

FROM: Gregory Wischer
DATE: 05 October 2020
RE: **AIIB Data: Information, Policy Questions, Gaps, & Biases**

Overview

- **Key information:** Project details on Asian Infrastructure Investment Bank (AIIB) financing, and reports synthesizing data from other sources on Asia's economic risks and infrastructure needs.
- **Key answerable policy questions:**
 - *What economic risks does South Asia face?*
 - Environmental: erratic monsoons, air pollution, coastal flooding, droughts.
 - Social: water scarcity, untreated water and waste, urbanization, food insecurity, increased energy consumption.
 - *What are South Asia's infrastructure needs?*
 - Improved irrigation systems, water treatment and delivery, urban development, transportation networks, information and communications technology (ICT), energy grids.
 - *Is China using AIIB to advance its political and economic agenda?*
 - No. To date, AIIB has financed projects based on a project's demonstrable economic benefit and environmental and social compliance in the host country.
 - *Will AIIB reduce the overall influence of US-led multilateral development banks (MDBs) like the Asian Development Bank (ADB)?*
 - No. AIIB's financing in 2019 only represented 13.5% of ADB's financing in 2019. Also, AIIB's maximum annual financing will only represent 36% of the ADB's annual financing.
- **Potential gaps:** Lack of subproject data on financing to financial intermediaries (e.g. funds, portfolios, facilities). This lack of transparency could obscure possible Chinese political influence over AIIB and financing support for unethical projects or companies.
- **Potential biases:** China holds a dominant voting share (26.5%),¹ AIIB President Jin Liqun is a Chinese national who has held senior positions in the Chinese government,² and the bank is based in Beijing,³ potentially providing China with influence over project efficacy and data transparency and veracity.

¹ "Members and Prospective Members of the Bank," webpage, Asian Investment Infrastructure Bank, accessed October 3, 2020, <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

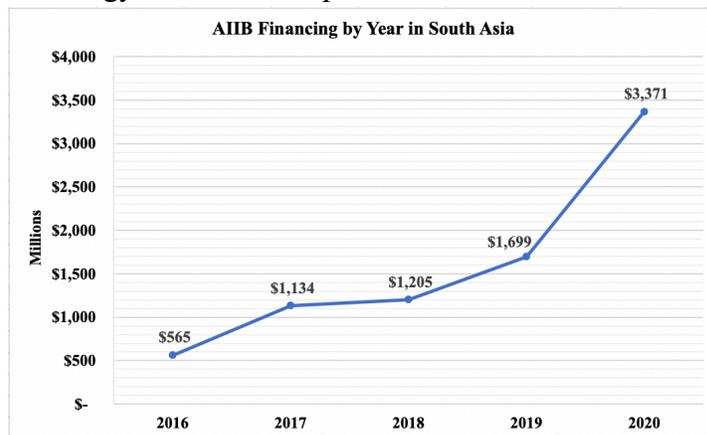
² "AIIB Governance: Senior Management," webpage, Asian Infrastructure Investment Bank, accessed October 3, 2020, <https://www.aiib.org/en/about-aiib/governance/senior-management/index.html>.

³ "Introduction: Who We Are," webpage, Asian Infrastructure Investment Bank, accessed October 3, 2020, <https://www.aiib.org/en/about-aiib/index.html>.

Introduction

AIIB is a China-backed, led, and headquartered MDB focused on infrastructure financing in emerging markets, predominantly in Asia. Officially formed in January 2016, today it includes 103 members⁴ and has \$100 billion in capital—half of which China contributed.⁵ AIIB seeks to reduce Asia’s infrastructure gap, which is an estimated \$459 billion annually.⁶ It has a AAA credit rating from S&P Global Ratings, Moody’s, and Fitch.

In 2019, AIIB’s annual financing was \$4.54 billion.⁷ Eventually, AIIB plans to finance \$10–12 billion annually.⁸ It largely finances infrastructure projects in energy, finance, transportation, water, urbanization, ICT, and amidst the COVID-19 pandemic, public health and economic resilience. AIIB finances both sovereign and nonsovereign entities, and cofinances projects with other MDBs and entities. It says its financing is based on “lean, clean and green” principles.⁹



Source: “Approved Projects Overview,” Asian Infrastructure Investment Bank, accessed October 3, 2020,

Background

AIIB has proven to be a “normal, boring, multilateral bank”: transparent, accountable, effective, and objective.¹⁰ The US refused to join AIIB and pressured other countries not to join, due to worries that AIIB would further China’s economic and political agenda¹¹ and reduce US-led MDBs’ influence in Asia like the ADB.¹² The US also cited concerns about “governance, and environmental and social safeguards.”¹³ Still, many states joined AIIB. Japan and Taiwan—whom China denied membership to—are other major states not to join.

⁴ Yang Yang, “AIIB Member Count Hits 103,” *China Daily*, July 29, 2020,

<https://www.chinadaily.com.cn/a/202007/29/WS5f20ebffa31083481725cd4c.html>; and “Members,” AIIB.

⁵ Martin A. Weiss, “Asian Infrastructure Investment Bank (AIIB),” Congressional Research Service, February 3, 2017,

<https://fas.org/sgp/crs/row/R44754.pdf>.

⁶ Sungsup Ra and Zhigang Li, “Closing the Financing Gap in Asian Infrastructure,” no. 57, ADB South Asia Working Paper Series, June 2018, 1, <https://www.adb.org/sites/default/files/publication/431261/swp-057-financing-gap-asian-infrastructure.pdf>.

⁷ “2019 AIIB Annual Report and Financials,” webpage, Asian Infrastructure Investment Bank, accessed October 3, 2020, <https://www.aiib.org/en/news-events/annual-report/2019/home/index.html>.

⁸ “China’s AIIB Eyes \$10-12 Billion a Year in Project Financing, Steady Growth,” *Reuters*, July 1, 2019, <https://www.reuters.com/article/us-china-aiib-investment/chinas-aiib-eyes-10-12-billion-a-year-in-project-financing-steady-growth-idUSKCNITW1OL>.

⁹ Thierry de Longuemar, “Lean, Clean and Green. An Interview with AIIB,” BNP Paribas, February 12, 2019,

<https://securities.bnpparibas.com/insights/building-asia-lean-clean-green.html>.

¹⁰ Sophie van der Meer, “Demystifying Debt along China’s New Silk Road,” *The Diplomat*, March 6, 2019,

<https://thediplomat.com/2019/03/demystifying-debt-along-chinas-new-silk-road/>.

¹¹ Jane Perlez, “China Creates a World Bank of Its Own, and the U.S. Balks,” *New York Times*, December 4, 2015,

<https://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-alooof.html>.

¹² Zachary Keck, “Why the US Is Trying to Squash China’s New Development Bank,” *The Diplomat*, October 10, 2014,

<https://thediplomat.com/2014/10/why-the-us-is-trying-to-squash-chinas-new-development-bank/>.

¹³ “Washington Rebukes Britain’s Decision to Join China-Backed Asian Infrastructure Bank,” *The Standard*, March 3, 13, 2015, http://thestandard.com.hk/breaking_news_detail.asp?id=58463&icid=2&d_str=20150313.

Key Information Provided

AIIB offers 1) primary data on projects, and 2) reports analyzing secondary data on Asia's economic risks and corresponding infrastructure needs.

AIIB project data lists approved and proposed projects and related information on financing amount, sector, project type, and financing type. It also includes the project's borrower, team leader, objective, description, and environmental and social information.

AIIB reports synthesize data from other sources, including MDBs, and focus on environmental (e.g. flooding, droughts) and social challenges (e.g. urbanization, energy consumption), and associated investment needs (e.g. irrigation infrastructure, improved power grids).

India: West Bengal Major Irrigation and Flood Management

SUMMARY

STATUS	MEMBER	SECTOR	EAS CATEGORY
Approved	India	Water	Category B

PROJECT NUMBER

000054

FINANCING

PROJECT TYPE	APPROVED FUNDING	FINANCING TYPE
Cofinanced	USD145 million	Sovereign

TIMELINE

CONCEPT REVIEW	APPRAISAL REVIEW/FINAL REVIEW	FINANCING APPROVAL
December 4, 2017	October 8, 2019	December 12, 2019

Figure 1: Example of project information provided on AIIB website.

Key Answerable Policy Questions

- *What economic risks does South Asia face?*
 - **South Asia faces environmental (erratic monsoons, air pollution, coastal flooding, droughts) and social risks (e.g. water scarcity, untreated water and waste, urbanization, food insecurity, increased energy consumption).** Often, environmental challenges exacerbate social hardships. For example, a joint AIIB—Amundi Asset Management report noted that in India “From 2011 to 2018, only 2013 had monsoons with an average rainfall that was above expectations.” This caused “14 of India’s 20 thermal utilities stations to go out of operation at least once between 2013 and 2016,”¹⁴ resulting in financial losses for utility companies and energy shortages for customers.

Case Study: Water in India

Nearly 940 million people in South Asia lack access to basic sanitation services.¹⁵ In India, water-borne illnesses affect around 37.7 million Indians annually, resulting in 1.5 million children deaths and 73 million lost working days. This causes \$600 million in losses annually.¹⁶

¹⁴ “Working Paper - Climate Change Investment Framework: AIIB Asia Climate Bond Portfolio Case Study,” Asian Infrastructure Investment Bank and Amundi Asset Management, 10.

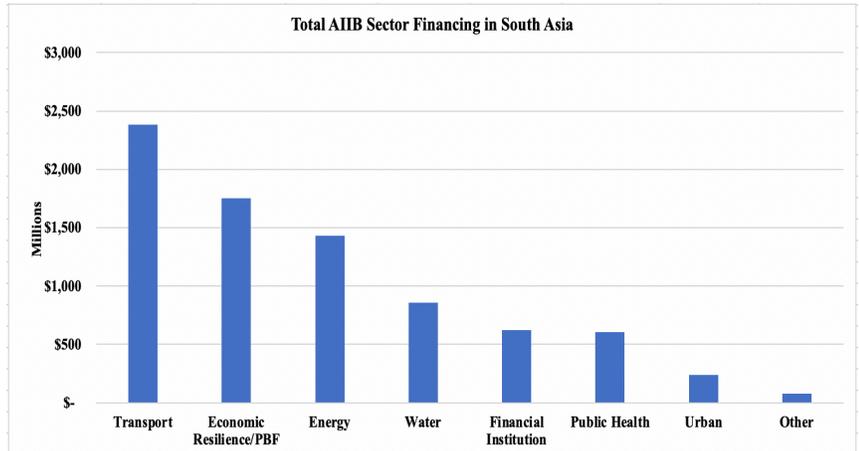
¹⁵ “Asian Water Sector Analysis: A Technical Background for the Asian Infrastructure Investment Bank (AIIB),” Asian Infrastructure Investment Bank and International Water Management Institute, August 2019, 11.

¹⁶ Hemant Pathak, “Effect of Water Borne Diseases on Indian Economy: A Cost-Benefit Analysis,” Analele Universității din Oradea, Seria Geografie, June 2015, 75, http://geografie-uradea.ro/Reviste/Anale/Art/2015-1/8.AUOG_678_Hemant.pdf.

- *What are South Asia’s infrastructure needs?*

- **South Asia’s major infrastructure needs directly connect to South Asia’s economic risks:**

- Water: irrigation, sanitation, water treatment, sewage.
 - Energy: power grid upgrades, new energy stations.
 - Urbanization: safe, sustainable housing.
 - Transportation: roads, railways, subways.
 - ICT: towers and broadband (mobile and fixed).



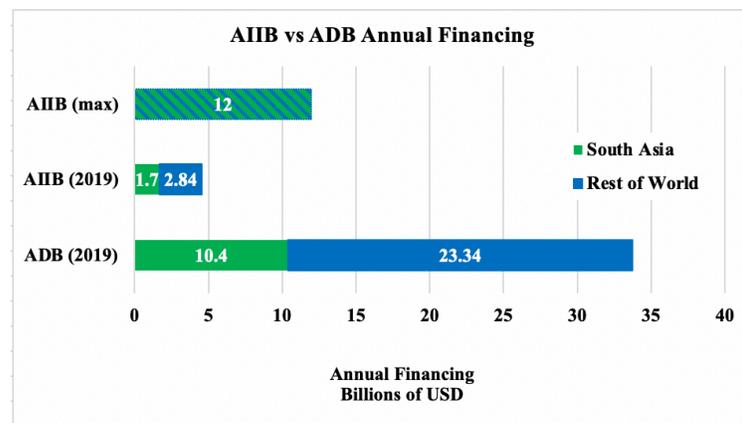
See Appendix for AIIB sector financing in each South Asian country. Source: “Approved Projects Overview,” Asian Infrastructure Investment Bank, accessed October 3, 2020, <https://www.aiib.org/en/projects/approved/index.html>.

- *Is China using AIIB to advance its own political and economic agenda?*

- **No. To date, AIIB has not conditioned financing to advance China’s political and economic agenda.** AIIB has not required borrowers to contract with Chinese companies, laborers, or materials (i.e. AIIB does not require digital infrastructure projects to install Huawei equipment), and AIIB has not selected projects to finance based on host countries’ relationship with China. For example, despite India-China tensions, India—with only a 7.6% voting share—has received nearly one-third of all AIIB funding, making it AIIB’s largest financing recipient.¹⁷ See Appendix for graph.

- *Will AIIB reduce the overall influence of US-led MDBs like the ADB?*

- **No. In 2019, AIIB’s annual financing was \$4.54 billion;¹⁸ in contrast, the US-led ADB’s annual financing in 2019 was \$33.74 billion.¹⁹ Eventually, AIIB aims to finance \$10–12 billion annually, which will represent about one-third of ADB’s annual financing.²⁰ This relative disparity is greater in South Asia: AIIB’s financing in 2019 was \$1.7 billion while ADB’s financing was \$10.4 billion.**



Source: AIIB, ADB, and Reuters.

¹⁷ Ananth Krishnan, “One-Third of Funding by AIIB Has Gone to India,” *The Hindu*, September 26, 2020, <https://www.thehindu.com/business/Industry/one-third-of-funding-by-aiib-has-gone-to-india/article32699050.ece>.

¹⁸ “2019 AIIB Annual Report,” AIIB.

¹⁹ “Total ADB Operations 2019, by Sector and by Region” in “ADB Annual Report 2019,” May 2020, <https://www.adb.org/documents/adb-annual-report-2019>.

²⁰ “China’s AIIB,” Reuters.

Potential Gaps

AIIB project information lacks subproject data on financing to financial intermediaries (FIs) (e.g. funds, facilities, and portfolios).²¹ AIIB finances many FIs and includes the FIs' investing objectives under project information, but the FIs' investing destinations—recipient companies, portfolios, and funds—are unlisted. This is a concerning gap. For example, the FIs could be disproportionately investing in Chinese projects, possibly indicating Chinese political influence.

Lack of transparency on subproject data could also obscure financing for unethical projects or companies engaged in unethical behavior. For instance, FIs could be investing in companies involved in human rights abuses in Xinjiang, China.²² More subproject transparency would expose possible Chinese political influence over AIIB and prevent financing support for unethical projects or companies.

Potential Biases

China's large voting share and leadership positions in AIIB may influence project efficacy and data transparency and veracity. The Congressional Research Service said, "The exact nature of the relationship between the AIIB and China's domestic foreign and economic policy agenda remain unclear."²³ Nonetheless, AIIB's adherence to World Bank standards, including transparency and project vetting diligence, has dispelled concerns about disproportionate Chinese influence.

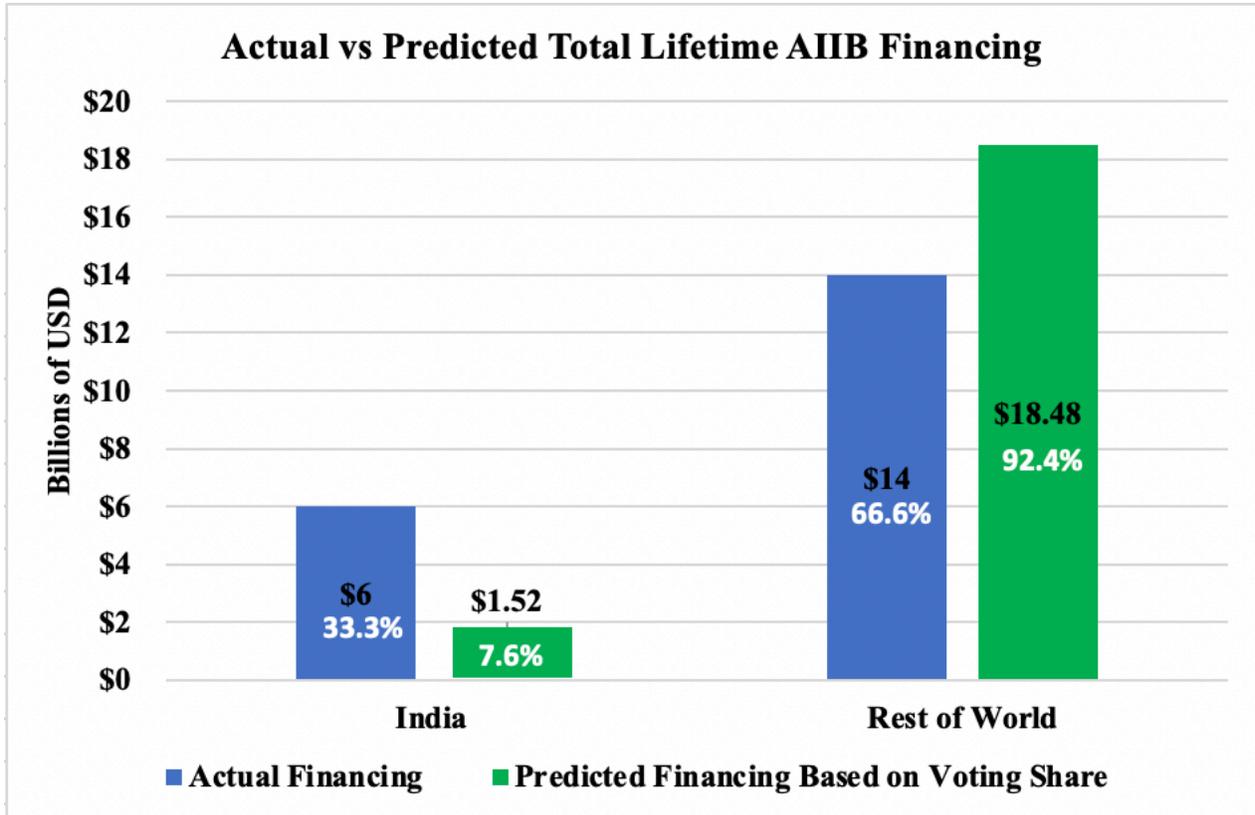
If Beijing decided to use AIIB as a political tool, it could decrease financing transparency or falsify project financing information. However, AIIB's multilateral governance and oversight would likely identify false information and block decreased transparency.

²¹ Munshi, "AIIB's Opaque Policies."

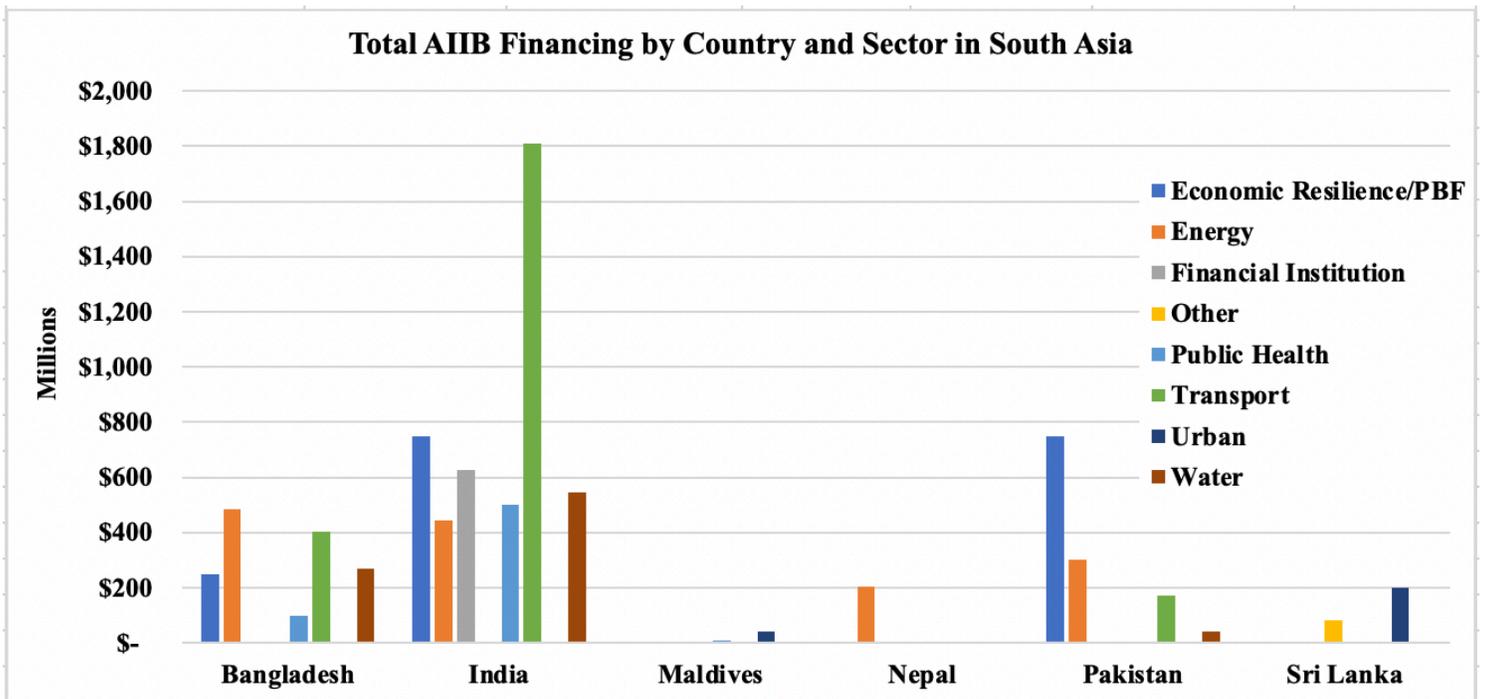
²² For example, an FI subproject recipient could include Hikvision, whose video surveillance equipment Chinese authorities use to surveil and target Muslim Uighurs.

²³ Weiss, "Asian Infrastructure."

Appendix



Source: AIIB and The Hindu



Source: "Approved Projects Overview," Asian Infrastructure Investment Bank, accessed October 3, 2020, <https://www.aiib.org/en/projects/approved/index.html>.