# THE ASIAN INFRASTRUCTURE INVESTMENT BANK

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## THE ASIAN INFRASTRUCTURE INVESTMENT BANK

*There is considerable international interest in the Asian Infrastructure Investment Bank as the AIIB represents the first major new multilateral development bank in a generation and the impact it would have on infrastructure financing in Asia. The AIIB was established as China's pivot to multilateralism in Asia and with the potential as an important source of financing for priority infrastructure investments. However at the current pace of expansion, the AIIB is unlikely to displace the World Bank or the Asian Development Bank as the leading multilateral development bank in Asia.*

### Introduction

The Asian Infrastructure Investment Bank (AIIB), is a China led multilateral investment bank, headquartered in Beijing, commenced operations in January 2016 and has 102 member countries. The AIIB seeks to invest in sustainable infrastructure and other productive sectors that will better connect people, services and markets that over time will impact the lives of billions of people. On July 13, 2019, the AIIB membership reached 100 countries with the addition of Benin, Djibouti and Rwanda. A few months earlier, in April 2019, the AIIB approved the membership of Cote d'Ivoire, Guinea, Tunisia and Uruguay. 57 member countries signed the AIIB charter before the Bank was launched in January 2016, 45 member countries joined the Bank from 2017 to 2020. Today AIIB members collectively account for 78 percent of the world's population and 63 percent of the global GDP. Besides regional member countries, the AIIB has said non-regional members will be joining the Bank in the coming months once the required domestic processes are completed and the first capital installments are deposited with the Bank.

The AIIB represents the first major new multilateral development bank in a generation, the last being the European Bank for Reconstruction and Development established in 1991. The AIIB has till end 2018 approved projects with an investment financing of US $ 7.5 billion. In 2019, the AIIB has sanctioned 28 projects including projects in India, Nepal and Sri Lanka. AIIB sanctioned the USD 120 million Expansion of Power Transmission System in Chittagong region of Bangladesh and USD 280 million for construction of 5500 affordable housing units and for reducing the risk of landslides in Sri Lanka. The first AIIB investment in Nepal of USD 90 million for the Upper Trishuli-1 Hydropower Project, demonstrate the viability of Nepal's sustainable energy sector. The AIIB financing in 2020 has reached US $ 17.89 billion guided by thematic priorities covering 80 projects in 22 member countries.

The AIIB represents the first multilateral investment bank, which does not have the United States or Japan as members. China has 26.63 percent vote share and India has 7.65 percent vote share. The other large shareholders are Russian Federation, Korea and Australia. The United Kingdom became the first developed country to join the AIIB followed by Switzerland. India's participation in the AIIB represents New Delhi's open approach to the Bank and its commitment to multilateralism. The AIIB represents a model for South-South cooperation in infrastructure development, embracing technology to improve efficiency. The Executive Board of the AIIB meets regularly for approving new projects and there is a multilateral element in the staff structures. Further AIIB's procurement and financing policies have been on lines of international institutions and sector strategies for (a) mobilizing private capital for infrastructure, (b) power sector (c) transport sector (d) sustainable cities strategy and (e) strategy on investing in equity have been clearly outlined.

There were several concerns that the AIIB would be competing against the World Bank and the Asian Development Bank. The Chinese argued that the AIIB should be viewed as complementing the efforts of existing institutions like the World Bank and the Asian Development Bank for co-financed projects. Besides the Chinese said that the AIIB does not compete with the World Bank and Asian Development Bank as these institutions focus on poverty alleviation. Quite clearly it takes more than mere financial power to make a multilateral financial institution work effectively. China's approach to the AIIB has to be liberal institutionalism, transparency and a considerable degree international responsibility for development of infrastructure in Member Countries.

The AIIB's investments in projects has increased over the past 4 years - from US $ 1.69 billion end 2016 to US$ 4.22 billion end 2017 to US $ 7.5 billion end 2018, which is an increase of 343 percent and have touched USD 8.5 billion in 2019. The project sanctions have risen from 8/ annum in 2016 to 28/ annum in 2019. The AIIB's lending policies have shown intent for developing a wide portfolio of projects in areas such as smart cities, renewable energy, urban transport, clean coal technology, waste management and urban water supply.

China along with India and other BRICS countries also founded the New Development Bank as a 21st century multilateral development bank with USD 100 billion capital, using the financial model of other multilateral development banks. Together the AIIB and the NDB represent the new instruments for Chinese multilateralism and foray into infrastructure financing in the world. Multilateral cooperation between India and China has been largely successful in the Asian Infrastructure Investment Bank and the New Development Bank. Infrastructure projects sanctioned by both Institutions include the Chennai Metro by the AIIB and the Mumbai and Indore Metros by the New Development Bank (NDB).

On January 16, 2020, the AIIB celebrated its 4th anniversary. India has been the bank's biggest beneficiary with a permanent seat on the Board of Directors and a quarter of the approved projects. The AIIB's success indicates that South-South cooperation has made progress in a short period of time. The AIIB has announced plans to launch local currency financing in India and other Asian countries (Indonesia and Pakistan) to reduce exchange rate risks. The 2019 Annual Meetings were held at Luxembourg in July 2019 on the theme "Cooperation and Connectivity" in recognition of economic and social benefits being realized through better connectivity within and between countries of Asia and Europe. The 2020 Annual Meetings will be held in July at Beijing.

**Infrastructure Financing Gaps in Asia**

Despite strong economic growth, Asia's infrastructure remains far from adequate. 400 million Asians are without access to electricity, 300 million have no access to safe drinking water and 1.5 billion lack access to sanitation. Infrastructure inadequacies entail huge costs. For example, City traffic congestions means huge costs in lost productivity, human stress and fuel costs. India, Indonesia, South Asia and select Central Asian countries are witnessing the largest infrastructure gaps. There exists a strong empirical relationship between a country's infrastructure and economic and demographic factors.

The AIIB's thrust in infrastructure financing is Infrastructure 3.0 – how to use new technologies for intra-Asian trade and integration. The major areas of infrastructure financing are transport sector, information and communication technology and renewable energy sector. Increased regional rail connectivity in Central Asia, Eurasia have the potential to bring about more Europe-China trade and integrate Central Asia with other regions. Information and communications technology is seen as a great enabler to facilitate trade and integration, and Asian countries will require greater support from the international community. Further there exists potential to enhance cross-border renewable energy trade.

India's Golden Quadrilateral has had a significant impact with several districts located within 10 kilometers of the National Highway showing growth rates of 50 percent while those districts over 10 kilometers distance did not show similar growth rates. India's rural roads program, the Pradhan Mantri Gram Sadak Yojana has also had significant impact in reducing poverty and enabled a transition from agriculture to construction and manufacturing sectors.

China's expressway network has had a similar effect with lower costs between those countries and metropolitan areas through which the expressway passed. Empirical studies state that Railway infrastructure caused a 0.2-0.4 percent increase in GDP growth in Central Asian countries. Enhancement in shipping infrastructure indicated a social return on investment reaches 10 percent annually in most conservative cases. Substantial investments in drinking water generated significant long-term benefits amongst rural youth.

The AIIB has mapped the overland future of Asian trade by identifying specific growth belts for investment. These include among others, the Association of South East Asian Nations (ASEAN) Connectivity Initiative, the Central Asia Regional Economic Cooperation (CAREC) Program, the Greater Mekong Sub-Region (GMS) Program, One Belt One Road Initiative and the South Asia Sub-Regional Economic Cooperation (SASEC) Program.

**The ASEAN Connectivity Initiative** has made notable progress in several transport initiatives including the ASEAN Highway Network and the Singapore-Phnom Penh Rail Link. Further ASEAN has focused on comprehensive integration including trade, transport, infrastructure, digital initiatives and logistics.

**The CAREC countries** of Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, Uzbekistan, with exports of high value, hard currency earning commodities that could be transported by pipeline and rail represent a major growth belt. The CAREC-7 countries have enormous potential to drive growth across East and South East Asia. Exports of oil, iron, steel and copper in Kazakhstan, gold, cotton and oil in Uzbekistan, gas and cotton in Turkmenistan, can be developed significantly with improved transport, infrastructure and trade openness. Six Regional Economic Cooperation Corridors have been defined in the CAREC region with rail roads and dry ports being the critical components of the transport infrastructure given the land locked nature of the region.

**The Greater Mekong Sub-region (GMS)** comprises of Vietnam, Cambodia, Lao PDR, Myanmar and Thailand as well as the southern Chinese provinces of Yunnan and Guangxi with the main focus to improve transport linkages and infrastructure development such as roads and bridges. The objective is enablement of greater people to people contact through cross border transport.

T**he South Asia Sub-regional Economic Cooperation (SASEC)** program consists of Bangladesh, Bhutan, Myanmar, the Maldives, Nepal, India and Sri Lanka. The objective is to develop cross border transport networks and improve customs administrations to speed up movement of goods, vehicles and people across borders.

**The One Belt One Road Initiative** comprises of various routes by sea and land is intended to connect China with South East and South Asia, Central Asia, Pacific Oceania, Africa and Europe. The One Belt One Road Initiative is centered on both soft and hard infrastructure connectivity, and has emerged as a top Chinese national strategy. China is financing the railway freight route to Europe and roads across the Mongolia Autonomous Region.

The AIIB has highlighted that infrastructure financing by multi-lateral development banks in CAREC, GMS and SASEC countries can improve cross border connectivity and enhance trade bringing significant economic development to the region. For example, the Asian Development Bank has worked for 20 years in CAREC. The success of regional infrastructure development in the SASEC group of countries has progressed under India’s Act East Policy, which seeks improved road connectivity with its neighbors. China seeks to build northern freight corridors, which will link the major cities of Beijing and Shanghai with European cities, and has also planned southern freight corridors with CAREC countries as the growth engine to open up new markets in land locked countries. A major thrust area in the regional infrastructure initiative is the Latin America and Asia trade to focus on a future beyond trade in commodities for manufacturing. The projects envisaged include enhanced air connectivity shrinking economic distances between Asia and Latin America including direct flight routes between Mumbai and Sao Paolo.

The AIIB has focused on interconnected low-carbon power networks in Asia, a pan Asian energy grid, which has been dubbed as the Asian Super Grid (ASG). Under the initiative the power networks of Japan, South Korea, China and Russia are to be linked up via Mongolia to tap Mongolia’s vast solar and wind resources. Other proposed Asian regional grids include SAARC Market for Electricity, which seeks cooperation in electricity in the SAARC countries, the ASEAN power grid which is an initiative to construct a regional power inter-connection and the Central Asia-South Asia Electricity Transmission and Trade Project. The AIIB proposal for power sector infrastructure has found strong support from South Korea which has signed a cooperation agreement with the China. The costs of the ASEAN power grid has been estimated at USD 20 billion. The plan to integrate power grids of SAARC countries has been estimated at USD 36 billion with a number of issues of licensing agreements, technical standards and guidelines on transmission pricing which need to be resolved. Another proposal that has been presented is the Central Asia – South Asia Electricity Transmission and Trade project which facilitates already available surplus electricity in summer from Kyrgyz Republic and Tajikistan to Afghanistan and Pakistan. These networks will necessarily require deeper ties and greater regional cohesion. Regional power grids will take long period of time, as can be seen with the European power grid which has been in existence for nearly 50 years and yet only trades 1/10$^{th}$ of the power between members.

AIIB's Infrastructure 3.0 envisages new technologies for facilitating intra-Asian trade and integration. The AIIB vision document speaks of upgraded intelligence with ships that pilot themselves, ports manned by robots and contracts that execute automatically when goods are delivered. Internet infrastructure with upgraded physical infrastructure can bring about significant technological upgrades. Internet infrastructure is lagging in most Asian countries requiring USD 6 billion investments.

Key areas have been identified where technology can improve functional supply chains by using distributed ledger technology (DLT) and artificial intelligence. The introduction of DLT builds on long-standing efforts to digitize paper heavy trade practices particularly in customs clearances with the establishment of the automatic container terminals and electronic single window customs clearances. There is firm emphasis that DLT and other trade enabling technologies have the potential to strengthen regional trade integration and bring about the infrastructure 3.0-revolution in Asia in the coming years. A DLT rollout could significantly improve documentary and border compliance. This could be seen in the case of Qingdao New Qianwan Automatic Container Terminal which became Asia's first fully automated port, with automatic stacking cranes and driverless vehicles to move containers improving efficiency by 30 percent and cutting costs by 30 percent. Another port where significant improvements have been seen is the Tuas Port of Singapore. The AIIB has said that other ports of Asia could be retrofitted with gradual automation.

The AIIB's approach to infrastructure development in Asia has been to focus on (a) domestic connectivity infrastructure and (b) international connectivity and trade. The belief is that infrastructure for domestic and international connectivity is needed to raise income and reduce poverty. This approach is witnessed in the project sanctions of AIIB till date.

**The Asian Development Bank projections**

The Asian Development Bank has projected Asia's infrastructure needs at US $ 22.6 trillion through 2030 or US $ 1.5 trillion a year from 2016 to 2030, if the region is to sustain rapid economic growth. If climate change costs are added the infrastructure needs go up to US $ 26 trillion from 2016 to 2030 or US $ 1.7 trillion per year. Infrastructure investments are predominantly necessary in Power, Telecommunications, Transport, Water and Sanitation sectors. Power sector infrastructure investment has been projected at US $ 14.7 trillion, transport sector infrastructure has been projected at US $ 8.4 trillion and telecommunications infrastructure needs have been projected at US $ 2.3 trillion. Water and sanitation infrastructure needs have been projected at US $ 800 million. Asia is currently investing US $ 881 billion per annum and there exists a significant infrastructure investment gap. The infrastructure investment gap is higher than 5 percent of projected GDP for almost all Asian countries outside China.

Public finance currently finances 92 percent of infrastructure investment in Asia. Private sector investments are necessary in telecommunications and power generation sectors. The private sector investments in roads, water and sanitation are quite limited. Fiscal reforms can generate up to 2 percent of GDP additional revenues, which can bridge 40 percent of the infrastructure-financing gap. Multilateral Development Banks are expected to finance infrastructure projects by another 10 percent of the infrastructure-financing gap.

In Asia, China invests above 5 percent of GDP in infrastructure, followed by Bhutan, Vietnam and India. The other Asian economies are witnessing medium to low infrastructure investments. These include Armenia, Bangladesh, Indonesia, Nepal, Pakistan, Philippines, Korea and Thailand. The Asian Development Bank has projected an annual infrastructure financing of USD 20 billion/ annum, which is 50 percent above its current capacity.

**Articles of Agreement of AIIB**

The Articles of Agreement of the AIIB envisages the Bank as a multilateral financial institution focused on infrastructure development. Membership of the AIIB is open to members of the World Bank or the Asian Development Bank. There are 2 categories of Members – (a) Regional Members and other Members in the Asia region and Non-Regional Members and (b) Founding Members. The Governance structure of the AIIB envisages a Board of Governors, a President, 4 Vice Presidents and other technical officers and staff. It is the responsibility of the Board of Governors to elect the President and the Directors of the Bank. The AIIB Board has 12 Directors, 9 representing the regional members and 3 representing the non-regional members. The Directors are, assisted by Alternate Directors and other staff. It is the responsibility of the Board of Directors to supervise the management and the operation of the Bank on a regular basis and establish an oversight mechanism for this purpose.

The AIIB carries out its lending operations by co-financing or participating in direct loans, by investment of funds in equity capital of an institution or enterprise, by guaranteeing loans for economic development and by providing technical assistance. The authorized capital stock of the AIIB is USD 100 billion. AIIB financing is available up to 250 percent of the Bank's subscribed capital, reserves and retained earnings included in its ordinary resources. The AIIB has also stated that it shall work in close cooperation with all its members and International Institutions and International Organizations concerned with economic development of the region and the Bank's operational areas.

**AIIB's Financing Policies**

The AIIB operational policy on financing lays down that the Bank will provide Sovereign Backed Financing and Non-Sovereign Backed Financing for Projects. The AIIB seeks to utilize resources at its disposal for financing such projects and programs, which will contribute most effectively to the harmonious economic growth of the region as a whole. It will also seek to supplement private investment when private capital is not available on reasonable terms and conditions. The financing shall be guided by sound banking principles, shall provide financing of specific projects or specific investment programs, for equity investment and for technical assistance. AIIB financing principles place no restriction upon procurement of goods and services from any country from the proceeds of any financing. The AIIB also seeks to maintain reasonable diversification in its investments in equity capital.

AIIB loans are committed and repayable in United States Dollars. The interest rate is LIBOR and it resets semi-annually on each interest payment date. The AIIB loans have an average maturity limit of up to twenty (20) years and a final maturity limit of up to thirty (30) years. The payment schedules are semi-annual. A one-time front-end fee is charged on committed loan amount. Loans can be cancelled prior to the effective date with no front-end fees.

However, if a loan is partially or fully cancelled on or after the effective date, no refund of front-end fee is made.

The AIIB issued a global bond to unlock financing for infrastructure. The bond raised USD 2.5 billion attracting 4.4 billion orders from over 90 investors across the globe representing 27 countries.

**Procurement Policy of AIIB**

The procurement policy of AIIB covers procurement of goods, works, non-consulting services and consulting services financed by the Bank. The procurement policy applies to all stages of the procurement cycle for a project. The AIIB places no restriction upon procurement of goods and services from any country from the proceeds of any financing undertaken in the ordinary or special operations of the Bank. Economy, efficiency and effectiveness along with transparency and fairness in procurement process have been the bedrocks of the AIIB procurement policy. The AIIB has also laid down specific procurement standards and there are provisions for use of country procurement systems. The procurement policy also contains provisions for development of domestic industry through preference margins, ‘offsets’, preference schemes or similar innovative approaches. There is emphasis on integrity and prohibited practices have been clearly laid down to ensure the highest standards of transparency, ethics and integrity during the procurement, administration and implementation of Bank financed contracts.

**Sector Strategies**

The AIIB has developed sector strategies for the following:

a) **Strategy on mobilizing private capital for infrastructure** for developing credit enhancement and play an active role in bridging the gap between equity sponsor and commercial bank tolerance.
b) **Energy sector strategy** which focuses on sustainable energy for Asia based on reduction in energy inequality, improved energy efficiency and reduction in carbon intensity of energy supply.
c) **Transport sector strategy** aimed at economically viable trunk and strategic infrastructure that promotes trade and economic growth including trunk linkages between major urban centers, cross border connectivity, transport integration and upgradation of existing infrastructure. The transport sector strategy seeks to provide more support for PPPs and embrace innovative technologies.
d) **Sustainable-Cities strategy** for financing solutions for developing sustainable cities in Asia. The infrastructure investments in cities categorized as enhanced urban mobility, improving basic infrastructure, promoting integrated development and building freestanding health/ education facilities.
e) **Strategy on Investing in Equity** under which the AIIB will seek to selectively invest in equity funds and platforms that are transparent, well managed and diversified and whose managers have a good reputation and track record.

**Approved Projects and Proposed Projects**

AIIB has adopted several new trends in financing infrastructure projects. The key is greater commitment to partnership and working with clients to bring well designed projects to fruition. In this direction, the AIIB has launched the ESG Enhanced Credit Management Portfolio that aims to develop infrastructure as an asset class, develop debt capital markets for infrastructure and promote integration of environmental, social and governance principles in fixed income investments in emerging markets. The endeavor to support high quality infrastructure projects with focus on environment is reflected in the AIIB’s support for the Mandalika Urban and Tourism Infrastructure project in Indonesia. Further the AIIB is also financing a number of green projects of solar and wind power in India and other countries. Another important announcement from the AIIB is the variable spread loan project, which provides the borrowers the flexibility to select terms that are consistent with the sovereign debt management strategy and suited to their debt servicing capacity. Local Currency products are being introduced in selected currencies, providing more options for borrowers. AIIB has sanctioned projects in the fields of Digital Infrastructure, Energy, Finance, Multi-Sector, Telecom, Transport, Urban and Water Sectors. AIIB projects have been sanctioned in Azerbaijan, Bangladesh, Cambodia, China, Egypt, Georgia, India, Indonesia, Kazakhstan, Lao PDR, Myanmar, Nepal, Oman, Pakistan, Philippines, Sri Lanka, Tajikistan, Turkey, Uzbekistan and some Multi-Country Projects.

The AIIB approved projects country wise are the following.

- **India based projects (14)** are Andhra Pradesh 24x7 – Power for All Project, India Infrastructure Fund, Transmission System Strengthening Project, Bangalore Metro Rail Project, National Investment and Infrastructure Fund, Andhra Pradesh Rural Roads Project, Andhra Pradesh Urban Water Supply and Seepage Management Improvement Project, Mumbai Urban Transport Project Phase III, Rajasthan 250 MW Solar Project, L&T – Sustainable Infrastructure on-lending facility, Tata – Cleantech Sustainable Infrastructure Facility, West Bengal Major Irrigation and Flood Management.

- **Bangladesh based projects (4)** are Distribution System Upgrade and Expansion Project, Natural Gas Infrastructure and Efficiency Improvement Project, Bangladesh Bhola IPP Project and Power System Upgrade and Expansion Project.

- **Sri Lanka based projects (2)** are Colombo Urban Regeneration Project and Reduction of Landslide Vulnerability

- **Pakistan based projects (4)** are National Motorway M-4 project, Tarbela 5 Hydropower Extension Project, Karachi Bus Rapid Transport Project, Karachi Water and Sewerage Services Improvement Project

- **Indonesia based projects are (3)** Regional Infrastructure Development Fund Project, Strategic Irrigation Modernization and Urgent Rehabilitation Project and Mandalika Urban and Tourism Infrastructure Project

- **Turkey based projects are (4)** TSKB Sustainable Energy and Infrastructure on-lending facility and Tuz Golu Gas Storage Expansion Project, Efeler 97.6 MWE Geothermal Power Plant Expansion Project, Istanbul Siesmic Risk Mitigation and Emergency Preparedness Project

- **Tajikistan based projects are (2)** Nurek Hydropower Rehabilitation Project Phase I and Dushanbe-Uzbekistan Border Road Improvement Project

- **Egypt based projects are (2)** Sustainable Rural Sanitation Service Program and the Round II Solar PV Feed-in Tariffs Program

- **Nepal based project** (1) Power Distribution System Upgradation and Expansion Project

The AIIB has sanctioned a project each in Lao PDR: National Road 13 Improvement and Maintenance Project, China: Beijing Air Quality Improvement and Coal Replacement Project, Oman: Broadband infrastructure Project, Georgia: Batumi Bypass Road Project, Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP), Oman: Duqm Port Commercial Terminal and Operational Zone Development Project.

The AIIB has 27 proposed projects from Nepal (2), Bangladesh (4), India (7), Pakistan (4), Sri Lanka (1), Turkey (1), Uzbekistan (2), Georgia (1) and Nepal (2) as also the Keppel Asia Infrastructure Fund.

**India's Major Infrastructure Push and AIIB's Role**

The Finance Minister in her Budget Speech in July 2019 said that India over the next 5 years, needs 100 lac crores in infrastructure investment and 50 lac crore investment in railways. The annual investments in infrastructure have been projected at Rs. 20 lac crores. The Economic Survey 2019 has said that Government has mobilized an infrastructure investment of Rs. 7.5 lac crores and would need to raise an additional Rs. 13.5 lac crores. An expert panel is to be set up to address the bottlenecks that would mobilize such a magnitude of financing. The Government's approach for mobilizing the Rs. 50 lac crores of Railways investment is based on promoting public private partnership projects. Current investments in Railways stand at Rs. 1.6 lac crores per annum. The capital for infrastructure financing is proposed to be raised through the credit guarantee enhancement corporation[1], the deepening of markets for long

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[1] Govt to set up Credit Guarantee Enhancement Corporation with Rs 20K-Cr capital

India's proposed infrastructure finance - NSE -3.02 % entity – Credit Guarantee Enhancement Corporation (CGEC) – is expected to free up lending of up to Rs 3.5 lakh crore by banks to the sector.

The government will set up the CGEC soon, a senior government official told ET. "It (CGEC) will be set up with an authorised capital of Rs 20,000 crore and provide guarantee to bonds issued by completed projects," said the official, requesting not to be identified.

Read more at:
https://economictimes.indiatimes.com/news/economy/policy/govt-to-set-up-credit-guarantee-enhancement-corporation-with-rs-20k-cr-capital/articleshow/70287133.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

term bonds and permit foreign investments in debt securities issued by the Infrastructure Debt Fund-Non Bank Finance Companies to be transferred to domestic investors. Government has also launched new and innovative financial instruments like the Infrastructure Investment Trusts, Real Estate Investment Trusts for infrastructure investment.

India has given priority to physical connectivity through the Pradhan Mantri Gram Sadak Yojana, industrial corridors, dedicated freight corridors, the Bharatmala and Sagarmala projects, the Jal Marg vikas and UDAN Schemes. The industrial corridors would improve infrastructure availability and the dedicated freight corridors would mitigate congestion in the railway network. The ambitious Bharatmala project seeks to develop national corridors and highways while the Sagarmala project is aimed at improving the port connectivity, modernization and port linked industrialization. The Jal Marg Vikas Project aims at capacity augmentation of National Waterways and promote inland water transport. Amongst the major inland water routes to be developed are enhancing the navigational capacity of the Ganga by 4 times and the construction of multi modal terminatls at Varanasi, Sahibganj and Haldia. The UDAN scheme seeks to provide air connectivity to smaller cities. Further Government has sought to carry out comprehensive restructuring of the National Highway Program to create a National Highway grid using a financeable model. Railway infrastructure would need an investment of Rs. 50 lac crores between 2018-2030 and Government has proposed to use Public-Private Partnerships to unleash faster development and completion of railway projects.

Further India has focused on investments in public transport in Indian cities, presently there are 10 metro rail systems in India of which the Delhi Metro Rail Corporation (DMRC) is the most successful metro system. Bangalore Metro and Hyderabad Metro have aimed to mobilize infrastructure financing through innovative means following PPP model, selling station naming rights, commercial spaces and advertisement rights. Nearly 45 percent of the total investment in metros comes from multilateral institutions.

The two major multilateral development-financing institutions in India are the World Bank and the Asian Development Bank. The rise of the AIIB provides a third option for infrastructure financing[2].

**AIIB – looking to the future**

China and India have worked hard to make the AIIB work with considerable speed and nimbleness in a multilateral world order to mark a strong presence in the developmental financial scene. Asia's infrastructure financing has to rise to USD 2 trillion a year by 2030, which represents an enormous challenge. The AIIB has prepared several projects in collaboration with other multilateral development banks – the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the European Investment Bank. Further project alignment with the Belt and Road initiative has been a stated objective of the Institution. Other multilateral arrangements where the AIIB

[2] The World Bank lent India USD 1 billion assistance for social protection on May 15, 2020, Asian Development Bank approved USD 1.5 billion loan to India to fight COVID-19, and the Asian Infrastructure Investment Bank approved USD 750 million loan to India for COVID-19 response in May 2020

seeks to coordinate are the Greater Mekong Sub-region Program, the Central Asia Regional Economic Cooperation program, the South Asia Sub-Regional Economic Cooperation Program and the Asia-Africa Growth Corridor. China has announced a debt sustainability framework for evaluating sustainability of projects under the BRI and the IMF has offered technical assistance from the World Bank-IMF Debt Management Trust Fund. Membership of the AIIB has crossed 100 countries, as the AIIB's approach to mobilizing finance for infrastructure, has attracted attention in South Asia, ASEAN, Africa and West Asia.

AIIB is amongst the diverse group of international creditors working in Asia to make funding available. Infrastructure financing costs are likely to rise in the coming decade with increases in base rates of lending and country risk premiums. The new environment will require multilateral banks to play a key role in developing Asian infrastructure particularly in countries where public private partnership structures are less mature and deemed riskier. Commercial lenders will look to seek signals from multilateral banks for transparency in government guarantees and honoring contractual obligations. There is also a need for deepening local currency borrowing and the AIIB has made efforts in this direction. Not all borrowers have managed the borrowing well and some countries in Asia have been hit by economic shocks. The AIIB has offered solutions to Asia's infrastructure challenges with new projects and job opportunities aimed to achieve economic security. However, infrastructure projects have inherent delays in many cases and several implementation lags are being witnessed in AIIB projects.

Till date, AIIB membership has reached 102 countries, 80 projects have been approved and total investments are USD 17.89 billion. The biggest success story with stand-alone AIIB financing is the Bangladesh Distribution System Upgrade and Expansion project which enhanced the distribution capacity and will benefit 2.5 million rural and urban electricity consumers. Amongst the co-financed projects, the prominent are the Trans-Anatolian Gas Pipeline Project (TANAP), Pakistan Motorway M-4 Gojra-Shorkot Section Project and the Egypt Round-II Solar PV Feed-in Tariff Program.

The AIIB clearly sought to enhance China's influence in Asia. Some of the project sanctions of AIIB have synergy with the Belt and Road Initiative projects. However there appear to be limits to such influence with the COVID-19 pandemic affecting Asian economies and diverting infrastructure financing to emergency health sector responses. Further the AIIB's projected financing capacities and current pace of expansion would not make it the largest multilateral development institution in Asia, and it would remain behind the World Bank and the Asian Development Bank for the foreseeable future. Japan has competing interests in promotion of infrastructure in Asia, and the Asian Development Bank currently has an imposing presence in financing Asian infrastructure projects. Japan launched the "Quality Infrastructure Investment" in parallel to the Chinese led "Belt and Road Initiative" and the "New Tokyo Strategy for Mekong-Japan Cooperation" in parallel to the Chinese led "Lancang – Mekong Cooperation Framework" with the 5 Mekong river countries. There is similar competition for rail projects, port projects with Japanese companies bidding for projects in South East Asia. In Central Asia too, the "Japanese New Silk Road" and the "Central Asia plus Japan dialogue" have targeted regional cooperation and industrialization. One can only say that in coming months, the China led AIIB and the Japan led ADB will be at logger heads in their regional competition in Asia.

It is difficult to forecast future developments, when the economies of China and India are slowing down due to the COVID-19 pandemic, and it would be difficult to increase multilateral development financing significantly.

To conclude, I quote Dr Deepak Nayyar as follows:

> "The rise of Asia represents the beginnings of a shift in the balance of economic power in the world and some erosion in the political hegemony of the West. The future will be shaped by how Asia exploits the opportunities and meets the challenges and partly by how the present difficult economic and political conjuncture in the world unfolds."

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**Annex 1**

**AIIB – Project States of Select Projects**

| S No | Project | Country | Sector | Finance | Summary |
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| **Notable Mentions in Recent Approvals** | | | | | |
| 1 | The Asia Investment Fund | Hong Kong | Financial Sector | USD 75 million of total project cost of USD 3 billion | Private Equity Fund to invest in companies |
| 2 | L&T Green Infrastructure On-Lending Facility | India | Financial Sector | USD 100 million | Infrastructure Financing Company for Renewable Energy |
| 3 | Mandalika Urban and Tourism Infrastructure Project | Indonesia | Tourism | USD 284.39 million of total project cost of USD 316.50 million | Core infrastructure for a Tourism Destination |
| 4 | Upper Trishuli-1 Hydropower Project | Nepal | Energy | USD 90 million of total project cost of USD 647.4 million | Co-financing with ADB/ International Finance Corporation etc |
| **SUCCESS STORIES WITH AIIB FINANCING** | | | | | |
| 5 | Trans Anatolian Gas Pipeline Project (TANAP) | Azerbaijan | Energy | USD 600 million of USD 8 billion cofinanced by ADB, World Bank, European Banks, International Financial Institutions | Trans Anatolian Gas Project to transport natural gas from Azerbaijan to Turkey |
| 6 | Distribution System Upgrade and Expansion | Bangladesh | Energy | USD 165 million, of which USD 95 million disbursed | Enhance distribution capacity and the increase the number of |

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| | | | | | rural and urban electricity consumers |
| **7** | Round-II Solar-PV Feed-In Tariff Program | Egypt | Energy | USD 210 million with EBRD financing of USD 116 million | Co-financed with European Bank for Reconstruction and Development |
| | | **PROJECTS IN PROGRESS** | | | |
| **8** | Regional Infrastructure Development Fund (RIDF) | Indonesia | Infrastructure Fund | USD 100 million – No disbursement yet | 5 Sub-National Projects |
| **9** | Tarbela-5 Hydropwer Extension Project | Pakistan | Energy | USD 300 million – no disbursement yet cofinanced | |
| **10** | Tuz Golu Gas Storage Expansion Project | Turkey | Energy | USD 600 million, disbursement is USD 1.5 million cofinanced by World Bank | To increase reliability and security of Turkey's Gas supply |
| | | **STATUS OF INDIA BASED PROJECTS** | | | |
| **11** | Gujarat Rural Roads (MMGSY) 2018 | India | Transport | USD 329 million of which USD 164 million disbursed | To improve transport connectivity by providing all weather roads |
| **12** | Andhra Pradesh 24x7 – Power For All 2018 | India | Energy | USD 160 million of which USD 16 million disbursed | Delivery of electricity to consumers and improve operational efficiency |
| **13** | Madhya Pradesh Rural Connectivity 2018 | India | Transport | USD 140 million approved of which USD 23 million disbursed | Gravel surfaced rural roads in Madhya Pradesh |

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| **14** | Bangalore Metro Rail Project – Line R6 | India | Transport | USD 335 million | To provide efficient and high-capacity north-south connectivity in Bangalore |
| | **EMERGENCY RESPONSE TO COVID-19** | | | | |
| **15** | Emergency Response to COVID-19 | Indonesia | Other | USD 250 million-cofinanced by World Bank | To prevent, detect and respond to threat posed by COVID-19 |
| **16** | COVID-19 Active Response and Expenditure Support | Pakistan | Other | USD 500 million-cofinanced by ADB | To mitigate the negative, economic and social impacts caused by COVID-19 |
| **17** | COVID-19 Active Response and Expenditure Support (CARES) | India | Other | USD 750 million cofinanced by ADB | To provide budget support to mitigate the severe adverse social and economic impacts |
| **18** | COVID-19 Emergency Response and Health Systems Preparedness Project | India | Other | USd 500 million cofinanced by World Bank | To strengthen national health systems for preparedness in India |
| **19** | COVID-19 Active Response and Expenditure Support (CARES) | Philippines | Other | USD 750 million | To provide budget support to mitigate the severe adverse social and economic impacts |
| **20** | Emergency Assistance to China Public Health Infrastructure Project | China | Other | USD 355 million | Emergency Response Infrastructure in Chongquing and Beijing |
| **21** | COVID-19 Active | Bangladesh | Other | USD 250 million | To provide budget support |

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| Response and Expenditure Support (CARES) | | to support worst-hit industries including export-oriented industries and SME's |

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**AUTHOR INTRODUCTION**

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