

Building AIIB: Asia's new infrastructure development bank and Australia's strategic role

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Mr Jin Liqun, President and Chair of the Board, Asian Infrastructure Investment Bank

Distinguished Guests, Ladies and Gentlemen,

To begin, I would like to acknowledge the Ngunnawal people, the traditional custodians of this land that we meet on today, and pay my respects to the elders, past and present.

I would also like to thank the Development Policy Centre, Professor Steve Howlett and your team, for hosting me here today. It is a privilege to be amongst so many august minds of the development policy community and I would like to acknowledge the importance of your work and policy research for the development community at large.

The title of my address this evening is "Building AIIB: Asia's new infrastructure development bank and Australia's strategic role". I'd like to take this opportunity to address you all on the history of AIIB's establishment in 2016, our rapid growth as the new member of the multilateral development bank family, and the critical issues that are exercising the minds of the many young talents that have joined our Bank over the last eight years namely the climate challenge and the growing momentum behind the MDB reform agenda.

Over the last eight years, AIIB has grown rapidly. In 2016, we began with 57 founding members, including Australia. One of the innovations behind AIIB's governance is that our Bank was structured to give developing members a larger voice within a framework that incentivizes consensus building. This model has proved to more successful than even I imagine.

As of our last Annual Meeting in Sharm El Sheikh a few weeks ago, we grown to have 109 members, making us the second largest MDB by membership. We have issued 45 billion in financing in 36 of our members across 238 projects in infrastructure sectors that include health, technology, education, transport, and renewable energy.

AIIB's core focus is addressing Asia's infrastructure financing gap, which in 2017 was estimated at USD 459 billion per year, according to the Asian Development Bank. We invest across four thematic focus areas: 1) green infrastructure, promoting cross-border connectivity, technology-enabled infrastructure, and importantly 4) private sector capital mobilization.

AIIB also has a counter cyclical role to play, though this is a secondary role to our core infrastructure financing. Amidst the onslaught of COVID-19, AIIB extended USD 13 billion in COVID-19 crisis recovery financing to Cambodia, India, Mongolia, Philippines, Turkey, Indonesia, Cote d'Ivoire.

The majority of AIIB's shareholding is held by developing economies. Our Bank was created in direct response to a genuine desire among countries for greater international cooperation, anchored in a vision to foster sustainable economic and social development in Asia and beyond by investing in infrastructure and other productive sectors. The multilateral cooperation among our 109 members is the bedrock of our mission, building upon our values—lean, clean, and green—that serve as the cornerstone of AIIB.

While Asia is our primary focus, Asia cannot sustain itself in isolation. AIIB's non-regional strategy allows up to 15% of our financing to go to non-regional members to finance global public good and cross-border connectivity projects. This also helps with geographic diversification of our balance sheet.

AIIB is capitalized to 100 billion and has more than adequate capital for the time being. With our robust financial position, we continue to diversify our funding sources and broaden our range of financial products.

We priced and issued our first-ever – and Asia's first-ever – Climate Adaptation Bond in May 2023 to support investments with a strong focus on building resilience. The 5-year bond raised AUD500 million. In Q2, we completed the set-up for additional capabilities in Euro, and progressed work on Renminbi for local currency financing. We currently have 26 operational currencies for our lending operations and Treasury functions. This includes our launching of Asia's first-ever Climate Adaptation Bond in May this year, an AUD 500 million issuance in the Australian kangaroo bond market, marking a significant milestone in adaptation financing.

Our Bank has an innovative, impact-focused governance model. We exists in gene pool of the Bretton Woods institutions with important new features,

including a non-resident board that reflects modern corporate governance practices. I am proud to say that today, eight years into operation, AIIB has been recognized as a significant integral component in the global financial architecture.

As a founding member, Australia has played a critical role in shaping the evolution of this institution. Australia is the 6th largest shareholder with 3.8% of the shareholding and is very ably represented by Director David Osborne who is also Chair of the Policy and Strategy Committee. Indeed, Australia has a long line of very active and engaged Directors, starting with Chris Legg who was initial Australia's Chief Negotiator during the negotiation of this Bank's Articles of Agreement, who then later served on the Board as the Inaugural Dean of the Board.

Australia's active role in this Bank has been critical to its success. The presence of Australia and other advanced economies has been critical to ensuring the high standards of this institution. In addition to the USD 738 million that the Australian government has paid into this Bank, Australia's AAA credit rating lends strength to the USD 3 billion of Australia's callable capital that sits on our balance sheet.

When setting up any new institution, there are many competing demands on one's attention. As this Bank shifts from the startup phase to our growth phase, Australia has been consistent in ensuring a continued focus on integrated the Pacific Islands into the Bank's operations. The AIIB has seven members from the Pacific Islands and has provided financing of USD 120 million to two of them, Fiji and the Cook Islands, all of which is COVID crisis recovery financing.

As many in this room would know, obtaining infrastructure financing can be a challenge for some of these economies due to limited economies of scale, project preparation challenges and debt sustainability issues. The Bank is thinking about how to scale up our investment across our Pacific Islands members, and I would welcome a discussion on this with you in Q&A.

I would now like to move to the topic of the Bank's operating environment.

In 1881, American poet Walt Whitman wrote that "the future is no more uncertain than the present." While these words were written in the wake of the devastation following the American Civil War, they could have been written about the many crises afflicting humanity today.

Much to our chagrin, humanity is firmly tangled in a multi-layered web of interlocking crises: intensifying macroeconomic uncertainty, growing geopolitical instability, ongoing supply chain pressures and ever more frequent natural disasters. The developing countries which comprise the majority of AIIB's membership are the most exposed despite often bearing the least responsibility.

Uncertainty in our global community has reached a historic high. In the second quarter of 2020, the IMF's World Uncertainty Index, a measure of economic uncertainty, recorded the highest level of uncertainty since records began in 1959. Forecasts and opinions on future economic events are diverging more than ever.

When the present appears so uncertain, it can be easy to lose sight of what we must do to secure our future. Walt Whitman believed that the greatest poets placed themselves where the future becomes present. The same could be said for policy makers who seek to reform and strengthen our multilateral system so that humanity can meet the challenges ahead.

While uncertainty has never been higher, the future of humanity is chillingly clear for all to see. As the IPCC's Sixth Assessment Report, released in March this year, states: "The choices and actions implemented in this decade will have impacts now and for thousands of years." Some 3.3-3.6 billion people that reside in highly climate vulnerable places live perched on the precipice of the decisions we make today. Firm and effective action must be taken to drive the transition full throttle towards net-zero. The road ahead that humanity must take is obvious.

As the Chinese philosopher Mencius tells us, "The way of truth is like a great road. It is difficult to miss it. People simply woefully ignore it."

If humanity's effort to limit global warming to within 1.5 degrees is to be successful, climate financing must grow to USD 4.5 – 5 trillion annually by 2030, up from USD 653 billion in 2020. According to the IPCC, while sufficient capital and liquidity exist globally to meet this task, current financial flows are 3 to 6 times lower than what is needed, particularly for developing economies.

Developing countries can-not be left behind in this race¹. Net zero can only be achieved by humanity acting together. This race to net-zero is not a sprint to first place; it is a yacht race on the open seas. To succeed, we must finish together as a crew, or we may not reach safety at all.

AIIB has set a very ambitious target of growing our climate finance to at least 50 percent of our total financing by 2025, cumulating to about USD 50 billion by the end of this decade. In 2022, we delivered a record USD 2.4 billion in climate finance, or 56 percent of our total financing, reaching our climate finance goal three years early. In 2021, total climate finance by major MDBs totaled USD 82 billion, of which more than 60 percent went to low- and middle-income economies.

However, colossal climate financing needs far exceed the fiscal capacity of governments and balance sheets of MDBs. The private sector must play its part. AIIB is laser-focused on mobilizing private sector expertise and capital. By 2030, our aim is that 50 percent of all our financing will be directed toward the private sector. We are investing in opportunities with the potential to leverage even greater amounts of private capital toward green infrastructure investment.

We do this by de-risking projects by providing longer tenor loans, first loss investments and guarantees for private finance projects. We are also mobilizing private capital by providing equity and debt to fund managers and financial intermediaries to spur broader investment into developing assets, technologies and frontier markets. By creating products such as green bonds and asset-backed securities we seek to broaden investment even further.

AIIB has been piloting different financial structures like providing guarantee products for risk mitigation and infrastructure securitization to broaden the accessibility of infrastructure as an asset class for investors. An example of this in action is AIIB's partnership with Bayfront Infrastructure Management, Asia's first fully fledged infrastructure securitization platform.

Bayfront was co-created in 2019 by Clifford Capital and AIIB, with AIIB taking a 30-percent minority shareholding. In 2021, AIIB invested an additional USD 60 million in infrastructure asset-backed securities issued by Bayfront. This

¹ <https://www.cgdev.org/media/developing-countries-are-responsible-63-percent-current-carbon-emissions>

issuance was the first of its kind in Asia and mobilized a total of 401 million dollars for rated and listed infrastructure debt securities. These types of new financial structures must be scaled up as quickly as possible to meet the challenges ahead.

A short supply of bankable projects remains a major constraint, particularly following the disruptions wrought by the covid-19 pandemic and geopolitical tensions. Building the bankable pipeline in the developing world is an important prerequisite to addressing climate change.

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Blended finance has an important role to play. When used well, blended finance can bring MDBs, philanthropies, private and institutional investors together to better allocate and distribute risks. An example is AIIB's partnership with the Global Energy Alliance for People and Planet (GEAPP), and the Energy Transition Accelerator Financing Platform (ETAF), a public-private platform that aims to mobilize USD 1 billion to support energy transition by 2030. We want to do more of these and show that we can move money faster while keeping true to AIIB's high standards.

How the multilateral system performs in this dawning era of uncertainty will shape the future of human prosperity. To meet the challenges ahead, our multilateral system must focus on getting fit.

The practice of reforming the multilateral system is much like the practice of gardening. Sometimes it is root and branch, sometimes you trim and make small refinements. Always, such reform should be ongoing and never ending. And, always, it must be done with our eyes set firmly on a horizon that goes beyond our lifetimes.

AIIB has some gardening ideas of our own for the multilateral system. The first idea is to create an institutionalized forum for international financial institutions to discuss progress and actions on climate finance. If

humanity's moonshot to net-zero is to be successful, then coordination and collaboration on climate finance is mission critical. In this regard, MDBs must strengthen their ability to operate holistically as a coordinated system.

In this regard, MDBs must strengthen their ability to operate holistically as a coordinated system. This leads to the second idea of mine: which is to create an institutionalized forum for international financial institutions to discuss progress and actions on climate finance.

The third idea is to create a marketplace for climate projects. This would be a platform that matches financing for technical assistance and projects. AIIB is acting in this regard. We are working on developing a marketplace for MDB projects that matches technical assistance and project financing, which we call AIIB+. We are testing the beta version of this now and we plan to launch this publicly next year.

As some of you may be aware, this year's G20 Indian Presidency focused very much on MDB reform, specifically on the vision of ensuring that MDBs operate as a system. The Independent Expert Group reports on this topic have arrived at a critical moment and make for prescient reading.

For those who are not familiar, the reports outlines a comprehensive reform agenda towards making MDBs better, bolder and bigger: better by updating MDB operating models to support transformational investments; bolder by bringing engagement with the private sector to the center; bigger by scaling-up financing at affordable cost. It was pleasing to see some of the ideas I mentioned earlier referenced in the report.

Indeed, political consensus amongst shareholders for comprehensive MDB reform is unusually high. Indeed, I have not seen such shareholder unity in my career as an international civil servant. With public budgets stretched thin in the wake of COVID-19 and the war in Ukraine, it is not surprising that MDBs are seen as a critical financiers of global public goods like climate action.

I would now like to turn my attention to AIIB's progress on the recommendations in the G20 Capital Adequacy Framework (CAF) report. In the CAF review, we have another ambitious gardening project indeed!

Our Bank is actively involved with discussions on this important topic. AIIB has contributed to the work of the expert panel, the G20 International

Financial Architecture working group and is involved in joint MDB Chief Risk Officer deliberations. Since publication of the expert panel recommendations, our management team has begun addressing recommendations that sit within our remit.

As a new MDB, AIIB is adequately capitalized today. However, we take the recommendations of the G20 CAF report very seriously. We have been actively engaging our Board on the implications of the CAF review recommendations and on our progress in implementing them.

One such area is our review our internal Risk and Capital Frameworks. We have reviewed these against the best practice of peers, particularly our weighted-average-credit-rating methodology (WACR) and non-sovereign backed financing parameters. As result of this, we have unlocked an additional USD15 billion in lending capacity for our lower rated members (i.e., ~ B rated members) of over the next 10 years.

Credit rating agencies hold the key to unlocking further capital for the climate transition. MDBs are not commercial banks, and they should not be assessed as such by credit rating agencies. As IEG report highlights, some USD 40 billion of additional lending capacity can be unlocked through balance sheet optimization. To do this without threatening their AAA ratings, MDBs must proactively and collectively engage with credit rating agencies to adopt rating methodologies that are fit for purpose in assessing MDBs. Under the leadership of the World Bank, and through the Heads of MDB forum, we are partnering with our peers to work on this.

Finally, a promising idea we are advancing is guaranteeing portions of other MDBs sovereign portfolios. In line with the CAF recommendation that MDB's pursue new financial innovations, such guarantees would release additional lending capacity within the other MDB's balance sheet and unlock new money for sustainable development financing. At the same time, it would also increase AIIB's capacity to lend to our lower rated members by improving our weighted average credit rating and portfolio diversification. Given the scale of the climate financing needs before us, no stone must be left unturned in the effort to mobilize funding for climate projects.

Our Bank's recent joint announcement with the World Bank about a USD 1 billion guarantee over a selection of their sovereign portfolio is one such

example of our quick and collaborative effort to strengthen the performance of the MDB system. We are also proud of our cofinancing record as the largest cofinancing partner of both the World Bank and the Asian Development Bank, along with our close cofinancing partnerships with the European Bank for Reconstruction and Development and the European Investment Bank. Such cooperation exemplifies AIIB's DNA-coded commitment to partnership in addressing development challenges.

While we may indeed be living in the era of the polycrisis, we must remember that the future is not as uncertain as the present. The path ahead is clear. The climate financing obstacles ahead are tough, but they are not insurmountable. The CAF Review and the IEG reports are clear. Reform of the multilateral system and the international financial system should be welcomed, and it must be ongoing. Australia's consistent leadership across all MDBs is essential and very welcomed. We must see through today's crises and remain laser focused on realizing humanity's moonshot towards net-zero. AIIB stands ready to work with our members, development partners, credit rating agencies and policymakers to ensure that the actions we take today meet the challenges of the future.

Thank you all very much. I very much welcome your questions and comments.