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Asian Infrastructure Investment Bank: Restructuring Global Economy towards Sustainable Development

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ASIAN INFRASTRUCTURE INVESTMENT BANK: RESTRUCTURING GLOBAL ECONOMY TOWARDS SUSTAINABLE DEVELOPMENT

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Abstract

Beijing's current effort to improve ties and stimulate growth and development along its geographic periphery, facilitating land-based trade across the Eurasian landmass, promoting infrastructural development and connectivity, and stimulating economic integration. These initiatives were seen as a leverage of China's growing economic power and influence in order to strengthen and expand cooperative interactions, create an integrated web of mutually beneficial economic, social and political ties, and ultimately lower distrust and enhance a sense of common security. "One Belt, One Road is a good international economic strategy, but for now it is certainly not an easy one."ⁱ Europe is an integral part of China's transcontinental vision, and the European Union (EU) has its own vested interests in the Belt—as the EU–China Connectivity Platform demonstrates. This plan sets out a vision in which Chinese-led infrastructure construction, reduced tariffs, and simplified customs administration would allow trade to flow seamlessly between China and Europe by both rail and cargo ship.ⁱⁱ China has committed a total of about \$100 billion to a trio of new infrastructure funds: \$40 billion to the Central Asia-focused Silk Road Fund, \$50 billion to a new Asian Infrastructure Investment Bank (AIIB), and \$10 billion to the BRICS-led New Development Bank.ⁱⁱⁱ This paper analyzes the prospective contribution of AIIB in leading the way towards sustainable economic development as it has a renewed vision of financing major projects under the umbrella of renewable energy and has strict guidelines for approval of even other projects in terms of environmental protection. We will analyze different documents obtained from AIIB's official website and other academic literature to find out how AIIB has envisioned a global economy in terms of sustainable development.

Introduction

Recent news that the United Kingdom and other Western European countries will join the China-led Asian Infrastructure Investment Bank (AIIB) has prompted a flurry^{iv} of discussion^v about how the United States, which has been reserved about the new institution, should respond. The Chinese-led AIIB is a new international financial institution (IFI) that will finance infrastructure projects in Asia. Whatever Washington decides, it's clear that the AIIB and other new multilateral institutions are becoming an important part of the development finance landscape. These banks can support much-needed infrastructure improvements in the developing world, but they'll also need to ensure that their investments do not come

at the expense^{vi} of local communities or the environment.

In terms of economic power and population, emerging economies are underrepresented in existing IFIs like the World Bank and Asian Development Bank. Brazil, Russia, India, China and South Africa (BRICS countries) together comprise 21 percent^{vii} of the world economy and 43 percent of the world's population, yet their voting power at more traditional IFIs does not match their size. For example, they collectively hold 14 percent^{viii} and 11 percent^{ix} of voting shares in the International Bank for Reconstruction and Development and International Monetary Fund, respectively. At the same time, today's infrastructure investment needs far exceed the amount of finance currently available. In Asia alone,

the overall need for national infrastructure investment is estimated to be about US\$ 8.22 trillion^x for the period between 2010 and 2020. Existing available capital will not meet this financial need—new financial institutions like AIIB and the New Development Bank (NDB), a bank initiated by the BRICS countries, are stepping in to fill the gap. In October 2014, 21 countries signed an MOU to create the \$100 billion AIIB. As of April 2015, 35 countries had signed up to be prospective founding members—including a number of European countries such as the UK, Germany and Switzerland— and dozens more have applied. The bank is expected to be formally established by the end of 2015. Also in 2014, the BRICS signed an agreement to create a \$100 billion NDB. These banks usher in a new wave of increased development and financial cooperation between developing countries, emerging markets and developed economies. AIIB can be big and profound component of such an initiative of sustainable development for future global economy as its investments towards renewable energy show us.

Global Initiatives for Sustainable Development^{xi}

Major global initiatives for sustainable development are discussed below;

- The Sustainable Energy for All (SE4ALL) initiative, launched by the UN Secretary General Ban Ki-moon in September 2011, has three objectives for 2030: ensure universal access to modern energy services; double the share of renewable energy in the global energy mix; and double the global rate of improvement in energy efficiency. The initiative was launched to coincide with the UN General Assembly Resolution 65/151 of 20 December 2010 that declared 2012 the International Year of Sustainable Energy for All.
- The 2030 Agenda for Sustainable Development is a set of 17

aspirational "Sustainable Development Goals" (SDGs) with 169 targets developed under UN auspices, involving 193 UN Member States and global civil society. The goals are contained in paragraph 54 of the UN General Assembly Resolution A/RES/70/1 of 25 September 2015. One of those goals, SDG 7, calls for ensuring access to affordable, reliable, sustainable and modern energy for all by 2030.

- The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by "holding the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5 degrees Celsius". The Agreement also aims to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". According to the Agreement, countries shall publicly outline nationally determined contributions (NDCs) that they intend to achieve for reductions in greenhouse gas emissions. The Paris Agreement was agreed by 197 Parties during the 21st Conference of the Parties (COP 21) of the UN Framework Convention on Climate Change (UNFCCC) in Paris in December 2015, and entered into force in November 2016.

AIIB's Efforts towards Sustainable Development through promoting Renewable Energy

1. Objective of the Energy Sector Strategy of AIIB^{xii}

- The objective of the Energy Sector Strategy is to provide the framework,

principles, and operational modalities to guide the Bank's future energy sector engagement, including the development of its project pipeline and future sub-sectorial lines of business.

- The Strategy embraces, and is informed by, the principles underpinning the Sustainable Energy for All (SE4ALL), the 2030 Agenda for Sustainable Development, and the Paris Agreement (see Box 1 above). It lays the framework for the Bank to support its client countries to: (i) develop and improve their energy infrastructure and facilitate their transition to a less carbon-intensive energy mix; and (ii) meet their goals and commitments under these global initiatives.
- The Strategy is consistent with the Bank's "Lean, Clean, and Green" core values and its institutional goals. The Strategy embodies the Bank's three thematic priorities: sustainable infrastructure, cross-country connectivity and private capital mobilization. Regular monitoring and reporting of portfolio composition will be an important discipline and help build a portfolio that reflects the Strategy and is aligned with the Bank's core values.

2. Guiding Principles of AIIB^{xiii}

The Energy Sector Strategy is developed around six principles, which will guide the build-up of the Bank's energy portfolio during the early years of operation.

Principle 1: Promote energy access and security. Lack of access or unreliable access to energy services deprives the most vulnerable people from availing of economic and other opportunities to improve their lives. Bank financing for improved energy access and security will support clients in achieving Sustainable Development Goal 7 (SDG 7). The Bank proposes to place emphasis on: (i) promoting, directly or indirectly, access to modern energy by those who currently have little or no access; (ii) improving the reliability of electricity supply; and (iii) reducing the negative health impacts caused by indoor combustion of solid fuels. According to the IEA^{xiv}, achieving universal electricity access for basic human needs by 2030 would increase global greenhouse gas emissions by just 1.3 percent.

Principle 2: Realize Energy Efficiency potential. International experience and primary energy forecasts by international institutions indicate that energy efficiency is one of the major means to achieve global environmental objectives. Prosperity and wellbeing can no longer be gauged by the consumption of energy but by the services derived from it. Given the high energy intensity in most non-OECD countries in Asia, the Bank proposes to cooperate with other MDBs operating in Asia to tap the existing large, but dispersed, potential for energy efficiency in industry, buildings and transport. Initially, the Bank proposes to focus on projects that make the most of existing energy infrastructure stocks through: (i) rehabilitation and upgrade of existing generation plants, and (ii) aggressive loss reduction and utility-driven energy efficiency programs in power and gas transmission and distribution networks. Over time, it will also develop financial instruments and engage with potential financial intermediaries in these areas.

Principle 3: Reduce the carbon intensity of energy supply. Energy is the dominant contributor to climate change, accounting

for around 60 per cent of total global greenhouse gas emissions. The Bank proposes to support clients to reduce the carbon intensity of energy to help them achieve their long-term climate goals provided in the Paris Agreement. According to the IEA 2015 World Energy Outlook, energy infrastructure investments need to be reshaped to meet the Paris Agreement goals:

- Investments in fuel supply during 2015-40 need to decrease from US\$33 trillion in the Current Policies Scenario (CPS) to US\$21 trillion in the 450 Scenario, mainly through a considerable reduction in oil investments, a sizable reduction in coal investments, and slightly lower investments in natural gas (although gas investments will remain significant in all three scenarios);
- Investments in power supply during 2015-40 need to increase from \$20 trillion in the Current Policies Scenario and the New Policies Scenario to US\$22 trillion in the 450 Scenario. The power sector overall would need to focus more on renewable energy (which will need to more than double to meet the goals of the Paris Agreement), and sustained investment in power transmission and distribution (T&D).

The Bank proposes to support energy investments that minimize adverse environmental impacts, and also reflect clients' individual energy situations (e.g., energy resource endowment, affordability of capital-intensive investments, security of supply, etc.). During the transition to a lower carbon intensity energy sector, fossil fuels will continue to play a significant role in the energy mix of most member countries. The Bank proposes to support and accelerate its members' respective transitions toward a low-carbon energy mix through investments in renewable

energy and reduction of carbon emissions from fossil fuels.

Principle 4: Local and regional pollution management. The Bank proposes to support its clients in reducing, limiting and mitigating the deleterious impact of pollution. Fossil fuel production, transport and consumption have severe negative impacts on the local environment, especially in Asia's densely populated cities. Historically, issues related to local and regional pollution have been addressed mainly by limiting emissions of fossil fuel-based power generation, especially coal-fired plants. New projects are now being developed by MDBs to address local pollution specifically and comprehensively, to counter the negative impacts on health and wellbeing. The Bank proposes to cooperate with other MDBs on these initiatives.

Principle 5: Catalyze private capital. The Bank is committed to promote private sector investments to help to close the momentous infrastructure investment gaps in developing Asia. For varying reasons, to date, private capital investments in energy and infrastructure have been marginal in non-OECD countries, although partial credits, investment and country guarantees by MDBs have been instrumental in promoting successful projects in several countries. Innovative approaches have also been initiated using grants and concessional financing by some countries to reduce the cost of electricity generated under public-private partnerships (PPP) and/or to improve risk sharing in PPP ventures. The largest concentrated solar power (CSP) generation project in Morocco supported by the World Bank and African Development Bank and the geothermal project supported by the World Bank in Indonesia are representative of the former approach, whereas the envisaged support of a geothermal PPP project in Nicaragua by the World Bank is illustrative of the latter. The Bank proposes to: (i) explore innovative models to catalyze private investments, and

significantly increase their contribution to meet the infrastructure needs of countries in Asia, especially those that are budget-constrained; (ii) build upon successful experiences and lessons learned of MDBs operating in Asia, especially in PPPs, ensuring that the costs and risks are appropriately shared and distributed; and (iii) explore with clients and private partners new cooperation modalities to meet country needs. In addition, the Bank proposes to avoid crowding out the private sector. When pursuing such opportunities, the Bank will evaluate risk carefully and ensure that appropriate measures are put in place to mitigate and manage such risks.

Principle 6: Promote regional cooperation and connectivity. Regional integration and cooperation are essential to take advantage of synergies, increase market size to improve competitiveness, and create a critical mass for cooperative R&D and manufacturing capabilities. Efforts deployed by MDBs and bilateral organizations in Asian countries and other regions have had moderate success. The Bank proposes to engage client countries and pursue regional connectivity of energy systems in Asia, especially power and gas, with a view to strengthening systems; improving the security and efficiency of energy supply; optimizing the use of resources; allowing for greater flexibility in their operation; reducing local, regional and global adverse environmental impacts; and fostering greater use of renewable energy resources.

Project Process for AIIB^{xv}

AIIB's project process is guided by its strategic goals and thematic priorities: sustainable infrastructure, cross country connectivity and private capital mobilization.

Strategic Programming

AIIB reviews project ideas and proposals from clients, partners and other stakeholders and seeks to achieve an appropriate balance among borrowers, sectors, sovereign and non-sovereign projects. Projects that meet the preliminary

screening criteria are included in the rolling investment program which will be discussed and approved by the Executive Committee on a regular basis.

Project Identification

As part of the Project Identification phase, the prospective borrower submits documentation pertaining to the proposed project. This documentation may include a brief project summary and/or a preliminary or final feasibility report. Following a review of the information received, AIIB may request that additional research be conducted to facilitate a more thorough assessment of the proposed project. This additional research could involve a site visit to further assess needs and potential impacts. It could also involve additional due diligence work related to technical, economic, financial, social, and environmental and governance factors. Based on the initial review, and any additional supportive research, AIIB will work with the borrower to prepare a project concept document to be used in internal deliberations.^{xvi}

Project Preparation

During this phase, AIIB's project team and the borrower's designated agency/agencies will work closely together on project design. In addition, AIIB's project team will make an assessment on the borrower's initial due diligence documents and will work with the borrower's designated agency/agencies to address any identified gaps. Following the project appraisal, the AIIB project team will prepare a Project Document that will include the project objective/impact, rationale, project components, estimated cost, financing plan, implementation arrangement and schedule, project risks and mitigation measures, and any project covenants that were agreed to. Subsequently, after an internal review, the Project Document will be finalized. Afterwards, draft loan agreements and project agreements will be submitted to the borrower for loan negotiations to be held on a mutually agreed to date.

Board Approval

After negotiations with the Borrower, the Project Document is submitted to the AIIB Board. Following the Board approval, the Project Document is posted on AIIB's website with the Borrower's consent. After Board approval, the Borrower's representative and AIIB's Vice President and Chief Investment Officer sign the loan and project agreements at a mutually agreed date. The loan becomes effective only after fulfilling the respective loan effectiveness conditions, if any and the legal requirements (legal opinion etc.).

Project Implementation

AIIB focuses on project readiness during the project preparation stage to avoid project start-up implementation delays. This preparation stage includes: (1) Procurement readiness (advance procurement actions for recruiting consultants and selecting contractors/suppliers);

(2) Implementation readiness (setting-up fully functional project implementation offices with qualified key staff). The designated project executing/implementation agency or agencies are responsible for implementing the project by executing each project activity as agreed in the detailed project description document, which provides overall project implementation guidance. The main purpose of achieving project readiness before the start of project implementation is to shorten the project implementation period and achieve the project impacts at the earliest.

The Borrower's Project Implementation Office is responsible to implement the project in a timely manner. If needed, the Borrower may recruit consultants to provide specialized professional services in areas such as detailed design, preparation of bidding documents and procurement of contractors for works, suppliers for the required goods, and capacity development through trainings in all the multidiscipline areas as needed. AIIB's project team remains fully engaged

during project implementation from the stage of inception to completion. Being a lean organization, AIIB's monitoring of project implementation and guidance for the Borrower's team are not limited to only periodic fielding of review missions that usually are twice a year. The AIIB team also offers its advisory services through video and teleconferences as and when required to review project implementation progress and resolve any issues in a timely manner. In addition, the Project Implementation Office of the Borrower prepares monthly progress reports, including an environmental and social management report, and shares them with AIIB. Such reports highlight the updated progress of each project component and loan covenant, contractual or project management issues (if any) and respective actions. AIIB also holds project launch workshops on procurement, disbursement and environmental and resettlement related implementation plan to support designated project implementation agency/agencies for smooth project implementation.^{xvii}

Project Completion and Evaluation

AIIB furnishes a project completion report within 6-12 months after project completion. The AIIB team prepares a Project Completion Report (PCR) on the Project's results, the performance by the Project Participants and AIIB, and the degree of achievement of the Project's development objectives. The PCR provides the comparison of project impacts, outcomes, components, and implementation arrangements as originally designed and as achieved at completion, as well as the main lessons learned for incorporation in future project designs. The PCR incorporates an evaluation by the Project participants, their performance and that of AIIB, if available. Upon approval by the Vice President and Chief Investment Officer of AIIB, the Project Completion Report is submitted to the Board of Directors for information.

Conclusion

Global warming and the various catastrophes associated with tend to increase the significance of restructuring the global economy based on renewable energy sources. Future international institutions have to realize this truth as soon as possible as their success lies with the success of economy based on renewable energy and sustainable development in future. China had proclaimed itself as the leader in economic development as envisioned through One Belt One Road (OBOR). AIIB is one the three financial institutions associated with OBOR. According to a vast exquisite plan of restructuring world economy on the basis of sustainable development as China has necessary resources and influence due to OBOR over world economies for redirecting funds towards renewable energy sources through Asian International Investment bank (AIIB). Evidently it is the right and necessary step that AIIB is overlooking promisingly.

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Infrastructure Investment Bank (AIIB), the BRICS’ New Development Bank, the Silk Road Fund, a CIC-backed fund (announced recently, during Li Keqiang’s visit to Brazil), and even, possibly, a SCO Development Bank.

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¹ The MDBs annually publish the Joint Report on MDBs’ Climate Finance. The 2016 report is available

at: <http://www.ebrd.com/2016-joint-report-on-mdbs-climate-finance.pdf>

¹ The IDFC reports Green and Climate Finance Data through the Green Finance Mapping reports. www.idfc.org/Our-Program/green-finance-mapping.aspx