



Paper on the Decisions to Support the Establishment of a Project-Specific Window

March 19, 2024

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ABBREVIATIONS

AIIB	Asian Infrastructure Investment Bank
ADB	Asian Development Bank
AfDB	African Development Bank
AOA	Articles of Agreement
BOD	Board of Directors
CS	Corporate Strategy
EBRD	European Bank for Reconstruction and Development
GIF	Global Infrastructure Facility
IDA	International Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LMIMs	Low- and middle-income Members
MCDF	Multilateral Cooperation Center for Development Finance
MDB	Multilateral Development Bank
MOP	Memorandum of the President
NSBF	Non-sovereign-backed Financing
PPSF	Project Preparation Special Fund
PSC	Policy and Strategy Committee
PSW	Project-specific Window
SBF	Sovereign-backed Financing
SDG	Sustainable Development Goal
SFW	Special Fund Window for Less Developed Members
SIMs	Small Island Members
WB	World Bank

SUMMARY

This paper presents the Asian Infrastructure Investment Bank's (AIIB's) Project-Specific Window (PSW), including the accompanying "*Decisions to Support the Establishment of a Project-Specific Window*," as approved by the AIIB Board of Directors (BOD) on March 19, 2024.

Under the PSW, the Asian Infrastructure Investment Bank (AIIB or the Bank) can accept, manage, and disburse grant co-financings on behalf of contributors into eligible AIIB projects. The need to create such a mechanism responds to (1) the growing demand from low- and middle-income and small island Members for grants and concessional financing that can enhance the affordability, fiscal sustainability and development impacts of AIIB financing undertaken in the Bank's ordinary operations; and (2) the opportunity for the Bank to cater to a broader base of partners who cannot contribute to the current AIIB Special Funds but wish to provide grant support to specific projects in AIIB's Rolling Investment Pipeline on the condition that the Bank manages such contributions on their behalf.

The PSW will complement AIIB's current toolkit of concessional resources and will be administered in accordance with the Bank's current policies and governance structure applicable to its Special Funds. The design of the PSW builds on AIIB's experience in administering and operating its existing Special Funds and in mobilizing external resources. It also considers lessons learned from peer MDBs and aims to mitigate potential risks associated with operating such a mechanism.

This paper has benefitted from the valuable guidance received from the Policy and Strategy Committee (PSC) during a presentation of the proposal on September 12, 2023, and from a discussion with the BOD on December 13, 2023. AIIB has also incorporated feedback from AIIB clients and partners as well as inputs and ideas gathered from various internal and external stakeholders between June 2023 and February 2024.

I. CONTEXT SETTING

1. **Overlapping Global Challenges.** The post-pandemic world faces multiple overlapping crises, with profound implications for AIIB's low and middle-income Members (LMIMs) and small island Members (SIMs). Recovery and growth in AIIB LMIMs are negatively affected by the compounded and prolonged impacts of the global health, economic, and climate shocks, which have set back hard-won development progress and widened the financing gap for sustainable development. Such shocks also have a disproportionate impact on SIMs, aggravating their structural vulnerability.

2. **Increased Need for Affordable, Fiscally Sustainable and Impactful Financing.** At a time of high debt levels and strained government budgets, compounded with high-interest rates and depreciated currencies, many AIIB LMIMs and SIMs are now in—or at high risk of—debt distress. Challenging macroeconomic conditions have further exacerbated AIIB LMIMs' difficulties in accessing financing at affordable terms to continue investing in infrastructure and human capital and reviving economic growth. For many AIIB LMIMs and SIMs, grants and concessional finance are critical to enhancing the affordability, fiscal sustainability, and development impact of AIIB financings while enabling them to accelerate and scale up investments in high-priority areas such as climate change adaptation and mitigation and cross-border connectivity.

3. **Global Call for Action by Multilateral Development Banks (MDBs).** MDBs play a pivotal role in responding to global challenges and providing countercyclical support to members. Leaders of the G20, in their recent New Delhi Declaration and Heads of State and Government within the auspices of the 78th session of the United Nations General Assembly, called for MDB reforms with tangible progress and emphasized the need for increasing grants and concessional finance and maximizing the development impact of MDB financing in support of low and middle-income countries.^{1,2} At the World Bank/IMF Annual Meeting 2023 in Marrakech, the Heads of MDBs pledged to “*strengthen their individual and collaborative actions to accelerate inclusive socioeconomic development*” to such effect.³

4. **Expanding Modalities for Channeling Concessional Resources.** The provision of concessional financing into investment project financing operations is a commonly used mechanism by MDBs. AIIB is already offering concessional resources to its clients, in the form of grants for project preparation and financing, through its Special Funds portfolio and co-financing arrangements administered by partners. Several partners, however, have expressed limitations to contribute to AIIB current Special Funds but showed interest in providing grants for specific AIIB projects, subject to AIIB managing and disbursing their grant contributions on their behalf. Moreover, some clients are also requesting a coordinated engagement with project financiers to reduce fragmentation and improve administrative and implementation efficiency. As of today, AIIB channels grant contributions through its Internal Special Funds as unearmarked funds that are not designated for specific projects. Compared to other MDBs, the Bank does not have a suitable mechanism within its current legal and operational frameworks to administer grant co-financings into specific projects on behalf of contributors.

¹ 2023. [G20 New Delhi Leaders' Declaration](#)

² United Nations. 2023. [Political declaration of the high-level political forum on sustainable development convened under the auspices of the General Assembly.](#)

³ AIIB. 2023. [Statement of the Heads of Multilateral Development Banks Group: Strengthening Our Collaboration for Greater Impact.](#)

5. **AIIB's Response.** In line with its lean business principle, AIIB aims at mobilizing concessional resources in a way that responds to LMIMs and SIMs' needs and priorities, avoids fragmentation of its Special Funds, increases operational efficiency, and retains its multilateral governance and oversight. A mechanism within AIIB's existing governance and policy arrangements that facilitates grant co-financings to specific projects will constitute an effective and timely response to the growing needs of AIIB LMIMs and SIMs.

II. AIIB PROJECT-SPECIFIC WINDOW (PSW)

A. Overview

6. This paper presents the establishment of a new Special Fund, referred to as "Project Specific Window" or "PSW", for AIIB to accept, manage, and disburse external grants for the co-financing of eligible projects in the Bank's LMIMs and SIMs. This new mechanism aims to (i) respond to the increased need for grant resources from AIIB's clients; (ii) access and leverage grant resources from partners ("contributors") who have requested AIIB to channel their grant contributions to specific AIIB projects and manage such contributions on their behalf; and (iii) complement AIIB's current offering of concessional resources solutions.

B. Value Addition

7. **To AIIB Members.** Grant co-financings mobilized through the PSW will help AIIB LMIMs and SIMs accelerate and scale up investments in critical sustainable infrastructure while preserving fiscal sustainability. Such grant co-financings will also incentivize the inclusion of high value-added activities as components of AIIB projects (e.g., technical assistance during implementation⁴), thereby improving project quality, implementation, and achievement of results, and enhancing projects' alignment with AIIB's thematic priorities. To simplify implementation and avoid placing undue burden on the client's administrative capabilities, AIIB policies and standards will apply to PSW-supported projects.

8. **To AIIB.** Given its demand-driven design, the PSW will fill an identified gap in AIIB's concessional resource offerings. At the project level, PSW grant co-financings will increase the affordability, fiscal sustainability, and development impacts of AIIB financing in LMIMs and SIMs, thereby expanding the Bank's business outreach. The PSW will also contribute directly to broadening the Bank's partnership base, allowing it to benefit from increased access to grant financing as well as partners' expertise and/or local knowledge and presence. The inclusion of high value-added components in AIIB projects will simultaneously enhance the contribution of AIIB financing to the implementation of the Bank's Corporate Strategy (CS), and the achievement of its CS targets and Paris Agreement commitments. Moreover, the creation of the PSW will send a strong signal to AIIB Members and partners of AIIB's responsiveness to their needs and demands, thus reinforcing the Bank's position as their partner of choice.

⁴ Technical assistance could cover activities for improved results monitoring and evaluation, better implementation and risk management, technical advisory and analytical support, training, capacity building and institutional development, and support to ensure compliance with the Legal Agreements of the operation.

C. Design Principles

9. The establishment and operationalization of the PSW will be guided by the following principles that are fundamental to AIIB's mandate and business model and built on lessons learned and current practices from peer MDBs.

10. **Client Focus.** AIIB will maintain client focus and ensure the effectiveness and responsiveness of PSW operations to clients' development needs and priorities.

11. **Alignment with AIIB's Articles of Agreement, Policies and Strategic Priorities.** Pursuant to AIIB's Articles of Agreement (AOA) Article 17, grant contributions accepted for inclusion into the PSW will: (i) be designed to serve the Bank's purpose, (ii) come within the functions of the Bank, and (iii) become resources of the Bank. As such, PSW resources will be administered and utilized in a manner consistent with all relevant policies, directives, and guidance applicable to AIIB Special Funds. When channeling to specific eligible AIIB projects, PSW grant co-financings will be aligned with one or more of the four CS thematic priorities as well as contribute to the CS targets and commitment to the Paris Agreement.

12. **Operational Efficiency.** The PSW will ensure operational efficiency by (i) leveraging AIIB's existing policy framework, governance structure and current operational systems and procedures; and (ii) applying lessons learned from the Bank's own experience in managing its Special Funds resources and from the PSW implementation performance and future reviews.

13. **High Project Standards.** PSW grant co-financings will comply with all AIIB policies, standards, procedures, and documentation applicable to the underlying projects. AIIB will apply the same rigorous investment processes to the PSW grant co-financing alongside its financing, from identification, preparation, and appraisal to implementation, monitoring, and evaluation.

14. **Multilateral Governance and Oversight.** All decision-making authority, including but not limited to the acceptance of grant contributions, allocation of PSW grant co-financings, and approval of PSW-supported projects, will reside within AIIB's existing governance structure. The PSW operations will be governed by the rules and regulations of the PSW to be approved by the BOD. The PSW will also be subject to regular monitoring, reporting and reviews as part of the Bank's Special Funds resources.

15. **Financial Sustainability and Sound Banking.** AIIB's financial sustainability, sound banking principles, and risk management framework will apply to all PSW-supported projects, including AIIB financings and PSW grant co-financings. The PSW will operate under the principle of full-cost recovery to cover all costs associated with its operations.

16. **Complementarity with Existing Special Funds.** The PSW will complement AIIB's existing Special Funds, including the Project Preparation Special Fund (PPSF), Special Fund Window for Less Developed Members (SFW), Global Infrastructure Facility (GIF) Special Fund, Multilateral Cooperation Center for Development Finance (MCDF) Special Fund, and Pandemic Fund Special Fund. The PSW will add concessional financing capacity to AIIB downstream technical support and project financing, thus complementing upstream project preparation and early implementation support provided through the PPSF, GIF, and MCDF,

and the provision of interest-buy-downs under the SFW. Together, they will allow the Bank to be more adaptive and responsive to specific development needs of its LMIMs and SIMs.

D. Operational Features

1. Eligibility Criteria

17. **Contributor.** Eligible contributors to the PSW can be: (i) any AIIB Member, including any of its administrative subdivisions, or any agency under the control of the Member, subject to the President's approval; and (ii) a non-Member, including any of its administrative subdivisions, or any agency under the control of the non-Member, or other entities such as multilateral facilities, international organizations, and philanthropies, subject to BOD approval (Paragraph 30).

18. **Project.** Projects eligible for support under the PSW will be those that: (i) are in AIIB Members classified as either low- or middle-income⁵ or small island economies⁶ at the time of project screening; and (ii) have passed AIIB's screening and have been included in the Bank's Rolling Investment Pipeline prior to the consideration for PSW support. Eligible Projects can be either standalone or co-financed and can also be in the form of loans for investment projects, result-based financing, policy-based financing, or guarantees. In the case of non-regional Members (NRMs), PSW grant co-financing will be allocated to eligible NRM projects in accordance with the Bank's Strategy on Financing Operations in NRMs.

19. **Client.** The PSW grants will be utilized for co-financing projects of sovereign-backed financing (SBF) and non-sovereign-backed financing (NSBF) clients. In the case of NSBF operations, PSW grants will be considered in accordance with MDBs' established practices in providing concessional finance for private sector operations, to which AIIB adheres.⁷

20. **Activities.** PSW grant co-financing will be able to finance any activities that are: (i) necessary to meet the project's objectives; (ii) included in the project's financing plan; and (iii) executed by the client (i.e. clients will be responsible for the implementation of all components of the project supported by the PSW).

2. Mobilization of Contributions

21. **Mobilizing PSW Grant Co-financing.** The PSW will follow the Bank's current practice of mobilizing grant co-financings to projects in the Bank's Rolling Investment Pipeline. Based on the joint determination by the client and the Bank of the project financing needs, and following the client's request, the Bank will approach prospective partners to seek their interest in providing grant co-financing to an eligible project - either directly to the client or through the PSW. To this end, the Bank will share with prospective partners project-level information as agreed by the clients. Should a partner be identified and express interest in contributing to a

⁵ As per the [World Bank's income classification methodology](#) at the time of project screening.

⁶ Small island economies are defined as AIIB Members listed in the [United Nations' list of Small Island Developing States](#). At the time of drafting this paper, small island Members include Cook Islands, Fiji, Maldives, Samoa, Singapore, Timor-Leste, Tonga, and Vanuatu; and small island Prospective Members include Papua New Guinea and Solomon Islands.

⁷ To ensure the effective and efficient use of concessional resources in private sector projects and avoid market distortion, more than 20 MDBs and DFIs work together in promoting five [Enhanced Blended Concessional Finance Principles for DFI Private Sector Operations](#). These principles include: ensuring additionality, crowding in private investments with minimum concessionality, contributing to commercial sustainability, reinforcing markets and promoting high standards.

given project via the PSW, Management will conduct a partnership assessment (Paragraph 22) and will trigger the relevant approval processes for accepting and allocating such contribution (Paragraphs 29 and 30). An illustrative process flow for mobilizing grant co-financing under the PSW is provided in Table 1.

22. **Partnership Assessment.** Following its current practice of partnership engagement, Management will conduct a partnership assessment for every prospective contribution to the PSW, analyzing the benefits, costs and risks associated with the prospective contributor and their motivation for engaging with the Bank. Management will present the conclusions of such assessment to the appropriate approval authority at the time of seeking their decision to accept any contribution to the PSW (Paragraph 30).

Table 1: Process Flow for Mobilizing Grant Co-financing under the PSW

STEP 1 - Screening the Project
<ul style="list-style-type: none"> The Bank screens a proposed project and decides to include it in the Bank's Rolling Investment Pipeline.
STEP 2 - Receiving a Client's Request
<ul style="list-style-type: none"> The client and the Bank jointly identify the project financing need, including grant co-financing. The client sends a request to the Bank expressing interest for grant co-financing support.
STEP 3 - Seeking Partners' Interest
<ul style="list-style-type: none"> The Bank seeks interest from prospective partners. Prospective partners are given options to provide grant co-financing as parallel financing directly to the client or as a contribution to the PSW.
STEP 4 - Undertaking Internal Assessment
<ul style="list-style-type: none"> For co-financing partners interested in the PSW modality, Management, in consultation with the client, (i) assesses the eligibility of the prospective contributor, and the project activities, and (ii) prepares a partnership assessment for the prospective contribution.
STEP 5 - Accepting Contribution to the PSW
<ul style="list-style-type: none"> Subject to assessment results, Management seeks the client's concurrence of the prospective contribution. With clients' concurrence and prior to project approval, Management recommends to the appropriate approval authority (Paragraph 30) that the prospective contribution be accepted for its subsequent allocation to the eligible project.
STEP 6 - Allocating Contribution to the Eligible Project
<ul style="list-style-type: none"> The Bank proceeds with the regular appraisal and approval process for AIIB financing, allocating the accepted contribution as a grant co-financing to the underlying project at the time of project approval.

23. **Prioritization of PSW Co-financing to Eligible Projects.** In addition to the eligibility criteria specified in Section D.1 of the paper, Management, in consultation with the client, will consider the following dimensions when assessing and prioritizing PSW grant co-financing into eligible projects: (i) financing needs of an eligible project, including the amount of the grant co-financing and number of co-financiers; (ii) alignment with the PSW objectives; (iii) value addition of grant co-financing to the client (e.g., inclusion of high value-added activities, improved quality of project implementation, enhanced achievement of project results) and to AIIB (e.g., increased the affordability, fiscal sustainability, and development impacts of AIIB financing); (iv) merits of the grant co-financing proposal (e.g. the grant co-financing does not distort the project financing structure or the market); (v) opportunities to broaden the Bank's partnership base; (vi) does not place undue burdens on the client's administrative capabilities; and (vii) learning and knowledge transfer opportunities for the client, the Bank and the co-financier. Such analysis will be included in the partnership assessment of each contribution (Paragraph 22).

24. **Grant Amount and Number of Contributors.** Contributions for any eligible project can be received from one or more contributors to the PSW, subject to the project's specific requirements and client's request. Management will determine the minimum amount that can be contributed under the PSW, based on specific project requirements, taking into consideration the relative costs associated with receiving and administering such funds to ensure adequate cost recovery (Paragraph 27).

3. Disbursement, Cancellation, Withholding of Payments

25. **Disbursement and Withholding of Payments.** For each PSW grant co-financing, AIIB will disburse the grant proceeds only for the purposes specified in a Contribution Agreement (Paragraph 37). Following the closing of the AIIB financing and PSW grant co-financing, any unused grant balance will be dealt with in the manner specified in the Contribution Agreement.

26. **Project Cancellation.** When the Bank and the client identify major implementation problems in a co-financed project, the Bank will consult with the contributor on appropriate remedial actions as provided under the grant agreement (e.g., restructuring-cum-reallocation plans, suspension of disbursements notices, amendments to the relevant legal agreement) and solicit reciprocal treatment from the contributor on their grant co-financing.

4. Administration of PSW Resources

27. **Administration Fee.** Based on the principle of full-cost recovery, the Bank will charge contributors an administration fee to cover costs associated with PSW operations and will include such fee in the Contribution Agreement.

28. **Internal Capacity.** As of date, AIIB's existing internal capacity can accommodate initial PSW operations. Resource requirements for additional staffing and administrative implications of operating the PSW at later stages of operational maturity will be assessed at the appropriate time.

E. Governance Arrangement

1. Oversight Arrangement

29. **Management Oversight.** Management will oversee PSW operations and the overall cumulative growth and size of the PSW through its Special Funds Committee, alongside the rest of AIIB's Special Funds. Under this oversight function, Management will: (i) provide guidance on the strategic and effective use of the PSW in line with AIIB's corporate priorities and targets, (ii) assess every contribution to AIIB projects through the PSW, including the eligibility of contributors, projects, clients and activities against the criteria in section D.1 of this paper and the provisions in the Rules and Regulations of the PSW, (iii) subject to clients' concurrence, recommend such contributions for acceptance by the appropriate approval authority as per Paragraph 30 of this paper, (iv) monitor all PSW operations and the overall PSW implementation, and (v) report and review the PSW as and when needed as detailed in section E.2 of this paper.

30. **Approval Authority.** The PSW will follow AIIB's existing governance structure, with the following decision-making authorities:

- (a) **The BOD** will approve: (i) the acceptance of any first contributions to the PSW from a non-Member, including any of its administrative subdivisions, or any agency under the control of the non-Member, or any other entity; and (ii) the allocation of PSW grant co-financings to projects that follow the BOD approval authority, according to the Bank's Regulations on the Accountability Framework.
- (b) **The President** will approve: (i) the acceptance of contributions to the PSW from Members, including any of their administrative subdivisions, or any agency under the control of the Members; (ii) the acceptance of any succeeding contributions from an already approved non-Member and other entity, unless the President determines that there are circumstances that merit that a contribution by an already approved non-Member or other entity be referred to BOD for approval; and (iii) the allocation of PSW grant co-financings to projects that follow the President's approval authority, according to the Bank's Regulations on the Accountability Framework.

2. Monitoring, Reporting and Review Arrangement

31. **At the portfolio/pipeline level.** Management will report to the BOD on the actual and prospective PSW support to projects in the Bank's portfolio and pipeline in accordance with the Bank's practice in place at the time of reporting. This is currently through (i) the Investment Operations Quarterly Monitoring Report, which will include the detail of PSW grant co-financings; and (ii) the Quarterly Indicative Pipeline Report, which will indicate investment projects that have been matched for PSW grant co-financing.

32. **At the fund level.** Management will report periodically to the BOD and contributors on the utilization of the PSW resources in the same manner it reports on all current AIIB Special Funds, in accordance with the Bank's practice in place at the time of reporting, which currently are as follows:

- (a) Quarterly, Management will keep the BOD informed of the PSW operations through the Business Plan and Budget Quarterly Updates, which will provide information on PSW contributions, PSW-supported projects, and the cumulative PSW grant co-financing allocation between regional and non-regional Members.
- (b) Annually, information on AIIB's Special Fund resources, including the PSW, will be made available to the BOD as well as existing and prospective contributors of the PSW through the Bank's Annual Report and Financial Statements disclosed on the Bank's website.

33. **At the project level.** In accordance with the Bank's practice in place at the time of reporting, Management will report to the BOD on the PSW-supported projects through standardized project documentation, currently including the Project Summary Information (PSI), the Project Summary Document (PSD), the Project Document (PD) and the Project Implementation Monitoring Report (PIMR). Management may share additional project-level information with contributors in the form and content as agreed with the client while avoiding excessive customization of reporting (Table 2).

34. **Review.** Management recognizes the importance of iterative learning during the operationalization of the PSW. To take stock of early learnings, Management will undertake a review of the PSW after three years of operation and discuss the results of the review with the Board of Directors.

3. Legal Arrangements

35. **Legal Arrangements.** The PSW Rules and Regulations will govern the operation of the PSW. For each PSW-cofinanced operation, the legal arrangements will comprise: (i) a Contribution Agreement between the Bank and the contributor; (ii) a PSW Grant Agreement between the Bank and the client; and (iii) the Financing Agreement between the Bank and the client for the AIIB financing.

36. **Rules and Regulations.** The PSW will operate according to the Rules and Regulations to be approved by the BOD together with the BOD's decision to establish the PSW.

37. **Contribution Agreement.** A Contribution Agreement shall be signed as early as possible between the PSW contributor and AIIB and shall specify the terms and conditions governing AIIB's administration of such grant contribution to one or more pre-identified AIIB projects. The negotiation and signing of the Contribution Agreement shall be completed before or together with the negotiation and signing of the corresponding legal documents for the underlying project. The effectiveness of the PSW grant co-financing will be a condition for the effectiveness of the loan or guarantee for such a project.

38. **Grant Agreement.** As PSW contributions are deemed AIIB resources, terms and conditions relating to the transfer of funds from the PSW to the client shall be governed by a Grant Agreement between AIIB and the recipient client.

F. Roles and Responsibilities

39. To operationalize the PSW in accordance with its design principles, operational features and governance arrangement as set forth in this paper, the client, the Bank, and the contributor will assume their respective role and responsibilities as follows.

40. **Clients.** The client - whose project is eligible for PSW support as specified in section D.2 of this paper – will: (i) identify the need for grant co-financing early in the project preparation process and make a formal request to the Bank for support; (ii) coordinate with the Bank during the engagement with prospective PSW contributors, including providing necessary project information and the consent to share such information; (iii) subject to the Bank's assessment, accept the PSW grant co-financing to its project by entering into a Grant Agreement with the Bank; and (iv) prepare and implement the PSW-supported project, working with the Bank and the contributor, in accordance with the Bank's policies applicable to that project and with its obligations under the legal agreements governing the PSW grant co-financing and the underlying project.

41. **AIIB.** The Bank will: (i) at the request of its clients, mobilize grant co-financings to support clients meeting their needs and assess prospective use of the PSW, particularly the eligibility of prospective contributors, clients, projects, and activities under the PSW; (ii) subject to clients' concurrence, accept contributions to the PSW from contributors and allocate such contributions to specific projects following the governance arrangements described in Paragraph 29 of this paper, and in accordance with terms and provisions set forth in this paper and in the respective Contribution Agreement; (iii) enter into a Contribution Agreement and a Grant Agreement with the contributor and the client, respectively; and (iv) manage all aspects of the PSW grant co-financing implementation, monitoring and evaluation, following the Bank's policies, procedures, and standards; and (v) monitor the PSW and regularly report on its operations to BOD and contributors in accordance with section E.2 of this paper.

42. **Contributors.** The contributor who meets eligibility criteria as specified in section D.1 of this paper, and whose contribution is accepted and allocated in accordance with the approval authority described in Paragraph 30 - will: (i) provide grant resources to a specific project through the PSW by entering into a Contribution Agreement with the Bank and thereby accepting the application of PSW's Rules and Regulations to their grant resources contributed under such Contribution Agreement; (ii) where suitable and with the client's concurrence, engage with the Bank staff and participate in select missions during the preparation, implementation and closing of the project, following the Bank's applicable policies, procedures and standards.

G. Risks and Mitigation Measures

43. A summary of potential risks associated with the administration and operation of the PSW and the respective mitigants is provided in Table 2.

Table 2: Risks Associated with the Administration and Operation of the PSW and Mitigation Measures

Risk Type	Mitigants
<p>Dependency. AIIB's budget and operations could become over-reliant on funding from external contributors</p>	<p>Management will monitor the growth and cumulative size of all Special Fund resources including the PSW over time and keep the BOD informed through quarterly and annual updates on their incidence in the Bank's business as detailed in Section E.2 of this paper.</p>
<p>Contributor influence. Contributors may use their grant co-financing to influence AIIB's operations and governance.</p>	<p>In keeping with the apolitical nature of AIIB's operations, the following safeguards shall be observed:</p> <ul style="list-style-type: none"> a) At the governance level, the selection of contributors to the PSW will be subject to the Bank's existing governance procedures, based on the PSW's Rules and Regulations as approved by the BOD. b) At the fund level, AIIB will manage all contributions in a manner consistent with the Bank's policies, standards and practices (e.g., disbursement of PSW grant co-financings will follow AIIB's own policies and procedure, and contributors cannot impose nationality restrictions on procurement). AIIB will not attend to requests to take on excessive customization (e.g., through cumbersome reporting and results monitoring) to avoid increased transaction costs. c) At the project level, <ul style="list-style-type: none"> i. PSW grant contributions will be limited to projects already in AIIB Rolling Investment Pipeline. ii. Implementation of PSW-supported projects will be limited to client execution only. iii. The objective, scope, implementation arrangements and expected results of a PSW-supported project shall reflect the priorities and demands of the client. Interests or demands of partner(s) to co-finance the project shall be acceptable to the client. iv. The design of PSW-supported projects as well as any proposed changes or request for customization (i.e., reporting format, frequency and information required) shall be subject to mutual concurrence by the client and the Bank.
<p>Reputational Risk. There may be possible sensitivities that arise from engaging with certain types of contributors or activities.</p>	<p>All contributions to the PSW will be subject to the Bank's partnership assessment and approval as detailed in Paragraph 22 and 30 of the paper.</p>
<p>Project Risks. Inherently, all risks of the underpinning projects will apply to the project-specific grant co-financing from the PSW.</p>	<p>PSW grant co-financings shall, in all cases, follow the same project processes, principles, and arrangements as AIIB's regular loan financing. The principles of handling any other specific aspects related to the grant co-financings will be covered in the PSW's Rules and Regulations and detailed in the relevant Contribution Agreement.</p>

III. DECISIONS

44. On March 19, 2024, the BOD adopted the following decisions:

- i. That the Project Specific Window or “PSW” is established as an AIIB Special Fund, pursuant to Article 17 of the Bank’s Articles of Agreement, for AIIB to accept, manage, and disburse grant co-financings on behalf of partners into specific AIIB projects;
- ii. That the Rules and Regulations of the PSW, detailing the eligibility of contributors, use of resources, and approval authority, is approved; and
- iii. That once the PSW begins operation, the BOD and/or the President will approve the grant co-financings from the PSW concurrently with the underlying project, following the applicable project approval authority under the Bank’s Regulation on the Accountability Framework.

