

Directive on the Operational Policy on Financing

October 17, 2023

A. Overriding Objective

1. The overriding objective of this Directive (**Directive**) on the Operational Policy on Financing (**OPF**) of the Asian Infrastructure Investment Bank (**AIB** or **Bank**) is to facilitate the proper application by the Bank's personnel of the OPF and the Bank's Regulation on the Accountability Framework (**Accountability Framework**).
2. The exercise and interpretation of this Directive, which requires being read in conjunction with the OPF, shall seek to give effect to this overriding objective.

B. Definitions

3. Unless otherwise provided in this Directive, capitalized terms used in this Directive have the meanings ascribed to them in the OPF.

C. Implementation

4. The Vice President, Policy and Strategy (**VP PS**) shall from time to time adopt administrative guidance under this Directive designed to support the proper and efficient implementation of the OPF and this Directive.
5. Notwithstanding *Section 4* above, the Chief Risk Officer shall adopt administrative guidance providing detailed procedures regarding the identification and management of Financings that become nonperforming assets.

D. Responsibilities

6. For purposes of this Directive, the following AIB Vice Presidencies and departments have the following key responsibilities:
 - (a) Each Investment Operations Vice Presidency (**IOVP**) has primary responsibility, with inputs from other departments within their respective areas of responsibility, for development and delivery of each Financing and for monitoring of the Financing and Project implementation and management of associated risks, under the particular IOVP's responsibility, all in accordance with the OPF. To this end: the relevant IOVP assigns a Project Team Leader (**PTL**) to each Project;¹ and the Director General Operational Services Department (**DG OSD**) assigns environmental, social development, procurement and financial

¹ The term PTL, as used in this Directive, includes, as applicable, the portfolio management officer assigned by the Director General, Implementation Monitoring Department (DG IMD), to lead the monitoring of the Project's implementation.

management specialists to each Project to support the PTL on these matters under the Project, including during AIIB's Project due diligence assessment and Project implementation monitoring.

- (b) The Risk Management Department (**RMD**) has overall responsibility for management of risks associated with Financings, as elaborated in the Bank's Risk Management Framework.
 - (c) The Policy and Strategy Vice Presidency (**PSVP**) is responsible for: (i) providing assurance that each Financing complies with AIIB's operational policies (including environmental, social, international relations, fiduciary and economic aspects); (ii) providing guidance and advice on these policies; and (iii) further developing the OPF as appropriate, in consultation with the other concerned departments.
 - (d) The Legal Department (**LEG**) is responsible for providing legal advice and assistance on all aspects of the Financings.
 - (e) The Office of the Treasurer (**TRE**) is responsible for: (i) managing financial risk exposures associated with Financings; (ii) providing funding in support of AIIB's investments; (iii) advising on the availability of non-USD currencies; (iv) providing input on base rate pricing of non-USD Financings; (v) providing input on the structuring of financial products; and (vi) making payments under Financings.
 - (f) The Office of the Controller (**CTL**) has overall responsibility for: (i) all disbursements and collections by the Bank related to Financings; and (ii) determining the accounting impact of Financings.
 - (g) The Office of the Vice President and Corporate Secretary (**SEC**) is responsible for: (i) communications with the Board regarding Financings; and (ii) management of the Board process for Board approvals of Financings and Project changes.
7. Matters arising under the OPF or this Directive that cannot be resolved between the managers of the respective units shall be brought to the Investment Committee (**IC**).

E. Management Review of the Financings

8. The Screening Committee (**SC**) reviews Financing proposals for their strategic fit with the Bank's purposes and priorities and decides whether to include them in AIIB's rolling investment pipeline, copying the Executive Committee (**EC**) on its decision. If a proposal raises complex issues or innovative features or there are differing views among the members of the SC regarding its inclusion in the pipeline, the proposal is brought to the EC, which makes its recommendation to the President for decision.

9. The IC reviews each Financing included in the approved rolling investment pipeline at the following stages during its preparation.
 - (a) A Concept Review is held before significant resources are spent on preparation of the Financing. The SC may decide, under circumstances set forth in the administrative guidance referred to above in *Section 4*, to approve a single Appraisal/Final Review (in lieu of a Concept Review and an Appraisal/Final Review) at the time the proposed Financing is submitted to it for inclusion in the rolling investment pipeline.
 - (b) The IC may require, at the Concept Review or thereafter, that the Financing be returned to the IC for an Interim Review.
 - (c) An Appraisal/Final Review is held when the preparation and assessment of the Financing is: (i) sufficiently advanced to proceed with negotiations (in the case of a Sovereign-backed Financing); or (ii) substantially completed (in the case of a Non-sovereign-backed Financing). If the Financing is already well prepared at the Concept Review stage and is low- or medium-risk, the IC may approve a simplified virtual Appraisal/Final Review under procedures to be set forth in the administrative guidance referred to above in *Section 4*.
10. Material changes to the Project or to the Financing are reviewed by the IC before they are submitted for approval.
11. Pursuant to *Section 3.5.3* of the OPF, the President delegates the authority to approve non-material changes to the Project or the Financing to the persons listed below, subject to consultation with the lawyer from LEG assigned to the Project, and any other specialist to whose area of responsibility the proposed change relates:
 - (a) the Vice President, Investment Operations (**VP IO**) responsible for the Project; and
 - (b) either the relevant Director General, Investment Operations (**DG IO**) or the Director General, Implementation Monitoring Department (**DG IMD**) (the relevant Director General is authorized to approve non-material changes within his or her respective area of responsibility).

Any one of the authorized persons referred to above in *paragraphs (a) and (b)* may approve the change. Any of the persons required to be consulted may refer the matter for consideration by the IC, in which case the IC is authorized to take the decision.

F. Disclosure of Project Information

12. The PTL is responsible for preparing a Project summary information document (**PSI**) for each Project under its responsibility, comprising a concise summary of the Project, including its environmental and social (**ES**) information.
13. In the case of a Project supported by a Sovereign-backed Financing:
 - (a) The initial PSI is disclosed promptly after the Financing has passed Concept Review; provided that if the SC has approved a single Appraisal Review in lieu of a Concept Review and Appraisal Review, the initial PSI is disclosed promptly after the Financing has been approved for inclusion in the investment pipeline (see above, *Section 9(a)*).
 - (b) An updated PSI is disclosed not later than the earlier of: (i) the working day immediately following the date on which the Financing has passed the Appraisal Review; or (ii) the deadline for disclosure of the ES information for the Project pursuant to the Bank's Environmental and Social Policy.
 - (c) The full Project Document is disclosed promptly following the approval of the Project pursuant to the Accountability Framework.
 - (d) Project implementation monitoring reports and the Project completion note for the Project are disclosed.
14. In the case of a Project supported by a Non-sovereign-backed Financing, the initial PSI is disclosed as early as feasible during Project preparation and in any event not later than the earlier of: (i) the working day immediately following the date on which the Financing has passed the Final Review; or (ii) the deadline for disclosure of the ES information for the Project pursuant to the Bank's Environmental and Social Policy.
15. The PSI is updated during Project implementation in case of material changes to the Project that require such updating, and the updated PSI is disclosed prior to the approval of such changes. The PSI may also require updating to reflect other significant changes such as a change in the PTL or material changes to the ES information referred to in the PSI.
16. The IC may grant a deferral of disclosure of the PSI in special circumstances because of either:
 - (a) legal or other regulatory requirements such as timing requirements relating to securities offerings, equity investments in publicly listed companies or purchases of shares in a private placement; or

- (b) the commercially sensitive nature of the transaction involving, for example, an acquisition or a financial restructuring, where premature disclosure would compromise the financial worth or competitiveness of a corporate entity or its assets.

G. Retroactive Financing

- 17. Under a Sovereign-backed Loan (other than a Results-based Financing (**RBF**)), the Bank may finance expenditures incurred and paid prior to the date of the Loan Agreement (**Retroactive Financing**) subject to all of the following conditions:
 - (a) The expenditure has been incurred to finance activities included in the Project description.
 - (b) The item with respect to which the expenditure relates has been procured in accordance with the Bank's Procurement Policy and associated Directive.
 - (c) The payment for this item was made by the borrower not more than twelve (12) months before the expected date of the loan agreement providing for the Loan.
 - (d) The total amount of Retroactive Financing is not more than twenty percent (20%) of the Loan amount. The President's approval is required for any exception to this ceiling.

H. Results-based Financing

- 18. **Exclusions.** The following activities are ineligible for financing under an RBF and are excluded from the Results-based Project (**RBP**) for which the RBF is extended:
 - (a) *Activities with Significant Environmental or Social Impacts.* These comprise activities excluded from the RBP in accordance with the Bank's Environmental and Social Policy and include: (i) all Category A activities; and (ii) all Category B activities that are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or Project-affected people.
 - (b) *High Value Contracts.* These comprise contracts that are defined as High Value Contracts under the Bank's Directive on the Procurement Policy and excluded from the RBP in accordance with said Directive.
- 19. **Disbursement for Advances and Already Achieved Disbursement-Linked Results (DLRs).** Under an RBF, the Bank may, in duly justified cases and upon the Recipient's request, disburse following the effectiveness of the Loan Agreement for the RBF, amounts of the RBF as advances or for disbursement-linked results (**DLRs**) that have already been achieved under the RBP, as follows:
 - (a) *Advances.* The Bank may agree to disburse amounts not to exceed in the aggregate twenty-five percent (25%) of the total RBF amount as an advance for

one or more DLRs not yet achieved (**Advance**) to provide resources to facilitate their achievement. Upon achievement of the DLR in question, this Advance is deducted from the total amount allocated to that DLR. The amount of the Advance so deducted is then available, as needed, for additional Advances for other DLRs. The Recipient is required to refund any amount so advanced if the relevant DLR(s) is/are not achieved by the Closing Date.

- (b) *Already Achieved DLRs.* The Bank may agree to disburse, upon verification in accordance with the terms of the Loan Agreement, amounts not to exceed in the aggregate twenty-five percent (25%) of the total RBF amount against selected DLRs that have been achieved during the period between the RBP's Concept Review and the date of signing of the Loan Agreement (**Already Achieved DLR**).
- (c) *Aggregate Ceiling for Advances and Already Achieved DLRs.* The combined amount of the RBF allocated for Advances and Already Achieved DLRs may not exceed thirty percent (30%) of the total amount of the RBF.
- (d) *Exceptions.* The President's approval is required for any exception to the above ceilings.

I. Authority

- 20. The President shall make all final decisions regarding the application of this Directive.

I. Replacement of Past Directive

- 21. This Directive replaces the AIIB Directive on Sovereign-backed and Non-sovereign-backed Financings, dated April 28, 2020.