

POLICY DIALOGUE

Lean, Clean and Green: A new model of multilateral development bank for building infrastructure in Asia and beyond—An interview with AIIB President Jin Liqun

Asian Infrastructure Investment Bank's president Mr. Jin Liqun shares with JIPD Editor-in-Chief, Dr. Gu Qingyang, his passion for infrastructure finance, as he reflects upon his goal of steering an environmentally friendly and corruption-free AIIB toward building social-impacting infrastructure across Asia.

From governmental departments to international financial institutes, Mr. Jin Liqun has undertaken almost every essential role in finance. With his vast experience across the private and public sectors, particularly in multilateral development banks, Mr. Jin Liqun currently serves as Asian Infrastructure Investment Bank (AIIB)'s first President since its founding in 2016, following a stint as Secretary-General of the Multilateral Interim Secretariat created to establish the bank. Beginning from his two decades of governmental experience at the Chinese Ministry of Finance, rising from the rank of Deputy Director General to Vice Minister, Mr. Jin was then called to serve as Vice President, and then Ranking Vice President, of the Asian Development Bank, and later as Alternate Executive Director for China at the World Bank and at the Global Environment Facility. Mr. Jin had also served as Chairman of China International Capital Corporation Ltd., China's first joint-venture investment bank, in addition to serving as Chairman of the Supervisory Board of the sovereign wealth fund China Investment Corporation and as Chairman of the International Forum of Sovereign Wealth Funds.

JIPD: Can you share with us the mission of AIIB and why it is necessary to create such a bank?

Mr. Jin: Globalization was the defining feature of the late 20th century. It has enriched the lives of the people from participating countries in varying degrees. However, globalization has yet to bring benefits to all nations equally, partially due to the shortage in infrastructure facilities. Many regions' economies have been suffering from severe infrastructure constraints, and weak infrastructure has become a "bottleneck" adversely affecting the short- to long-term development

of most developing economies, even middle-income countries.



Mr. Jin Liqun

To a great extent, fast growth in Asia and other regions over the decades has fuelled the needs for infrastructure investments worldwide, which have grown exponentially but still poorly catching up with the demand. Against this background, no multilateral development bank (MDB) can prove equal to the daunting task and meet such a vast need single-handedly. Even with the combined efforts of all the MDBs, it's still not possible to fill the gaps.

The genesis of the AIIB stems from the acute awareness of the importance of infrastructure to the sustained development of Asia. The idea was pretty simple and straightforward: to establish a bank that can fit into the niche in the present-day Asia and beyond. If we don't do it now, the bottlenecks will get worse, cropping up one after the other, and this definitely will dampen the fast growth in Asia down the road.

The urgency drives us to act now rather than to wait, because infrastructure investment will take years to fully realize its benefits. Through working with our partners for investment in infrastructure and other productive sectors, our bank aspires to leverage our limited resources to establish a new platform for the concerted efforts of our shareholders and to mobilize as many financial resources as possible in order to foster sustainable economic growth and development across our members based on regional connectivity and economic integration.

JIPD: What's your view on the specific role of AIIB in supporting infrastructure development in Asia?

Mr. Jin: Infrastructure systems are critical for advancing and maintaining economic growth. The reality faced by many Asian countries is serious inadequacies in infrastructures, especially inter-state transport facilities, such as roads, railways, seaports and airports. Bottlenecks in this sector have severely affected domestic development and cross-border trade and investment in many of our members.

We are now in a time of globalization. To be cut out from the outside world is inconceivable, whether you are a businessman, government staff, farmer or city worker. Infrastructure leads to connectivity with prosperity and disconnectivity from poverty. This has been borne out by the fast growth of China and many other Asian emerging market economies. We would

like to help replicate China's success in many low-income countries in Asia and beyond. That is what the Asian Infrastructure Investment Bank is about.

AIIB is a new multilateral development bank, which focuses exclusively on infrastructure. Other multilateral development institutions, such as the World Bank and the Asian Development Bank (ADB), have done tremendous amount of work in promoting poverty reduction and social progress over the decades. This is well recognized. To be fair, those MDBs have also done a lot of lending for infrastructure investment. Obviously, some of the MDBs are faced with resources constraints, having allocated resources for many environmental and social programs, including environment, education and health. As a new institution, AIIB expects to meet the specific infrastructure needs in Asia and other emerging markets. We do not aim at direct intervention in poverty, but what we try to achieve in promoting broad-based economic and social development through investments in infrastructure and other productive sectors will make a huge difference in the overall economic situation of our members. Poverty will be reduced as a result. As the saying goes, a rising tide lifts all the boats.

We aim to help Asian countries to develop roads, railways and ports; enhance access to electricity; expand telecommunications services; advance urban planning; and provide clean water and sanitation services. And just as importantly, we are building connections which will not only benefit the communities but will have far-reaching, positive impacts on markets and trade across the region. This kind of infrastructure connectivity is especially important for those Landlocked Developing Countries. It will improve the access to transit and trade for their citizens. AIIB will act as a facilitator in this capacity, promoting sustainable growth and social progress through infrastructure investment

and connectivity. We will do it right, we will do it well, and we will do it collaboratively as a reliable and complementary development partner.

JIPD: How is AIIB interacting with the other banks?

Mr. Jin: Since many infrastructure projects are capital-intensive with long gestation or preparation period and therefore demand plenty of resources, it may not be possible for a single institution to carry out a huge project. Hence, teaming up with other multilateral development banks (MDBs) is crucial.

We have signed MOUs with other MDBs. In fact, projects prepared by our own professional staff only account for about 25 percent of the lending programs in AIIB's first year of operation, while the rest were co-financed with the World Bank, the ADB and other development banks. We also expect to complement and supplement the programs of existing MDBs. This kind of cooperation is actually mutually beneficial, as each institution is constrained by its own resources and also the country's exposure limits. For example, by collaborative financing, institutions can diversify risks and reduce costs.

I know that some people have questioned whether AIIB was created to undermine banks led by the U.S. or Japan. I would like to clarify once again that the AIIB will not be a competitor to other multilateral development banks. As you have seen, China continues to support the World Bank and ADB, particularly in terms of the concession of funding, and China has actually increased its contribution to both these institutions. I think the world stage is spacious enough to allow many actors to play their roles—no worries about stampeding.

In this big family of multilateral development

banks, we are the youngest—being only two years into operation—but we are being brought up in this big family while enjoying strong support from our elder brothers and sisters. We are very much grateful to the World Bank, ADB, EBRD (European Bank for Reconstruction and Development) and others. I believe deep in my heart that we can learn from each other and work in close collaboration for the shared objective.

As a newly developed institution, AIIB is different from other multilateral platforms. The existing multilateral development banks were mostly created several decades ago under an entirely different situation. They have made tremendous contributions to the global and regional economic and social development over the years; they have a strong track record and are continuing to achieve remarkable results over time. However, it doesn't make any sense to clone or copy any of the well-established MDBs. The new era calls for a new institution with a new governance structure and new *modus operandi*. Furthermore, we focus on somewhat different thematic priorities, and it is precisely such differences that make complementarity and cooperation more meaningful.

Given our bank's global membership, it is also necessary for us to work closely with other regional banks, such as the African Development Bank and Inter-American Development Bank. We are extremely pleased to see the strong interest of these banks in working with us. We will try our best to supplement their efforts in promoting infrastructure development in their respective regions. By teaming up with those regional development institutions, we can achieve far more than is otherwise possible.

We should not work in isolation from each other. South American members are grappling with a set of development issues, particularly middle-income trap. Africa has such a backlog of infrastructure projects in the years and decades to come. And the formidable

challenge is to develop their economies through investment in infrastructure without leaving a big footprint in the continent's environment and unique ecosystem. I have discussed the possible cooperation with President Luis Moreno of the Inter-American Development Bank and President Akinwumi Adesina of the African Development Bank on several occasions, and their response has been so consistently encouraging. AIIB will share the cost, enhance policy dialogue with the client countries, and mitigate risks. So far as AIIB is concerned, we can enjoy our extra benefit by depending on the knowledge and the networks of those regional development banks.

So, I am sure that AIIB will make a good and reliable partner for, and not a competitor to, our sister institutions. AIIB is more than happy to see the well-established MDBs play a leading role in co-financing. We do not mind playing whatever role is appropriate for us. We are very content to take a position in the orchestra—not playing the first fiddle won't bother us. There is no competition; we only enjoy cooperation.

JIPD: What are the overarching principles that underpin the bank's governance framework? And how do you implement it?

Mr. Jin: It is crucial for AIIB to have good governance as this is the first MDB initiated by China. At the very outset, scepticism was all too palpable—it looked as if China had an ace up its sleeve. We want to demonstrate China's ability to create a bank, which will operate by the highest standard. I am proud to say that stabling a development institution with the 21st governance is our own idea. This is our selling point. Good governance and high standard are by no means anything imposed on us by anybody else.

Good governance is key to success. We have succeeded in setting up this new development

institution with a clear-cut governance critical for the 21st century MDB. AIIB's core values of "lean, clean and green" will ensure that the bank will bring much needed infrastructure investments of high quality to the developing nations in Asia and beyond, yet the ultimate success of an institution and its credibility depend on its ability to enact well-advised policies and set up effective mechanism under sound governance.

We have succeeded in setting up this new development institution with a clear-cut governance critical for a 21st century MDB. To this end, we engaged a number of first-class experts with long working experience with development banks, such as the World Bank, ADB and EBRD, *etc.*, and gave them a clear picture of what we envisaged for such a new MDB. I personally contributed to this whole process by offering my experiences in the World Bank, ADB and CIC (China Investment Corporation), the sovereign wealth fund of China.

After establishing a robust governance structure, the next issue is to implement the structure rigorously. No matter how great the governance is on paper, it comes to nothing without putting it into good practice on the ground. We are following a comprehensive approach to implementing the governance to the letter, thereby ensuring that AIIB operates with integrity, transparency and accountability. The Board of Governors, the Board of Directors and the Management each have their proper role to play. The Board of Governors is the ultimate authority, with all the power vested in it. The Board of Directors is empowered by the Governors to set up the policies and exercise the oversight over the management of the bank. The Management is in charge of the daily operation of the bank. What set this bank apart from the well-established ones are mainly two special features: a non-resident Board of

Directors, and the delegation of the authority of project approval to the Management. This is embedded in the Articles of Agreement. Over the two years into operation, the non-resident Board has conducted its oversight of and guidance to the Management smoothly, as if they were right on the premises, thanks to the modern communication technology. As for the delegation of project approval authority, the Management is still in the course of building up a whole set of policies and mechanisms to pave the path for the eventual delegation. It should be noted that the delegation is partial, particularly early in the stage, as the Board of Directors retains its power to approve projects based on a set of principles. The division of labour is very clear, and the effectiveness and efficiency could be reasonably expected.

We have zero tolerance for corruption. The bank must be squeaky clean. I have empowered the Chief Ethical Officer to monitor the behaviour of the bank's employees from the president down to the rank and file. Nobody is above the system of monitoring and check and balance. I have also empowered the Chief Audit Officer to strengthen compliance, with the right of access to all the data and information of all units in the bank. I am sure that the system and its rigorous implementation will minimize incidence of breach of ethics and, in case of even minor fraud, cheating or misappropriation, we will be able to take actions promptly to address them so that such malaises will not fester.

We understand that it takes time for us to convince the world that this is a great institution operating by the highest standard, despite such oversight mechanisms in place in the bank. I have highlighted on numerous occasions we did not expect trust from the outside world without our efforts to earn it. Credibility has to be earned and trust has to be granted through action, not through rhetoric or narratives. The whole world will judge us by how we perform, not by what

we claim. Therefore, I do not mind if the jury is still out; the jury may linger outside the court as long as they see fit. But I am sure that we are already building up our credibility. The AIIB is now a well-recognized MDB with high level of integrity from the very beginning. The daunting challenge is to keep it.

I have made it an overarching priority to develop an ethics-based corporate culture. Adherence to our basic principles of professional and ethical integrity will ensure that this bank will produce meaningful and measurable outcomes and results. Sound governance, corporate culture and international best practice have to be observed on a daily basis without compromise, while adopting pragmatic approaches, working out solutions and offering efficient services and cutting-edge knowledge to our clients. This is what the bank is all about.

JIPD: We have observed that many operating features of the AIIB are new, such as the high efficiency and the reduction of bureaucracy. Can you highlight some of them?

Mr. Jin: Yes, we are dedicated to creating a new model in operations. My basic principle is that AIIB has to move out of the intellectual ghetto to avoid institutional obesity. As I indicated earlier on, I proposed that this bank should be "lean, clean and green". That means a bank with a small group of professional staffs and non-resident board of governors (lean), that is not corrupt (clean), and that cares about the environment (green). I want the AIIB to be "squeaky clean"—and there will be zero tolerance towards corruption—and the bank will promote a green economy, investing in renewables such as wind farms and solar or thermal projects, as well as helping countries improve power grids and transmission systems to promote a more efficient distribution. Moreover, AIIB will not be tied down with bureaucracy.

We have put in place operating policies and procedures to enhance efficiency to promote cost-effectiveness and achieve measurable results that would meet the present-day needs. We will not create fancy, flamboyant and mostly redundant titles and positions, and will prevent the staff working in silo or bogged down in inter-departmental squabbling. The AIIB will continue to recruit professionals of highest possible calibre. No position will be created without full justification or more than is necessary. Institutional obesity usually does not develop early in the years of an institution: just like a human being, cholesterol and fat would accumulate over time. We will have to be vigilant about these problems moving forward.

The AIIB boasts a high rate of efficiency when responding to members' requests for financing. The bank is nimbler, and our staffs move to their positions very quickly. The AIIB has tried to set up a set of simplified the procedures which the processing of investment projects has to go through. But, streamlined procedure is not equivalent to lax management or lack of attention to details, nor is it cutting corners. AIIB sticks to strict international standards when it comes to environmental assessment, social protection and other aspects vital for the success of an investment operation.

I am also proud that the AIIB's professional staffs' recruitment process is fully based on meritocracy as we are intent on upholding the highest standards. The principle of universal recruitment renders it possible to get the best of talents from across the world. We do not look at the applicants' passports, but instead the background checks focus on their professional and ethical integrity. And their commitment to this bank is a must. While neither the US nor Japan is our members, we have quite a number of Americans and some Japanese nationals. They are all very good. As a result, AIIB has already built an amazing pool of talents equal to

the daunting task of the bank's operational work.

Another principle of significance is universal procurement. We practice international competitive bidding: any company from any country, whether a member nation of the bank or not, can compete for contracts from the bank through open and competitive bidding processes. For example, Japan and the United States are not our members, but their companies will be treated equally and fairly if they are interested in bidding. True to its international character, AIIB provides opportunities to reputable companies across the world so that they can contribute to sustainable development of our members by their high quality equipment and service at the lowest possible cost.

JIPD: AIIB is a China-led multilateral development bank. It seems that there is still noticeable concern over the dominant role of China in advancing its own national interests. What are your views on this scepticism?

Mr. Jin: While we owe it to China to have such a wonderful institution—the bank was initiated by China and it is the biggest shareholder—however, the AIIB is not a Chinese bank. The bank is not owned, managed or controlled exclusively by China. The bank is owned by all of the 84 members, including 57 founding members, and the membership continues to swell. We have no problem with China playing its important role in this institution. What matters is not the influence of a big shareholder. Rather, the issue is what kind of influence the big shareholders or shareholders play, and the way they exercise their power of influence. China sits on the Board, and guides the direction and management of the bank through its role on the Board. This is the standard approach, and the way China plays its role in the bank has been irreproachable. Indeed, its contribution is well recognized.

One point that I would like to highlight is that during its course of development, China has tried its very best to learn from the other countries' experience and apply all those experience creatively to its national context. Creativity and innovation mark China's sense of difference in learning from other countries. China came to appreciate the importance of infrastructure development early in the 1980s, and started to borrow from the World Bank, the Asian Development Bank and international capital markets to invest extensively in infrastructure from the 1980s through the mid-1990s, which laid the foundation for China's economic take-off. Overall, the way China financed the development in infrastructure is in many ways different from other countries. National programming, balanced development across the regions, shared but differentiated responsibility between the central and local governments, and a variety of funding schemes have combined to make a difference. I think that's why China became successful.

Although the Chinese experience in infrastructure development offers much food for thought not only for the countries in Asia but also for the rest of the world, I do not advocate China's growth model as a recipe for success universally applicable. Few growth models could be successfully transplanted without modification to different countries under with varying economic and political systems. There is no one-size-fits-all solution; there is always something for a country to learn from others, and rarely can one make a copy and fit it into its own country.

Yet, given the Chinese experience, we believe that promoting broad-based economic and social development through investments in infrastructure and other productive sectors is really important, while never forgetting creativity. So, our idea is to create a platform through the infrastructure development of AIIB

to help the member countries to learn from each other.

JIPD: What is the relationship between AIIB and China's One Belt One Road Initiative (OBOR)? Is there any possibility that OBOR-related projects would be more favoured?

Mr. Jin: From the very beginning, I was aware of the concerns. I would like to clarify this issue again: although both AIIB and One Belt One Road (OBOR) were proposed by China, AIIB is not the same as One Belt One Road. OBOR is an initiative to promote infrastructure development in the countries along those geographical areas, while AIIB is an independent multilateral development bank, instead of a Chinese bank. AIIB is not created specifically to underwrite OBOR.

On the other hand, the bank covers so many countries in Asia and across the world, and naturally many OBOR projects will be the very projects proposed to our bank for financing. We are very supportive of OBOR and will do our best to promote regional connectivity and sustained growth. However, project screening will be based on the AIIB's standards—in a nutshell, projects proposed to the bank will be considered as long as they meet the three basic requirements: they must be financially sustainable, environmentally friendly and socially acceptable. We will not finance white elephant projects, and will not add to the debt burden of the borrowing members.

JIPD: For all the success of AIIB so far, some people have lingering concerns over the bank's impact on the environment and climate change, and for the wellbeing of the local community. How does AIIB make sure that there is no ground for such concerns?

Mr. Jin: I understand that there has been much attention to the question of how the bank will tackle social and environmental impacts and risks. As a multilateral development bank, part of our job is to help developing countries pick projects that will improve social and economic outcomes without following the beaten track that leads to environmental degradation and global warming. So, AIIB is committed to the principles of sustainable development from concept design to the implementation of its investment policies and activities.

There is a broad recognition of the importance of infrastructure in combating climate change, especially with Asia's rapid population growth and intensifying rural-to-urban migration. As a new bank, we can make contributions in this regard. With these in mind, and for the sake of future generations, we must apply a sustainability lens to all of the infrastructure projects supported by AIIB. Our experts in the investment team are very much experienced, and are supported by experts in the areas of environmental protection and social framework. Nevertheless, for all their experience, all of the operational staff will have to attend a mandatory training program to meet the higher-than-ever standards in environment and social protection. And their attendance will count towards their annual performance assessment.

A key challenge is to identify projects that are of very high quality. AIIB subscribes to the principles of sustainable development in the identification, preparation and implementation of projects. The management of environmental and social risks and impacts is central to successful development outcomes. As part of our Sustainable Energy for Asia strategy, AIIB will invest in energy projects that help our members' transition to a low-carbon future. To achieve this, we need a pipeline of forward-thinking projects that will improve access to affordable energy for the millions

of people in Asia. Part of this solution is to make the most of existing energy infrastructure through rehabilitation and upgrades of existing generation, transmission and distribution networks, as well as aggressively pursuing energy efficiency programs. We are also actively identifying ways to promote renewable energy projects, such as wind, solar, biomass and hydropower. We have a special fund available to our qualifying members to help them secure the resources they need to prepare sound, bankable projects. We hope this fund will contribute to an increase in the availability of worthwhile, sustainable infrastructure projects. And we are grateful to China, UK, Korea and HK SAR for their generous contributions to the special fund.

The AIIB will remain "green" while bringing much needed infrastructure to Asia. The AIIB will do business only with reputable companies that have a track record of positive impact on environment and society. Secondly, projects should promote sustainability. The AIIB would not rule out coal-based power plants, but will be extremely prudent in assessing the impact on climate change and air quality in the project areas. At this stage, there are no such projects in the pipeline.

We also aim to be cost-effective and fast-moving without compromising environmental or social standards. We will support our clients in managing the risks appropriately through our knowledge, experience and resources. We understand that what we do is not just build a road, build a port or build a railway, but we are helping development in those low-income countries in many dimensions.

JIPD: How does soft infrastructure help to complement physical infrastructure projects?

Mr. Jin: I fully agree that soft infrastructure, such as the legal system, regulatory framework and government policy, plays a critical role

in investment projects delivery. As an MDB, we work on the physical infrastructure and connectivity. However, when you build railways and roads to link countries together, the outcome will be questionable if there's no harmonization of custom policies—the train or bus will stop at the border. Nothing more is going to happen. So, the effective provision of infrastructure rests critically on public governance and government policies. The failure of policy implementation directly reduces the economic impact of an infrastructure project.

You need to harmonize the policies; otherwise, it will be difficult to help the poor on poverty reduction and socially inclusive development. My view is that policy infrastructure, social infrastructure and human resources are the most important factors for infrastructure development. This is because physical infrastructure systems are intrinsically related to the institutions of a country or region. Maybe in the future we can finance social infrastructure development such as health and education, and environmental protection could be a stand-alone infrastructure. In fact, effective social frameworks, together with favourable policies, play an equally integral role in complementing physical infrastructure. If we do these things, we can cover a wide range of areas including physical infrastructure and soft infrastructure. So, we do not want to limit ourselves to a very narrow range of infrastructure. We try to leave room for maneuvers in the future. New demands would emerge as we move forward.

I know that risks are a major concern that prevents capital from feeding infrastructure projects. There are risks inherent in financing infrastructure, due in small measure to long gestation period, lower returns compared with investment in other businesses, policy and regulatory unpredictability, *etc.* These are the very risks which usually drive private

sector investors to keep some safe distance from infrastructure investment. However, you cannot get returns without risks, so we should strike a proper balance between the return and risk. In this connection, MDBs have a special role to play in mitigating potential risks driven by various factors including the change of government or its macroeconomic and regulatory policies. These are to certain extent all related with a specific jurisdiction's legal issues. So, a sound legal system plays a critical role in mitigating risks and fostering a climate conducive for attracting infrastructure investment.

I don't think there will be huge problems even if we work in countries that have different legal systems; however, what we ask for is the adoption of consistent policies by the government. We can depend on our professionals to make judgments about the commercial risks, but what is most difficult to deal with is probably the uncertainty in the policies.

We are investing in some countries that may be grappling with political crisis or instability, with implications for financial viability of the investment projects. Countries in distress should not be left out in the lurch; MDBs are exactly the institutions they would turn to under such circumstances. We will try our best to help them, while our professionals will of course evaluate the impact of the risks on the projects we support. We believe that the success of infrastructure development will help to improve political stability. Thus, as an MDB we should not chicken out when confronting potential risks. Our job is to help our partners to mitigate the risks and ride out instability. So, it requires us to work in close collaboration with the governments and private sector.

Assessing the macro-situation of a borrowing

country from a full perspective makes a lot of sense. Problems would crop up if there is lack of coordination among various sub-sectors in infrastructure in a country. This occurs much too often in a low-income country with low institutional capability. In some countries emerging from political instability or chaos, officials in the major governmental institutions are firing with passion, chomping at the bit, but are at a complete loss in the face of complicated issues. We are familiar with the lamentable situation where some infrastructure projects functioned poorly and didn't realize the development objective partially due to the absence of a coordinated environment in

the infrastructure projects. We will work with these countries in an effort to improve the programming and coordination in the course of infrastructure development.

AIIB is an apolitical multilateral development bank; we finance projects based on economic and financial considerations. However, we need to look at the political and economic stability when we put our money in a particular country because we have to be accountable to our shareholders. We are on the right course, and will continue to move forward and live up to the expectations of all the stakeholders.