Asian Infrastructure Investment Bank

AIIB in talks over second loan guarantee deal for World Bank

China's answer to western multilateral lenders backs deeper ties with peer institutions to ease capital constraints

Jin Liqun, president of the Asian Infrastructure Investment Bank, said the guarantees could help reduce the World Bank's risk of overexposure to individual countries © Ton Molina/NurPhoto/Reuters

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The Beijing-based Asian Infrastructure Investment Bank is in talks to provide a second loan guarantee deal to the World Bank, a move that would deepen the lenders' partnership and allow the Washington-based institution to increase lending.

The talks follow a similar deal last year, when the AIIB agreed to issue $1bn in credit guarantees against sovereign-backed loans made by the International Bank for Reconstruction and Development, the World Bank's lending arm. That deal was intended to enable the IBRD to squeeze more out of its cash-constrained balance sheet.

The increasing co-operation comes as the World Bank and other multilateral development banks are being urged to overcome tight capital constraints and mobilise financial resources to help countries deal with challenges such as climate change.

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The AIIB is also in discussions with the Asian Development Bank and Inter-American Development Bank about similar projects, AIIB president Jin Liqun told the Financial Times.

"[The] World Bank has the need and we, our two teams, are working to see if it's possible to have another guarantee project. And my position is: we are supportive," Jin said in an interview.

The AIIB, established in 2016 as Beijing's answer to the World Bank, has scope to disburse more loans, with a triple A rating and capitalisation of $100bn against lending of just $50bn. This allows it to guarantee loans for other institutions while it expands its own portfolio.

The World Bank loans backed by the AIIB usually had a maturity of less than eight years, Jin said.

He added the World Bank and other lenders could also be overexposed to individual countries, raising risks that AIIB guarantees could help reduce.

"This is I think one aspect of the MDBs [multilateral development banks] working as a system," Jin said, naming direct co-financing as another option.

The World Bank did not immediately respond to a request for comment.

Stephen O'Leary, the ADB's head of the office of risk management, said the bank had entered three "sovereign exposure exchange" deals since 2020 for a total of $3.5bn — two with the IDB and one with the African Development Bank.

Under these deals, the two sides reduce their risk concentration related to certain countries by exchanging guarantees.

"Given the success of these exposure exchanges in lowering used capital, ADB is actively pursuing additional exchanges with MDBs," he said. "ADB is also in discussion with other MDBs regarding potential guarantee solutions, whereby another MDB would guarantee a portion of ADB exposure for a fee."

The IDB told the FT it was exploring options to maximise "the value scale and impact of the Bank's capital", including partnerships with other multilateral development banks such as the AIIB, to "improve diversification or address specific capital constraints".

"We've had preliminary discussions on possible risk-sharing transactions, including guarantees," the IDB said.

The AIIB has 109 members, including G7 countries, but not the US. China holds the biggest voting share, with 27 per cent.

The bank was shaken last year by the resignation of former communications head Bob Pickard, who alleged the lender had been infiltrated by the Chinese Communist party.

The AIIB conducted an internal investigation that it said found no evidence to support the claims, but Canada issued a statement in December saying it was conducting a "further review" of the allegations.

The lender is expected to also confront a delicate transition process next year. Jin, 74, is set to step down in January 2026 after completing his second five-year term.

Jin said his successor would be chosen by an election, with the winning candidate requiring the support of a "supermajority" of two-thirds of the bank's members and three-quarters of its voting power.

"If China wants to propose a candidate — I'm sure it will — the Chinese candidate would have to compete with the candidates maybe proposed by India and Korea . . . Australia, New Zealand, Singapore . . . it's open for competition," he said.

Jin added that the aim of the transition would be to maintain the bank's multilateral spirit, which he said was "patterned on the Bretton Woods institutions".

The AIIB has faced criticism from environmental groups over climate-related lending, which it has pledged to triple by 2030, and for continuing to finance gas-related projects.

Jin said while the AIIB had ruled out funding coal-fired projects, it could not completely prohibit gas for client countries that were transitioning to cleaner energy.

"Only when we can ascertain, can verify, that the gas project we financed would replace coal-fired power plants could we possibly consider financing," he said. "That's the conditionality. But we don't have any projects in the pipeline even for gas projects. We focus on renewables."