Achieving the SDGs in Post-pandemic Asia: The Case of the AIIB

Maria Tanaka[1]
1 Specially-appointed Assistant Professor, Graduate School of International Resource Sciences, Akita University

新型コロナのパンデミックは長年にわたる開発の成果を帳消しにし、国際協力システムのもろさを露呈した。各国が持続可能な開発を目指すうえで多国籍開発銀行が果たすべき役割は何か。AIIBを例に探った。

Abstract

The COVID-19 pandemic has erased decades of gains in development and exposed weaknesses in the system of international cooperation. To achieve complex goals of sustainable development, adequate provision of global public goods, and effective global crisis response, MDBs need to foster harmonization of policies and rules, scale up climate finance, and mobilize private capital for the low-carbon transition. This study aims to assess the AIIB's progress in aligning its statutory goals and financial flows with the SDGs. The study is composed of two themed sections. Section 2 elucidates the linkages between China's ecological civilization, the Belt and Road Initiative (BRI), and the AIIB's lending policy and practices. Section 3 offers a detailed analysis of the AIIB's efforts to align its statutory goals with the SDGs, focusing on the Bank's evolving lending policy (Section 3.1.), the green shift in the AIIB's energy and transport sector strategies (Section 3.2.), the expansion of the Bank's lending portfolio into smart city, water, and digital infrastructure sectors (Section 3.3.), and the implementation of COVID-19 Crisis Recovery Facility (Section 3.4.). The purpose of the conclusion is to assess the green shift in the AIIB's lending practises and elucidate the Bank's role in shaping the post-pandemic SDGs agenda in Asia.

Keywords AIIB, SDGs, BRI, COVID-19, climate finance

1. Introduction

In September 2015, the UN General Assembly adopted the *2030 Agenda for Sustainable Development*, setting an ambitious 15-year agenda to improve people's well-being, increase prosperity, protect the planet, and promote peace and good governance. In September 2019, the UN Secretary-General, Antonio Guterres, called on all sectors of society to mobilize for a 'Decade of Action' on three levels: 1) global action to secure financing and smarter solutions for Sustainable Development Goals (SDGs), 2) local action to embed the transition towards a sustainable society in the policies, budgets, institutions, and regulatory frameworks of governments and local authorities, and 3) people action (including by grassroots organizations, the media, the private sector, trade unions, academia, and other stakeholders) to generate an unstoppable movement pushing for the required transformations.[1] The COVID-19 pandemic, however, brought unprecedented challenges to the 'Decade of Action'. Scholars point out that pandemic responses impeded overall progress towards the SDGs and worsened inequality between countries, with developing countries suffering from greater reductions in overall sustainability (9.7%) than developed countries (7.1%).[2]

The multilateral development banks (MDBs) are expected to be vital in supporting countries' efforts to achieve the SDGs. These banks have the right technical expertise for the design, implementation, and supervision of complex, long-term development projects, and can provide long-term finance to developing countries. Equally important, the MDBs, through their accountability mechanisms (AM), environmental and social frameworks (ESF), and policies on public information (PPI), are well positioned to promote adherence to high standards in the areas of environmental sustainability, social inclusion, and good governance among recipient countries as well as private sector contractors and suppliers.

In 2013, China proposed establishing the Asian Infrastructure Investment Bank (AIIB) as a new source of infrastructure financing in Asia. In a relatively short time (the AIIB opened for business in 2016), the Bank has developed into a significant player in the global financial architecture - by December 2023, with 105 approved members, it has become the second-largest MDB after the World Bank (WB).[3] Many scholars believe that the AIIB was established to rival Western-controlled Bretton Woods institutions and is part of China's long-term plan to create a set of parallel institutions and international norms to weaken the U.S.-led liberal international order.[4] While the U.S. and Japan have not to date joined the Bank, the largest European economies (including the UK, Germany, France, and Italy), as well as Australia and New Zealand, became founding members of the AIIB in open defiance of the Obama Administration's request not to join the Bank. In hindsight, one can conclude that driving a wedge between the U.S. and its allies represented a major diplomatic victory for Beijing.[5]

In parallel with the ongoing debate on the U.S.-China geostrategic rivalry, the creation of the AIIB has reignited the discussion on the role of the MDBs in global and regional public goods provision (GPGs and RPGs, respectively). In April 2015, speaking at the Center for Strategic and International Studies in Washington, the then WB Group President Jim Yong Kim welcomed the AIIB and the New Development Bank (NDB) as potentially strong allies in achieving the WB's twin goals - ending extreme poverty by 2030 and boosting shared prosperity among the poorest 40% in low- and middle-income countries. As Kim states:

> If the world's multilateral banks, including the [AIIB] and the [NDB], can form alliances, work together, and support development that addresses these challenges, we all benefit - especially the poor and most vulnerable […] It is our hope […] that these new entries will join the world's multilateral development banks and our private sector partners on a shared mission to promote economic growth that helps the poorest.[6]

Kim's words exemplified that to achieve complex goals of sustainable national development, adequate provision of GPGs and RPGs, and effective global crisis response, the MDBs need to coordinate and complement each other's work, foster harmonization of policies and rules, and, crucially, promote policy innovation and knowledge transfer. In the current geopolitical landscape, however, the MDBs are facing a critical test on how multilateral cooperation on the SDGs could work despite the growing U.S.-China rivalry and strongly competing ideologies.

The COVID-19 pandemic has instilled a fresh sense of urgency regarding the need to invest in GPGs/RPGs and to overhaul the current MDB business model. Commissioned by India's G20 presidency (Dec. 2022 - Nov. 2023), an Independent Expert Group (IEG)'s report on strengthening MDBs has recommended that MDBs formally adopt a 'triple mandate' of eliminating extreme poverty, boosting shared prosperity and contributing to GPGs/RPGs (including climate change mitigation, the preservation of biodiversity and the global water cycle, and pandemic preparedness and response); triple sustainable lending levels by 2030; and create third funding mechanism - a Global Challenges Funding Mechanism (GCFM) - to attract non-sovereign investors.[7]

Building on IEG's recommendations, Kyte et al. have identified six priorities for MDBs in the area of climate finance: boost concessional finance; replenishing the WB' International Development Association (IDA) in 2024 with at least USD 100 billion; help countries design climate-smart economic development strategies; rethink MDBs approach to technical assistance; mobilize much higher volumes of private finance for the low-carbon, climate-resilient transition; and streamline the operations of MDBs including delegating project approval to management.[8]

From the above, it is clear that the MDBs reform agenda centres on five key areas: to increase the MDBs lending capacities; optimise the use of capital; aim for the optimization of climate finance architecture; focus on the inclusion of climate change mitigation, preservation of biodiversity, and pandemic preparedness into MDBs statutory goals; and scale up private capital mobilization.

This study aims to assess the AIIB's progress in aligning its statutory goals and financial flows with global climate and sustainable development goals within the broader context of the MDBs reform agenda. The study is composed of two themed sections. Section 2 elucidates the linkages between China's ecological civilization, the BRI, and the AIIB's lending policy and practices. Section 3 offers a detailed analysis of the AIIB's efforts to align its statutory goals with the SDGs, focusing on the Bank's evolving lending policy (Section 3.1.), the green shift in the AIIB's energy and transport sector strategies (Section 3.2.), the expansion of the Bank's lending portfolio into smart city, water, and digital infrastructure sectors (Section 3.3.), and the implementation of COVID-19 Crisis Recovery Facility (CRF) (Section 3.4.). The purpose of the conclusion is twofold: first, to assess the green shift in the AIIB's lending and investment practises, and then to elucidate the Bank's role in shaping the post-pandemic SDGs agenda in Asia.

2. The AIIB and China's Green Transition Pathway

China is the AIIB's largest shareholder, holding (as of January 2024) 26.57% of voting power, more than the next five largest vote-holders combined.[9] Since certain decisions by the Board of Directors (such as membership approval, selection of the President, paid-in capital increase, and a change in the size or composition of the Board of Directors) require a 75% majority, it provides China with an effective veto power. Thus, regarding voting rights, the AIIB is a China-led institution. Consequently, it would be naïve to consider the AIIB as simply one more multilateral player operating independently from the trajectory of China's economic development and its outward FDI and development cooperation strategies.

Under Xi Jinping, the Chinese Communist Party (CCP) has overseen a major policy shift towards an ecological civilization [shengtai wenming 生态文明]. The concept of eco-civilization (in 2018 enshrined in the Chinese constitution) is often disregarded as an element of the CCP's 'green rhetoric'.[10] What is frequently overlooked is that, over the past decade or so, the Party has been in dire need of a new development paradigm. Thus, from a long-term perspective, there has been a clear trajectory of China transitioning from the revolutionary paradigm through the modernization paradigm to a sustainable well-being society, with ecological civilization being de facto the Party's attempt to construct a new development paradigm. At the level of political discourse, ecological civilization attempts to merge together the SDGs, the critique of the Western developmental model and the centuries-old anthropo-cosmic worldview of Confucianism.[11]At the policy level, the concept addresses the country's shift to a 'New Normal' model of economic development, including the transition to a circular and low-carbon economy, green innovation and green finance.

Beyond its national borders, China has a role to play in accelerating the global green transition. The Belt and Road Initiative (BRI), first announced in 2013, is China's long-term global investment strategy, which targets infrastructure development and acceleration of the economic integration of countries along the historic Silk Road. This initiative comprises six land-based economic corridors and a maritime counterpart that runs through Southeast Asia, the Indian Ocean, Africa, and the Mediterranean Sea. The land-based corridors are collectively labelled the 'Silk Road Economic Belt' (SREB), while its maritime counterpart is called 'the 21st Century Maritime Silk Road' (MSR).

The first phase of the BRI (2013-2018) was a period of rapid-albeit-chaotic expansion, characterised by large-scale transport and energy projects funded by the

Export-Import Bank of China (EXIM) and the China Development Bank (CDB) loans. Faced with mounting criticism over the BRI's fossil fuel investments, the Chinese government attempted to recalibrate the BRI. President Xi's speech at the 2nd Belt and Road Forum for International Cooperation (BRF) (25-27 April 2019) highlighted three new priorities: 1) strengthening the mechanism of open consultation, 2) promoting clean governance, and 3) greening the initiative.[12] The shift to a 'Green and Sustainable Silk Road' (GSSR) resulted in the Chinese government launching a string of green financing initiatives to push its overseas lenders and investors towards backing low-carbon projects.[13] The Chinese government was forced to make another strategic adjustment to sustain the BRI throughout the COVID-19 pandemic (2020 onwards), turning to digital infrastructure and smart city projects (the so-called 'Digital Silk Road' (DSR)), healthcare infrastructure (the so-called 'Health Silk Road' (HSR)), and e-commerce.

Overall, during its first decade of existence, the BRI has evolved from risk-accumulating energy and transport infrastructure mega-projects through the GSSR towards the BRI 2.0 envisaged as an amalgam of renewable energy and green transport projects, comprehensive cooperation on green finance, the DSR, the HSR, overseas economic and trade cooperation zones (OETCZ) and e-commerce innovation. This shift has allowed the initiative to branch out into new territories while converging with BRI partner countries' national development strategies.[14]

It is worth noting that, in its initial phase, the AIIB cultivated a careful distance from the BRI, emphasizing that it was a multilateral institution committed to international standards and inter-MDBs cooperation via co-financing framework agreements.[15] Since the 2nd BRF, however, following China's embrace of the GSSR, the discourse has visibly shifted, prompting the AIIB's President to liken the AIIB and the BRI to the two engines of an aircraft, both needed to fly smoothly and high.[16]

Regarding the BRI's financial vehicles, it is supported by various institutional mechanisms such as 1) China's policy banks (the CDB and the EXIM), 2) state-owned commercial banks (the Agricultural Bank of China (ABC), the Bank of China (BOC), the China Construction Bank (CCB) and the Industrial and Commercial Bank of China (ICBC)), 3) state-owned investment funds (e.g. the Silk Road Fund (SRF)), and 4) China-led multilateral development banks (the AIIB and the NDB).

From the above list, it is clear that, unlike the OECD-DAC lenders, much of China's development lending is undertaken by state-owned institutions, including policy banks, commercial banks, and investment funds. Likewise, since the Chinese government does not report its official international lending to OECD-DAC, data on the extent and scope of China's lending is scarce, and its lending practices remain opaque.

Notwithstanding the above, the available data indicates that the EXIM and CDB have been two significant lenders to the BRI countries, accounting for around 45% of total outstanding loans. In contrast, loans extended by four state-owned commercial banks accounted for around 23%. The remaining was funded through equity financing of Chinese enterprises, Chinese government-sponsored bilateral funds, the SRF, and the two MDBs, with the AIIB loans accounting for a mere 2% of the total.[17]

Given the scale of the AIIB's loans vis-à-vis the EXIM, CDB, and four state-owned commercial banks, one may assume that the role of the AIIB as the BRI's financial vehicle is, at best, marginal. The significance of the Bank, however, lies not in the scale of its lending but in the fact that with the establishment of the AIIB, China has, for the first time, created a multilateral institution where it sets the rules. Equally important, through the AIIB membership, a considerable number of Western governments (and, by extension, Western multinational corporations) have become involved in the financing of the BRI-related projects they might otherwise have been reluctant to support.

3. Aligning the AIIB with the SDGs

To effectively tackle the so-called 'triple planetary crisis' of climate change, loss of biodiversity and pollution, to succeed in eradicating extreme poverty, and to play a proactive role in global crisis response, MDBs need to align their missions and financial flows with global climate and sustainable development goals while increasing cooperation with their peers to function as a coherent system. This section seeks to examine the AIIB's progress in aligning its statutory goals with the SDGs and greening its lending portfolio, with a particular focus on the Bank's evolving lending policy (Section 3.1.), the green shift in the AIIB's energy and transport sector strategies (Section 3.2.), the expansion of the Bank's lending portfolio beyond its statutory goals into smart city, water, and digital infrastructure sectors (Section 3.3.), and the implementation of COVID-19 Crisis Recovery Facility (Section 3.4.).

3.1. Lending Policy

The AIIB's lending policy differs from traditional MDBs in three aspects. First, although the AIIB uses a wide range of traditional financing tools (such as sovereign-backed loans and special funds), the Bank does not offer concessional loans or grants on a large scale. Given the above, the AIIB is less attractive to the least developed countries. Second, the AIIB has sought to focus its lending policy on economic criteria and to differentiate itself from the Washington consensus model by not making project financing conditional on fiscal austerity, privatisation, or trade liberalization. The absence of conditionality in the AIIB's stand-alone projects attracts borrowers who are not eligible for the International Bank for Reconstruction and Development (IBRD) loans due to the Bank's graduation policy (e.g. Oman, Singapore, and Hungary) as well as borrowers who for political reasons face difficulties in accessing the IBRD, the European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB) loans (e.g. Iran, Russia, Belarus), thereby helping to consolidate China's ties with strategic partners. Third, the AIIB has followed a three-stage lending strategy of 'partnering, leading and creating markets' since its inception.[18] Simply put, after having concluded a string of co-financing arrangements with peer MDBs and approved a series of stand-alone projects, the Bank's third step would be to mobilize private capital through private equity fund investments and intermediary financing projects.

In the first year of operation, the AIIB signed co-financing framework agreements with the WB (that is, with the IBRD and IDA), EBRD, the Asian Development Bank (ADB), and the European Investment Bank (EIB). In addition, in 2017, the AIIB and the WB Group's International Finance Corporation (IFC) signed an International Swaps and Derivatives Association (ISDA) master agreement, which would allow them to hedge each other the interest rate and currency risks associated with emerging market investments.[19] As of December 2023, 120 of the AIIB's 251 projects (48% of the total) have been co-financed. Among 183 non-COVID projects, 73% of water sector projects, 57% of urban sector projects, 47% of transport sector projects, and 45% of energy sector projects have been co-financed, with either the WB, ADB, EBRD, EIB, or IFC acting as a 'lead co-financier' (see Table 1 below). Interestingly, there are no co-financed projects in the digital infrastructure and technology (DIT) sector, reflecting the reality of the ongoing US-China tech war.[20]

AIIB's participation in co-financing arrangements has served to build its operational capacity while providing a measure of reassurance to its European members

Table 1. AIIB Co-financed Projects in Energy, Transport, Water, Urban and DIT Sectors (as of December 31, 2023)

Sector [co-f./total]	Energy [24/53]	Transport [19/40]	Water [11/15]	Urban [8/14]	DIT [0/8]
WB-AIIB	8	3	11	6	0
ADB-AIIB	5	7	0	2	0
IFC-AIIB	6	2	0	0	0
EBRD-AIIB	5	6	0	0	0
EIB-AIIB	0	1	0	0	0

Source: Author's own elaboration based on https://www.aiib.org/en/projects/list/index.html.

and the NGOs, especially about the implementation of the environmental and social framework (ESF) and policy on public information (PPI).[21]

In subsequent steps, the AIIB has focused on developing its lending pipeline and 'creating markets' by investing in private equity green funds and climate bonds. Examples of this growing set of green funds include 1) the USD 100 million SUSI Asia Energy Transition Fund with the aim of investing in renewable energy, energy efficiency, energy storage, and microgrid projects across Southeast Asia, 2) the USD 100 million Actis Asia Climate Transition Fund with a focus on renewable energy infrastructure, energy solutions and sustainable transportation across Asia, 3) the USD 75 million TATA Cleantech Sustainable Infrastructure On-lending Facility with the aim of financing renewable energy, energy storage, industrial energy efficiency, and water infrastructure construction in India, and 4) the USD 30 million Lightsmith Climate Resilience Partners Fund with a focus on global climate resilience solutions.

As for climate bonds, in 2019, the AIIB launched the USD 500 million Asia Climate Bond Portfolio to spur the development of the climate bond market. As part of this project, the Bank (in collaboration with a French asset management company, Amundi) created a Climate Change Investment Framework, an innovative benchmark investor tool providing investors with the ability to screen investments based on climate-related factors and quantify their climate change-related risk exposure.[22] In May 2023, to retain momentum, the AIIB issued its first Climate Adaptation Bond. The 5-year bond raised AUD 500 million, with the proceeds allocated to projects with an estimated 20% or greater climate adaptation finance share.[23]

As noted by Vasquez and Chin, the creation of large-scale public-private funds for green finance and climate bond portfolios has put the AIIB on track to become a major player in sustainable infrastructure and climate finance and may also result in new public-private partnership (PPP) models for infrastructure financing.[24]

Lastly, responding to the G20 IEG's call for the expansion of financial innovation to provide additional lending capacity, in July 2023, the WB and the AIIB announced a partnership that would utilize AIIB's capital surplus to issue USD 1 billion guarantees against sovereign-backed loans made by the WB Group's IBRD.[25] Given that the AIIB has only used about 43% of its capital base, it still has a lot of unused lending capacity that can now be utilized to provide relief against the IBRD's capital constraints. For the AIIB, the benefits of the deal include the further diversification of its portfolio and expanding lending to low-income borrowers.

This section has reviewed the evolution of the AIIB's lending policy, focusing mainly on its 'partnering, leading and creating markets' strategy. It has been shown that, through investing in private equity green funds and climate bonds as well as drawing in private sector investors, the Bank has expanded its range of financial instruments to address climate change and challenges of low-carbon transition effectively. Through co-financing arrangements and the AIIB-IBRD guarantee facility, the AIIB has actively participated in the MDBs' efforts to build Partnership for the Goals (SDG 17), while re-inventing the MDB financial model.

3.2. Sector-based Strategies

By December 2022, the AIIB has approved loans worth USD 38.81 billion covering 202 projects in 28 regional member countries and five non-regional member countries (Cote d'Ivoire, Ecuador, Egypt, Hungary, and Rwanda).[26] As of December 2023, India has been the largest beneficiary of AIIB lending in terms of both number of projects (43) and value (USD 10.01 billion). Türkiye, Bangladesh and China rank second, third and fourth in number of projects, while Indonesia has less adopted projects with a higher total value (see Table 2 below).

As of December 2023, COVID-19-related projects account for the largest share of all projects (69), followed by energy (53), intermediary finance (41) and transport (40) projects. Water and urban infrastructure projects rank fifth and sixth in terms of number of projects, respectively.[27] The above data indicates a growing diversification of the AIIB's lending portfolio - the result of the Bank's strategy of expanding its lending activities beyond the statutory goals of sustainable infrastructure

Table 2. AIIB's Largest Beneficiaries in Terms of Number of Projects and Value (as of December 31, 2023)

	Member Country	Number of Projects [Sovereign/Non-sovereign]	Total Project Value
1	India	43 [29/14]	USD 10.01billion
2	Türkiye	22 [13/9]	USD 4.29 billion
3	Bangladesh	19 [16/3]	USD 3.67 billion
4	China	18 [7/11]	USD 4.02 billion
5	Indonesia	14 [13/1]	USD 5.12 billion
6	Uzbekistan	13 [9/4]	USD 2.90 billion
7	Pakistan	10 [10/0]	USD 2.46 billion

Source: Author's own elaboration based on https://www.aiib.org/en/projects/list/index.html.

and cross-country transport and energy connectivity. Still, energy and transport sector projects constitute the bulk of the Bank's non-COVID projects.

The AIIB's *Energy Sector Strategy* (approved in July 2017) was a compromise between the AIIB's ambitious green goals and recipient countries' preference for fossil fuels. As a result, although the AIIB was committed to helping its clients achieve their carbon neutrality targets, it remained flexible on financing new coal-fired power plants, rehabilitation and upgrading of existing plants, and transmission and distribution networks for fossil energy. Thus, it is unsurprising that in its assessment of the *Strategy*, the Germanwatch, an independent development and environmental organization, concluded: "[…] lofty goals and the use of catchy buzz words cannot replace a robust set of implementation guidelines, tools and criteria".[28]

To at least partly remedy the above discrepancy, the AIIB's *Corporate Strategy* (published in 2020) established the ambitious target of reaching by 2025 a 50% share for climate financing in actual approved financing, paving the way for more clean energy projects.[29] For example, the list of projects approved by the Bank in 2021 (that is, the fiscal year after the announcement of the *Corporate Strategy*) includes two solar energy projects, two hydropower projects, three transmission system enhancement projects, one gas distribution project, and one CCGT plant project.[30] In other words, all nine projects can be categorised as either fully or conditionally aligned with the Paris Agreement temperature goal.[31]

In November 2022, the AIIB approved an update to its *Energy Sector Strategy*. Under this update, the Bank is expected to focus on supporting its members to achieve their long-term climate goals and carbon neutrality commitments. To fully align the *Strategy* with the Paris Agreement temperature goal, the update confirms AIIB's approach to not financing coal and projects functionally related to coal as well as excluding oil sector investments.[32] It must be noted that the AIIB's decision to phase out coal projects came on the heels of President Xi's COP26 announcement that China will step up support for other developing countries in developing green and low-carbon energy and will not build new coal-fired power projects abroad.[33]

Now, to address the AIIB's transport sector projects. The AIIB's *Transport Sector Strategy* - a document approved in October 2018 - aims at 'financing the development of sustainable and integrated transport systems that promote trade and economic growth in Asia', focusing on 'high quality and sustainable infrastructure that would enhance connectivity'.[34] Compared with the energy sector strategy, the *Transport Sector Strategy* appears to be nothing more than an outline of strategic directions and priorities for the first few years. The *Strategy* was greeted with harsh criticism by the NGOs. For example, the *Rivers without Boundaries Coalition* commented:

> the *Strategy* supports infrastructure for the sake of infrastructure, thus not connecting it to well assessed societal goods, but simply serving those who benefit from large infrastructure development: construction

> companies, traders, producers of machinery and construction materials, high officials benefiting from association with large projects, and politicians using such projects to promote themselves.[35]

To put the above quotation in context, it is worth noting that the AIIB allows lending to China's state-owned enterprises (SOEs) and considers SOEs private entities for public procurement purposes, thus providing them with an access to procurement markets that might otherwise be closed.[36]

In 2020, the AIIB's *Corporate Strategy* clarified transport sector strategy goals by adding the target of a 25-30% share for cross-border connectivity projects in actual approved financing by 2030.[37] The USD 300 million Guangxi Chongzuo Border Connectivity Improvement Project on the Sino-Vietnamese border and the USD 3 million Cambodia Cross-border Connectivity Enhancement (3CEP) Project are a good case in point. As part of the cross-border connectivity efforts, in 2022, the Bank established its first overseas office, an Interim Operational Hub (IOH), in Abu Dhabi. Reflecting the AIIB's increased focus on the Middle East and Africa, the IOH was created to enable effective supervision of the Bank's growing investment portfolio in the region.[38]

In another development, the AIIB has expanded its non-sovereign portfolio in sustainable transportation. By way of illustration, in January 2023, the India Sustainable Transport Financing Project was approved with the aim of increasing the presence of low-carbon transportation in India. Through this project, the AIIB has provided USD 100 million in financing to Shriram Finance Limited (SFL), a non-banking finance company that provides commercial loans for trucks, passenger vehicles, and farm and construction equipment. Under the project, SFL extends loans to individuals and companies for the acquisition of electric and CNG/LPG commercial vehicles and BS-VI certified vehicles used in infrastructure development activities.[39]

Lastly, concerning inter-organizational cooperation, it should be noted that the AIIB has consistently aligned its transport and energy connectivity projects with the ADB's Central Asia Regional Economic Cooperation (CAREC) Program (e.g., the Pakistan National Motorway M-4 Shorkot-Khanewal Section Project, the Nurek Hydropower Rehabilitation Project, Phase 1) and the *ASEAN Connectivity 2025* framework (e.g., the Laos National Road 13 Improvement and Maintenance Project, the 3CEP Project).[40]

This section has examined how the AIIB incorporated global climate and sustainable development goals into its sector-based strategies. It has been shown that the green shift in sector-based strategies, as reflected in the Bank's 2020 *Corporate Strategy*, closely mirrors the BRI's shift towards the GSSR, including phasing out the coal projects and expanding cross-border connectivity and sustainable transport financing projects.

3.3. The Expansion of the AIIB's Lending Portfolio

Beyond the sector-based strategies, the AIIB published three theme-based strategies for the urban, water, and digital infrastructure sectors. These three strategies are dealt with in detail below.

A *Sustainable City Strategy* (approved in 2018) reflects the trend of Asia's growing urbanization in the decades to come and the rising infrastructure needs of Asian cities. The *Strategy* centres on enhancing urban mobility, improving basic infrastructure, and promoting integrated development. Among the 15 projects approved so far, the focus has been on urban regeneration (including slum upgrading projects), solid waste management, municipal services improvement, and seismic risk mitigation.

The *Strategy* also expresses the Bank's ambition to foster innovative partnerships, e.g., with the Local Government Sustainability Network (ICLEI) and Cities Development Initiative for Asia (CDIA). By way of illustration, in October 2023, the AIIB approved the USD 4.25 million Bangladesh Smart Cities Development Project, aiming to promote smart and efficient urban planning. The project is funded by the AIIB's Project Preparation Special Fund grant available to AIIB's less developed members. It is worth noting that the CDIA conducted the project preparation study in cooperation with the cities of Laksham, Feni and Mirrersharai. The resulting roadmap for the promotion of smart city solutions informed subsequent project preparation activities conducted by the AIIB.[41]

Concerning the water sector projects, in May 2020, the AIIB adopted a *Water Sector Strategy* centred on water services, resource management and climate resilience. The *Strategy* is built on four principles of: promoting sustainable infrastructure, boosting integrated resource management, mobilizing private capital, and adopting innovative technology.[42] By December 2023, the AIIB and the WB have co-financed eleven water sector projects, while the AIIB funded three stand-alone projects of municipal water supply and sewerage (two in the region of Bukhara in Uzbekistan and one in Andhra Pradesh state in India) and a climate change adaptation project in Henan Province in China.[43] As can be seen from the above, when it comes to the water infrastructure sector, the AIIB continues to rely heavily on co-financing existing projects developed by the WB.

In July 2020, the AIIB adopted its third theme-based strategy for DIT sector projects - the *Digital Infrastructure Sector Strategy*. The Bank has been keen on becoming a leader in digital and smart city infrastructure financing, which accounts for a mere 1% of total MDBs commitments to date.[44] While seeking to diversify its portfolio by branching into multifunctional satellite, fibre optic communication network, and broadband infrastructure projects, the AIIB's DIT loans have indirectly supported Chinese IT operators and 5G technology suppliers across Asia.

To give but one example, in April 2019, Cambodia's Ministry of Post and Telecommunications inked a deal with the Chinese ICT firm Huawei to roll out 5G mobile infrastructure across the country, despite Vietnam's Viettel Group's strong presence in Cambodia's telecom market.[45] Three months later, in July 2019, the AIIB approved a USD 75 million loan to Cambodia Fibre Optic Communication Network Co. (CFOCN), a subsidiary of Shenzhen-based HyalRoute Group, to construct about 2,000 km of urban and regional fibre optic backbone networks to expand mobile coverage in Cambodia's major cities and across rural areas.[46] In February 2020, the CFOCN and the state-owned Telecom Cambodia (TC) signed an MoU for the construction of urban and regional fibre-optic backbone networks.[47] While there is little doubt that the above investments will enhance Cambodia's ICT infrastructure, there is also no denying that the AIIB's decision to extend a loan to the CFCON subtly propped up Chinese IT operators and 5G technology suppliers' presence in Cambodia's market.

To sum up, the AIIB has diversified its lending portfolio over the eight years since its inception by branching into smart city, water, and DIT sectors. This move closely mirrors the BRI's strategic adjustment forced upon by the COVID-19 pandemic. In addition, the AIIB - WB collaboration on water infrastructure projects is noteworthy in the broader context of scaling-up governance for flood and draught risk management.

3.4. COVID-19 Crisis Recovery Facility

In response to the pandemic, the MDBs have scaled up financing for the health sector - between April 2020 and mid-2021, collectively, the MDBs provided USD 230 billion to help countries deal with the negative impacts of this global crisis.[48] The AIIB developed a dedicated COVID-19 Crisis Recovery Facility (CRF) and established quick disbursing operations to support member countries' COVID-related expenditure programs. Between April 2020 and December 2023, the Bank offered up to USD 20 billion of financing to both public and private sector entities to any AIIB member facing serious adverse impacts due to COVID-19. For the duration of the CRF, the Bank approved 63 projects amounting to USD 16.55 billion, including 17 public health emergency response projects, 13 financial liquidity projects, and 33 economic resilience projects (see Table 3 on the next page). Interestingly, among non-regional members, Hungary, Cote d'Ivoire and Belarus received emergency response loans, Rwanda was granted financial liquidity and economic resilience loans, and Ecuador obtained a financial liquidity loan - a move that can be interpreted as an effort to shore up China-friendly governments.

Looking beyond the CRF, a background document published in March 2020 outlines the AIIB's three-pronged strategy for long-term management of the

COVID-19 pandemic response: to increase investments in public health and water and sanitation infrastructure to make developing countries less vulnerable; develop robust ICT infrastructure to improve epidemic control efficiency; and develop more resilient public health supply chains.[49] As CRF closed at the end of 2023, the AIIB Vice President, Ludger Schuknecht, announced that the Bank was working on a new emergency relief facility that would allow for crisis finance linked to post-disaster infrastructure rehabilitation and climate change.[50]

Throughout the pandemic, the AIIB collaborated closely with other MDBs to develop a coordinated response to the COVID-19 crisis. Based on the CRF's rollout and the developments so far, it can be observed that financial liquidity and economic resilience loans offered via the CRF seamlessly complemented China's HSR diplomacy that focused on the shipment of medical supplies, dispatch of medical teams, vaccine donation, as well as setting up joint vaccine production in developing countries. It also appears that the AIIB's expansion into the public health sector will stay and might integrate into the Bank's upcoming emergency relief facility.

4. Conclusion

This study set out to assess the AIB's progress in aligning its statutory goals and financial flows with global climate and sustainable development goals within the broader context of the MDBs reform agenda.

The most prominent finding to emerge from this study is that there is a correlation between China's shift towards ecological civilization and the 'New Normal' model of economic development, greening of the BRI, and the AIIB's efforts to align its statutory goals and lending practices with the SDGs.

The AIIB's strategic adjustments closely mirror the ongoing evolution of the BRI from a risk-accumulating transport and energy infrastructure mega-projects formula (→ the AIIB's two sector-based strategies) through the GSSR (→ the targets of the AIIB's Corporate Strategy), to the BRI 2.0 envisaged as an amalgam of renewable energy and green transport projects, comprehensive cooperation on green finance, the DSR, the HSR, and overseas economic and trade cooperation zones (→ the AIIB's investments in private equity green funds and climate bonds, its expansion of DIT sector projects and cross-border connectivity projects, and the CRF).

The second major finding is that through co-financing arrangements, coordinated response to the COVID-19 crisis, and scaling up lending capacity through financial innovations (e.g., the AIIB-IBRD guarantee facility), the AIIB has consistently collaborated with and learnt from the established peer MDBs contributing to the strengthening of Partnerships for the Goals (SGD17).

As discussed above, in 2020, the AIIB identified three corporate strategy targets guiding the Bank through the 'Decade of Action'. First, the AIIB has committed itself to reaching or surpassing by 2025 a 50% share for climate financing in actual approved financing. The Bank has expanded its investments in private equity green funds and climate bonds to achieve this target. Second, the AIIB plans to reach a 25-30% share for cross-border connectivity projects by 2030. The Bank's

Table 3. Recipients of the AIIB's COVID-19 Crisis Recovery Facility (as of December 31, 2023)

	Public Health Emergency Response	Financial Liquidity	Economic Resilience
Number of Projects	17	13	33
Total Project Value	USD 3.53 billion	USD 2.00 billion	USD 11.02 billion
Participating Regional Members*	11	7	14
Participating Non-regional Members*	3	2	1
Total CRF Value	USD 16.55 billion		

Source: Author's own elaboration based on https://www.aiib.org/en/projects/list/index.html.
*Several regional and non-regional members received multiple loans.

financing of cross-border connectivity infrastructure aims to improve the resilience and efficiency of both physical and digital connectivity infrastructure, thus the growing presence of cross-border connectivity enhancement and DIT projects in the AIIB's portfolio. Third, the AIIB aspires to reach by 2030 a 50% share of private-sector financing. To this end, the Bank has actively mobilized private capital through private equity fund investments and climate bond portfolios. It has also co-developed the Climate Change Investment Framework to provide investors with the ability to quantify their climate change-related risk exposure. In the short to mid-term perspective, the above three targets will remain a consistent point of reference in the discussion on the AIIB's alignment with the SDGs as well as the Bank's role in shaping the post-pandemic SDGs agenda in Asia.

References

1. Guterres, Antonio. "Remarks to the High-Level Political Forum on Sustainable Development." *United Nations*, September 24, 2019. https://www.un.org/sg/en/content/sg/speeches/2019-09-24/remarks-high-level-political-sustainable-development-forum
2. Li, Cai, et al. "Responses to the COVID-19 Pandemic Have Impeded Progress towards the Sustainable Development Goals." *Nature*,July12,2023.https://www.nature.com/articles/s43247-023-00914-2
3. This, however, needs to be put in the context. First, to date, the AIIB has USD 100 billion capitalization - about two-thirds of the ADB, half of the WB and one-third of the EIB. Second, according to AIIB's annual report, the Bank's loan disbursements reached USD 6.3 billion in 2022. This compares with the ADB's USD 19.6 billion, the WB Group's USD 67.0 billion and the EIB's EUR 54.3 billion (approx. USD 58.5 billion) during the same period.
4. See, for example, Manning, Robert A. "Trade and Financial Fragmentation: New Challenges to Global Stability." *Atlantic Council*, July 7, 2020. https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/trade-and-financial-fragmentation-new-challenges-to-global-stability/; and Cooley, Alexander and Daniel Nexon. *Exit from Hegemony: The Unraveling of the American Global Order*, 80-109. Oxford: Oxford University Press, 2020.
5. For a detailed analysis see, Xie, Tao and Donglin Han. "In the Shadow of Strategic Rivalry: China, America, and the Asian Infrastructure Investment Bank." *Journal of Contemporary China* 28, no. 120 (2019): 916-931.
6. WB Press Release. "World Bank President Outlines Strategy to End Poverty, Welcomes New Development Partners." *The World Bank*, April 7, 2015. https://www.worldbank.org/en/news/press-release/2015/04/07/world-bank-president-strategy-end-poverty-new-development-partners
7. Summers, Lawrence, et al. "Strengthening Multilateral Development Banks: The Triple Agenda." *Center for Global Development*, July 19, 2023.https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda
   The other two MDBs funding mechanisms are negotiated equity contributions and discretionary trust funds.
8. Kyte, Rachel, et al. "What Should COP28 Urge from Multilateral Development Banks and Their Shareholders?" *ODI*, December 6, 2023. https://odi.org/en/insights/what-should-cop28-urge-from-multilateral-development-banks-and-their-shareholders/#:~:text=%22On%20the%20shareholders%20%5Bof%20MDBs,commensurate%20operational%20model%2C%20channels%20and
9. https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html
10. On the role of the ecological civilization discourse in supporting the legitimacy-building agenda of the CCP, see Goron, Coraline. "Ecological Civilization and the Political Limits of a Chinese Concept of Sustainability." *China Perspectives*, no. 4 (2018): 39-52.
11. On the relationship between the concept of 'ecological civilization' and Confucian values, see Tanaka, Maria. "Confucian Ecology and the Rise of a New Practical Learning: The Case of Environmental Cooperation in Northeast Asia." Paper presented at the *15*th *East Asia Shixue/Silhak/Jitsugaku International Conference*, Sendai, Japan, December 21, 2019.
12. Xi, Jinping [习近平]. "Dierjie Yidaiyilu Guoji Hezuo Gaofengluntan Kaimushide Zhuzhi Yanjiang [第二届一带一路国际合作高峰论坛开幕式的主旨演讲]." *Belt and Road Forum*, April 26, 2019. http://www.beltandroadforum.org/n100/2019/0426/c26-1261.html
13. For a detailed analysis, see Tanaka, Maria. "Greening the Belt and Road Initiative in Central Asia: The Case of Uzbekistan Renewable Energy Sector." *Conference Proceedings: The 12*th *International Convention of Asia Scholars (ICAS 12)*, 691-700. Kyoto: ICAS 12, 2022.
14. Tanaka, Maria. "Research Trends on the Belt and Road Initiative (BRI) in Japan: A Systematic Review of Literature." *Asian Research Trends New Series*, no. 16 (2021): 65-125.
15. See, for example, Xu, Mingqi [徐明棋]. "Yatouhang yu Yidaiyilu Ruhe Liandong [亚投行与一带一路如何联动]." *Shehui Kexuebao*, June 6, 2015, pp. 1-2.
16. Jiang, Mengying [蒋梦莹], et al. "Zhuanfang Jin Liqun: Yatouhang yu Yidaiyilu Shi Yijia Feijide Liangge Yingqing [专访金立群: 亚投行与一带一路是一架飞机的两个引擎]." *Pengpai Xinwen*, April 8, 2019. https://www.thepaper.cn/newsDetail_forward_3231704
17. Rudyak, Marina. "Who Is Who in the Chinese Lending Institutional Landscape." *Urgewald*, October 2020. https://www.urgewald.org/sites/default/files/media-files/urgewald_who_is_who.pdf
18. AIIB. "Strategy on Mobilizing Private Capital for Infrastructure." *Asian Infrastructure Investment Bank*, February 9, 2018. https://www.aiib.org/en/policies-strategies/_download/mobilizing_private/Strategy-on-Mobilizing-Private-Capital-for-Infrastructure.pdf
19. IFC. "IFC and AIIB Sign ISDA Master Agreement to Expand

Infrastructure Investments in Asia." *IFC Press Room*, February 9, 2017. https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=18179#:~:text=Beijing%2C%20China%2C%20February%209%2C,markets%20projects%2C%20especially%20in%20Asia's

20. In March 2023, the AIIB approved an Egypt Sustainable Transport and Digital Infrastructure Guarantee, with the aim of supporting Egypt's sustainable infrastructure in the areas of green transport and digital infrastructure. It is worth noting that, in order to enable Egypt to issue a 3-year sustainable panda bond, the AIIB and the African Development Bank (AfDB) jointly provide a partial debt guarantee for this RMB-denominated bond. See, AfDB. "Egypt Issues Africa's First Sustainable Panda Bond Worth 3.5 Billion RMB Backed by African Development Bank and Asian Infrastructure Investment Bank." *AfDB*, October 17, 2023. https://www.afdb.org/en/news-and-events/press-releases/egypt-issues-africas-first-sustainable-panda-bond-worth-35-billion-rmb-backed-african-development-bank-and-asian-infrastructure-investment-bank-65097
21. It must be noted that all AIIB's co-financed projects apply the ESF and PPI of a lead co-financier.
Criticism of the AIIB mainly concerns the Bank's transparency deficit, its weak environmental and social standards and the absence of clear rules of public access to information. See, for example, Horta, Korinna and Wawa Wang. "The Beijing-led Asian Infrastructure Investment Bank (AIIB): Global Leader at What Cost?" *Heinrich Böll Stiftung*, December 2020. https://www.boell.de/sites/default/files/2022-04/E_Paper_The_Beijing_led_Asian_Infrastructure_Investment_Bank.pdf; and Creutz, Katja. "The Asian Infrastructure Investment Bank (AIIB) and Rights Protection: Revisionist or Just Another Kid on the Block?" *The International Journal of Human Rights* 27, no. 7 (2022): 1107-1132.
22. Amundi Asset Management. *AIIB & Amundi Climate Change Investment Framework: 1*st *Report*. Paris: Amundi Asset Management, 2022.
23. AIIB. "AIIB Issues First Climate Adaptation Bond Targeting Resilient Infrastructure." *AIIB*, May 11, 2023. https://www.aiib.org/en/news-events/news/2023/AIIB-Issues-First-Climate-Adaptation-Bond-Targeting-Resilient-Infrastructure.html
24. Vasquez, Karin Costa and Gregory T. Chin, "The AIIB and Sustainable Infrastructure: A Hybrid Layered Approach." *Global Policy* 10, no. 4 (2019): 593-603.
25. Leahy, Joe and Alec Russell. "China-backed AIIB Secures World Bank Deal." *Financial Times*, July 21, 2023. https://www.ft.com/content/f07c336e-a160-4170-9a96-2712510df086
26. Twenty of those projects are multi-country projects - private equity funds and bond portfolios. See, AIIB. *2022 AIIB Annual Report*. Beijing: Asian Infrastructure Investment Bank, 2023.
27. https://www.aiib.org/en/projects/list/index.html
28. Hirsch, Thomas, et al. "Aligning the AIIB with the Paris Agreement and the SDGs: Challenges and Opportunities." *Germanwatch*, April, 2019.https://www.germanwatch.org/sites/default/files/AIIB_Report_web_0.pdf
29. AIIB. *Corporate Strategy: Financing Infrastructure for Tomorrow*, 18. https://www.aiib.org/en/policies-strategies/strategies/.content/index/_download/AIIB-Corporate-Strategy.pdf
30. https://www.aiib.org/en/projects/list/index.html
31. For a detailed categorization of energy infrastructure projects into 'Paris-aligned', 'misaligned', and 'conditional', see Bartosch, Sophie, et al. "Aligning Investments with the Paris Agreement Temperature Goal: Challenges and Opportunities for Multilateral Development Banks," i-ii. *Germanwatch*, September 2018. https://www.germanwatch.org/sites/default/files/Aligning%20Investments%20with%20the%20Paris%20Agreement%20Temperature%20Goal..pdf
32. AIIB. *2022 AIIB Annual Report*, 79-80. https://www.aiib.org/en/news-events/annual-report/2022/common/pdf/2022-AIIB-Annual-Report_final-proof_single-page.pdf
33. Ni, Vincent. "Big Line in the Sand: China Promises No New Coal-Fired Power Project Abroad. *The Guardian*, September 22, 2021. https://www.theguardian.com/world/2021/sep/22/china-climate-no-new-coal-fired-power-projects-abroad-xi-jinping
34. AIIB. *Transport Sector Strategy: Sustainable and Integrated Transport for Trade and Economic Growth in Asia*, 2. https://www.aiib.org/en/policies-strategies/_download/transport/2018_May_AIIB-Transport-Strategy.pdf
35. Simonov, Eugene. "AIIB Transport Strategy: Road to Nowhere." *Rivers without Boundaries Coalition*, September 3, 2018. https://www.transrivers.org/2018/2238/
36. Gu, Bin. "Procurement of the Asian Infrastructure Investment Bank: Five Legal Issues." *Asian Journal of WTO & International Health Law and Policy* 13, no. 1 (2018): 233-267.
37. The term 'cross-border connectivity' covers here both physical and non-physical connectivity.
38. AIIB. "AIIB Expands Global Presence." *AIIB*, July 7, 2022. https://www.aiib.org/en/news-events/news/2022/AIIB-Expands-Global-Presence.html
39. https://www.aiib.org/en/projects/details/2022/_download/india/AIIB-P000561-India-Sustainable-Transport-Financing_PSI_vF.pdf
40. The AIIB is one of the seven multilateral institutions that support CAREC. Since 2017, the Bank has supported projects aligned with CAREC 2030's six operational clusters. https://www.carecprogram.org/?page_id=1729
41. CDIA. "CDIA Partners with AIIB to Prepare Smart City Development Project. *CDIA*, December 21, 2022. https://cdia.asia/2022/12/21/cdia-partners-with-aiib-to-prepare-the-bangladesh-smart-city-development-project/
42. AIIB. *Water Sector Strategy*. https://www.aiib.org/en/policies-strategies/operational-policies/water-sector-strategy/.content/_download/Water-Strategy-Final.pdf
43. https://www.aiib.org/en/projects/list/year/All/member/All/sector/Water/financing_type/All/status/Approved
44. AIIB. *Digital Infrastructure Sector Strategy*, 4. https://www.aiib.org/en/policies-strategies/operational-policies/digital-infrastructure-strategy/.content/_download/AIIB-Digital-Strategy.pdf
45. Bunthoeun, Chhut. "Deal Signed with Huawei to Roll Out 5G Network." *Khmer Times*, April 29, 2019. https://www.khmertimeskh.com/598737/deal-signed-with-huawei-to-roll-out-5g-network/
46. https://www.aiib.org/en/projects/approved/2019/_download/

cambodia/cambodia-July-12-2019.pdf

47. Kunmakara, May. "Telecom Cambodia, CFOCN Sign Fibre Optic Network Deal." *The Phnom Penh Post*, February 12, 2020. https://www.phnompenhpost.com/business/telecom-cambodia-cfocn-sign-fibre-optic-network-deal#:~:text=Business&text=State%2Downed%20Telecom%20Cambodia%20(TC,regional%20fibre%20optic%20backbone%20networks.
48. Islamic Development Bank. *Financing the Sustainable Development Goals: The Contributions of the Multilateral Development Banks,* 35. *Islamic Development Bank*, February 2022. https://www.isdb.org/financing-the-sustainable-development-goals-the-contributions-of-the-multilateral-development-banks
49. AIIB. "Impact of the COVID-19 and Its Implications for Infrastructure Priorities." *AIIB*, March 25, 2020. https://www.aiib.org/en/news-events/news/2020/_download/Background-Impact-of-Covid-19-and-Implications-on-Infrastructure-Priorities.pdf
50. Yiu, Pak and Kensaku Ihara. "China-based AIIB Aims to Launch Emergency Relief Fund." *Nikkei Asia*, May 23, 2023. https://asia.nikkei.com/Business/Finance/China-based-AIIB-aims-to-launch-emergency-relief-fund