

For discussion  
on 5 January 2018

**Legislative Council Panel on Financial Affairs**

**Contribution to the Asian Infrastructure Investment Bank  
Project Preparation Special Fund**

**PURPOSE**

This paper briefs Members on our proposal for Hong Kong to contribute US\$10 million (about HK\$78 million) to the Asian Infrastructure Investment Bank (“AIIB”) Project Preparation Special Fund (“Special Fund”).

**BACKGROUND**

2. Since the AIIB commenced operation in January 2016, it has defined three thematic priorities to guide its approach to lending, viz. sustainable infrastructure, cross-border connectivity, and private capital mobilisation. So far, it has approved financing for 24 projects with a total commitment of US\$4.2 billion. Most of these projects are co-financed with other Multilateral Development Banks, viz. the World Bank, Asian Development Bank and the European Bank for Reconstruction and Development.

3. To facilitate project preparation, the AIIB established the Special Fund in June 2016, with an initial contribution from China in the amount of US\$50 million (about HK\$390 million) and subsequent contributions from the United Kingdom and South Korea in 2017 in the amounts of US\$50 million (about HK\$390 million) and US\$8 million (about HK\$62.4 million) respectively. The Special Fund will provide grants to support and facilitate the preparation of selected projects to be financed by the AIIB. The Fund will mainly benefit the preparation of

sovereign-backed projects undertaken by national or local governments. So far, the Special Fund approved two grants for supporting preparation work of two infrastructure projects in Nepal<sup>1</sup> and Sri Lanka<sup>2</sup> respectively.

## **JUSTIFICATIONS**

4. As a responsible global citizen, Hong Kong has made contributions to funds of similar nature. In the context of the Asian Development Bank, Hong Kong has been a donor to the Asian Development Fund (“ADF”) since 1983, with the total amount of contributions reaching US\$115.25 million (about HK\$ 899 million). In January 2017, the Panel supported the proposal for Hong Kong to contribute to the 11<sup>th</sup> replenishment of the ADF in the amount of US\$17.47 million (about HK\$137.2 million).

5. The Special Fund is an important initiative of the AIIB. Despite considerable economic progress in Asia over the past decades, poverty continues to affect the lives of millions in the region. The Special Fund can play a facilitating role in helping its poorest members to tackle poverty by financing technical assistance (such as consultancy services) to prepare projects for subsequent consideration and approval by the AIIB. As such preparatory work cannot be covered by the subsequent loans to be provided by the AIIB, separate funding to be granted under the Special Fund is necessary.

6. The AIIB is one of the few multilateral financial institutions of which Hong Kong is a member. As a committed member of the AIIB, Hong Kong should participate in and support initiatives of the AIIB, along with other members, as fully as possible. Hong Kong’s contribution to the Special Fund shall demonstrate our commitment to the AIIB and its missions, including assisting its lower and middle income

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1 A US\$1 million grant was approved to specifically support consultancy services relating to the design of the Urban Infrastructure Investment Project in Nepal. The Project will support the provision and improvement of the key urban infrastructure and basic services in the participating municipalities of the Terai region in Nepal.

2 A US\$700,000 grant was approved to enhance the preparatory work for the Solid Waste Management Project in Sri Lanka, so as to enable the commencement of the implementation on time.

members.

7. Our proposed contribution of US\$10 million is in line with the contribution made by South Korea, while lower than those of China and the United Kingdom, considering that both of them are large economies.

8. The AIIB has put in place safeguards on the use of the Special Fund. The AIIB shall provide each contributor with an annual report on the current status and anticipated use of the Special Fund. The Special Fund shall also be audited by internal and external auditors of the AIIB. The Board of Directors shall submit the audited financial statements of the Special Fund to the Board of Governors for approval. Hong Kong is represented by the Financial Secretary on the Board of Governors.

## **WAY FORWARD**

9. We will include sufficient provision in the draft Estimates for 2018-19 for meeting the expenditure.

## **ADVICE SOUGHT**

10. Members' views are sought on the above proposal.

**Financial Services and the Treasury Bureau  
December 2017**