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AIIB on the Rise

How the Asian Infrastructure Investment Bank (AIIB) is shaping up to become the go-to partner for public-private infrastructure investment solutions in Asia

Exclusive stars interview with Dr. Joachim von Amsberg, Vice President of Policy and Strategy, Asian Infrastructure Investment Bank (AIIB), Beijing. The interview was conducted by David Erne, Director Asia at stars, on the sidelines of the 5th stars China symposium in April 2017 in Chengdu.

Erne: Since its launch in January 2016, in which area has AIIB made most progress towards helping to address the massive infrastructure gap in Asia?

Dr. von Amsberg: Our first year of operation has clearly shown that the premise of the huge infrastructure investment needs in Asia has been valid and true. We have seen a tremendous demand for our financing for infrastructure projects, both private and public, across our membership. We are quite pleased to see that the demand for our services is there, so that we as the management of AIIB can focus on building the institution, financing our first projects, developing our financial infrastructure and agreeing with our shareholders on the priorities for investment.

We have come to agreement to prioritise three thematic areas. First, sustainable infrastructure, infrastructure that helps countries ensure that development is sustainable, that their commitments towards climate change agreements is implemented. Second, cross-country connectivity, infrastructure that connects countries and facilitates trade. And third, investments that mobilize private capital for infrastructure in developing countries in Asia.

What are the most important similarities and differences between AIIB and existing multilateral development banks (MDBs)?

Our basic structure is quite similar to that of the existing multilateral development banks. Both our governance structure as well as our financial structure is based on the well-proven model of existing MDBs. We have the paid-in capital, which we use to leverage by issuing bonds and then using the proceeds to make investments in our client countries. Our basic policies are also quite similar. For example, our social and environmental standards are very similar to those of existing MDBs and that's by choice because we don't want to create unhealthy competition, we want to ensure that international standards are upheld in projects financed by AIIB.

The differences with the existing MDBs lie in the focus. We are much more specifically focused on infrastructure investments. We are focused on project finance and we want to make sure that the projects we finance are of high quality. We will not engage in the broad policy advisory services that other MDBs often undertake. We are also very focused on the bankability and the financial sustainability of projects we finance because we think that's important if we want to attract private capital. Lastly, we are aiming to be a very lean and very agile organisation, with a relatively small

staff and relatively low administration costs, that is able to respond quite quickly, quite flexibly and unbureaucratically to the needs of our clients.

What is AIIB's experience so far with the process of co-financing projects together with other MDBs?

We have so far invested in twelve projects, nine of which are co-financed with other MDBs. This has been a very important and very positive experience. First, because it sends our shareholders and our clients the clear message that we are working together, that we are a new institution that strengthens the multilateral system rather than undermines it. And I think that message has been very well received both by shareholders and clients. Also, the co-financing of projects allows us to benefit from the technical work and the technical experience of existing MDBs. It allows us to very quickly get up to speed, get into the business and to learn by lending without running undue risks that we would incur if we invested in projects without having the technical expertise yet to assess projects in all their complexities.

To give an example, we recently co-invested with the World Bank in the expansion of a hydropower project in Pakistan. There we've co-financed an additional powerhouse and an additional generator for an existing dam and reservoir. It was a very good project that allowed the country to generate additional electricity without having to build a new reservoir or flood additional areas. But these projects are technically very complicated and we know that the World Bank has worked with the government of Pakistan for a long time before this project was ready for financing, so we are quite happy that we could come in and jointly finance that project.

However, I would add that in the future we are developing our own technical capacity, we will have our own technical staff and we will have an increasing share of projects that we are financing as the main multilateral development partner without necessarily the co-financing from another leading multilateral development bank.

AIIB's core values are "lean, clean, and green". How do these values translate into clear priorities?

Clean means that our work and the projects that we finance have to be clear of corruption. We have policies on financial management, policies on procurement and policies against what we call prohibited practices that measure up to very similar policies in the other MDBs to insure that the money we invest is really used for the intended purposes. We typically require international competitive bidding and we have measures in place to prevent any kind of practices like fraud or corruption in projects. We are very keen to have mechanisms of complaints built into projects so that if anybody observes some wrongdoing that there are channels and mechanisms by which anybody can bring those cases to the attention of the authorities or, if necessary, of the bank, so that those cases can be immediately investigated and any prohibited practice can be stopped.

Green means we have strict environmental and social safeguards, policies that ensure that there are no negative side effects from our projects on the environment or on the affected populations and people. But it also means that we proactively seek to invest in projects that accelerate the transition to sustainable infrastructure. For example, we will quite actively seek out investments in renewable energy to help our

member countries transition towards sustainable energy for all, to transition towards a lower carbon profile of their energy sector.

And finally, *lean* means that we are an organization that is very slim, very agile and has few staff. We are still in start-up mode, right now we only have 100 staff. Of course our staff has to grow, but it will remain much smaller than that of the established MDBs, and we are very keen to show the efficiency and high level of effectiveness of a small organization. We also have innovated in terms of our governance structure: our board of directors is a non-resident board that represents the interests of our shareholder governments. It comes together once a quarter for a meeting and we believe that this non-resident board will create a clear division of responsibility between the board and management and it will therefore lead to higher accountability of management. A board that is not involved in the day to day running of the organization can ask much more difficult questions when they come together to hold management to account. We think that is a healthier structure than the resident boards that is the practice in some of the other MDBs.

One distinctive characteristic of AIIB is its focus on project finance. How do you build up a pipeline of consistently high quality projects ready to be invested in?

This relates to the infrastructure finance paradox: on the one hand, there are huge investment needs that have been estimated to be in the trillions and trillions of dollars every year in energy, water, transport and other sectors. On the other hand, there is a lot of capital looking for investment opportunities. And yet the two don't meet or don't meet at the sufficient scale. One key reason for that is that in many cases the needs for infrastructure are not yet turned into bankable, viable projects. We see it as one of our roles to help our clients - governments or private project developers and project sponsors - to build that project pipeline. We engage both with clients who bring to us projects that are ready to be financed but also with clients who want our help with projects that are not yet quite fully developed, where feasibility studies still have to be done or where detailed design work still has to be done.

We're also working together with several other institutions that have been set up to strengthen the pipeline of viable infrastructure projects. To address this challenge, the Global Infrastructure Facility is working together with several MDBs, the Global Infrastructure Hub has been set up by the G20 and in several of our member countries there are dedicated facilities to support the development of viable projects. We are very keen to engage in those initiatives and to talk with sponsors and governments today to make sure that we have a very strong project pipeline that we can invest in in a year from now or in two years from now.

In another [exclusive stars interview](#), [Jordan Schwartz, Director of the World Bank's Infrastructure & Urban Development Hub in Singapore](#), made the point that in order to achieve the economic returns on infrastructure investments, beyond just building up the physical infrastructure it is crucial to ensure that the services over that infrastructure are also competitive and efficient. How does the AIIB deal with this challenge in the projects it finances?

We look at the objective of a project as the infrastructure service that comes from an asset. Ultimately what matters is whether a power plant supplies electricity that is then bought by consumers or industry. What matters is that a transport investment - a

road, a toll road or a train system - provides transport services in terms of passengers and freight carried over those infrastructures. We are seeking to define the project development objective as those infrastructure services which means we need to look not only at the physical infrastructure but also at the maintenance and to some extent at the regulation that surrounds an infrastructure asset.

Of course, this also critically relates to good choice of projects. We can never be satisfied if an infrastructure project is located in an area where there is no demand. We don't want to finance white elephants. Part of that is simply very rigorous and systematic project economic analysis, which means before we finance an investment we must be able to do an economic analysis that is based on demand projections for the infrastructure service and which shows that this is a viable investment both in financial but also in economic terms.

The top rank of AIIB's leadership team has extensive experience in existing MDBs. AIIB's President Jin Liqun and Chief Financial Officer Thierry de Longuemar both previously served as Vice Presidents of the Asian Development Bank (ADB). You and Chief Risk Officer Martin Kimmig have each spent 25-year careers at the World Bank Group, where you most recently served as Vice President. Based on your experience, how would you describe the differences in organizational culture between the World Bank and AIIB?

We want to build an organization that implements the vision of a clean, green and lean organization. We want to bring together individuals from government, from the private sector and from existing MDBs who together have to form the culture of this new bank. This will be a unique culture, distinct from those of other development banks. In particular, because of our stronger focus on infrastructure and on project finance, I foresee and want to shape a culture that is more managerial and less academic than that in other development banks. In some of the larger development banks, the culture in many cases is quite academic. That is good when it helps to develop creative and innovative solutions, but it can be unhelpful when there is a need to actually come to decisions quickly and to move forward with the financing and implementation of a project. I foresee a culture that is managerial, where we debate issues and difference of views but then come to decision and move to implementation.

I also hope we can build a culture that brings public and private sector together in a unique way. We want to do a lot of business with the private sector, we want to mobilize private capital which means we need to understand how private investors work, how private developers work. We also need staff that comes from private organizations and we need to blend them with those who understand the public aspect, the policy aspect and the regulatory aspect of infrastructure development. I hope that we are able to blend these two strands into a unique culture that is able to come up with public-private blended infrastructure solutions that fit the requirement of each situation.

What do you see as the biggest challenge for AIIB in the next five years and how is AIIB readying itself to tackle it?

Our challenge is to now grow the business. Last year we committed more than a billion dollars, this year we'll commit more than two billion dollars, so we'll gradually

scale up. As we scale up, I think a key challenge will be to build our own technical competence in some key areas of infrastructure sectors and sub-sectors. We will not try to be the best in every area, but I think we want to be the best in a few areas. We have to pick a few sub-sectors, a few particular areas within infrastructure development where we hire staff, where we develop expertise and where we become the go-to partner for our clients.

Let's take the example of urban investments, for example urban rail. I could see us develop such expertise in the area of urban rail investment where we hire staff who have the in-depth experience with urban transportation, where we develop the financial instruments that are suitable - particularly suitable for the often very large scale sub-national investments required in urban rail projects - so that in a few years' time, when a city or a province is looking for the best partners to support their urban transport solution, they will naturally come to AIIB because this is really where they can find the best expertise. I think positioning ourselves and developing our expertise so that in a few areas we become the best go-to partner, that would be one of the ambitions and one of the challenges I would pose for ourselves.

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