

A Resource-Based View of the Asian Infrastructure Investment Bank (AIIB)

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Abstract: The Asian Infrastructure Investment Bank (AIIB) was established in 2015, upon China's initiative for meeting mainly infrastructure needs in Asia. As a China-promoted organization, the AIIB has triggered academic interest mainly in the context of international relations, while overlooking business aspects. For remedying this neglect, this paper tries to understand if, how and to what extent the AIIB can dispose of the necessary funds for meeting its mission aspiration of bridging the infrastructure gap in Asia. To do so, the paper evaluates AIIB's forecasted activity level in a Resource Based View approach. Based on the bank's resource profile, as elaborated and analyzed based on the bank's business model, the paper posits that the AIIB cannot cover sufficiently the targeted infrastructure investment needs. AIIB's financing abilities are limited by its own capital-markets' borrowing capacity, which is largely beyond the bank's control and primarily dependent on investors' attitudes. The current AIIB's borrowing capacity can bear forecasted financing operations that by 2027 are expected to represent less than 1% of the Asian infrastructure needs, demonstrating a misbalance between AIIB's business and political impact.

JEL classification: F20, G30, M29.

Keywords: Asian Infrastructure Investment Bank (AIIB), Resource-Based View (RBV), Business Model (BM), Multilateral Development Banks (MDBs), Regional Development Banks (RDBs).

1. INTRODUCTION

The Asian Infrastructure Investment Bank (AIIB) is a recent addition to the regional development bank (RDB) landscape. Established in 2015 with the goal of financing primarily infrastructure development and regional connectivity to drive economic growth and wealth in the Asia-Pacific region, the AIIB commenced its operations on January 16, 2016. It quickly expanded its appeal beyond the region, attracting a growing number of member countries. Starting with 57 founding members in 2015, AIIB's membership base has reached 110 countries by the end of 2024. While the AIIB remains open to additional shareholders from around the world, it already ranks second in terms of the number of participating countries, surpassed only by the World Bank (WB). Seen as a way to achieve international consensus-building (Ly, 2020) for a Chinese-led multilateralism, the AIIB's membership continues to grow, since all member countries of the WB are eligible to become AIIB shareholders. In its first eight years, it has committed a total of USD 48 billion in investment operations in Asia, and elsewhere, including Egypt that is the tenth largest recipient country, receiving nearly USD 1.4 billion in committed financing.

AIIB's investiture took place on June 29, 2015, when its articles of association (AoA) were signed as an multilateral treaty in Beijing in record time, two years after the proposal

for its creation by President Xi Jinping in Indonesia. China's alacrity in creating a new RDB constitutes the main element of interest within the academic community. Scholars have focused on the positioning of the new institution—particularly the background and reasons for the creation of the AIIB—with a primary focus on China's rationale for taking the lead in establishing it, as well as the bank's eventual role as a harbinger of dramatic changes in the global economic governance, either a competitor or a partner in the multilateral status quo led by America (Xu *et al.* 2015; Hakans & Hynes, 2016; Larionova, 2016; Larionova & Shelepov, 2016; Wan, 2016; Xu, 2017; Bustillo *et al.*, 2018; Shelepov, 2018). Scholarly works have also examined the broader international relations context, especially the AIIB's connection with China's Belt and Road Initiative (BRI) (Xu *et al.*, 2015; Yağci, 2016; Raharyo, 2018; Anthony *et al.*, 2021; He, 2022), its institutional and governance issues (Xu, 2017; Bin, 2018; Rewizorski, 2018; Ransdell, 2019; Stephen & Skidmore, 2019; Uhlin, 2019; Wang & Sampson, 2021), and its business strategy (Lim & Mako, 2015; Costa Vazquez & Chin, 2019). The AIIB's operations have been also studied, often in comparison with those of its peers (Wan, 2016; Carrai, 2021; Kavvadia, 2021a), but they have not received enough academic interest. Nonetheless, an analysis of the AIIB's operations can be a source for better understanding the organization.

Although the AIIB is primarily an international relations topic of interest, it is still a bank, transcending, of course, geopolitical considerations in many ways. Despite being seen by many member countries as a bank serving economic

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interests (Horta, 2019), geopolitics play a significant role, as evidenced by the outstanding example of Taiwan's membership application that "was not accepted over its proposed name" (Wan, 216: 76), reflecting China's "one China" foreign-policy principle. Nevertheless, other countries, such as Malaysia, the Philippines, and Vietnam, have maintained their membership of the AIIB despite periodic bilateral tensions with China over territorial disputes in the South China Sea. Similarly, Malaysia, the Maldives, and Sri Lanka, which have faced tensions with China over projects under the BRI, have also retained their membership of the AIIB.

The AIIB was established with a very strong base of USD 100 billion in authorized capital stock, of which some 20% (USD 19.1 billion) had been paid in as of December 31, 2024 (AIIB, 2025). By ensuring funding resources and risk coverage for the bank's solidity, AIIB's strong capitalization provided a solid starting point for the rolling-out of its financing operations. Nonetheless, the AIIB's paid-in equity buffer of USD 19 billion cannot fund its committed financing activities, which by the end of 2022 had totaled USD 33.79 billion in favor of some 200 projects (AIIB, 2017a–2020a, 2021b–2023a). Furthermore, it had been planned for the AIIB's committed financing operations to grow yearly by an average of 16% until 2026, with its annual approvals targeted to increase from the current USD 7 billion to around USD 14 billion by 2030 (Moody's, 2023). To be able to finance its operations, therefore, the AIIB procures the vast majority of its funds through capital market borrowings, mainly in the form of bond issues. By doing so, it both secures the resources it needs and meets corollary shareholders' expectations for its autonomous operation (AIIB, 2015). In turn, shareholders demonstrate their strong support to the AIIB, which is a decisive element for the attribution of the bank's triple-A rating. Capital market borrowing in the form of the AIIB's outstanding bonds had amounted at USD 24.5 billion by the end of 2022 (AIIB, 2025). The bank's annual issuance activity started with USD 2.5 billion in 2019 and reached an average of USD 8 billion for the three-year period from 2020 to 2022, and USD 10 billion for the two successive years. Its capital market borrowing is expected to scale up progressively to reach an annual USD 15 billion by the late 2020s (AIIB, 2023a). However, this borrowing, which matches AIIB's financing operations totaling USD 48 billion by January 2025, represents less than 1% of the forecast USD 26 trillion of infrastructure that Asia alone will require by 2030 (ADB, 2017; Bhattacharyay, 2010).

The research question examined in this paper is therefore if, how and to what extent the AIIB can serve its purpose of fostering sustainable economic development, wealth, and infrastructure connectivity for regional cooperation (AIIB, 2015) focusing on "financing infrastructure for tomorrow." (AIIB, 2020: iii). This question becomes even more pertinent given that the AIIB expands progressively its operational territory beyond Asia, into areas in Africa and Latin America, and hence, infrastructure needs increase also further (Lin and Doemeland, 2012). In addition, these increased infrastructure needs cannot be easily met by the AIIB by seeking external funds through co-funding with peers, given that well established RDBs such as the WB and the Asian Development Bank (ADB) move away from AIIB's market-based

rates, toward concessional lending and capacity-building in low-income developing countries. Additionally, co-funding with commercial banks that are aligned with AIIB's market-based rates philosophy, have withdrawn from infrastructure financing in emerging and developing countries since the global financial and economic crisis (Campanella, 2015). Consequently, the AIIB has to meet the bulk of the infrastructure needs in its areas of operations through its own funding capacity.

To address the research question, this paper follows an eclectic approach for an ontological study of AIIB. Before analyzing the AIIB through a resource-based view approach, the paper starts by elaborating on the AIIB's resource profile by using the bank's business model as a vantage point to identify its potential activity level. Lastly, the paper investigates the extent to which the bank can fulfil its purpose and mission by filling the infrastructure financing gap in the areas of its relevance, through own funding. The paper posits that the AIIB cannot satisfy meaningfully infrastructure needs, since its financing abilities are limited by its own borrowing capacity from global capital markets. The extent to which the AIIB can meet its mission is determined by external actors, and more specifically by investors, whose attitudes might eventually increase borrowing progressively and up to the ceiling that the bank's balance sheet can support borrowing operations. The infrastructure needs that the bank has been committed to meet since its establishment is beyond its own funding policy and capacity. It rather lies in the hands of an external factor, and in particular the international investor community. To meet investments needs is part of the objectives of all RDBs. Nonetheless other RDBs state their purpose and mission broadly, as the World Bank aiming to alleviate poverty, the European Investment Bank to foster sustainable growth, without linking them to particular sectors, such as infrastructure, nor hinting to expected financing volume outcomes, by aiming to bridge a specific quantified investment gap. By linking its establishment to bridging the infrastructure investment gap, the AIIB has created quantifiable expectations. Even without mentioning its target infrastructure financing volume, the AIIB is expected to contribute reasonably towards filling the USD 26 trillion of infrastructure needed in Asia by 2030 (ADB, 2017; Bhattacharyay, 2010). The research question therefore attempts to understand whether the AIIB will be able to meet its *raison d'être* of filling the infrastructure financing gap in Asia (Reuters, 2015; Mishra, 2016; AIIB, 2019b; S&P, 2023), for which its member countries have expeditiously joined the bank.

This paper complements the existing research by increasing understanding of the AIIB as a bank, analyzing its business and resource fundamentals, and assessing if and how the AIIB can fulfill its purpose and mission. For analysis, this paper uses primary sources and reviews the existing academic literature. In addition to this introduction and the analytical framework in the following section, the paper provides an overview of the AIIB's operations in the third section and of the bank from a resource-based view in the fourth, before concluding by summing up the most salient points.

1.1. An eclectic Combination of Business Models and the Resource-based View Approach

Emanating from the seminal work of Penrose (1959), “resources and products are two sides of the same coin” (Wernerfelt, 1984: 171) and similarly to other theories in the field of strategic management, the resource-based view attempts to explicate how resources best match the output of organizations, departing from the assumption that shareholders are not the sole providers nor the only “residual claimants” (Barney, 2018: 3305) of organizations. Despite obvious analogies with the stakeholder theory (Freeman, 1984; Donaldson, 1995; Jones, 1995; Freeman et al., 2010), which studies the relationships between organizations and the groups and individuals who can affect or are affected by them (Jones, 1995; Walsh, 2005), the resource-based view posits that organizations achieve competitive advantages from value creation originating from resources held by key stakeholders (Hoskisson et al., 2018). The best way to comprehend organizations’ value creation and identify the resources that different organizations require is to analyze their business models (Kavvadia, 2022), which are the conceptual maps of how they create value and appropriate their share of that value. For studying the AIIB, the paper uses a hybrid model crafted on the basis of existing academic work (Johnson et al., 2008) and elements of the affinity diagram of business models presented by Shafer et al. (2005). This archetypal business model suits both profit-making and non-profit-seeking organizations (Kavvadia, 2021b), such as RDBs, and has already been used to analyze different aspects of RDBs, including the AIIB in comparison with the European Investment Bank (Kavvadia, 2021a). From the four interlinked elements making up the archetypal business model, including strategic choices, value capture, value creation, and value network, the one of particular interest to this paper is value capture, which reflects organizations’ capabilities to ensure viability through the necessary resources. Value capture mainly encompasses resourcefulness through funding, efficiency through reduced cost margins, resilience in maintaining asset quality over time, effectiveness by serving an organization’s mission and objectives, and avoidance of wasting organizational resources by doing the wrong thing.

Although business models can be refined at various levels of detail, the first level, corresponding to the strategic level of the organization, is deemed sufficient for institutional analysis. Since it is not available in the public domain, the AIIB’s business model was created by Kavvadia (2021a) from the bank’s basic legal documentation, including its AoA, report on the articles of agreement, and by-laws.

2. AIIB’S FINANCING OPERATIONS IN ASIA AND BEYOND

Established almost 70 years after the creation of the WB in 1944 at the Bretton Woods conference, the AIIB is the most recently created RDB. Its set-up therefore reflects contemporary political and economic conditions as well as needs prevailing at the time of its establishment but is not disruptive and does not constitute a paradigm shift compared to its pre-existing peers by Kavvadia (2021). Instead, by building on the accumulated knowhow concerning RDBs, banking,

and development issues, the AIIB was conceived as a broader and more sophisticated organization, despite following in general terms the existing paradigm of most RDBs as being supranational structures aiming to serve regional development. Additionally, the AIIB follows the paradigm of its peers also in certain ancillary traits, such as the complementarity of its financing, which even hints at subsidiarity, in the sense that AIIB finance should be provided only in the case of unavailability of the appropriate funds by other sources; its conformity with states’ policies in whose territory projects are financed; its full juridical personality and legal capacity, including relevant immunities; and its preferred creditor status, enabling the bank to avoid national debt re-scheduling, since its sovereign financing ranks on par with countries’ obligations to the International Monetary Fund and other RDBs (Wan, 2016).

The AIIB has a wide array of common features with all other RDBs and the WB, nonetheless, the AIIB does not fully fit the existing RDB paradigm. Although all RDBs aim at development through investments in the public and private sectors to different extents and all finance infrastructure, none of them considers infrastructure as the prime sector of their operations, as in the case of the AIIB. However, the high and real infrastructure needs in Asia (ADB, 2017; Arcus Foundation, 2018) have served as the guiding principle and prime justification argument for adding the newly created AIIB to the existing RDB constellation. Despite infrastructure being clearly mentioned in AIIB’s purpose, this does not constitute the most salient distinguishing element, differentiating the AIIB from other RDBs. The AIIB was created in order, “to (i) foster sustainable economic development, create wealth, and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors and (ii) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions” (AIIB, 2015; AoA, Art. 1). The AIIB’s purpose of focusing on wealth creation, in contrast with that of other RDBs and the WB, which predominantly concerns poverty alleviation (Wan, 2016), is a clear differentiating factor, especially as a good number of AIIB’s finance beneficiaries are in low-income developing countries which before achieving wealth creation, they have to reach economic development. Wealth creation is stated as AIIB’s purpose, despite the bank being attentive to the low-income countries’ economic conditions, which are taken seriously into consideration, as the AIIB is the only RDB that has special provisions to ensure a balanced share of its shareholding for low-income countries. A further clear differentiating factor from peers mentioned in AIIB’s purpose is the cooperation with its peers, which are stated prominently in its establishing charters. AIIB’s intention to appear synergetic with other RDBs may be explained by shareholders’ requests. Such requests could have geopolitical considerations, for aligning the AIIB with pre-existing peers, and financial background, for the non-duplication of activities, to avoid redundancies especially as most of AIIB’s shareholders are members of more than one RDBs. The AIIB has already formalized its cooperation with several peers, such as the WB, the ADB, the EIB, the European Bank for Reconstruction and Development, and the New Development Bank, by signing frame-

work agreements or memoranda of understanding. Formalized RDB cooperation, reminiscent to the Japanese keiretsu, has existed since the early 1990s to curb any criticism of overlapping activities and multiple costs for performing the same work, given that, despite their public statements, RDBs are often in competition (Wan, 2016; Horta 2019; Kavvadia, 2021a) because their mandates and geographical reach in most cases overlap.

AIIB's synergetic stance can also be attributed to governance and operational necessities. AIIB's cooperation with pre-existing peers could i) assist the AIIB through know-how, especially during its fledgling stage; ii) facilitate the AIIB's entry into the market by co-financing projects originating from its peers' project pipelines; iii) gain the image of "being equal to the other actors in the field" (Horta, 2019: 9); and iv) conjointly finance bigger projects by sharing the resources and risks of large infrastructure projects on their balance sheets. Beyond relaxing the geographical and sectoral risk thresholds of RDBs, co-financing partnerships facilitate more efficient operations by enabling RDBs to benefit from each other's know-how and reduce due diligence costs by sharing the project appraisal process. In particular, cooperation with the ADB allows the AIIB to dispel the impression of it duplicating ADB's mission, an AIIB objective served also by it propagating mono-focal activity in infrastructure, whereas its activity ranges across all sectors, as does ADB's.

A further major factor differentiating the AIIB from similar institutions is the breadth with which its operating principles are described in its basic legal documentation, which is otherwise meticulous, comprehensive, and detailed, such as in the case of its governance issues, in line with the institution's multilateral nature. This apparent deliberate broadness is worth studying for better understanding AIIB's activity and future evolution. The succinct broadness concerns mainly its ownership, geographical and sectoral target market, as well as its offering, which are reflected in the bank's business model and especially in its element of strategic choice. An example of the AIIB's "flexible" basic documentation concerning ownership concerns its Asian orientation, despite allowing global membership, albeit within a safeguarding threshold of 75% of regional membership and reshuffling and rebalancing conditions when new members join the bank's capital base. In terms of operations, the AIIB targets Asia and Oceania. Nonetheless, enabled through its AoA provisions, its activity can by derogation extend also to regions around the world. As a result, the AIIB has already started operating in Africa, and operations in Latin America are forthcoming. From a sectoral perspective, despite the AIIB's focus on infrastructure, which is carried in its name, mission, and scope, its activity is broader and encompasses all productive sectors. The bank's product offering is also very broad, ranging from non-concessional "plain vanilla" sovereign loans and guarantees for specific projects or programs to equity participation and concessional finance in the form of grants; advisory services, including technical assistance; and for-profit risk-taking operations. This broad offering encompasses five different forms of banking: i) wholesale banking for large and often repeat lending and guarantee operations; ii) policy banking for international development;

iii) for-profit banking at a premium over market rates, including equity participation and other forms of risk-sharing with regard to projects; iv) service banking on a fee basis for technical assistance and other advisory services; and v) investment banking for assisting third parties in the creation of capital by underwriting new debts and securities. This broad offering clearly distinguishes the AIIB from other RDBs, since these neither had such a broad offering at their establishment nor presently have an investment banking element in their business models. The reference to "investment bank" in the AIIB's name, although the bank's rationale is to be a bank promoting economic and social development, signifies that its operations, as in the case of the EIB, concern the funding of investment projects. However, the EIB, unlike the AIIB, does not include investment banking in its statutes, strategic choices, or activities. The EIB is also the only one of the AIIB's peers with many different forms of banking under one roof, and these have been evolving to face market conditions throughout its over 65 years of operation (Kavvadia, 2001a). The AIIB's different types of banking activities ensure its versatile future development through a well-diversified resource base in terms of market, income, cost, and risk possibilities, thereby giving to the bank a head start over its peers.

For serving its mission and operating principles of "lean, clean, and green," (AIIB, 2017b: 2), the AIIB promotes the creation of a growth-enabling environment by funding projects that serve its three thematic priorities, namely, sustainable infrastructure, cross-border connectivity, and private capital mobilization. During the first eight years of its functioning, the AIIB's aggregate committed operations extended across 37 countries, well above the 24 countries that had originally been anticipated, which benefited from a total of USD 48 billion of committed financing operations (AIIB, 2025). The AIIB's commitments have shown an extraordinary increase of 520% from USD 6.4 billion in September 2018 (AIIB, 2019a); its span of activities has been extended geographically, but the AIIB has not developed its lead in financing projects, as the share of its co-financed operations remains constantly at 50% as a means to assist the bank through its establishing phase. In AIIB's first three years of operation, the sectoral distribution of its operations showed a salient focus on energy (34%), followed by transport (23%) and water and waste (16%). In the subsequent three years, however, further to the outbreak of the COVID-19 health and economic crisis, economic resilience took the lead (53.1%), which included public health and liquidity components, followed by energy (18.3%), transport (16.5%), water (10.9%), urban infrastructure (5.9 %), and multi-sectoral lending (8.8%). With the COVID-19 crisis, the AIIB demonstrated nimbleness and significantly altered its operating plans to address the related challenges of its member countries. Although it had planned in 2019 on reaching 60–70% in energy and transport by 2022, the AIIB finally achieved a total of 35% in those two sectors, since its financial capabilities had been diversified to bolster resilience during and in the aftermath of the pandemic. This was enabled through the creation of the AIIB's COVID-19 crisis recovery facility, endowed with up to USD 20 billion. Extended until 2023,

the facility mainly targets urgent expenditure needs, including vaccination-related costs and policy-based financing for preparedness and recovery. The AIIB in 2020 proclaimed its support to climate, aiming to achieve 50% of climate-finance by 2030 (AIIB, 2025). Overall, in the eight years of its operation in the period 2016-2024, the AIIB has reached 36% in climate finance, of which 18% in transport, 16% in energy, 8% in water, and the rest covering urban, health, digital, education, rural and other infrastructure.

The AIIB also provides equity financing, which has resulted in setting up different funds for infrastructure financing at the national and regional levels, participating in them with up to 20% of the total committed capital, as foreseen in the bank's AoA. In 2018, the AIIB approved up to USD 150 million in the North Haven India Infrastructure Fund, which seeks to raise USD 750 million of committed capital and accepts fund subscriptions for up to USD 1 billion. The aim of this fund is to benefit midcap infrastructure projects in India by creating a mechanism to mobilize private capital from global long-term investors for energy, transport, and other infrastructure projects in India. A further regional private equity fund, named the Asia Investment Limited Partnership Fund, was approved in 2019 to mobilize private capital in noncontrolling equity stakes. Originally planned with a target size of USD 3 billion, the fund achieved only half of its target at "financial closing with USD 1,525 million [in] June 2020, [with the AIIB's commitment being] USD 75 million" (AIIB, 2023b: 1). The fund provides institutional investors with the opportunity to invest in infrastructure and other productive sectors, including telecommunications, transportation, and energy. It bankrolls primarily mature companies in Asia with proven track records. In certain situations, the fund may invest in portfolio companies domiciled outside Asia, in AIIB member countries, but which have significant operations within Asia.

By 2027, the AIIB's loan book was originally expected to reach USD 45 billion (AIIB, 2025), which has been overpassed already in 2024. To achieve these results, the bank has tried to develop its value network by increasing its shareholder basis by establishing customer relations through its channels and mainly through co-financing with other RDBs, raising investor awareness by endeavoring to create a positive image (Horta, 2019) to receive the best possible rating, testing its product flow processes, and acquiring expertise through the recruitment of international talent (Xu, 2017). Furthermore, assisted by professional public relations companies (Horta, 2019) during its early years, the AIIB raised its value creation element by stressing its independence from China as a means to address vocal concerns (Bin, 2018); increasing its credibility through public statements of being "lean, green, and clean" (AIIB, 2017, Qingyang, 2018); and introducing best practices in accountability, transparency, and environmental policies to achieve good environmental, social, and governance ratings. In parallel, it used its positional advantages in Asia to pick up momentum and penetrate the market, prioritizing infrastructure needs and tapping project resources from the financing pipeline of other RDBs. The AIIB, acting as a wholesale and a policy bank, has therefore concentrated on infrastructure financing, as evidenced by the size, nature, and location of its projects.

3. INCIPIENTLY DEPENDENT ON INTERNATIONAL CAPITAL MARKETS.

During the AIIB's start-up phase, as outlined earlier, the value creation element of its business model, consisting of financing operations, was developed cautiously. In parallel, the AIIB built up the value capture element of its business model, which counter-balances the value capture element, by securing the resources deemed necessary for performing its financing operations. As evidenced by AIIB's operating results and balance sheets in the first eight years of its operation, its value capture has been exceptionally solid in all four of its constituents, namely resourcefulness, efficiency, resilience, and effectiveness. Aiming to analyze the AIIB from a resource-based view perspective, this paper focuses on the resourcefulness part of its business model, reflecting the bank's ability to have its own adequate resources from capital, retained earnings, reserves, and capital market borrowings that will ensure its functioning. Its USD 100 billion capitalization, held by 110 countries, of which only 28% have a median credit rating of AA- or better, is compensated by a large paid-in capital portion amounting to 20% of the authorized capital. AIIB's members have rather low credit ratings but this is counterbalanced by the bank's paid-in portion of capital which is very high, compared with other RDBs, which have instead already built-up reserves to compensate for their lower paid-in capital ratios. AIIB's banking solidity, with a gearing ratio of 1:1, is also very strong compared to its peers, which can be explained by the aforementioned paid-in capital share. The strong value capture element of the AIIB's business model is evidenced in its balance sheet. As of September 2022, the balance sheet included on its assets side signed financing operations of USD 16.5 billion that were backed up on the liabilities side by borrowings of USD 23.9 billion and shareholders' equity of USD 20.2 billion, including paid-in capital and retained earnings (AIIB, 2025). The AIIB's solid value capture element was decisive for the first ever credit rating attributed to the bank, on June 29, 2017, by Moody's (Bundesfinanzministerium 2017); as triple-A, this was at the highest level, and it has since been systematically attributed to the bank by other rating agencies. After its establishing phase, as the bank now enters its development phase, the AIIB's offering is foreseen to extend beyond "vanilla" sovereign lending to more risk-carrying products, consequently increasing the burden that the value capture element of the bank's business model will have to carry in support of its smooth operation. Of course, the AIIB has room to maneuver through some variable components of its business model value capture element, such as profitability on the one hand and comprehensive and proactive risk management on the other, resulting in augmented retained earnings that originate from reserves and income.

In further support of the AIIB's value capture element of its business model are some of its distinctive features that differentiate it from other RDBs on resource-related issues, such as its proclaimed lean principle of operation. The bank's lean and efficient functioning is based on governance features and its mode of operation. Nonetheless, some of these features have been considered controversial. The most prominent among the governance-related features is the delegation of its Board of Governors' powers to the AIIB

president. This feature increases income through the lower operating costs resulting from faster decision-making, but it has raised governance concerns, since the AIIB president is usually a former top Chinese official able to skew the bank's role to serve Chinese interests (Renard, 2015; Wan, 2016; Raharyo, 2018; Horta, 2019; Kaya, 2022). AIIB's mode of operation applies controversial features that contribute to its increased concern for profitability. First, unlike most other RDBs, its *pricing* is not clearly stated as nonprofit-based in the AIIB's basic documentation. Even for concessional finance, its AoA require such funds to be "on terms and conditions consistent with the purpose and functions" of the bank (AoA, Art. 17.1). "This open-ended language, coupled with repeated Chinese statements emphasizing the AIIB's profit-minded nature, may presage an aversion to concessional lending" (Ransdell, 2019: 7), but constitutes a resource for the bank. Annual profits are incorporated into the AIIB's significant yearly amounts of retained earnings, which are part of its shareholders' equity. Second, its *bidding* requirements, which were characterized as universal by Xu (2017), are significantly vague and not in line with those of its peers. Procurement requirement processes are financed by RDBs (Martinez-Galan & Proença, 2023) because they promote the competitive acquisition of goods and services related to the projects they finance in support of the countries' social and economic development (Molino, 2019). The AIIB's requirements deviate from those of other RDBs and rather align with its own establishing claim of no-conditionality and policy application prerogatives connected with its financing operations. Furthermore, the "light" bidding conditions can be seen as a resource generator for the AIIB, given that they decrease its operating costs, thereby increasing its annual profits. These requirements do not contribute to projects' efficiency and effectiveness by lowering construction costs or ensuring that such projects best meet their objectives; they serve the AIIB, but not its borrowers, member countries, and development. Third, the *absence of specific jurisdictions*, except for the AIIB's borrowings, including issues related to lending and staff, differentiates the bank from its peers and is a further factor contributing to the bank's profitability. Without being able to evaluate the possible repercussions at the present stage, the non-specification of jurisdictions certainly minimizes litigation costs by discouraging legal action against the bank and increases income.

The AIIB was established within two years of the Chinese initiative in October 2013 as a way to address real needs in infrastructure by taking a new approach to multilateralism (Renard, 2015) and development finance, especially in Asia (Xu, 2017). This backdrop is reflected in the record time taken for the establishment of this multilateral institution and its broad membership. International relations issues are beyond the scope of this paper, which focuses on the AIIB's operational aspects to assess whether and how the bank can fulfill its purpose and mission. The AIIB's lending and equity portfolios are expected to reach USD 45 billion and USD 2.5 billion, respectively, by 2027, while the infrastructure needs, as mentioned earlier, are forecast to be USD 26 trillion by 2030. Based on the provisions in AIIB's AoA for the complementarity of its funding to other sources of finance

and the rule of thumb of other RDBs' operations, if the AIIB loans represent on average a third of total investment costs, and the bank's equity participation a tenth of this, the total investment that can be achieved through its sovereign lending action will represent only about 0.01% of overall infrastructure investment needs. To increase its impact, the AIIB could use higher-leverage products for infrastructure finance. However, even if its leveraged operations achieve a multiplier of 15, as in the case of the EIB's Juncker plan (Kavvadia, 2020), the AIIB's funding would only contribute just 0.08% of the infrastructure investment needed in Asia that was mentioned earlier. Even if the AIIB utilizes its maximum lending limit of USD 97.8 billion, as of September 30, 2022 (AIIB, 2025), its lending in the case of a normal multiplier effect of 3 would cover 1.13% of the infrastructure needs, while in the case of an increased multiplier of 15, it would cover 5.65% of the infrastructure needed in Asia.

It is questionable to what extent the AIIB would wish to stretch its leverage to improve its impact and to what extent its value capture element would be able to support such a stretch. Its efficiency, resilience, and effectiveness components can only carry a certain amount of risk, albeit its sophisticated risk management policies with comprehensive risk limits in all areas, such as investment, treasury, liquidity and market risk. Given AIIB's type of loans which are "infrastructure-heavy, [consequently one needs] ... to have a capital concept that is very sensitive to concentration, credit quality, and tenor" (Chuang 2019: 2).

Furthermore, as the AIIB's resources have to originate to the largest possible extent from the capital markets to ensure its standalone functioning (AIIB, 2015), its resourcefulness will depend on investors' trust, attitudes, capacity and desire to invest in AIIB papers floated in capital markets. Currently, and as already seen above, the AIIB's resources from capital markets are double its investment operations portfolio. However, since the planned USD 47.5 level of lending and equity operations will be surpassed in the medium term, the AIIB will increasingly depend on capital market borrowing. Its capacity to borrow on these markets depends largely on its credit rating. Its current triple-A rating is based mainly on financial features such as its capitalization, including its risk-adjusted capital of 63%, which is very high compared to its peers, for whom this ranges from EIB's 23% to ADB's 31%, and governance issues such as shareholder support (Moody's, 2023; S&P, 2023), which is also deemed as strong.

In addition to the AIIB's credit rating, a further crucial element for its capital market access is the demand for its borrowing products. As 70% of the AIIB's issuance program is denominated in US dollars (AIIB, 2025) to match its lending currency, which is also predominantly the US dollar, and since the AIIB's large benchmark bond issues can be best placed in liquid and deep capital markets, such as those of the US, Europe, and Australia, geopolitical tensions could have a significant effect. Furthermore, as investors get "greener," they increasingly invest in sustainable organizations. The AIIB proclaims being green as one of its principles and pledges the promotion of environmental sustainability. To this end, the bank has established an environmental

and social framework mentioned earlier, that applies to all lending activities. As reported, 61% of the AIIB's approved projects serve climate action, including climate mitigation and adaptation. With green infrastructure targeted to reach half of the AIIB's financing by 2030 (AIIB, 2025), the bank has aligned with the EIB, which itself declared that it had become the first international climate bank in 2019 (EIB, 2019) and aims also to channel half of its financing to climate action by 2025 (EIB, 2020). However, the AIIB's sustainability claims have come under increasing scrutiny and criticism of being insufficient (Shao et al., 2021) and having "lofty goals" (Horta, 2019: 15) with "open-ended" (Hanlon, 2017: 9) strategies. However, the criticism has not hindered the AIIB from increasingly showcasing its environmental orientation as a way to ensure demand for its borrowings on the capital market. To this end, the AIIB announced a sustainable development bond framework applying to all its debt issuance programs in 2021 (AIIB, 2021a), and it issued its inaugural 5-year EUR-denominated 1.5 billion benchmark sustainable development bond on February 7, 2023 (AIIB, 2023c). Several other sustainable bond issues followed, denominated in US dollars, Australian dollars, British pounds, and Chinese renminbi. As investors on the capital markets will ultimately decide whether the AIIB can attain its purpose, mission, and objectives, the bank is trying to address their needs and preferences.

In recent years, the bank has de facto been expanding its operational theatre to Africa and is already planning penetrade in Latin America, and the infrastructure that it needs to satisfy has multiplied, in contrast to its funding capacity. By going global, the AIIB has been called on to cover a share of the USD 94 trillion that is needed in infrastructure investment on a global level by 2040, and possibly a further USD 3.5 trillion that is required to meet the United Nation's Sustainable Development Goals for electricity and water (GIH, 2018). In any case, the AIIB's purpose and mission are not linked to a calibrated target of filling the infrastructure gap in Asia, and the bank's basic documentation outlines no quantified threshold contribution to Asia's infrastructure investment needs. Nevertheless, AIIB's clear reference to bridging the infrastructure gap in Asia has created expectations for a considerable contribution to the USD 26 trillion investment needed by 2030. Nonetheless, AIIB's total commitments of USD 48 billion up to January 2025, represent only a minor contribution ranging from 0.01% which could eventually reach 5.65%, in case it funds highly leveraged operations, of the USD 26 trillion of infrastructure needed in Asia by 2030. However, a meaningful contribution should be seen in the range of at least 20-25%. AIIB's current minor contribution cannot increase considerably to reach a meaningful contribution, as the bank's financing has to be backed by AIIB's borrowing in the capital markets. The AIIB's borrowing capacity is determined by the bank's balance sheet, and mainly its shareholders' equity and assets, which include mainly the bank's signed financing operations. AIIB's borrowing capacity is set to increase progressively, as assets, in other words lending operations, increase and if shareholders decide a capital increase. In other words, even if the AIIB would like to make a meaningful contribution to the Asian infrastructure needs, its activity is limited by its borrowing capacity, which is determined by investors. With its current and prospective

activity, the AIIB can play a small role in bridging the infrastructure gap in Asia and beyond. However, it cannot achieve on its own a meaningful level of infrastructure financing that would bridge the financing gap in Asia. AIIB can be seen as one of the RDBs contributing equivalent funding volumes in the region. Despite the efforts of the AIIB and its peers to scale-up their operations in the region (Renard, 2015; Wam, 2016), possibly as a reaction to the increased competition further to AIIB's creation, the daunting infrastructure needs in Asia are far in excess even of the collective financial capabilities that RDBs can jointly muster, which do not exceed USD 30 billion annually.

CONCLUSIONS

The AIIB was established in 2015 in record time to address the large and real infrastructure needs in Asia that have been estimated at USD 26 trillion by 2030. For meeting these needs, the AIIB was established with strong capitalization and a business model that ensures multiple resources for the bank's operations, some of which are intrinsic parts of its business model and related to its distinctive among RDBs profitability-related *modus operandi*. More specifically, the AIIB is the only RDB that does not function on a non-profit or non-maximizing-profit basis, given that its business model encompasses different types of banking activities, including profit- or loss-making operations such as equity participation and other forms of risk-sharing, with regard to projects as well as investment banking. In this sense, the AIIB's business model provides for a well-diversified income resource base in terms of market, income, cost, and risk possibilities. This model thereby offers the bank a profitability head start compared to its peers. Additionally, its resources often originate from beyond the financing and treasury operations and from the bank's "lean" and efficient form of operations and functioning features, such as its "light" bidding conditions and the absence of a specific jurisdiction for issues other than its borrowings.

Although AIIB's profitability and retained earnings bolster its already strong capitalization, the bank increasingly relies on capital market borrowing to meet its shareholders' wish for autonomous and market-based functioning. Its financing operations are planned to increasingly grow and reach around USD 14 billion in annual finance commitments by 2030, supported by an equivalent annual issuance and matching AIIB's balance sheet and borrowing capacity. The bank's borrowing ability is of protean importance and is, on the one hand, a function of AIIB-driven financial and governance considerations reflected on the bank's balance sheet, and transcribing on its credit rating and, on the other hand, it depends on factors beyond AIIB's control, such as the demand for the bank's borrowing products. Demand of AIIB's borrowing products is subject to overarching international economic-political developments and investors' preferences and sentiment. Investors will thus distinguish the feasible from the wishful and determine whether the AIIB will ultimately serve its purpose and mission, and to what extent.

AIIB's borrowing capacity represents a kind of ceiling for the bank's forecast financing levels, which as planned they will contribute to Asia's infrastructure needs only marginally. The bank will be able to cover an estimate of 0.01%-

0.08% of the infrastructure needs, which under exceptional circumstances could extend to 5.65%, in case it funds highly leveraged operations. Claiming that the AIIB can bridge Asia's infrastructure investment gap is an overstatement. AIIB's estimated financing by 2030 cannot even be considered as a meaningful contribution to the region's USD 26 trillion infrastructure needs. However, as AIIB's basic documentation has no quantified threshold contribution for covering Asia's infrastructure investment needs, even the bank's minor contribution can still be interpreted as the fulfillment of its purpose, mission and relevance. Even if the AIIB partners with peer RDBs, the joint contribution will remain also marginal, and it cannot be claimed that the AIIB resolves the issues with the lack of infrastructure in Asia. As the current AIIB's borrowing capacity can bear forecasted financing operations that are expected to represent less than 1% of the Asian infrastructure needs, they demonstrate a misbalance between AIIB's business and political impact.

CONFLICT OF INTEREST

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