

AIIB'S ROLE IN FINANCING ASIA'S INFRASTRUCTURE GAP

OPPORTUNITIES FOR EUROPEAN CONTRACTORS

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ASIAN INFRASTRUCTURE
INVESTMENT BANK



WHAT IS THE ASIAN INFRASTRUCTURE INVESTMENT BANK?

- A new multilateral development bank (MDB) conceived for the 21st century. Inaugurated January 2016
- Envisaged to complement and cooperate with the existing MDBs to jointly address the daunting infrastructure needs in Asia
- High standards on governance, accountability, financial, procurement, and environmental and social policies
- To be “lean, clean and green”



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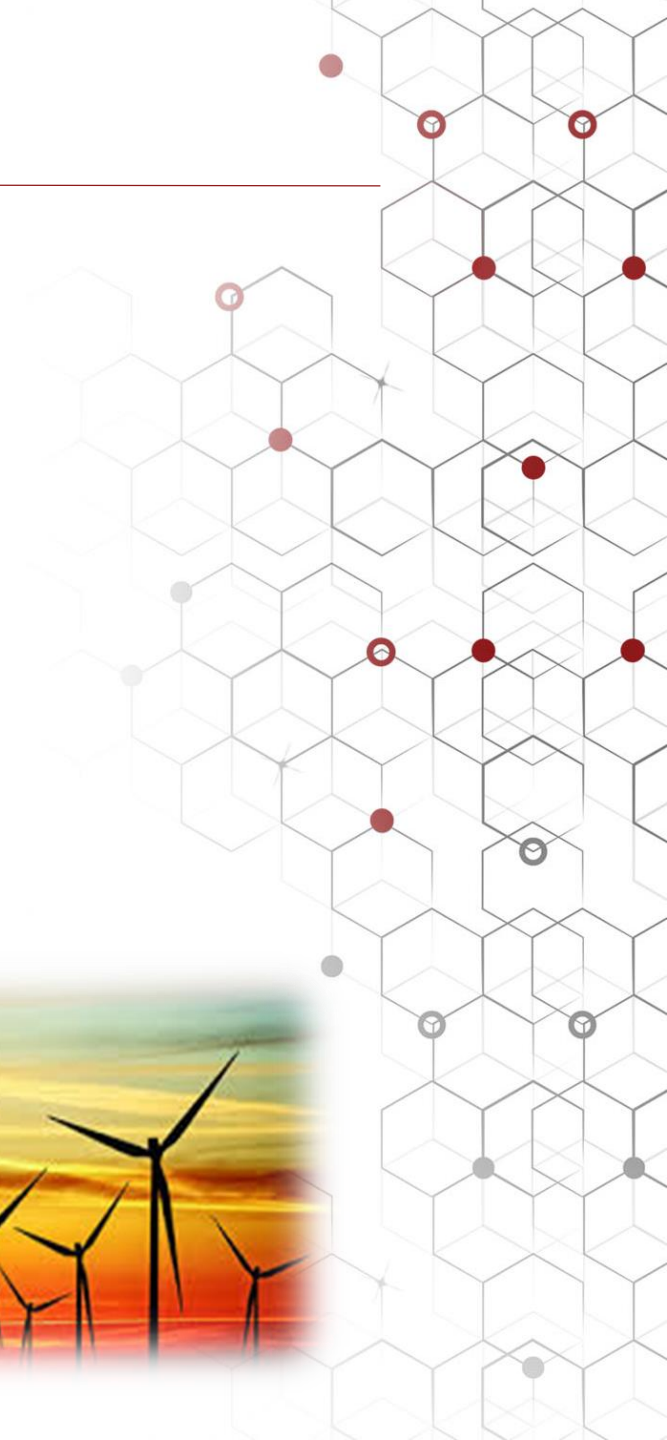
OPERATING PRINCIPLES

- 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 and social safeguards



AIIB INVESTMENT PRIORITIES

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



AIIB'S KEY DIFFERENTIATION

- One single balance sheet for sovereign-backed and private sector loans
 - Greater flexibility
 - Open to financing sub-national entities, SOEs, private sector companies, or hybrid structures
- Investment in countries across all income levels, with attention to lower income countries
 - Based on project's inherent benefits
- No budgetary, programme or reform lending
 - Focused project financing
 - Projects must have infrastructure or productive assets
- No concessionary finance
 - Financing done on commercial terms
 - But with a Special Fund (with country contributions) to support project preparation in low income countries

ACHIEVEMENTS SO FAR.....

- 80 member countries; more by end of 2017.
- 20 investment projects approved by AIIB Board valued at \$3.0 billion
- 5 'stand alone' projects
- Co-financiers include: WB, ADB, EBRD. (first project with EIB under preparation)
- A solid pipeline for next 18 months; more than \$10 billion
- Professional and supporting staff in place
- Corporate/sectoral strategies, operation policies/directives/guidelines being developed. Energy Sector policy recently approved by the Board
- AAA credit rating awarded by Moodys, S&P and Fitch



WHAT IS THE INFRASTRUCTURE FINANCING GAP IN ASIA?

- **Asian Development Bank estimates:**
 - Asia needs \$26 trillion over 15 years (to 2030), or \$1.7 trillion per year
 - Part of this is for climate change resilience: around \$200 billion per year
 - In 2015, investment was only \$900 billion per year.
- **Present public-private financing mix**
 - Today, public financing is about 92% of total investment
 - MDBs finances around 2.5% of total (or 10% if India and China are excluded)

FINANCING THE GAP

- Infrastructure Financing gap will have to be addressed by
 - Public sector policy reforms (e.g., raising more revenue, spending reprioritization)
 - Large increase in private sector participation



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AIIB'S FINANCING CAPACITY

- **AIIB's Balance Sheet**
 - \$100 billion (but can go above \$100 billion with Governors' approval)
 - Only \$3 billion deployed thus far
 - A lot of room for growth: to around \$10 billion a year in operations by middle of next decade
 - Balance sheet can only address a small part of market, even when fully deployed

AIIB STRATEGY

- **Mobilizing private capital remains key through:**
 - co-financing with private lenders (non-sovereign operations)
 - originating and leading transactions and sharing with private lenders
 - creating new markets, e.g., asset recycling activities, crowding in institutional investors



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KEY FEATURES OF INVESTMENTS

- Financing can be single product or combination
- Investment in infrastructure or productive sectors
- A cap of total investment to crowd in co-financiers
- No controlling stakes, unless under exceptional circumstances
- Usually no tied projects
- Strong environment and social safeguards

INVESTMENTS – KEY FEATURES (PRACTICAL CONSIDERATIONS)

- Funding at this juncture is mainly in USD and based on floating rates (Libor+spreads). More currency capability and derivative instruments are being developed
- Credit enhancement instruments (eg guarantees) are allowed but not yet fully developed as a product.
- Long or short tenors have to be considered against fundamentals of projects and market conditions
- Bankability:
 - Sovereign backed projects must meet the key conditions of ‘AIIB General Conditions sovereign backed loans’
 - For Non sovereign projects sound banking principles apply

AIIB PROCUREMENT POLICY AND DIRECTIVE

- The Bank's Procurement Policy and its associated Interim Operational Directive: Procurement Instructions for Recipients describe the Bank's Core Procurement Principles, objectives and requirement for operational procurement conducted under both public and private sector Bank financed projects

http://www.aiib.org/html/aboutus/Operational_Policies/Procurement/?show=3

AIIB PROCUREMENT POLICY AND DIRECTIVE (1)

- **Principle Based Procurement**
 - Economy, Efficiency, Effectiveness
 - Fairness: Good Governance, Value for Money,
 - Fit for Purpose and Transparency
- Aligned to World Bank New Procurement Framework (NPF)

AIIB PROCUREMENT POLICY AND DIRECTIVE (2)

- **The Procurement Policy and the associated interim Operational Directive: Procurement Instructions for Recipients provide for:**
 - A preferred procurement method of International Open Competitive Tendering
 - Other procurement methods allowed
 - The use of co-financier procurement procedures providing they meet the Bank's core procurement principles.

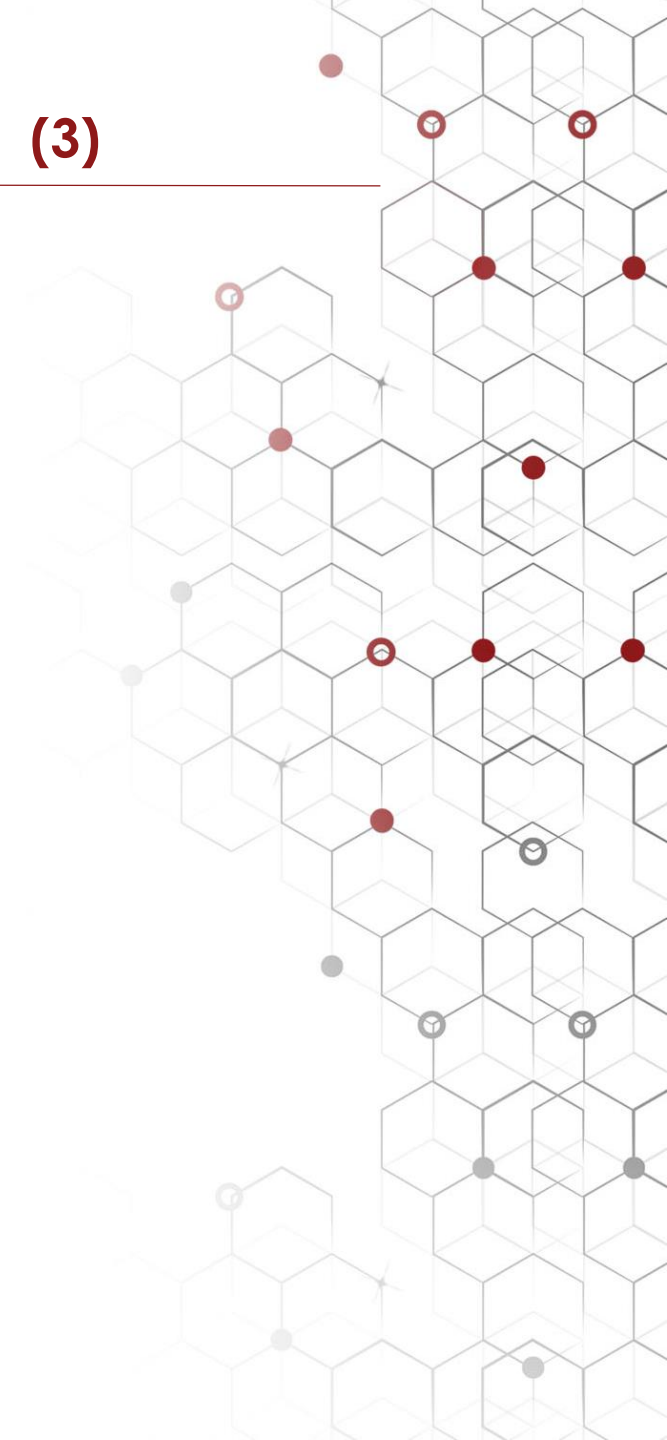
AIIB PROCUREMENT POLICY AND DIRECTIVE (3)

(continued)

- The use of country procurement systems
- Selection of Consultants
- Private Sector Procurement
- Supplier complaint mechanism



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OPPORTUNITIES

- **Public sector operations:**
 - Participation in International Open Tenders as prime or sub-contractor, JVs
 - Monitor www.aiib.org for progress on the development of AIIB investment operations
 - Check AIIB website and UNDB Business portal for procurement notices.
- **Private sector operations:**
 - PPP Projects
 - Project Sponsor financing