

ASIAN INFRASTRUCTURE INVESTMENT BANK - AIIB



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NATURE AND PURPOSE

CREATION: The Chinese President Xi Jinping and the prime-minister Li Keqiang announced the "AIIB initiative" during a visit to Southeast Asian countries, in October 2013. The AIIB was planned by China to "promote the interconnection and economic integration in the region" and the cooperation with multilateral development banks" ([AIIB, n.d.](#)). In January 2016, the Asian Infrastructure Investment Bank officially started its operations, with 57 signatory countries to its Articles of Agreement at that time.

ASIAN INFRASTRUCTURE
INVESTMENT BANK

RATING



The presence of many industrialized countries among AIIB investors gives the Bank wide access to the stock market. With a good reputation in the capital market, AIIB's shares hit the AAA rating, according to an [assessment](#) made in June 2017 by Moody's Investors Service ([Moody's Investors Service, 2017](#)). This scenario is based on AIIB's governmental framework, its risk policies, negotiation process and liquidity policies, which are stable in the long term. Fitch Ratings also [evaluated](#) AIIB's shares as AAA, based on the Bank's high government quality, excellent liquidity and easy access to the capital market ([Fitch Ratings, 2017](#)).

BOND ISSUING



The AIIB expects to move closer to being able to issue bonds, especially after the release of the international credit rating. The initial bond should be at least of US\$ 1 billion. The AIIB, however, has no rush to issue bonds to finance the loans, because the Bank had received around US\$ 9 billion in paid-in capital, which means it has enough capital to invest in its projects during the next four or five years ([Nikkei Asian Review, 2017](#)).

Objective

- Development of the sectors of infrastructure and production in Asian continent, where the investment of traditional institutions has not been sufficient;
- According to its Articles of Agreement, the AIIB seeks to (i) foster sustainable development and (ii) promote regional cooperation and partnerships by dealing with development challenges common to Asian countries;
- With the purpose of differentiating from traditional sources of finance, the Bank seeks a faster and less bureaucratic system, centered on a simpler structure and more open to conceding loans ([AIIB, 2015](#)).

Capital Structure

- The AIIB has an authorized capital reserve of US\$ 100 billion, divided into a hundred million shares with the value of US\$ 100 each;
- Within the US\$ 100 billion of authorized capital, US\$ 20 billion correspond to paid-in capital (portion of subscribed capital already paid) and US\$ 80 billion to callable capital (not yet paid);
- The members of the Bank contribute with capital subscriptions of different values, but 75% of the Bank's reserve capital must be composed by shares controlled by regional members. Among the largest shareholders of the Bank are China, India, Russia, Germany and South Korea ([AIIB, 2015](#)).

Governance structure

The AIIB's [Articles of Agreement](#) establish the financial and governance procedures of the Bank, based on a four level structure ([AIIB, 2015](#)):

(i) BOARD OF GOVERNORS, with annual meetings (all member countries are entitled to the post of Governor);

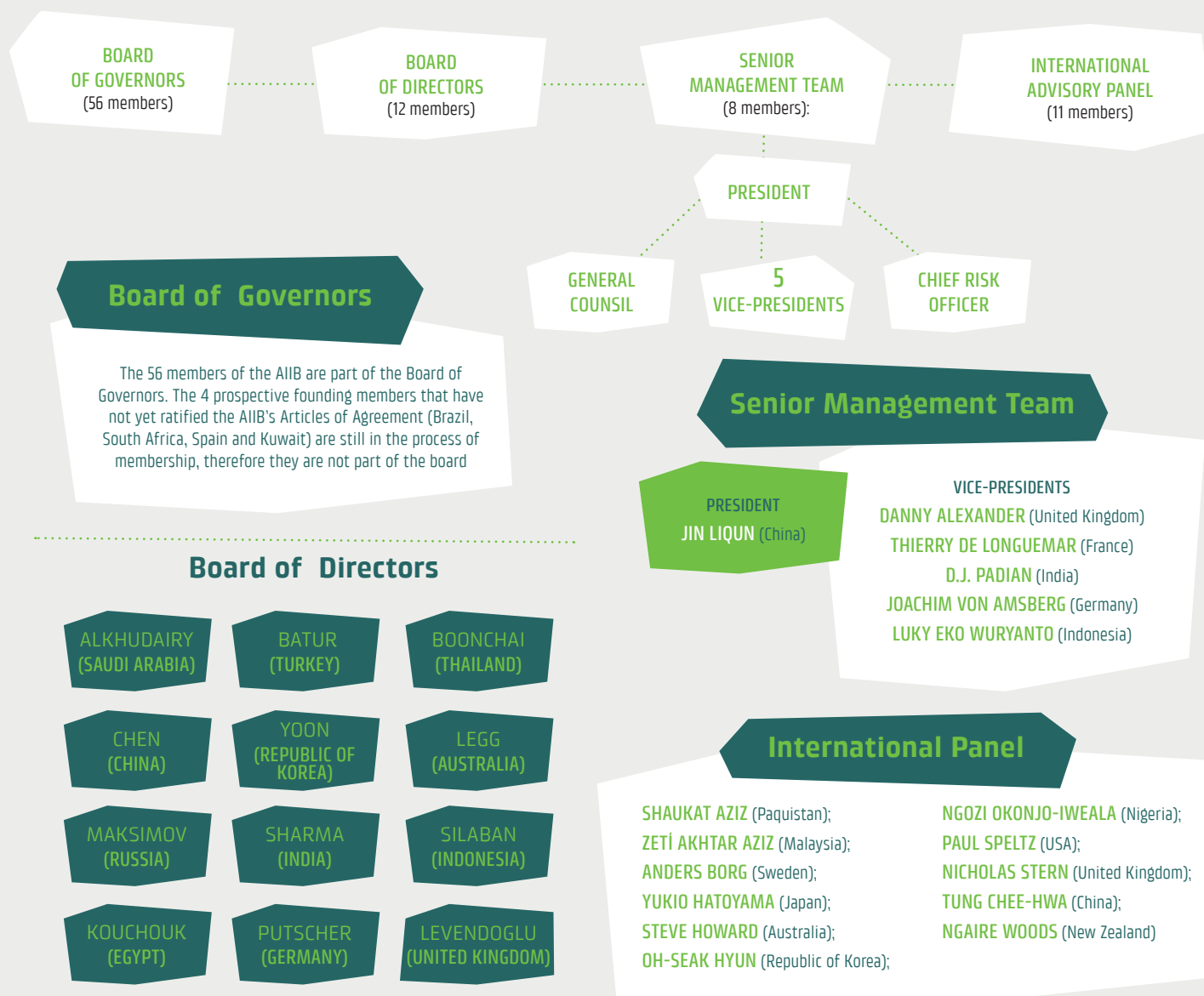
(ii) BOARD OF DIRECTORS (twelve members: nine representatives from regional countries and three representatives from non-regional countries);

(iii) SENIOR MANAGEMENT (President of the Bank – elected by members of the Board of Governors – the five Vice-Presidents, the General Council and the Chief Risk Officer);

(iv) INTERNATIONAL ADVISORY PANEL (specialists indicated by the Presidency).

Governance Structure of the AIIB

Source: elaborated by the author, based on [AIIB, 2017a](#).



REGIONAL MEMBERS

Australia, Azerbaijan, Bangladesh, Brunei Darussalam, Cambodia, China, Georgia, Hong Kong, India, Indonesia, Iran, Israel, Jordan, Kazakhstan, Korea, Kyrgyz Republic, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, New Zealand, Oman, Pakistan, Philippines, Qatar, Russia, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, Turkey, United Arab Emirates, Uzbekistan, Vietnam.

NON-REGIONAL MEMBERS

Austria, Denmark, Egypt, Ethiopia, Finland, France, Germany, Hungary, Iceland, Italy, Luxemburg, Malta, Netherlands, Norway, Poland, Portugal, Sweden, Switzerland and United Kingdom.

PROSPECTIVE MEMBERS

Afghanistan, Argentina, Armenia, Belgium, Bahrain, Bolivia, Cyprus, Brazil*, Fiji, Canada, Kuwait*, Chile, Samoa, Greece, Timor-Leste, Ireland, Tonga, Madagascar, Peru, Romania, South Africa*, Spain*, Sudan, Venezuela.

* Prospective Founding Members

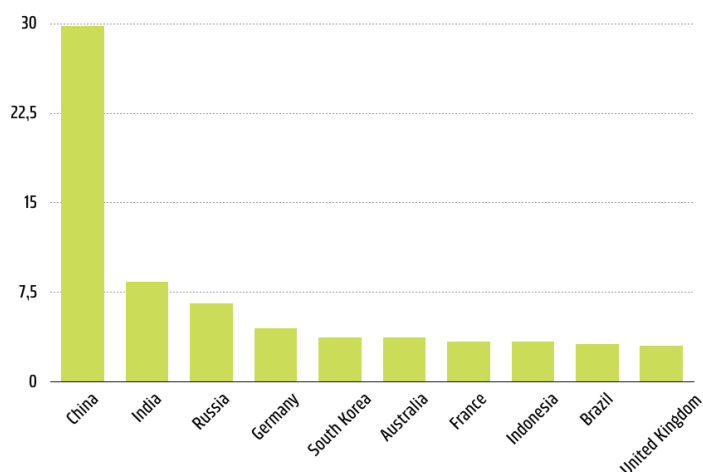
Members of the Bank

- Currently, the Bank has 60 signatories of the Articles of Agreement, called "Prospective Founding Members". Among them, 4 (Brazil, South Africa, Spain and Kuwait) have not yet completed the process of membership; therefore, the official number of members of the AIIB is 56. The Bank also has a prospective member list that counts with 20 countries; hence, 80 is the total prospective number of members of the Bank;
- In order to become a founding member, it is necessary for the country to have signed the [Articles of Agreement](#) before December 31st of 2015 and to have met certain requirements, such as depositing ratification mechanisms and the payment of initial capital ([AIIB, 2015](#));
- The membership is open to any country of the world, but must be approved by the Board of Governors;
- The members are divided between regional and non-regional and at least 75% of shares must belong to regional countries.

Source: elaborated by the author, based on [AIIB, 2017b](#).

The Ten Main Shareholders of AIIB (in US\$ billion)

*If taken into account the information published by Macaughub, Brazil would no longer be among the top 10 shareholders.



Source: elaborated by the author, based on [China Daily, 2015](#).

Main Investors

China is the main investor in the Bank, having allocated US\$ 29 billion of the US\$ 100 billion of the initial capital. The second biggest investor is India, with a contribution of US\$ 8,37 billion, followed closely by Russia, with US\$ 6,54 billion. Germany is the largest shareholder among non-regional countries, with a contribution of US\$ 4,48 billion, bigger than the South-Korean contribution, of US\$ 3,74 billion. In 2015, Brazil had demonstrated strong interest in being an active member of AIIB, occupying the ninth position in the list of biggest investors ([China Daily, 2015](#)). However, unofficial sources indicate that, due to Brazil's current fiscal adjustment, the present Brazilian administration reduced its stake to 50 shares, which means US\$ 4,6 million ([MACAUHUB, 2017](#)).



Partnerships

Source: [AIIB, 2017c](#)

Socio-environmental Policy

In February 2016, the AIIB publicized its [Socio-environmental Policy](#), which is centered on three main points:

- Management and socio-environmental evaluation
- Involuntary Resettlement
- Indigenous people

According to the document, AIIB projects would be classified according to four categories, based on the level of their socio-environmental impacts. However, these evaluations have not been publicized in the Bank's official means of communication. The client, with the support of AIIB's revision, must design and programme a social management plan in order to mitigate the adverse externalities of the projects financed by the Bank, according to AIIB's Socio-environmental Policy ([AIIB, p.11, 2016](#)). However, according to criticism from civil society, this division of responsibilities between Bank and client transfers the burden of respecting socio-environmental norms to clients, reducing the Bank's accountability.

According to [Esteves, Zoccal e Torres \(2016\)](#), besides transferring responsibilities to clients, other issues criticized by civil society are related to:

- Omission of nuclear materials from the list of prohibited objects;
- Flexibilization of the concept of "free consent" of local communities affected by projects;
- Lack of transparency concerning the methodology used to define the equivalency between national systems and socio-environmental norms.

Partner Institution	Date of Signature of the Agreement
Multilateral Development Banks	
Asian Development Bank	May 2016
Inter-american Development Bank	May 2017
European Bank for Reconstruction and Development	May 2016
World Bank	April 2017
European Investment Bank	May 2016
New Development Bank	April 2017
Governments	
Republic of Korea	February 2017
International Organizations	
Inter-american Investment Corporation	May 2017

Voting Structure

- Voting power is based on a formula which takes into account (i) the capital contribution of each member, (ii) the size of its economy, and (iii) simple votes which each member receives equally. Besides, another 600 votes are directed to each founding member of the Bank, i. e. members which signed the Articles of Agreement before December 2015.
- The five countries with the biggest voting power are China, with 26.06%, India, with 7.5%, Russia with 5.92%

of votes, Germany with 4.1% and South Korea with 3.5%. The decisions involving structure, entry of new members, increase in capital and other important matters require an absolute majority.

- China has a veto power; however, during the last arrangements for the decision on AIIB's balance of representativeness, the country offered to abdicate the veto power in case the United States and Japan decide to join the Bank. Meanwhile, veto power is sustained; however, the Chinese power tends to be diluted insofar as the number of members and investors increases ([KYNGE; PILLING, 2017](#)).



Approved Projects

Source: [AIIB, 2017d](#)

The Asian Infrastructure Investment Bank has approved seventeen projects since it began functioning, in 2016.

PROJECT NAME	COUNTRY	COST (US\$)	FINANCING SOURCES	FIELD	APPROVAL DATE
Dushanbe-Uzbekistan Border Road Improvement Project	Tajikistan	\$ 105,9 million	AIIB and European Bank for Reconstruction and Development	Transport	June 2016
Distribution System Upgrade and Expansion Project	Bangladesh	\$ 165 million	AIIB	Energy	June 2016
National Motorway M-4 Project	Pakistan	\$ 273 million	AIIB and Asian Development Bank	Transport	June 2016
National Slum Upgrading Project	Indonesia	\$ 1.743 billion	AIIB, World Bank and other investors	Multisector	June 2016
Tarbela 5 Hydropower Extension Project	Pakistan	\$ 823.5 million	AIIB, World Bank and Government of Pakistan	Energy	September 2016
Myanmar: Myingyan Power Plant Project	Myanmar	\$ 20 million	AIIB, Asian Development Bank and other investors	Energy	September 2016
Railway System Preparation Project	Oman	\$ 60 million	AIIB and Oman Logistics Group	Transport	December 2016
Duqm Port Commercial Terminal and Operational Zone Development Project	Oman	\$ 353.33 million	AIIB and Government of Oman	Transport	December 2016
Trans Anatolian Natural Gas Pipeline Project (TANAP)	Azerbaijan	\$ 8.6 billion	AIIB, World Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank and other investors	Energy	December 2016
Regional Infrastructure Development Fund Project	Indonesia	\$ 406 million	AIIB, World Bank and other investors	Multisector	March 2017
Dam Operational Improvement and Safety Project Phase II	Indonesia	\$ 300 million	AIIB, International Bank for Reconstruction and Development and Government of Indonesia	Multisector	March 2017
Natural Gas Infrastructure and Efficiency Improvement Project	Bangladesh	\$ 453 million	AIIB, Asian Development Bank, Government of Bangladesh	Energy	March 2017
"Power for all" project	India	\$ 571 million	AIIB and World Bank	Energy	May 2017
Batumi Bypass Road Project	Georgia	\$ 315 million	AIIB and Asian Development Bank	Transport	June 2017
India Infrastructure Fund	India	Target: \$ 750 million AIIB's loan: up to \$ 150 million	AIIB and other investors	Multisector	June 2017
Nurek Hydropower Rehabilitation Project	Tajikistan	\$ 350 million	AIIB, World Bank and Eurasian Development Bank	Energy	June 2017
Gujarat Rural Roads	India	\$ 658 million	AIIB	Transport	July 2017
Egypt Round II Solar PV Feed-in Tariffs Program	Egypt	\$ 825 million	AIIB, International Finance Corporation	Energy	September 2017