



# SPECIAL FUND WINDOW FOR LESS DEVELOPED MEMBERS (SFW)

April 2022



## WHAT IS THE SFW?

### • AIIB's New Special Fund

The Special Fund Window for Less Developed Members (SFW) is AIIB's new special fund aiming to make AIIB's financing more affordable to its less developed members.

### • Interest Rate Buy Down

The SFW provides interest rate buy-down to eligible sovereign-backed financing in eligible AIIB members. Such financing will receive a buy down of up to 100 basis points from the regular interest for USD-denominated loans, with an interest rate floor of zero. The buy-down can also apply to other hard currency loans provided by AIIB. In such cases, the Bank will calculate an applicable buy-down rate for that currency on a project-by-project basis.

### • Innovative Model for More Affordable Pricing

The SFW is an innovative model tailored to provide AIIB's less developed members with more affordable pricing within AIIB's current operating parameters. All the design features of the SFW are guided by three key principles that are fundamental to AIIB's business model. These are: (a) preserving AIIB's **financial sustainability** and its sound banking principles, (b) operating within AIIB's **multilateral governance**, and (c) funding the SFW strictly through **voluntary contributions** from members.

## WHY WAS THE SFW ESTABLISHED?

AIIB's Articles of Agreement require the Bank to pay special regard to the needs of its less developed members in the region. AIIB's Corporate Strategy further commits to broadening the Bank's client outreach across the income spectrum.

Since 2016, AIIB has made gradual efforts to expand its offering to less developed members, including through the [Project Preparation Special Fund \(PPSF\)](#). However, for some, pricing remained a major obstacle to accessing AIIB financing. The SFW is an important addition to AIIB's Special Funds to expand the Bank's offering to less developed members across the project cycle.

## CONTACT INFORMATION

For more information, visit the [SFW page](#) on AIIB's [website](#) or send any questions through the AIIB's [Public Information Request Form](#).

## MEMBER ELIGIBILITY

The SFW is open to AIIB members that are classified by the World Bank to have **International Development Association (IDA)-only status**. The SFW may also exceptionally support AIIB members with **IDA Blend status** suffering from severe and intense natural disasters. The Member's IDA status at the time of project approval applies.

## PROJECT ELIGIBILITY

Any eligible AIIB member's **sovereign-backed financing operations** (excluding policy-based financing), will be eligible for SFW. The SFW will support projects **aligned with AIIB's [Corporate Strategy](#)** thematic priorities—Green Infrastructure, Connectivity and Regional Cooperation, Technology-enabled Infrastructure, Private Capital Mobilization—or other exceptional business priorities like COVID-19 crisis recovery.

## HOW DOES IT WORK IN PRACTICE?

As the SFW aims to make AIIB financing more affordable, it can only be **used with an underlying AIIB financing**. As such, there is no separate application process for the SFW. Members can indicate their interest to use the SFW as part of their financing request to AIIB. Such application will be assessed together and go through AIIB's regular investment process—screening, concept, appraisal, and approval.

The SFW can be used **in conjunction with AIIB's other special funds**. For example, a project in an eligible member may utilize AIIB's PPSF to prepare the project to a high standard. Once prepared, the project may apply to use the SFW in conjunction with AIIB's financing of that project.

## FREQUENTLY ASKED QUESTIONS

**Can the SFW be used for COVID-19 response?** Yes. Projects proposed under AIIB's COVID-19 Crisis Recovery Facility (except for policy-based financing) in eligible members can qualify for the SFW.

**Is there a cap to the amount of SFW a project / member can receive?** Yes. There is a portfolio level cap, i.e., an eligible member can receive up to 25 percent of the total available SFW resources. Within the cap, an eligible member may apply for/benefit from the SFW for multiple projects. AIIB will inform eligible projects whether they fall under the cap during the investment process.

**Can the SFW be applied to both fixed spread loans (FSL) and variable spread loans (VSL)?** Yes, in principle. However, please note that AIIB has suspended the FSL until further notice due to the LIBOR-SOFR transition. As such, SFW is only available for VSLs at the moment.

**Can the SFW be used for AIIB projects co-financed with other multilateral development banks (MDBs)?** Yes. SFW can be used for co-financed projects. The buy-down under the SFW will apply only to the amount of AIIB financing.

**Is the SFW concessional financing?** Concessional borrowing is defined by the International Monetary Fund (IMF) as "loans with a grant-element of at least 35 percent, evaluated at a discount rate of 5 percent." By applying the interest rate buy down provided by the SFW, the underlying AIIB loan may or may not meet this definition of concessionality depending on several factors such as the loan profile and the reference rate determined by the general interest rate in the market.

**How is the SFW different from the concessional financing offered by other MDBs?** Most other MDBs provide a fixed-rate product to their lower-income members. The SFW is not a fixed-rate product. It is a blended finance facility designed to be combined with AIIB's existing pricing. Currently, AIIB offers floating rate products for its sovereign lenders. Therefore, SFW is designed to be blended with and provide a discount to AIIB's existing pricing policies.