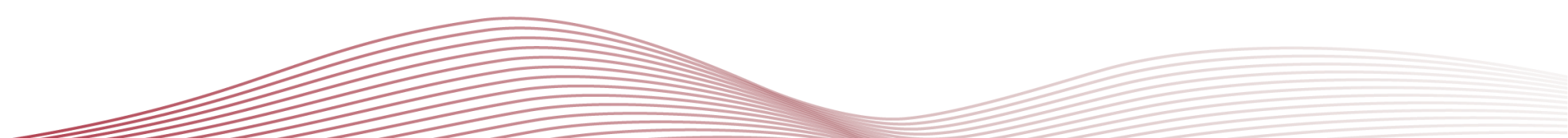


ASIAN INFRASTRUCTURE INVESTMENT BANK

August 2021

*Funding via Multi-lateral
Development Banks*
Brief Overview for AP-Urban





What we do now (or fail to do) will determine the future world we and our children will live in.

The goals for a greener, cleaner tomorrow have been set. But the clock is ticking. We must act today if these are to be fully realized.

By investing now, we can activate sustainable projects that, over time, will impact the lives of millions and create a better tomorrow.

ABOUT AIIB

Asian Infrastructure Investment Bank

Who we are

Multilateral Development Bank(MDB) founded to bring countries together to address Asia's daunting **infrastructure funding gap estimated at USD26 trillion through 2030¹**.

Our mission

To improve economic and social development in Asia and beyond through a focus on **sustainable infrastructure**, cross-border connectivity and private capital mobilization.

Credit strength

Strong support from diversified global shareholder base. **USD100 billion capital stock** with 20% assigned to paid-in capital. Prudent risk management and financial policies. AAA/Aaa/AAA rating with stable outlook.

Its core values are:

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.



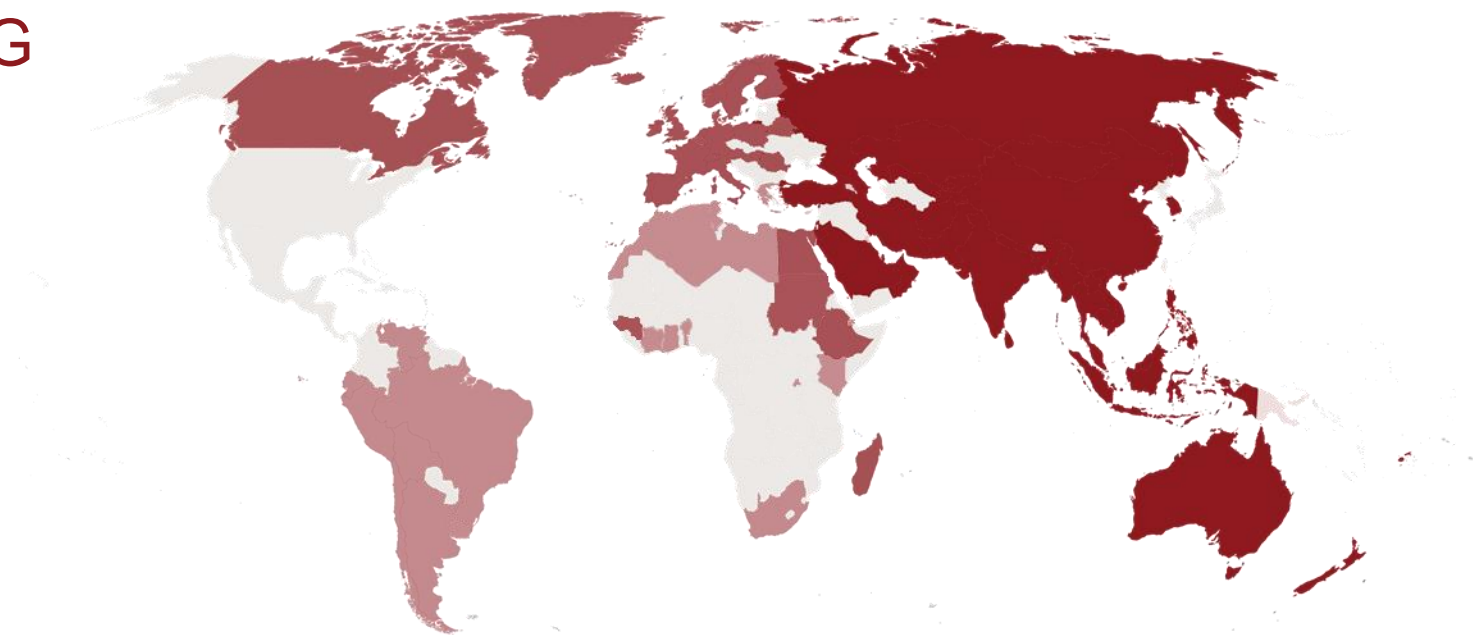
¹Source: "Meeting Asia's Infrastructure Needs", ADB 2017

OVERVIEW OF SHAREHOLDING STRUCTURE

103 approved members

“
 The bank...will help to mobilize much needed additional resources from inside and outside Asia... and will complement the existing multilateral development banks.
 ”

Articles of Agreement



* Prospective founding member: These are prospective members who were original signatories to the Articles of Agreement in June 2015. Countries or territories who sought membership after that date are simply called prospective members. All prospective members have been approved by the Board of Governors but have not yet met the full requirements of membership.



Members Regional

- | | | |
|------------------|-----------------|--------------|
| Afghanistan | Iran | Qatar |
| Australia | Israel | Russia |
| Azerbaijan | Jordan | Samoa |
| Bahrain | Kazakhstan | Saudi Arabia |
| Bangladesh | Korea | Singapore |
| Brunei | Kyrgyz Republic | Sri Lanka |
| Darussalam | Lao PDR | Tajikistan |
| Cambodia | Malaysia | Thailand |
| China | Maldives | Timor-Leste |
| Cyprus | Mongolia | Turkey |
| Fiji | Myanmar | UAE |
| Georgia | Nepal | Uzbekistan |
| Hong Kong, China | New Zealand | Vanuatu |
| India | Oman | Vietnam |
| Indonesia | Pakistan | |
| | Philippines | |

Members Non-Regional

- | | |
|----------|----------------|
| Austria | Italy |
| Belarus | Luxembourg |
| Belgium | Madagascar |
| Canada | Malta |
| Denmark | Netherlands |
| Egypt | Norway |
| Ethiopia | Poland |
| Finland | Portugal |
| France | Romania |
| Germany | Spain |
| Guinea | Sudan |
| Hungary | Sweden |
| Iceland | Switzerland |
| Ireland | United Kingdom |

Prospective Regional

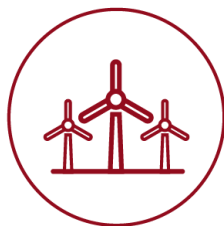
- Armenia
- Cook Islands
- Kuwait*
- Lebanon
- Papua New Guinea
- Tonga

Prospective Non-Regional

- | | |
|---------------|---------------|
| Algeria | Libya |
| Argentina | Morocco |
| Benin | Peru |
| Bolivia | Rwanda |
| Brazil* | Serbia |
| Chile | South Africa* |
| Côte d'Ivoire | Togo |
| Djibouti | Tunisia |
| Ecuador | Uruguay |
| Ghana | Venezuela |
| Guinea | |
| Greece | |
| Kenya | |

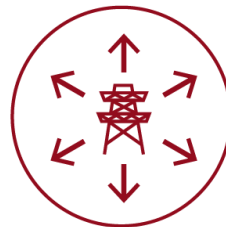
AIIB'S THEMATIC PRIORITIES

We approach lending, developing our business lines and selecting our projects based on three thematic priorities



Sustainable Infrastructure

Promoting green infrastructure and supporting members to meet their environmental and development goals, especially their commitments under the Paris Agreement and the United Nations' Sustainable Development Goals.



Cross-border Connectivity

Prioritizing cross-border infrastructure, ranging from roads and rail to ports, airports, energy pipelines and telecoms.

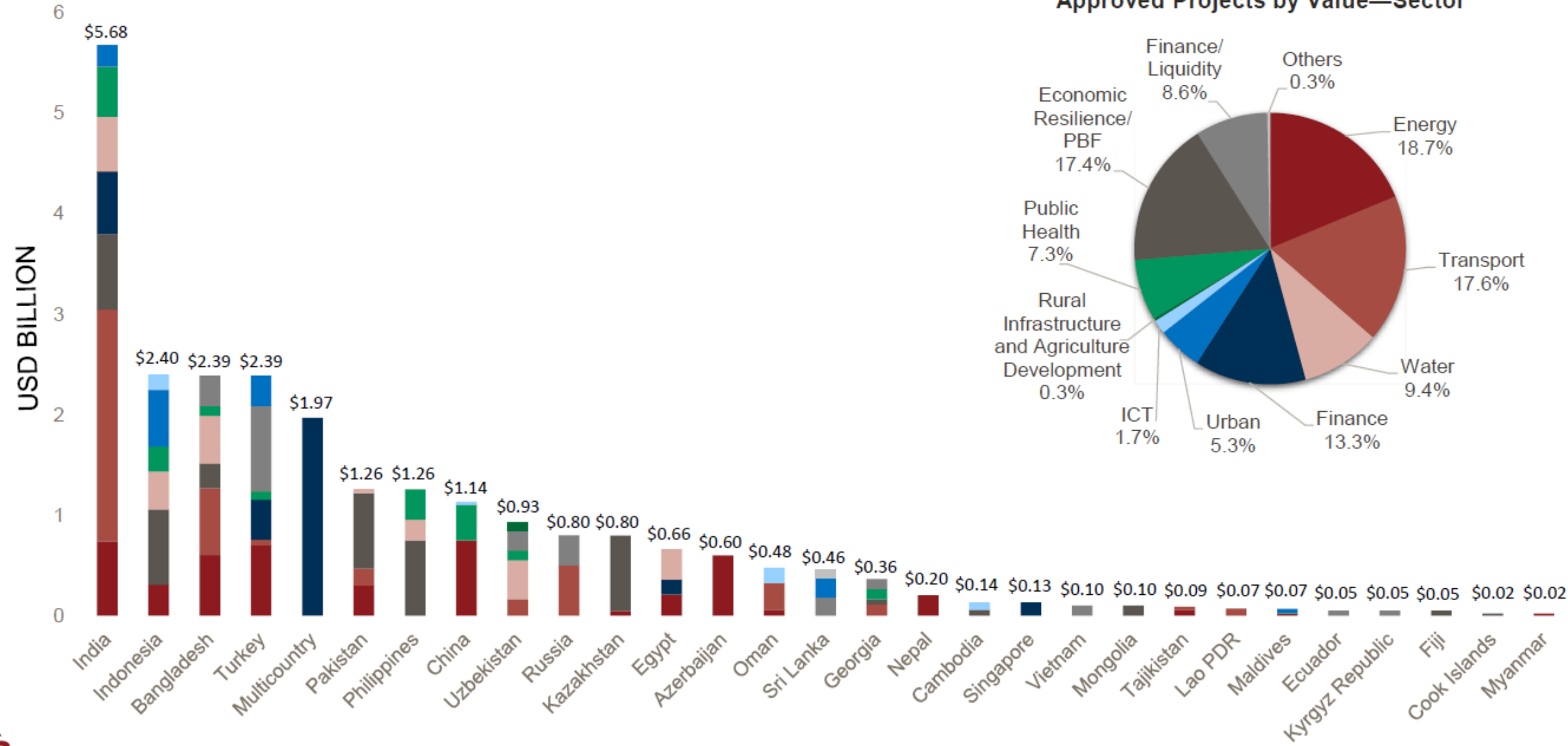


Private Capital Mobilization

Devising innovative solutions that mobilize private capital, in partnership with other MDBs, governments, private financiers and other partners. AIIB's presence on co-financings helps spread risk across the MDB and private sector communities, and can help to crowd in private sector capital.

INVESTMENT OPERATIONS

Total Investment Operations Approved—USD24.656 billion



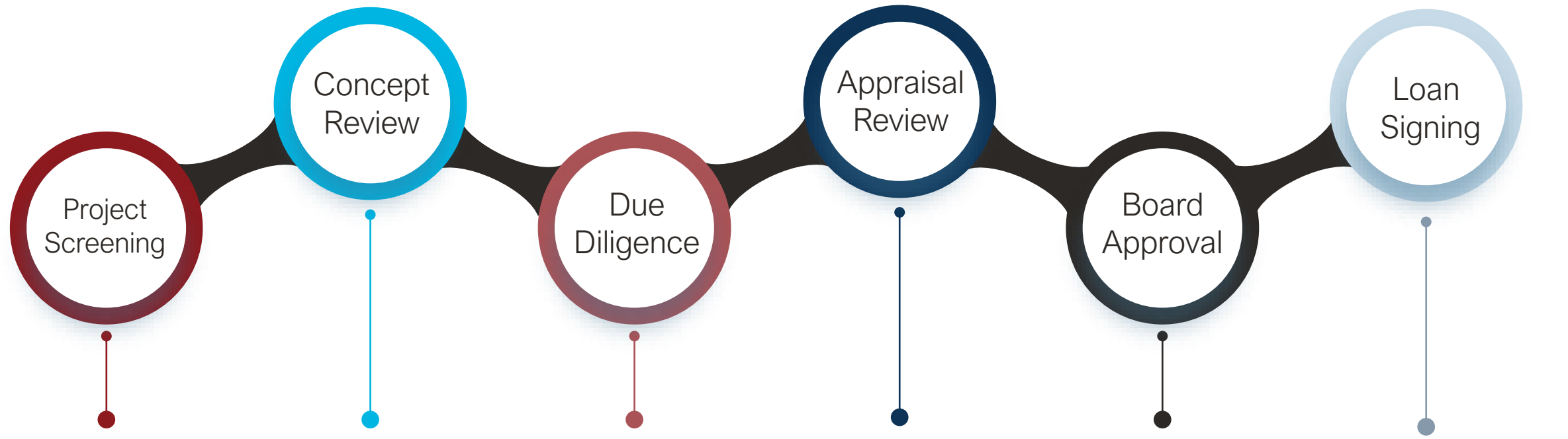
Urban	Metro Rail	Economic/ Industrial	Power	Roads	Disaster Risk Management/ Social
<ul style="list-style-type: none"> • Punjab Municipal Services Improvement Project • AP Urban Water Supply and Septage Management Improvement Project • Kerala Solid Waste Management Project • HDFC Line of Credit for Affordable Housing • Chennai Sustainable Urban Services Program (CCP) 	<ul style="list-style-type: none"> • Bangalore Metro Rail Project (Line R6) • Mumbai Urban Transport Project • Delhi-Meerut Regional Rapid Transit System • Chennai Metro Rail Phase 2 Project - Corridor 4 • Haryana Orbital Rail Corridor Project • Maharashtra Multi-Modal Corridor Package III Project 	<ul style="list-style-type: none"> • Nangal Chaudhary Integrated Multi-Modal Logistics Hub (IMLH) Project • Chennai Peripheral Ring Road (Sections 2 and 3) 	<ul style="list-style-type: none"> • L&T Green Infrastructure (Non-Sovereign) • Assam Intra-State Transmission System Enhancement Project • AP 24x7 – Power For All • Transmission System Strengthening Project - TN • Ayana Anantapuramu NTPC Solar Project • Second Dam Rehabilitation and Improvement Project 	<ul style="list-style-type: none"> • AP Rural Roads Project • MP Rural Connectivity Project • Gujarat Rural Roads Project • Assam Secondary Road Network Improvement Project 	<ul style="list-style-type: none"> • West Bengal Major Irrigation and Flood Management Project • City Gas Distribution (CGD) Financing AGPCGPL • COVID-19 Active Response and Expenditure Support (CARES) • Gujarat Education Infrastructure and Technology Modernization Program • Resilient Kerala Program for Results

AREAS OF OPERATIONS

Range of instruments offered

Sovereign loans	Nonsovereign-backed financing	Equity Investments	Guarantees
<ul style="list-style-type: none"> • Sovereign-backed loans will have an average maturity of up to 20 years and a final maturity limit of up to 35 years. • Cofinanced sovereign lending will be encouraged. • Appraisal of sovereign loans will take into account a full assessment of the project's benefits, risks and borrower implementation capacity. 	<ul style="list-style-type: none"> • AIIB is taking a progressive approach to building its book of nonsovereign-backed financing. This approach is based on sound banking practice. • Borrowers could range from sub sovereign public entities to private enterprises. • The terms and conditions will be set on a commercial basis and reflect the expected risk to AIIB and market conditions. • Loan amounts can be up to 35% of the project. 	<ul style="list-style-type: none"> • AIIB will only consider making equity investments under terms it considers fair, where clear potential exit strategies are present, and where an acceptable internal rate of return is projected. • Limit on Equity investments up to 10% of available capital. • The Bank expects to play the role of a minority investor and shall not seek a controlling interest in the target entity or enterprise. 	<ul style="list-style-type: none"> • AIIB aims to offer guarantees. • Projects involving guarantees will be appraised, processed, and monitored the same way as loans. • For capital headroom and exposure management purposes, guarantees will be treated as if they were on the balance sheet (i.e. treated the same way as loans).

Bank's Internal approval process



Screening
Inclusion of prospective projects in AIIB's pipeline and project team assignment

Concept Review
Review the key aspects of the project and ensure fits within purposes/strategies before authorization of significant resource requirements for next steps

Due Diligence
More in-depth due diligence, including missions – technical, environmental and social, procurement, financial management, implementation arrangements.

Appraisal Review
Investment committee review to approve the investment internally based on the result of project due diligence.

Board Approval
Subsequent to the appraisal investment committee approval, Approval by the board of directors is required.

Loan signing
Signing of legal documents finalized during negotiations before board approval, followed by loan effectiveness and disbursements.



Rationale for the Bank's involvement

Strategic Alignment

Country Priorities

- (i) **Alignment with country's strategy and priorities, and infrastructure priorities:** e.g., Five-Year national development plan, the country's economic policies and strategies, and city masterplan; and
- (ii) **Priority infrastructure sector:** how important is the investment to the country's infrastructure plans?, what others (govt, private, MDBs, bilaterals) are doing in the sector?, why this additional investment is justified and will be useful?

Value Addition

AIB's Value Addition to the Project

- (i) **Financial viability:** closing financing gap or lowering financing costs;
- (ii) **Resource mobilization:** crowd in additional private or other MDB financing;
- (iii) **Project improvement:** e.g., improving technical design, environmental and social characteristics of the project, adopting innovative infrastructure solutions, lowering risk profile, and helping the project get off the ground faster; and
- (iv) **Partnership:** e.g., enhancing credibility of the project.

AIB Priorities

- (i) **Thematic:** Is project related to thematic priorities: i.e., sustainable or green infrastructure; cross-border connectivity, private capital mobilization;
- (ii) **Sector:** aligned with sector strategies and identified core areas where they exist? – for urban sector, the Sustainable Cities Strategy; and
- (iii) **Portfolio:** aligned with Portfolio diversity/balance (e.g., country, sector, debt limits).

The Project Value Addition to AIB

- (i) **Financial return**
- (ii) **Institutional branding:** e.g., enhancing AIB's position in the field of infrastructure financing;
- (iii) **Learning and staff capacity:** e.g., enhancing understanding of a particular county and city.

Quality of Project Design and Implementation Readiness

Project objective	Technical soundness	Environmental and Social sustainability	Fiduciary arrangements	Monitoring and evaluation
<ul style="list-style-type: none"> • Clear link between development challenges and investment solution. 	<ul style="list-style-type: none"> • Feasibility studies, including safeguard screening, economic and financial viability; • High quality engineering designs; • Operational sustainability; • Clearly defined project implementation arrangements. 	<ul style="list-style-type: none"> • Safeguard instruments (e.g., ESMF, ESIA/ESMP, RPF), in compliance with AIIB's E&S policies; • Complaint processes and other related implementation system in place; • Solid borrower commitment and implementation capacity; 	<ul style="list-style-type: none"> • Procurement and FM arrangements in place (i.e., PDS including procurement plan), adhering to AIIB's policies on procurement, FM, and anti-corruption; • Disbursement methods/plan in place. 	<ul style="list-style-type: none"> • Result framework, containing result indicators, monitoring and reporting arrangements.
Design appropriateness				
<ul style="list-style-type: none"> • Most appropriate technology and practices; • Financing plans, timeline, sequencing. 				

Risk and mitigation

- Likely risks identified, assessed in terms of likelihood and severity;
- Appropriate/realistic mitigation measures, incorporated in the project design.

LEVERAGING THE EXPERIENCES OF EXISTING MDBS

AIIB will draw lessons from the past experiences of multilateral development banks to enhance its operating efficiency, product offerings and reduce costs.



Lending Rates and Terms



PRICING STRUCTURE OF SOVEREIGN BACKED LOANS

Fee/ spread	Rate	Charged on	One-time/ recurring
Front-end fee	0.25%	Loan principal	One-time
Commitment fee	0.25%	Undisbursed loan balances	Recurring
Lending Spread	0.65% to 1.40%	Disbursed and outstanding loan balances	Recurring

PRICING STRUCTURE OF SOVEREIGN BACKED LOANS (FSL)

Average Maturity	Up to 8 years	8 to 10 years	10 to 12 years	12 to 15 years	15 to 18 years	18 to 20 years
Contractual Lending Spread	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Maturity Premium	0%	0.1%	0.2%	0.3%	0.4%	0.5%
Market Risk Premium	0.1%	0.1%	0.1%	0.1%	0.15%	0.15%
Projected Funding Spread to LIBOR	0.05%	0.15%	0.15%	0.20%	0.25%	0.25%
Lending Spread	0.65%	0.85%	0.95%	1.10%	1.30%	1.40%

Plus Front-end Fee 0.25% and Commitment Fee 0.25%

PRICING STRUCTURE OF SOVEREIGN BACKED LOANS (VSL)

Average Maturity	Up to 8 years	8 to 10 years	10 to 12 years	12 to 15 years	15 to 18 years	18 to 20 years
Contractual Lending Spread	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Maturity Premium	0%	0.1%	0.2%	0.3%	0.4%	0.5%
Borrowing Cost Margin, incl. cross-currency swap adjustments	To be calculated for each hard currency (other than USD)					
Lending Spread	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%

Plus Front-end Fee 0.25% and Commitment Fee 0.25%

Local Currency Lending Terms

- Local currency financing is available to *private sector* clients and certain public sector entities
- Local Currency Loans
 - Indian Rupee
 - Indonesian Rupiah
 - Thai Baht
 - Turkish Lira
 - Russian Ruble
- Key Benefits
 - Ring-fence volatilities due to FX movements
 - Decrease of debt burden in case local currency depreciation
 - Reduced possibility of financial distress
 - Possibility of borrowing local currency in longer tenor

Concessional Lending: Emerging Issues

- Concerns of Members Countries:
 - Philippines, Nepal and Lao PDR are **reconsidering loan terms**
 - **Non competitive** compare to Bank's peers, e.g. WB and ADB
- Reputational Risk:
 - IO facing **criticism at project and country level** with regards to loan terms
 - **DMCs going public** with opinion that our cost is high
 - This perception may soon evolve into a **branding risk**
- Limited Business Opportunities:
 - IDA lending is **not limited to LICs**, nor are LICs largest recipients
 - MDBs providing concessional financing, in addition to constraints on NCBP

Rationale

- Large investment for public infrastructure in LICs, still maturing economies not possible on regular interest rates
- Blending of Special Loan Funds and ordinary capital resources (OCR) funds would be appropriate basis
- Being backed by sovereign governments, strong technical capacities, MDBs are ideal for concessional terms
- Other MDBs have adopted concessional financing to address special/ thematic needs of DMCs (SDGs, climate resilience, innovations, demonstrative)

Comparisons with other MDBs

- Long maturity, grace period and low ROI offered by major MDBs

	IDA	AfDB regular	AfDB advance	AsDF project loans	AsDF programme loans	IFAD
Eligibility	Country's relative poverty, GNI per capita below (\$1,175 annually)	Per capita income above the ADF/IDA operational cut-off (USD 1,215#) for more than 2 consecutive years		GNI per-capita and credit worthiness (WB Atlas Method)		Mainly IDA basis
RoI/ Amortization Rate	Yr 7-38: 3.125%	Yr 11-20: 2% Yr 21-40: 4%	Yr 11-40: 2.9%	Yr 9-32: 4.167%	Yr 9-24: 6.25%	Yr 11-40: 3.33%
Front End Fee	-	-	-	-	-	-
Commitment Fee	0.0%	0.5%	0.5%	0.0%	0.0%	0.0%
Maturity (years)	38	40	40	32	24	40
Grace period	6	10	5	8	8	10
Service charge SDR	0.75%	0.75%	0.75%	1%** & 1.5%***	1%** & 1.5%***	0.75%
Concessionalty	55%	62%	54%	48%	43%	60%

* Special Drawing Rights

** During grace period

*** During amortization period

For fiscal year 2016

Source: IFAD Update of Financing Terms, 2018



How other MDBs have calibrated



Concern's of Low Income DMCs

- Low income DMCs are borrowing to invest and bridge infrastructure deficits (critical to break the cycle of poverty), leading to large debt (medium debt is close to 50 percent of GDP). LICs expect AIIB to lead cooperation in addressing their debt concerns
- Respective Governments **answerable to national Parliaments**
- Near **exclusive reliance on GNI** per capita (alone) not appropriate
- Rising debt (due to high ROI) could potentially constrain access to finance, and hence also slow growth and progress on SDGs

Concern's of Low Income DMCs

- Many DMCs above current IDA graduation threshold have more than half of their populations living on less than \$4 a day.
- All LICs are eligible for IDA funding, it is not limited to those countries:

	IDA	Blend	IBRD	Not eligible	Total
Low income	30	0	0	1	31
Lower middle income	22	12	12	1	47
Upper middle income	7	5	46	2	60
High income	0	0	10	70	80
Total	59	17	68	74	218

Source: World Bank list of economies (June 2019)

Suggestions *to scale-up access to more sustainable financing to address SDGs*

Actions	Short Term	Long Term
Co-finance with donors	✓	
Waiver in commitment fee	✓	
Institutionalize co-financing		✓
Reform linked and Performance Based Allocation		✓

Being young MDB, we need to **calibrate fast** to address needs of low income DMCs

Suggestions *to scale-up access to more sustainable financing to address SDGs*

- Short-term: **Co-finance with donors** to bring down overall ROI
- Longer-term:
 - **Institutionalize co-financing** with donors agencies (including MDBs)
 - Reform linked and **Performance Based Allocation** (PBA) critical for DMCs
 - Being young MDB, we need to **calibrate fast** to address needs of DMCs

Special Fund (Grant)

AllB's Project Preparatory Special Fund Grant



Purpose and Contributors

Purpose

- To support and facilitate preparatory activities during the preparation and early implementation of projects to be financed by the Bank

Type of Tech. Assistance

- Grants for preparatory activities required during preparation and early implementation of projects to be financed by AIIB (consultancy services, equipment, training, etc.).

Contributors

- People's Republic of China: USD50 Million
- Republic of Korea: USD18 Million
- United Kingdom of Great Britain and Northern Ireland: USD50 Million
- Hong Kong: USD10 Million

Use of Grant Resources

Consultancy services and reports

- Reviewing and improving (pre)feasibility studies;
- Conducting environmental, financial, legal, social and technical assessments and analyses;
- Providing advisory services in relation to procurement, transaction and contract management; and
- Developing project implementation plans and schedules.

Equipment necessary for the preparation or delivery of such services or reports

For the implementation of the recommendations made in such reports, and related training

Eligibility Criteria

- Members of AIIB who are recipients of **International Development Association (IDA)** financing.
- Other members with substantial development needs and capacity constraints.*
- Project is being considered for AIIB financing.



* Ceiling for funds approved under this condition is 30% of the aggregate amount of all contributions made to the Fund

Preparation Advances for Sovereign-backed Financing

Conditions

- When there is strong probability that the Financing will happen
- But preparatory advance does not obligate the Bank to finance
- Max. advance funding may not exceed 10% of total financing by Bank or max. of USD10 mn

Procurement

- Contractual arrangement for a Preparatory Advance are generally similar to those applicable to Loans

Examples of Approved Projects under Special Fund

[\(link\)](#)



Lahore Water and Wastewater
Management Project
Pakistan
USD505,000



NR13 Road Improvement and
Maintenance Project
Lao PDR
USD0.995 Million



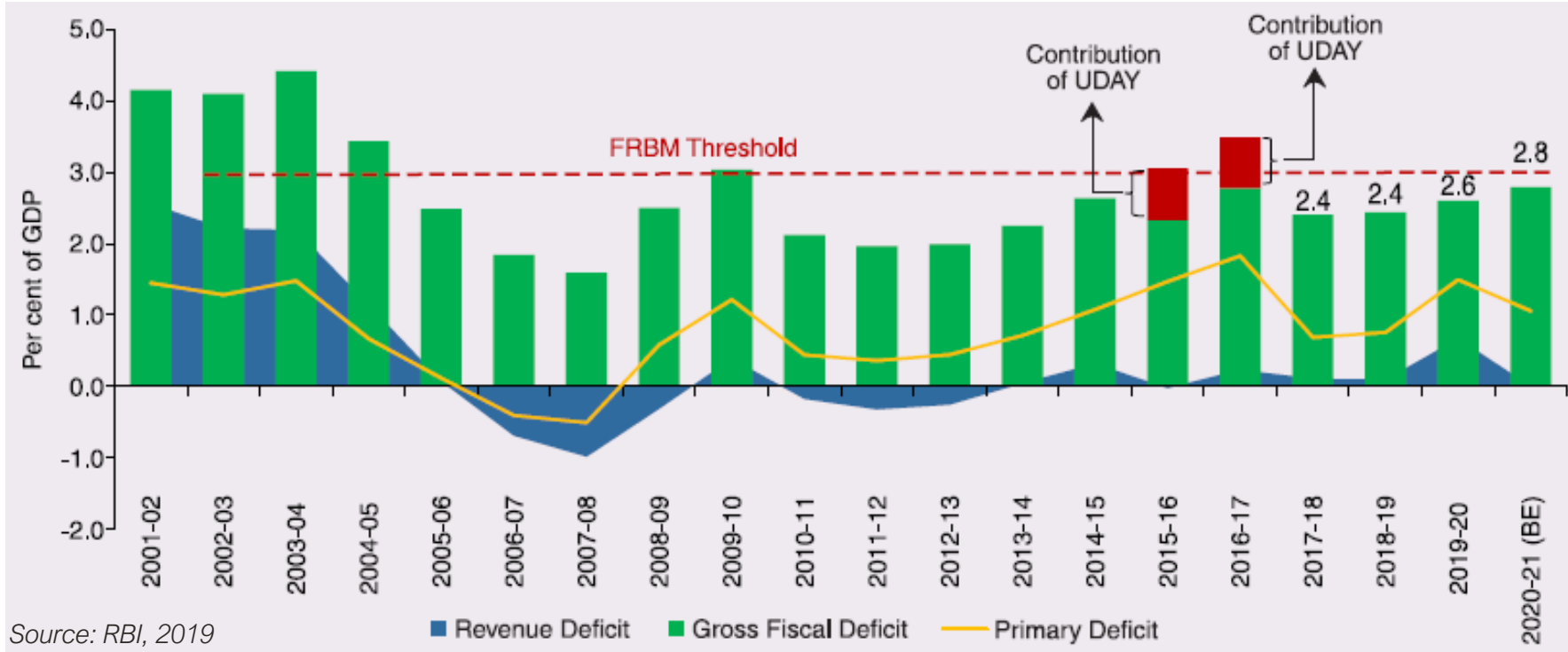
Power Distribution System
Upgrade and Expansion Project
Nepal
USD1.0 Million

Processes defined by the DEA, MoF

Key Steps for Posing Projects

Background

- The Government of India in 2003 introduced the Fiscal Responsibility and Budgetary Management (FRBM) Act that mandates following for every state:
 - Achieve zero revenue deficit
 - Achieve fiscal deficit of 3 percent of GSDP
 - Restrict outstanding debt up to 34 percent of GSDP
- FRMB Act -
 - Demands fiscal discipline
 - to introduce transparent fiscal management systems in the country
 - to aim for fiscal stability for India in the long run
 - Protect India's overall sovereign credit rating



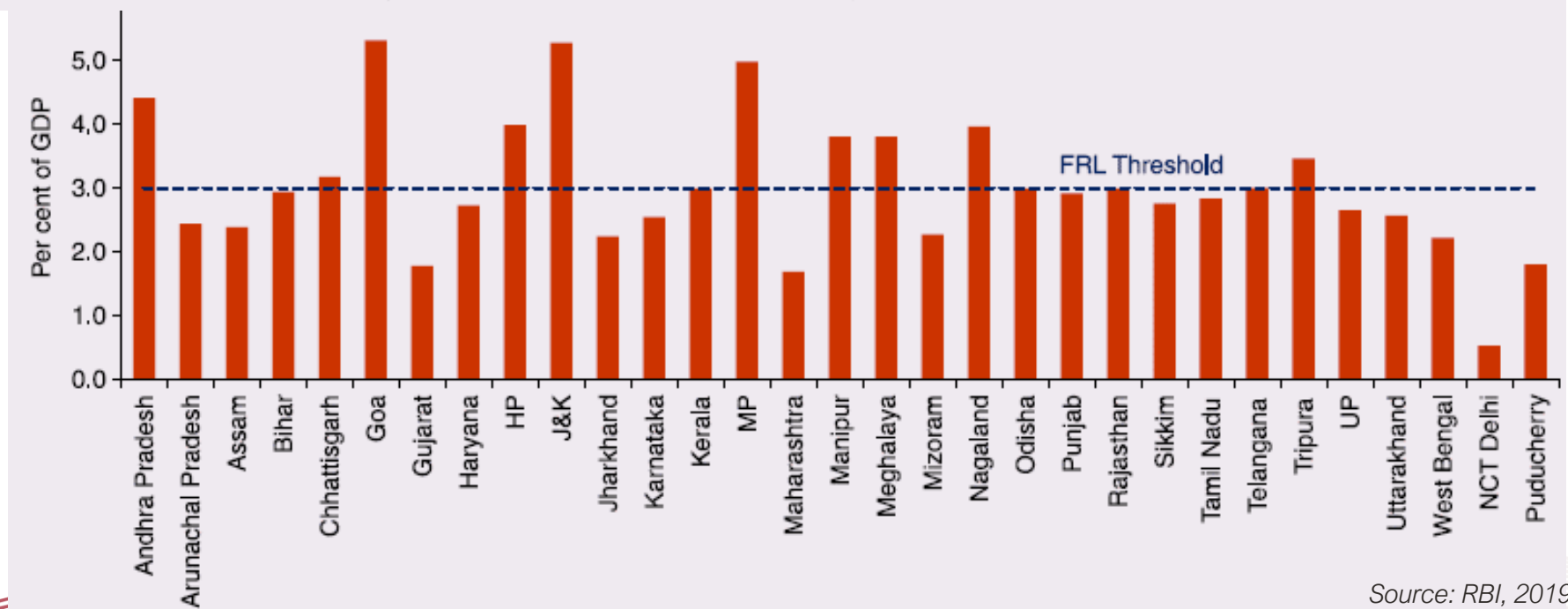
This is pre-COVID-19

Atmanirbhar package announced 1.5% relaxation with reforms

Source: RBI, 2019

Gol targeting 3% fiscal deficit

15th FC also suggested increasing FRL to 3.5% conditionally



Source: RBI, 2019



Steps at State Level

- Project Identification by PIA
 - Project preparation (FR/ DPR/ PPR)
 - Finance Plus elements (transformative, innovative, leveraging)
- PIA to obtain requisite clearances
 - Land related/ forest
 - EIA & SIA
- Submit the project to the State Finance Department
- Debt sustainability clearance from FD
 - Depending upon FRBM position + aligned to state's top priorities + preferred MDB
 - FD to submit PPR through online portal for EAPs

Steps at DEA

- PPRs received by DEA (only through online EAPs)
- Online PPR to be reviewed by concerned line Ministries
- NITI Aayog remains common approver
- DEA Screening Committee (SC) reviews the PPR in monthly SC meetings
- Deliberations leads to approval, rejection or holding back projects
- DEA examines project preparedness (for more developed states)
- Approved projects are posed to respective MDBs
- Rejected projects can be resubmitted – with modifications desired
- On-hold projects may be taken-up in the next SC meeting

Steps at Bank: Post approval by DEA

- Banks/ MDBs received official request from DEA
- Immediately included in the next Investment Committee (IC) meeting:
 - IC is headed by the VP & CIO Investments
 - The DGs and sector experts reviews it
 - Project is assigned to a TL
 - IC decides to approve or seek more information
- TL starts communication with the PIA directly
- Undertake a fact-finding technical mission (physical & virtual)
- Engage with PIA and State on project preparedness for any support
- Bank prepares, PD, PAD and negotiation packages – demands institutional set-up

Born Out of Global Geopolitics

Global Financial Institutions Compared

WORLD BANK	IMF	ADB	AIIB
1944	1944	1966	2015
188 MEMBER COUNTRIES	188 MEMBER COUNTRIES	67 MEMBERS	57 FOUNDING MEMBERS
US LARGEST SHAREHOLDER	US LARGEST SHAREHOLDER	JAPAN LARGEST SHAREHOLDER	CHINA LARGEST SHAREHOLDER
REDUCE POVERTY & SUSTAINABLE DEVELOPMENT GOAL	PROMOTE MONETARY STABILITY GOAL	REDUCE POVERTY GOAL	ADDRESS ASIA'S INFRASTRUCTURE GAP GOAL
12,000 STAFF 130 NATIONS	2,600 STAFF 147 NATIONS	3,000 STAFF 60 NATIONS	IN PLANNING
\$223 BILLION SUBSCRIBED CAPITAL	\$370 BILLION SUBSCRIBED CAPITAL	\$165 BILLION SUBSCRIBED CAPITAL	\$100 BILLION AND RISING SUBSCRIBED CAPITAL
US VETO POWER	US VETO POWER	NO VETO POWER	CHINA TO FORGO VETO
WASHINGTON	WASHINGTON	MANILA	BEIJING

BANKING ON CHINA HOW THE AIIB COMPARES WITH OTHER SUPERBANKS

- 1 ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)**
 Members 57 countries
 Capital \$100 billion
 Agenda: Infrastructure projects in Asia
 Biggest members (by capital)
 - China 30.3%
 - India 8.5%
 - Russia 6.6%
 - Germany 4.5%
- 2 ASIAN DEVELOPMENT BANK (ADB)**
 Members 67 countries
 Capital \$165 billion
 Agenda Social development projects including education, environment sustainability, poverty and infrastructure
 Biggest members (by capital)
 - Japan 15.7%
 - US 15.6%
 - China 6.5%
 - India 6.4%
- 3 WORLD BANK**
 International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA)
 Members 188 countries
 Agenda: Poverty reduction, development aid for poorest nations
 Biggest members (by votes)

IBRD	IDA
US 16%	US 10.3%
Japan 7%	Japan 8%
China 4%	UK 6%
Germany 4%	India 2%
India 3%	China 2%

Conditionalities are removed.

Forgo Veto

USD26 Trillion funding gap is an Asian Challenge & Opportunity

Thank You

Email: jitender.pal@aiib.org

