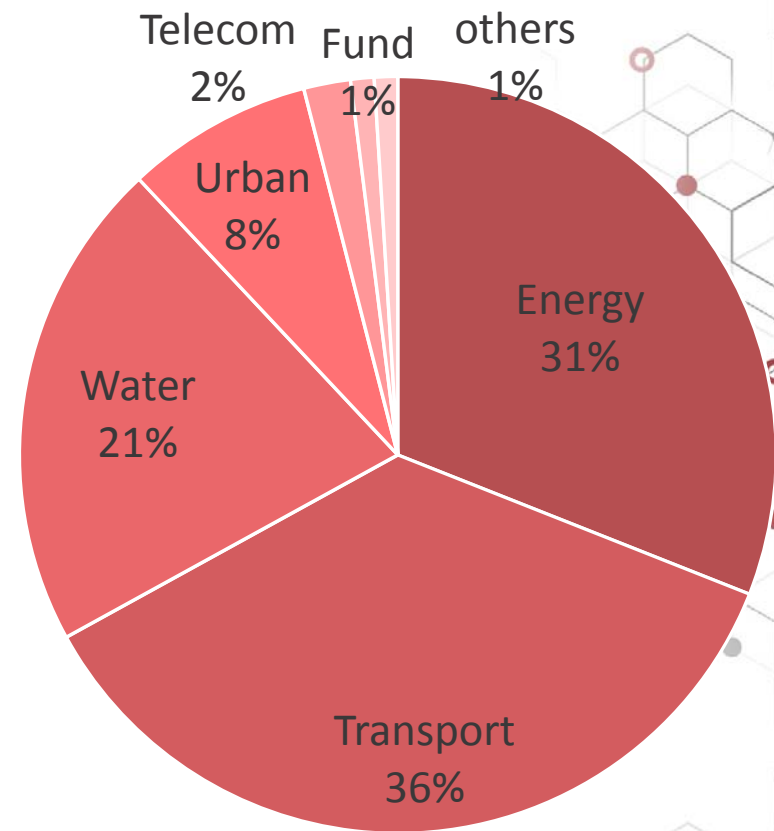


ASIAN INFRASTRUCTURE
INVESTMENT BANK

INVESTMENT PROGRAM: SECTOR SHARE



By Number of Projects



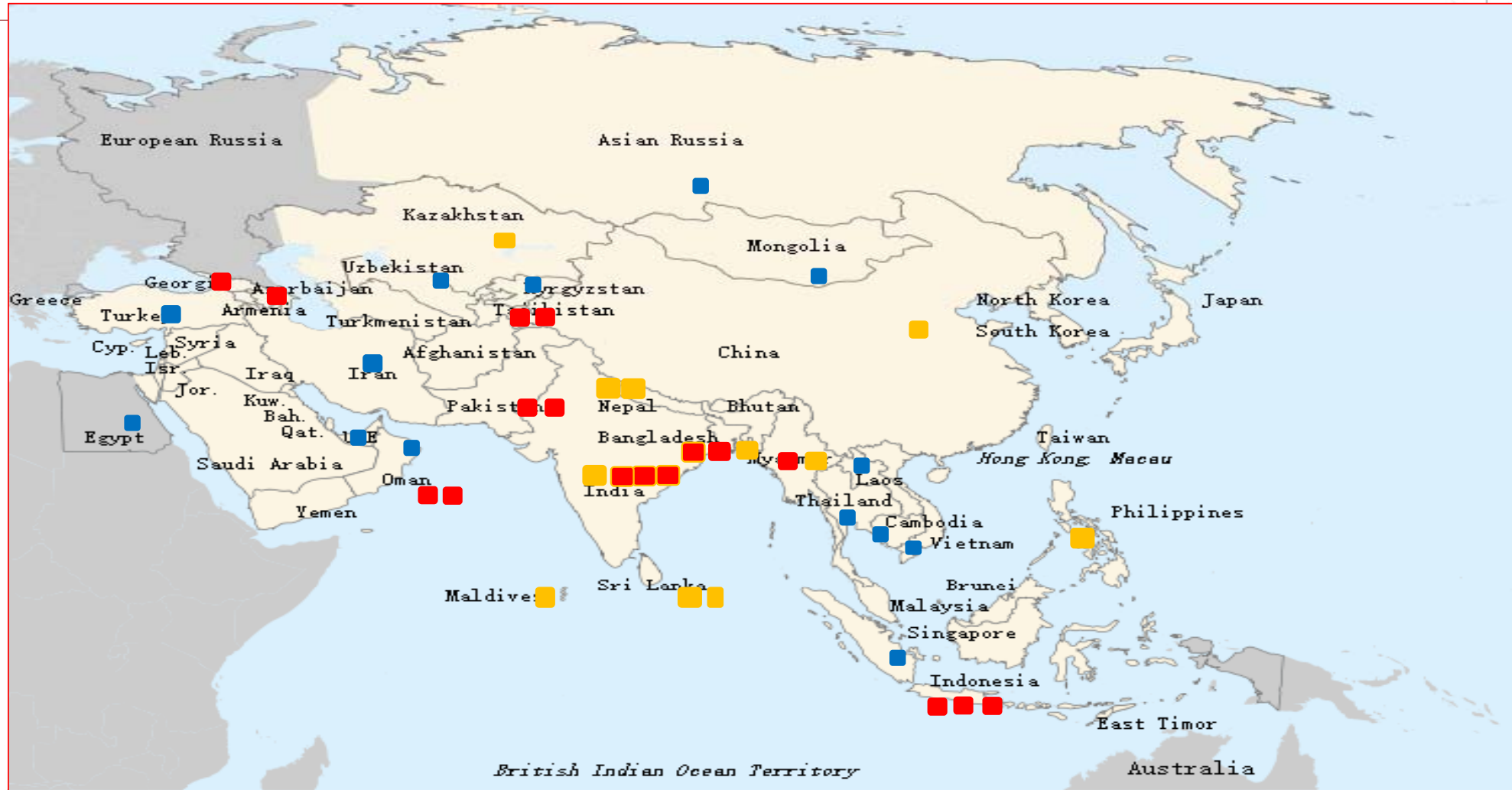
By Commitment Amount



ASIAN INFRASTRUCTURE
INVESTMENT BANK

LOCATION OF AIIB PROJECTS

- Approved Projects
- Confirmed and Forthcoming Projects, 2017- 2018 Q1
- Need to further develop business



THANK YOU!

For more information, please visit <https://www.aiib.org>



ASIAN INFRASTRUCTURE
INVESTMENT BANK