



**ASIAN INFRASTRUCTURE
INVESTMENT BANK**

**FINANCING OPERATIONS IN NON-REGIONAL MEMBERS
(Technical Note)**

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The objectives of the *Strategy on Financing Operations in Non-regional Members (Strategy)* are to establish the Principles on eligibility of operations in non-regional Members for Bank financing and the ceiling on such investments as a share of total approved Bank financing.

Legal Basis for Financing Operations in Non-Regional Members

1. The Articles of Agreement of the AIIB (the Charter) authorize the Bank to invest in any Member, i.e., both regional and non-regional.¹ In certain circumstances, the Bank may also invest on the territory of a non-Member country.²
2. Under the Charter, references to “Asia” and the “Region” include the geographical regions and composition classified as Asia and Oceania by the United Nations, except as otherwise specified in the Charter³ or decided by the Board of Governors.⁴ Schedule A to the Charter records the regional and non-regional membership designations of the 57 Signatories thereto and specifies Russia to be regional Member.⁵
3. All Bank financing, irrespective of whether the project is located in or outside of the Region, must be in furtherance of the purposes and functions of the institution, as defined in Articles 1 and 2 of the Charter.⁶ This objective, or outcome, is also recognized in the Chief Negotiators’ Report on the Charter.⁷ Accordingly, a project located outside the Region must benefit Asia, i.e., it must foster economic development, create wealth or improve infrastructure connectivity in Asia (as defined in para 2).
4. While Bank-financed projects located outside Asia must benefit the Region, and while under the Charter all of the Bank’s financing must be directed exclusively toward achieving that outcome,⁸ it must be recognized that benefits in any given project may accrue across a range of beneficiaries. There is no requirement that the benefits of a non-regional Bank-financed project must accrue exclusively to Asia. Nonetheless, the benefit to Asia of a project located outside Asia must be significant.

¹ Article 11.1(a), Articles of Agreement.

² Article 11.1(b), Articles of Agreement.

³ Article 3.1, Articles of Agreement.

⁴ Article 1.2, Articles of Agreement.

⁵ A complete listing of AIIB membership with regional and non-regional designations can be found at www.aiib.org

⁶ Articles 1 and 2, Articles of Agreement.

⁷ Chief Negotiators’ Explanatory Note on Article 11, Paragraph 1: “Representatives noted that the Preamble and the functions and purposes of the Bank in Articles 1 and 2 focus on the economic development of the Asia region. To the extent permitted under its operational policies, the Bank could provide financing to recipients located outside the region under Article 11, paragraph 1, consistent with its purpose and functions.”

⁸ Article 9, Articles of Agreement.

Principles on Eligibility of Operations in Non-Regional Members for Bank-financing

5. The Bank prioritizes regional investments. Therefore, in order to meet the requirement of “significant benefits” to Asia, non-regional investments are subject to additional Principles and a ceiling on such investments as a share of total Bank financing as described below.
6. The *Strategy* proposes three Principles for determination of eligibility of investments for Bank financing in non-regional Members. Projects that are aligned with one or more of the three Principles below may be considered for possible Bank financing:
 - i. the Bank may consider investments with the objective to support trade and connectivity with Asia, including ports, transport links, power generation and transmission, and gas pipelines. This Principle is aligned with the AIIB thematic priority, *cross-country connectivity*. The majority of non-regional financing is expected to fall under this Principle, and priority will be given to projects meeting this Principle;
 - ii. the Bank may consider investments in global public goods, specifically renewable energy generation projects (including transmission and storage). Investments under this Principle should be contained in the country’s National Determined Contributions as defined in the Paris Agreement (entered into force October 5, 2016). This Principle is aligned with the AIIB thematic priority, *sustainable infrastructure*; and
 - iii. the Bank may consider investments in non-regional Members which the Board of Directors considers are geographically proximate to and closely economically integrated with Asia. Egypt, a non-regional Member having territory in the Asian continent, meets this Principle.
7. Paragraphs 10 to 12 outline considerations relevant to such proposed investments. Investments in non-regional Members will not be justified based solely on a global spill-over or general equilibrium argument as such argument would not sufficiently distinguish projects with significant benefits to Asia.
8. The Principles above refer to benefits to Asia through the outputs of a project. Infrastructure investments in non-regional Members can also benefit the Region through the inputs provided by Asian suppliers, contractors, developers, or investors. However, given the Bank’s approach toward universal procurement and open choice of partners without nationality restrictions, the Bank will not consider investment proposals in non-regional Members based solely on financing, supplies, or other inputs being provided by Asian entities.
9. **Ceiling on investment in non-regional Members as a share of total approved Bank financing.** In order to preserve the Asian character of the institution and to ensure sufficient availability of financing for its regional Members, the Bank will specify in future Business Plans and observe a ceiling on its financing for operations in non-regional Members expressed as a three-year rolling share of volume of approved Bank financing in non-regional Members during current plus two previous years over total approved Bank financing in the same period. Until such ceiling is determined in a future Bank Business Plan, the ceiling on investment in non-regional Members as a share of total approved Bank financing is 15% starting from 2018.

10. **Principle 1: Investments with the objective to support trade and connectivity with Asia, including ports, transport links, power generation and transmission, and gas pipelines.** Such investments in non-regional Members can generate significant benefits for the Region. For example, Slovakia and Poland provided around USD1 billion worth of pipeline and electricity transmission services to Russia in 2010.⁹ Such investment proposals may be considered if trade and connectivity with Asia is one of its explicit objectives which will be monitored during implementation. This Principle is aligned with the AIIB thematic priority, *cross-country connectivity*. The majority of non-regional financing is expected to fall under this Principle, and priority will be given to projects meeting this Principle.
11. **Principle 2: Investments in global public goods, specifically renewable energy generation projects (including storage). Investments under this Principle should be contained in the country's National Determined Contributions as defined in the Paris Agreement (entered into force October 5, 2016).** Investments in renewable energy generation benefit the Region whether such investments are undertaken in a regional or non-regional Member. Given that Asia has 60% of the world's population and 45% of the global economy, investment in renewable energy generation in any Member would generate significant benefits for Asia. Following the joint MDB Methodology for Tracking Climate Mitigation Finance,¹⁰ only investments in renewable energy generation and supporting infrastructure (such as storage or transmission for renewable sources) would qualify under this Principle for the Bank's investment in non-regional Members. This Principle is aligned with the AIIB thematic priority, *sustainable infrastructure*.
12. **Principle 3. Investments in non-regional Members which the Board of Directors considers are geographically proximate to and closely economically integrated with Asia. Egypt, a non-regional Member having territory in the Asian continent, meets this Principle.** Investments in Egypt can reasonably be expected to significantly benefit Asian neighbors through trade, finance, and investment, as well as through positive impacts on regional economic stability. Egypt with its unique geographical location spanning Asian and African continents plays a vital role in international trade between Asia and the West. Egypt is the most populous country of the Arab World with significant spillover effects to several Asian countries. Egypt is a developing country that maintains close economic ties with Asia in terms of trade, migration and investments. It has a high number of migrant workers in a number of regional Members such as Saudi Arabia, Kuwait and Bahrain. Investments into Egypt's infrastructure, including infrastructure that uplifts local living conditions, would improve economic stability and also contribute to enhanced cross regional economic prosperity. Given these, investments that advance the prosperity of Egypt would be expected to also contribute to Asia's development and to generate significant benefits for Asian countries.

⁹ Data sources are from Trade in Services, World Bank. <https://data.worldbank.org/topic/trade>.

¹⁰ As defined in, e.g., Joint Report on Multilateral Development Banks' Climate Finance, 2015, Annex B. <http://pubdocs.worldbank.org/en/740431470757468260/MDB-joint-report-climate-finance-2015.pdf>

13. In accordance with the established Principles, the Bank will use the same financing instruments in non-regional Members as with regional Members. This will include sovereign and non-sovereign backed financing, equity investments, and guarantees. Operations in non-regional Members will be processed under the same policies, directives, and guidance as those applied to operations in regional Members.

14. At this stage of the Bank's development, the primary focus of staff and institutional capacity lies in support to its regional Members. Therefore, financing operations in non-regional Members would typically be undertaken jointly with, and under the lead of, a partner development finance institution.