



AIIB's Business Coming to the Fifth Year after Opening

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In my article of July 1, 2019 titled “AIIB Celebrating Fourth General Meeting with a Successful Issuance of Global Bonds”¹, published in the “Eyes of IIMA” series in Japanese, I reviewed the current performance of AIIB which had been operated for about three and a half years since its establishment. This is the follow-up overview of its development.

1. Member Countries and Regions

During July to August, 2019, four non-regional countries of Belgium, Guinea, Serbia, and Greece completed the subscription of capital, bringing the number of formal members to 74 countries and regions. Also at the annual meeting held in July, membership of three non-regional countries of Benin, Djibouti and Rwanda was accepted and the total number of countries and regions approved their membership reached 100 including 26 countries currently in the process of subscription procedure².

Table 1 shows the regional and non-regional breakdown of membership as compared with the Asian Development Bank (ADB). Regional members accepted by AIIB are fifty, competing with 49 of ADB but with some differing contents³. On the other hand, non-regional members of

¹ <https://www.iima.or.jp/docs/column/2019/ei2019.17.pdf> (in Japanese only)

² For members and countries and regions in the process of acceptance of formal membership, please refer to the following URL. 26 countries in that process include Kuwait, Brazil, and South Africa which were accepted as founding members (57 countries) as they expressed its willingness of participation before March 2015.
<https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>

³ There is a difference in the definition of regional and non-regional countries between the two institutions. AIIB basically include Middle East as regional while ADB classifies it as non-regional. Among 50 regional members of AIIB, 12 countries in Middle East and Russia are not members of ADB. Among 49 regional members of ADB, 13 countries including Japan, Taiwan, Bhutan, Turkmenistan and 9 Pacific nations have neither applied nor accepted to membership of AIIB.

the AIIB stand at 50 against 19 of ADB. This is because ADB has limited its non-regional members to donors among the OECD members while the AIIB has accepted membership of developing as well as aid recipient countries in Africa and Central America.

Table 1 Members of AIIB and ADB

	AIIB			ADB
	Members	Approved(note)	Total	Members
Regional (Non-OECD members in ())	44 (39)	6 (0)	50 (39)	49 (45)
Non-regional(do.)	30 (9)	20 (19)	50 (28)	19 (0)
Total (do.)	74 (48)	26 (19)	100 (67)	68 (45)

(Note) Approved members will become official members after the completion of subscription process.

(Source) HPs of AIIB, ADB and OECD

However, it is not clear yet to what extent AIIB can provide its funds to non-regional developing countries that reach as many as 28. In its “Strategy on financing operations in non-regional members”⁴, AIIB defined that its target business should be limited to those contributing to the development of regional members and set a policy that the Bank will specify a ceiling based on a three-year rolling share of volume of approved Bank financing in nonregional Members during current plus two previous years over total approved Bank financing in the same period. For 2018, a tentative ceiling was set to be within 15% of approved financing for the year. However, the approved financing for 2018 amounted to only US\$3.25 billion, and 15% of it was only \$490 million. Actually, there was no approval of financing to non-regional members in that year. In addition, there remain non-regional non-member countries with a substantial economic scale. These countries need to explain to their parliaments the merit of participating in AIIB and secure the subscription budget. AIIB also will be required to provide them with sufficient reason of merits of their membership.

2. Securing the Diversity in its Balance Sheet by Bond Issuance

As I introduced in my previous report, the balance sheet of AIIB as of end-June 2019 saw a more diversification on the funding side (Liabilities) as it succeeded in May in raising US\$2.5 billion by bond issuance (Table 2). Total assets amounted to \$22.4 billion⁵, while subscriptions of members accounting for about 90% and borrowings through bond issuance the rest on the liabilities side. On the assets side, loan commitments amounted to \$8.5 billion but actual lending remains only at \$1.7 billion, or less than one tenth of total assets. Investments in effect represent funds like deposits that are held for future lending. This clearly shows that it is the challenge to AIIB to make steadier and more effective management of subscribed funds through accelerating finding for prospective projects and increased lending thereof.

⁴ <https://www.aiib.org/en/policies-strategies/download/financing-operations/Strategy-on-Financing-Operations-in-Non-regional-Members.pdf>

⁵ Total assets of ADB stood at about \$190 billion at the end of 2018.

Table 2 Balance Sheet of AIIB (in US\$ billion as of end-June 2019)

Assets		Liabilities and Net Assets	
Loans (※1)	1.685	Paid-in Capital (※4)	19.744
Investments (※2)	17.629	Liabilities	2.550
Others (※3)	3.058	Others	0.078
Total	22.372	Total	22.372

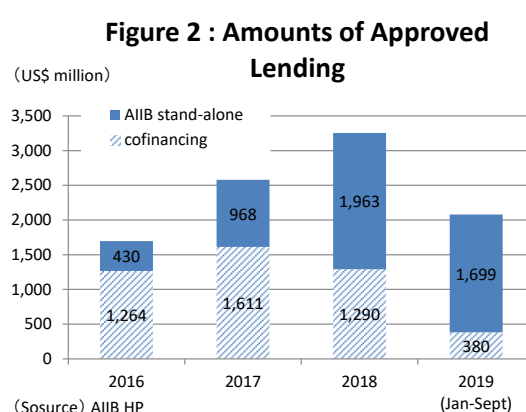
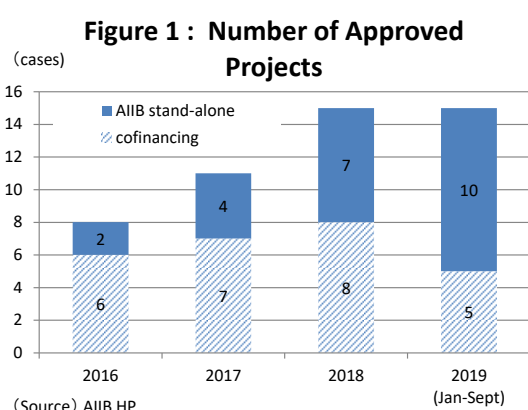
(Notes) ※1 Loan commitments amount to USD 8.53 billion
 ※2 Include cash, current deposit, time deposits and etc.
 ※3 Include paid-in capitals receivables, etc. receivables (-)
 ※4 Paid-in capital and retained earnings (+) and Reserve for accretion of paid-in capital (-)

(Source) AIIB HP

3. Status of Approved Lending Projects

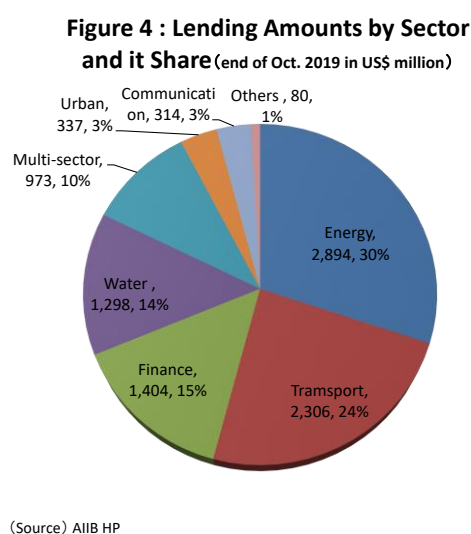
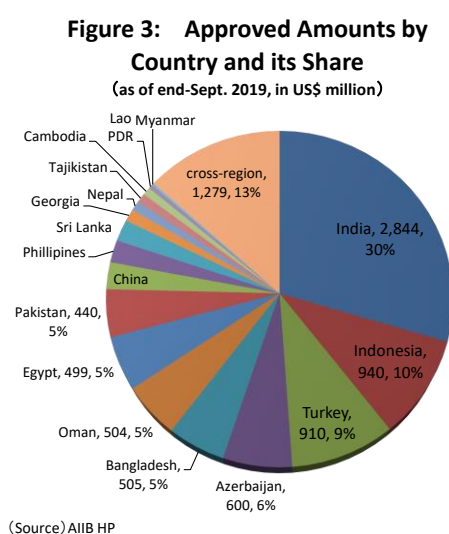
Cumulative approved lending projects stood at 49 at the end of September 2019 (See the attached table of project list at the end of the sentence). They increased by 15 during 9 months of January to September (by 10 in July-September) (Figure 1). Their values increased by \$2 billion (by \$1.6 billion in July-September), bringing the total approved lending to cumulative \$9.6 billion since its launch of business (Figure 2)。

Among the projects approved in January-September 2019, 70 % in number and 80% in value were stand-alone financing of AIIB. Comparing to the business in the first year in which co-financing projects accounted for more than 70%, there is a clear change in trend. Although it suggests that the AIIB's screening operation is taking firmer root, it will be necessary to wait for future inspection whether the quality of the examination has become appropriate for a multilateral financial institution.



By region, India is the biggest client in the approved projects in the past with a share of 30% by value, followed by Indonesia, Turkey, Azerbaijan, and Bangladesh (Figure 3). By sector, energy, traffic and transportation, finance, and water account for ranging from about 30% to

15% respectively (Figure 4). In the case of ADB, energy accounted for 24%, traffic and transportation 23% at the end of 2018. Distribution of assets of AIIB may further change with each passing moment, but at this moment I would like to take notice in the fact that investment in financial sector is relatively high at 15% as compared to 10% with ADB. It is notable that, in addition to two-step loans, investment in the projects in a form of funds amounted to about \$1 billion. These funds have a difficult aspect in their subsequent administration, and therefore we will have to keep to pay a close attention to their investment scheme, method of management and transparency.



There are enormous demands for infrastructure in Asia and AIIB is required to meet them. In addition to finding prospective projects, even after their approval, AIIB has to cover a long process of business extending from fair procurement of goods and services on an international bidding, administration of loans implemented and recovery of funds, to ex-post evaluation. It faces a lot of challenges to tackle, building knowhow while steadily fulfilling these processes⁶.

4. Toward the Annual Meeting in Beijing Scheduled in July 2020

In 2020, AIIB will be in the fifth year of operation. According to its development plan, 2016-2020 is specified as a start-up stage, 2021-2027 growth stage, with 2020 constituting a milestone year. In July, the Fifth annual meeting will be held in Beijing. It has drawn much attention what kind of messages will be delivered at the meeting, including those in relation to “One Belt One Road” Initiative.

⁶ Refer to the outline of Business Plan of the Bank for 2019 agendas. <https://www.aiib.org/en/policies-strategies/download/business-plan-2018/Summary-of-2019-Business-Plan-and-Budgetpdf>.

In the meanwhile, there was a small change in October in members on its International Advisory Panel. Mr. Steve Howard and Mr. Yukio Hatoyama were replaced at the termination of their terms by new members of Mr. Scott Morris with experience of service in the US Treasury Department and Mr. Takatoshi Kato, former Vice Minister of Finance of Japan⁷. Although they have no direct voice in the decision making of the bank, I would like to add that a person connected with the Japanese Ministry of Finance has joined the management of AIIB.

⁷ https://www.aiib.org/en/news-events/news/2019/20191011_001.html

Annex Approved Projects of AIIB

(in US\$ million)

	Country	Date of Approval	Sector	Profile	Name of Project	Total cost	AIIB funding	Financer
1	Tajikistan	2016 June	Transport	Road and Highways	Dushanbe Road Improve project	106	28	EBRD
2	Bangladesh	2016 June	Energy	Power	Distribution System Upgrade and expansion project	262	165	stand-alone
3	Pakistan	2016 June	Transport	Road and Highways	National motorway M-4 project	273	100	ADB
4	Indonesia	2016 June	Urban	Urban Transport, Waste Mgt, Water Supply	National Slum upgrading project	1,743	217	WB
5	Pakistan	2016 Sept	Energy	Hydropower (cofinance with WB)	Tarbela 5 Hydropower Extension project	824	300	WB
6	Myanmar	2016 Sept	Energy	Gas Turbine Power Plant	Myingyan power	349	20	WB, ADB
7	Oman	2016 Dec	Transport	Port	Duqm Port Commercial Terminal & Operational Zone Develop Project	353	265	stand-alone
8	Azerbaijan	2016 Dec	Energy	Oil & Gas	Trans Anatolian Natural Gas Pipeline project	8,600	600	WB
9	Indonesia	2017 Mar	Multi-sector	Urban Infrastructure	Regional Infrastructure Development Fund Project	406	100	WB
10	Indonesia	2017 Mar	Multi-sector	Water Resource Management	Dam Operational Project Phase II	300	125	WB
11	Bangladesh	2017 Mar	Energy	N Gas Production & Expand Gas Pipeline	Natural Gas Infrastructure & Efficiency Improvement Project	453	60	ADB
12	India	2017 Mar	Energy	Power Transmission & Distribution	Andhra Pradesh 23x7- Power For all	571	160	WB
13	Georgia	2017 June	Transport	Road	Batumi Bypass Road Project	315	114	ADB
14	India	2017 June	Finance	India Infrastructure Fund	India Infrastructure Fund	750	150	stand-alone
15	Tajikistan	2017 June	Energy	Water Hydropower	Nurek Hydropower Rehabilitation Project Phase 1	350	60	WB
16	India	2017 July	Transport	Road	Gujarat Rural Roads Project	658	329	stand-alone
17	Egypt	2017 Sept	Energy	Solar Photovoltaic Power	Round II Solar PV Feed-in Tariffs Program	755	199	WB
18	India	2017 Sept	Energy	Power Generation 220MW	Transmission System Strengthening Project	303	100	ADB
19	Asia	2017 Sept	Finance	IFC Emerging Asia Fund	IFC Emerging Asia Fund	640	150	WB
20	Philippines	2017 Sept	Water	Flood Management	Metro Manila Flood Management Project	500	208	WB
21	India	2017 Sept	Transport	Urban Rail	Bangalore Metro Rail Project	1,785	335	EIB
22	Oman	2017 Sept	Telecomms	Fiber Broadband	Broadband Infrastructure Project	467	239	stand-alone
23	China	2017 Sept	Energy	Natural Gas Distribution (gasification of coal)	Beijing Air Quality improve and Coal Replacement Project	761	250	stand-alone
24	Bangladesh	2018 Feb	Energy	Power Generation 220MW	Bangladesh Bhola IPP	271	60	stand-alone
25	India	2018 Apr	Transport	Road	Madhya Pradesh Rural Connectivity Project	500	140	WB
26	India	2018 June	Finance	National Investment and Infrastructure Fund	National Investment and Infrastructure Fund Phase I	600	100	stand-alone
27	Turkey	2018 June	Energy	Gas Storage	Tuz Golu Gas Storage Expansion Project	2,735	600	WB
28	Indonesia	2018 June	Water	Irrigation	Strategic Irrigation Modernization and Urgent Rehabilitation Project	578	250	WB
29	India	2018 Sept	Transport	Road	Andhra Pradesh Rural Roads Project	666	455	stand-alone
30	Egypt	2018 Sept	Water	Sanitation	Sustainable Rural Sanitation Services Program	694	300	WB
31	Turkey	2018 Sept	Finance	Two Step Loan for Enegy and Others	TSKB Sustainable Energy and Infrastructure On-lending Facility	200	200	stand-alone
32	Indonesia	2018 Dec	Multi-sector	Infrastructure for a New Tourism	Mandalika Urban and Tourism Infrastructure Project	317	248	stand-alone
33	India	2018 Dec	Water	Water Supply and Sanitation	Andhra Pradesh Urban water Supply and Septage Management	570	400	stand-alone
34	Asia	2018 Dec	Finance	ESG Enhancement	AIIB Asia ESG Enhanced Credit Managed Portfolio	500	500	stand-alone

(continue to the next page)

(in US\$ million)

	Country	Date of Approval	Sector	Profile	Name of Project	Total cost	AiIB funding	Financer
35	Bangladesh	2019 March	Energy	Power System	Power System Upgrade and Expansion Project	176	120	stand-alone
36	Lao PDR	2019 April	Transport	Road	National Road 13 Improvement and Maintenance Project	128	40	WB
37	Sri Lanka	2019 April	Other		Reduction of Landslide Vulnerability by Mitigation Measures Project	110	80	stand-alone
38	Sri Lanka	2019 April	Urban	Power System	Colombo Urban Regeneration Project	176	120	stand-alone
39	Nepal	2019 May	Energy	Hydropower	Upper Trishuli-1 Hydropower Project	647	90	WB
40	Turkey	2019 July	Energy	Renewable Energy Generation – Geothermal	Efeler 97.6 MW Geothermal Power Plant Expansion Project	350	110	EBRD
41	Bangladesh	2019 July	Water	Water Supply and Sanitation	Municipal Water Supply and Sanitation Project	210	100	WB
42	Cambodia	2019 July	Digital Infrastructure	Fiber Optic Communication Network	Fiber Optic Communication Network	75	75	stand-alone
43	India	2019 July	Finance	Financial Institutions	L&T Green Infrastructure On-Lending Facility	100	100	stand-alone
44	Asia	2019 July	Finance	Asia Investment Fund	Asia Investment Fund	75	75	stand-alone
45	To be disclosed	2019 July	Finance	Financial Institutions	Infrastructure Private Capital Mobilization Platform	180	54	stand-alone
46	Multi-countries	2019 Aug	Multi-sector	Finance/Capital Markets	Asia Climate Bond Portfolio	500	500	stand-alone
47	Pakistan	2019 Sept	Water	Water Supply/Sewerage Management	Karachi Water and Sewerage Services Improvement Project	100	40	WB
48	India	2019 Sept	Finance	Financial Institution	Tata Cleantech Sustainable Infrastructure On-Lending Facility	75	75	stand-alone
49	India	2019 Sept	Transport	Transport/Rail	Mumbai Urban Transport Project 3	997	500	stand-alone

(Notes) Shaded parts in blue refer to the projects approved during July–September 2019.
 Stand-alone refers to funding by single international financial institution of AiIB
 EBRD refers to European Bank for Reconstruction and Development, ADB to Asian Development Bank, WB to World Bank Group, and EIB to European Investment Bank

Total	9,605
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(Source) HP of Asian Infrastructure Investment Bank

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