



# Asian Infrastructure Investment Bank

**Last Updated: July 2022**

- The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with a mission to improve social and economic outcomes in Asia.
- It is established by the **AIIB Articles of Agreement** (entered into force **Dec. 25, 2015**) which is a multilateral treaty. The Parties (**57 founding members**) to agreement comprise the Membership of the Bank.
- **It is headquartered in Beijing and began its operations in January 2016.**
- By the end of 2020, AIIB had 103 approved Members representing approximately 79% of the global population and 65% of global GDP.
- **By investing in sustainable infrastructure** and other productive sectors in Asia and beyond, it will better connect people, services and markets that over time will **impact the lives of billions** and build a better future.

## What are the Objectives of AIIB?

- **To foster sustainable economic development**, create wealth and improve infrastructure connectivity in Asia by **investing in infrastructure and other productive sectors.**
- **To promote regional cooperation and partnership** in addressing development challenges by working in close collaboration with other multilateral and bilateral development **institutions.**
- **To promote investment in the public and private capital for development purposes**, in particular for development of infrastructure and other productive sectors.
- **To utilize the resources at its disposal** for financing such development in the region, including those projects and programs which will contribute most effectively to the harmonious economic growth of the region,
- **To encourage private investment in projects**, enterprises and activities contributing to economic development in the region when private capital is not available on reasonable terms and conditions.

## How is the AIIB Governed?

### Board of Governors

- The Board of Governors consists of **one Governor and one Alternate Governor** appointed by each **member country.**
  - Governors and Alternate Governors serve at the pleasure of the appointing member. **All the powers of the AIIB are vested in the Board of Governors.**
- The Board of Governors may **delegate to the Board of Directors** any or all its powers, **except** the power to:
  - **admit new members** and determine the conditions of their admission,
  - increase or decrease the **authorized capital stock of the Bank,**
  - **elect the Directors of the Bank** and determine the expenses to be paid for Directors and Alternate Directors and remuneration,
  - **elect the President,** suspend or remove him from office, and determine his remuneration

- and other conditions of service,
- approve, after **reviewing the auditors' report**, the general balance sheet and the statement of profit and loss of the Bank,
- **amend the 'AIIB Articles of Agreement'**,

#### ▪ **Annual Meeting**

- The **first AIIB Board of Governors** meeting was held in **Beijing**, China in 2016.
- The **second** was held in **Jeju, Korea in 2017** and the **third was held in Mumbai, India in 2018**.
- In July, **2019 Luxembourg** hosted **AIIB's first Annual Meeting (held outside Asia)**.
- **In October 2021, [6<sup>th</sup> Annual Meeting of AIIB was held.](#)**

## What is AIIB's Board of Directors?

- The Board of Directors are composed of **twelve members** who shall not be members of the Board of Governors, and of whom:
  - **nine are elected by the Governors representing regional members**, and
  - **three** are elected by the Governors representing **non-regional members**.
- Directors of the Board are persons of high competence in economic and financial matters.
- Directors represent members whose Governors have elected them as well as members whose Governors assign their votes to them.
- Board of Directors is a **non-resident Board to reduce operating cost**.
- It is **responsible for** the direction of the **Bank's general operations**, exercising **all powers delegated** to it by the Board of Governors. This includes:
  - approving the **Bank's strategy, annual plan and budget**,
  - establishing policies,
  - taking decisions concerning Bank operations,
  - and supervising management and operation of the Bank and establishing an oversight mechanism.

## What is the Role of Senior Management?

- **AIIB staff is headed by the President** who is elected by AIIB shareholders for a five-year term and eligible for reelection once.
- The President is supported by Senior Management which includes five Vice Presidents responsible for:
  - policy and strategy
  - investment operations, finance
  - administration and the corporate secretariat and the General Counsel
  - Chief Risk Officer and Chief Programmer Officer
- Recently, former **Reserve Bank of India (RBI) governor [Urjit Patel has been appointed vice-president](#)** of the Asian Infrastructure Investment Bank (AIIB).

## What is the International Advisory Panel (IAP)?

- The Bank has established **an IAP to support the President and Senior Management** on the Bank's **strategies and policies** as well as on general operational issues.
- **The President selects and appoints members of the IAP** to an initial two-year term, which can be renewed upon completion.
- The Panel meets at least twice a year, once in tandem with the Bank's Annual Meeting, and second time at the Bank's Headquarters in Beijing.

- Panelists receive a small honorarium and do not receive a salary. The Bank pays the reasonable costs associated with Panel meetings.

## Who can be a Member of AIIB?

- Membership in the AIIB is **open to all members of the [World Bank](#)** or the **Asian Development Bank** and is divided into **regional** and **non-regional** members.
  - Regional members are those located within areas classified as Asia and Oceania by the [United Nations](#).
- Unlike other MDBs (multilateral development bank), the **AIIB allows for non-sovereign entities** to apply for AIIB membership, **assuming their home country is a member**.
  - Thus, sovereign wealth funds (such as the China Investment Corporation) or state-owned enterprises of member countries could potentially join the Bank.

## What about the Financial Resources of AIIB?

- The AIIB's initial total capital is USD 100 billion divided into **1 million shares of 100 000 dollars each**, with 20% paid-in and 80% callable.
  - **Paid-Up Share Capital:** It is the amount of money that has already been paid by investors in exchange for shares of stock.
  - **Called-Up Share Capital:** Some companies may issue shares to investors with the understanding they will be paid at a later date.
    - This allows for **more flexible investment terms** and may **entice investors to contribute more share capital** than if they had to provide funds up front.
- **China** is the largest contributor to the Bank, contributing **USD 50 billion**, half of the initial subscribed capital.
- **India** is the second-largest shareholder, contributing **USD 8.4 billion**.

## Who has the Voting Rights in AIIB?

- **China is the largest shareholder with 26.61 %** voting shares in the bank followed by **India (7.6%)**, Russia (6.01%) and Germany (4.2 %).
- The regional members hold 75% of the total voting power in the Bank.
- The AIIB has a governance structure similar to other MDBs (multilateral development bank), with two key differences:
  - it does **not have a resident board of executive directors** that represents member countries' interests on a day-to-day basis, and
  - the AIIB gives **more decision making authority to regional countries** and the largest shareholder, China.

## What is the Scenario of Lending in AIIB?

- **The recipients of AIIB financing** may include **member countries** (or agencies and entities or enterprises in member territories), as well as **international or regional agencies** concerned with the economic development of the Asia-Pacific region.
- The AIIB has signed a **co-financing framework agreement** with the World Bank and **three nonbinding** Memoranda of Understanding (MOU) with:
  - the Asian Development Bank (ADB),
  - European Bank for Reconstruction and Development (EBRD),
  - and the European Investment Bank (EIB).
- **The bulk of AIIB's operations** are in **South Asia**.
- The Bank can lend outside Asia provided that it supports connectivity with Asia or it is for a global

public good and that the loan significantly benefits Asia.

- **The ceiling for non-regional loans is 25%.**
- The key sectors for the Bank are Energy, Transport, Water and Urban development.
- **About two-thirds of the loans** approved by the bank have been **co-financed** with other multilateral lending institutions, including the **World Bank and the ADB.**
- The **triple-A ratings** from **Standard & Poor's, Moody's and Fitch,** reflect the Bank's commitment to the highest standards of governance, enhanced transparency and accountability.
- Approved investment operations of AIIB reached **USD 7.94 billion in April, 2019.**

## What was China's Motivation for Creating the AIIB?

- **The creation of the AIIB** is part of a **broader reorientation of Chinese foreign and international economic policy** that has taken place **since Xi Jinping** became Chinese Communist Party General Secretary in 2012 and the President in 2013.
- **"One Belt, One Road" (OBOR) Initiative**
  - It identified 65 countries that will be participating in the initiative, which aims to use trade promotion, infrastructure development, and regional connectivity, to boost economic linkages between China and dozens of countries along a **land route** (the **Silk Road Economic Belt**) and a **sea route** (the 21st Century **Maritime Silk Road**).
  - **To realize this vision,** China is **investing in a range of institutions and initiatives,** including the **AIIB,** and other funding mechanisms such as the **Silk Road Fund** (established in 2014) and the **New Development Bank** (also known as the **BRICS Bank** established in 2014), a collective arrangement with Brazil, Russia, India, and South Africa.
- China also seeks to influence the **emerging structure of regional trade and investment relations.**
  - By helping to finance OBOR, AIIB may influence these relationships. It may also reinforce a regional infrastructure that has China as its hub.
  - As a result, **regional economies may be more inclined** to augment trade and investment relations **with China rather than with other** economies, such as **Japan, South Korea, Taiwan, and the United States.**

## What about the Cooperation between AIIB and India?

### China Factor

- There are various issues between India and China:
  - Indian membership in the Nuclear Suppliers Group (China maintains that it will not support India's entry until there is a universal formula to accept applications from all countries that **haven't signed the Non-Proliferation Treaty-** indirectly pursuing case for Pakistan),
  - **territorial disputes** in the Himalayas,
  - concerns over the China-Pakistan Economic Corridor's traversal of disputed territory in Kashmir.
- India **has serious concerns over Chinese foreign policy** in its region generally and the OBOR initiative specifically, regarding Beijing's attempts to seek influence in **its immediate neighborhood with great interest.**
- **Despite aforesaid issues** between India and China, **the AIIB plays a crucial role implicitly in consensus building process:**
  - The **AIIB** has acquired the status of a **plurilateral lending initiative,** so there is no problem for either India, or China, in **overlooking bilateral differences** and working together at the AIIB.
  - India can open up investment opportunities in the region through AIIB.
  - By hosting the **AIIB's third annual meeting** (2018, Mumbai) under the theme of "Mobilising Finance for Infrastructure: Innovation and Collaboration", **India has reiterated its openness to infrastructure collaboration.**

## Economic Contribution of AIIB

- **India is the largest beneficiary of AIIB** financing for infrastructure projects. The AIIB has approved five projects in India. These are —
  - Bangalore Metro Rail Project (USD 335 million),
  - Transmission System Strengthening Project,
  - Gujarat Rural Roads (MMGSY) Project (providing USD329 million through a 13 -year loan to provide all -weather connectivity to 4,000 villages in the 33 districts of Gujarat state),
  - India Infrastructure Fund
  - and Andhra Pradesh 24x7 – Power For All project.
- The total loan sanctioned by AIIB to **five Indian projects is USD 1.074 billion**. This accounts to almost **28% of the total money the bank has lent to 24 infrastructure projects worldwide**. The AIIB has approved for lending USD 200 million to **National Investment and Infrastructure Fund (NIIF)**.
  - NIIF is an Indian-government backed entity established to provide long-term capital to the country's infrastructure sector. Its portfolio includes investments in ports and logistics, real estate and renewables.
- In feb, 2019 the AIIB and the Government of India signed a **USD 455 million loan** to finance the **Andhra Pradesh Rural Roads Project**, to connect some 3,300 habitations with a population of more than 250, and benefit around two Million people.

## What are the Concerns Associated with AIIB?

- **The United States has opposed the AIIB** and considers **AIIB as an unwanted intrusion** in the multilateral financial system.
  - Emergence of AIIB, largely funded by China, poses a threat to the monopoly of the United States on the world's financial system for over half a century
- The world's leading industrialized economies, **Japan and the U.S. are not members** of the AIIB because of following expressed concerns:
  - There is no certainty that the bank will maintain **its rigorous loan-screening practices** or keep its funding operations separate from **China's political ambitions**.
  - Joining the AIIB would require making a **huge financial contribution to the entity**.
- Asia's infrastructure investment needs are so vast that **no single institutional lender can meet that demand on its own**.
  - The **U.S. government** is seemingly intent on **pursuing inward-looking policies through protectionism and trade war**.
- The bank is concerned with **predicted downward trend in project finance because of slow global economy and trade war**.
  - Slowing economies can lead to **governments failing to meet contractual obligations** towards AIIB and **trade frictions may erode the potential of infrastructure projects**.
- AIIB's non resident board, **inhibits transparency and accountability**.
  - **It reinforces the perception** that the AIIB will be much more centrally **controlled by the Chinese government**.

## Conclusion

- It is well proved throughout the history of economic growth & development that the creation and development of robust financial institutions will make market forces more competitive leading towards comprehensive growth and development of society.
- The AIIB can create own space by contributing to sustained economic growth leading towards improved living standard of millions of poor people across Asia and other regions.
- The AIIB is still in its evolutionary phase that must be **nurtured with democratic principles avoiding single-country dominance** (Chinese dominance) like that of USA in IMF and World

Bank.

- India as an emerging economy, can play a vital role in **shaping the foundation of AIIB for the cause of poor people** spread across developing countries.

PDF Refernece URL: <https://www.drishtias.com/printpdf/asian-infrastructure-investment-bank>

