China's Asian development bank

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The Asian Infrastructure Investment Bank (AIIB), in spite of some early opposition from the US government, is expected to exceed the number of member governments – 35 – that China, its creator and backer, initially targeted.

Even The US has started to soften its stance after failing in its lobbying to convince many of its allies such as the UK, Germany, Singapore and Thailand from shunning the institution, which is being set up as a rival to the Asian Development Bank (ADB).

The US government had privately expressed concern that the AIIB won't follow international environment and social standards. Critics of China allege that such negligence has shadowed the country's rapid urban development, and unlike the ADB or the International Finance Corporation (IFC), which prioritises gender equality and sustainable energy alongside infrastructure, the AIIB's sole focus on infrastructure could be detrimental to other policy objectives.

But many of the banks' member states have concluded that their influence is better placed inside the tent: best to help shape the approach of a bank that would exist even without their participation. Even the ADB have publicly welcomed the AIIB. Michael Barrow, deputy director general at the ADB touched upon the benefits of co-financing at *IJGlobal*'s Asia Pacific Energy & Infrastructure Forum in Singapore last month.

A counterweight

China launched the AIIB to help ease Asia's infrastructure deficit, which the ADB estimates at $8 trillion.

The private sector is projected to finance about one quarter of this total. But multilateral banks, including the ADB and the IFC, will be needed to harness much of this capital – particularly in Asia's less creditworthy regions.

China has designed the AIIB, in part, as a counterweight to the influence of the IFC, the private sector of the World Bank, and the ADB. The Chinese government is frustrated with the pace of reforms at existing institutions that play in the region – institutions that the government views as dominated by European, Japanese and American interests. Indeed, the US government closely monitors the World Bank, while Japanese officials have directed the ADB since its founding.

The AIIB is the centrepiece of China's efforts to increase its soft power in the region, though the bank will work alongside other Chinese initiatives. Other ongoing efforts include the $40 billion Silk Road infrastructure fund to boost transportation and communication links between Central and Eastern Asia, and the $10 billion New Development Bank (formerly known as the BRICS bank) that China launched with Brazil, Russia, India and South Africa – all forces, though of varying degree, in the emerging markets.

The initiatives will also help China as it looks to increase international trade and export expertise. China has already enjoyed some success, particularly in the power sector. Chinese groups, for example, won nine out of 10 first-phase projects in Indonesia's fast-track power programme.

And the AIIB will allow China to diversify its foreign exchange reserves, which have been traditionally invested in US Treasuries.

Existing multilaterals' ambitions

Frustrated bankers often lament the turgidity of the IFC and the ADB.

But these institutions have established, and continue to establish, products and international benchmarks for project procurement, environmental and social policy, and the harnessing of private capital in some of the least creditworthy jurisdictions and with inexperienced developers.

The IFC's managed co-lending portfolio programme, for example, is designed to channel institutional finance alongside the institution's own capital into pathfinder projects, including the Ashan-1 hydropower refinancing in Indonesia, which signed last year. So far, the People's Bank of China is the lone participant in the programme.

The ADB boasts the Clean Technology Fund (CTF), which has helped finance renewables, including exploration phases of geothermal projects – the stage of such projects with the least amount of available capital. The bank also supports the Credit Guarantee and Investment Facility (CGIF), and the bank has attempted to revive Asia's dormant project bond market.

The IFC and the ADB have demonstrated a keen sense of terms supported by international commercial project finance banks, and have crafted structures that such lenders could later adopt as their own. This has allowed the IFC and the ADB to consistently harness liquidity all while maintaining commitments to environmental sustainability.

Whether the AIIB follows this dual approach, or continues China's record of developing infrastructure with less regard for environment and international finance, is unclear.

What is To Be Done

Indeed, China has disclosed few details about the AIIB's form and focus.

The country has targeted an initial $50 billion in capital, although this won't be sufficient to meet its funding needs. Jin Liquin, formerly of the ADB and the current chairman of the board of supervisors of China Investment Corporation, will lead the bank. The AIIB's board is expected to feature a mix of Chinese and international practitioners.

Unlike the ADB and the World Bank, whose loan programmes span from agriculture to gender equality, the AIIB will focus exclusively on infrastructure development. The AIIB has yet to say what types of energy finance it will consider, although unlike the IFC and the ADB, it is not expected to shy away from coal, which developing markets continue to rely on the fuel for new generators.

But optimism exists among private infrastructure developers for the AIIB's emergence.

China Development Bank (CDB), Sinosure and Export-Import Bank of China (Chexim) use workable financing structures – often alongside international lenders. The AIIB could follow CDB and Chexim's lead.

Since co-financing is a proven way to pool substantial capital for individual infrastructure investment, more and more governments are welcoming the AIIB.

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